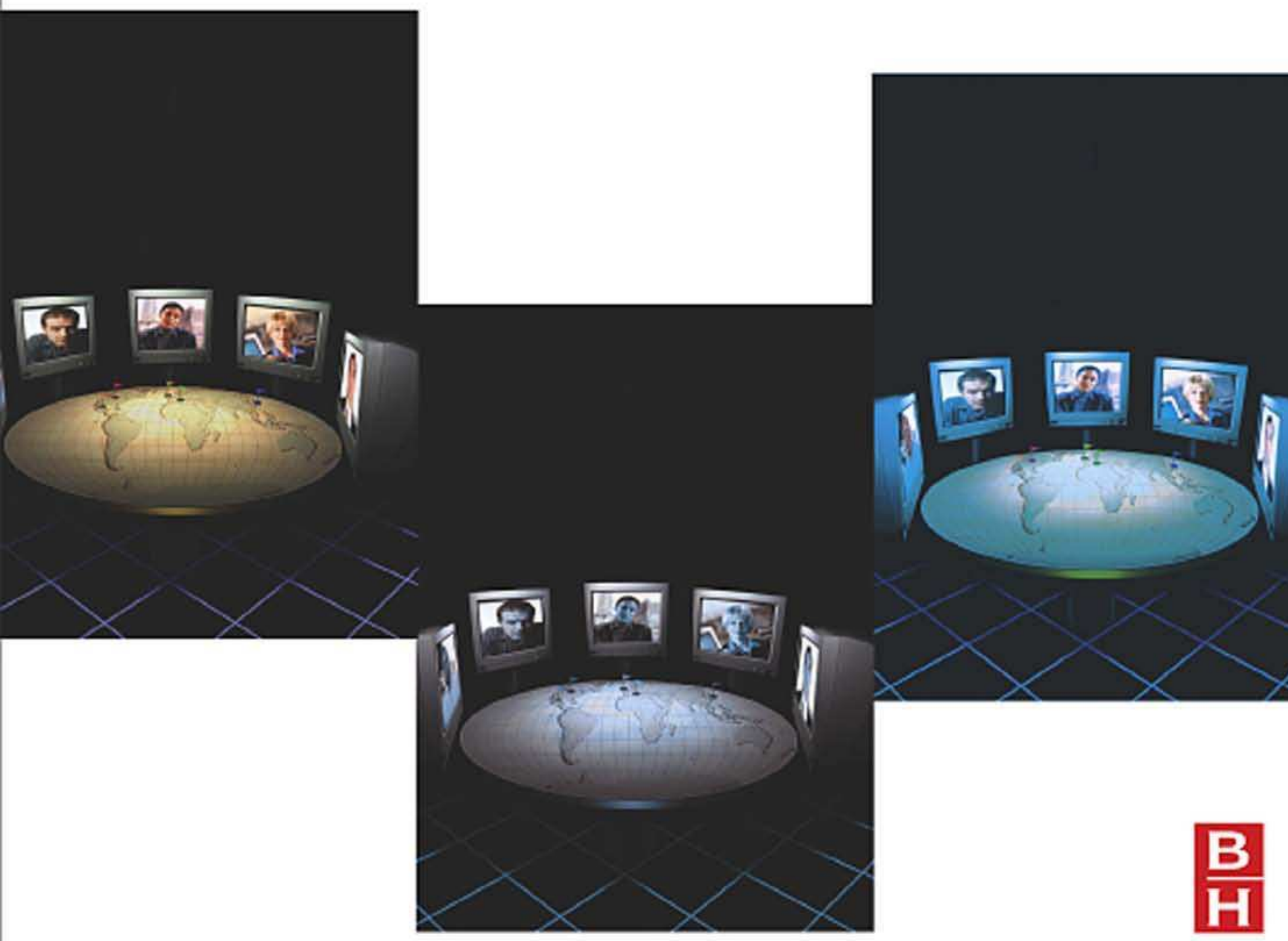
Graeme Martin

Managing People and Organizations in Changing Contexts



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About the author

Professor Graeme Martin is based at Edinburgh Business School, Heriot Watt University. He is also Senior Research Fellow at the University of Glasgow's School of Business and Management, and Director of the Centre for Reputation Management through People (CRMP). He holds visiting appointments at the University of Colorado in Denver, Cà Foscari University in Venice, the University of Technology in Sydney and Blekinge Institute of Technology in Sweden.

He has published many refereed journal articles, book chapters, reports and a book on human resource management, organizational change and international human resource management. Graeme researches into reputation management and HR, the links between new technologies and people management, including e-learning, and the future role of senior HR specialists. He is a member of the Advisory Board for the Scottish Academy of Health Policy and Management and consults regularly for a range of organizations in the public and private sectors in the UK.

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Preface

This book has been written to help experienced managers and those aspiring to a career in management understand and deal with the problems and opportunities they may face in managing people and organizations in contemporary contexts. It has grown first of all from material originally prepared for a distance learning course on the specialist masters programmes and MBA programme of Edinburgh Business School, Heriot Watt University. Second, it also draws heavily on my research, mostly with my good friends at the University of Glasgow, into management, HRM, organizational behaviour and change. Finally, I have incorporated insights from more than thirty years teaching, consulting and managing people in the UK and a number of countries in Europe, North America and Asia.

The aim of the book is to fill a gap between conventional postgraduate and executive texts on organizational behaviour and human resource management. Arguably the former don't focus enough on management and what it is required of managers – indeed some are almost anti-management – while the latter are too specialist for the needs of people occupying more generalist roles. Moreover, the majority of these texts are a little light on dealing with the contemporary and changing contexts in which management is performed, often failing to make the connections with major international economic, social and technological developments, the rise of creative and knowledge-based industries, intangible assets as the basis of competition, and the strategic concerns of organizations in the private, public and voluntary sectors of modern economies. My hope is that readers will find this book relevant to their existing or potential work as managers, regardless of where they live, helping them understand and apply some key concepts in business and management to their everyday working lives and their longer-term thinking about the shape and health of their organizations.

The material in the book is based on a wide range of literature in disciplines and sub-disciplines that contribute to business and management, including organizational behaviour and organizational theory, management theory, human resource management, information systems, knowledge management, operations management, marketing, economics, international management, business history and strategic management. There are also some chapters that are intended to be innovative in bringing together bodies of knowledge that haven't been integrated before, particularly in the fields of corporate reputation, branding and people management, and technology and people management. These chapters are based on original work for the UK Chartered Institute of Personnel and Development and speak directly to the future roles of HR specialists and line managers. It has been suggested by reviewers that this eclecticism and forward vision are part of the book's strengths. However, I hope that specialists in some of these areas may forgive the inevitable lack of depth compared to that of their own works; this is always a danger of integration and attempting to move into new fields in business and management. Yet, the work of managers rests upon being able to integrate ideas and techniques from various disciplines, and books that help them along the way should be of value in this regard.

I have written in the first person to make the book more accessible and to avoid the spurious objectivity that is sometimes associated with writing in the third person. Again I hope this will not offend my academic colleagues because it has not been written with them in mind. It is written for managers and students, many of whom have suggested that writing in such a style helps put a face behind the text, so long as it is not too intrusive. The book is also filled with examples, short cases and exercises, and longer cases from different industrial and national contexts. Lecturers and tutors can access additional cases and suggested answers to the exercises and case studies in the book from a companion website (www.textbooks.elsevier.com). These have all been tried and tested in my own teaching in the UK, USA, continental Europe, Asia and Australia and might be helpful in stimulating learning in your classrooms. Students who seek feedback on how well they understand and can apply the material in the book may want to use the review questions at the end of each chapter, answers to which are supplied in the book. Though the questions are of the multiple choice and true-false variety, often decried by educators as irrelevant to deep learning, a substantial proportion of these have been designed to test not only depth of understanding but also application. I'm grateful to my colleague, Fiona Lennon, for help with these.

Graeme Martin

Acknowledgements

Any book is the outcome of the work of a number of people, not solely the author. This one is no different, so I would like to thank those colleagues who have played an important hand in helping me produce it. First I'm grateful to Ros Doig, my former research assistant, and to Fiona Lennon for her assistance in preparing the review questions and other material for the book. I would like to thank Edinburgh Business School at Heriot Watt University for giving me permission to use the material in this book, which was initially written for their distance learning course programme. Alex Scott, the Deputy Director, was a particularly helpful and insightful critical reader, and good supporter of this project, whilst Charlie Ritchie was an excellent proofreader, along with the staff at CapDM. I would also like to thank the team at Butterworth-Heinemann for championing this book so efficiently and pleasantly, especially Maggie Smith, who has been an excellent commissioning editor, and Claire Hutchins.

You will see numerous references in the book to research conducted with close colleagues at the University of Glasgow, particularly Phil Beaumont and Judy Pate. I owe these friends an enormous debt. I'm also extremely grateful to my other, close international friends – Thomas Clarke in Sydney, Herman Aguinas in Denver, Anna Commachio in Venice, Hong Zhang in Beijing, and Lesley Appelgren and Anders Nilsson in Ronneby, Sweden – for their extremely helpful comments, endorsement of the book and for allowing me to use some of the material with their graduate students. Finally, I want to dedicate this book to my family, Vanessa, Rhiannon, Alayna, Chris and Roz, for their support and patience; also my mother-in-law – yes, my mother-in-law – Christine Smith for her critical reading and endless child-minding.

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CHAPTER

An introduction to managing people in changing contexts

Learning objectives

By the end of this chapter you should be able to:

- describe and critically evaluate some of the key ideas underlying the management of people in changing contexts;
- apply the notions of universalism and relativism to the key ideas and practice of modern management, especially to our understanding of 'best practice';
- understand the importance of mindsets in management and how these influence managerial practice;
- understand how ideas about management change, and how the economic environment and the influence of management thinkers can cause changes in our understanding of good practice in management;
- critically evaluate the role of management thinkers in producing useful knowledge about management.

Understanding management

Introduction

According to Peter Drucker, one of the most prominent business gurus of recent times, management is a timeless, human discipline. It has been used to build the Great Wall of China, to run empires and armies throughout history, and to guide the development of the joint stock company, which has been the key institution in the development of modern capitalism. During the later part of the twentieth century and the early part of the twenty-first century, management became one of the fastest growing occupations, because managers are usually (but not always) seen to be essential to organizational success (Bloom *et al.*, 2005). Moreover, whether we work in the private, public or voluntary sectors of the economy, managers and their work touch virtually every aspect of our economic, social and, increasingly, political lives. Those of you who aren't yet a manager but aspire to be one most likely will have had direct experience of being managed by others. Sometimes this experience will have been positive, leading you to achieve excellent results, and sometimes it will have been negative, perhaps leading to underperformance, to undue levels of stress, lack of esteem or lack of job satisfaction. Even those who are experienced managers need to reflect on their managerial abilities or competence, and to work continuously on perfecting their craft. This text is aimed at helping both aspiring and experienced managers explore the *nature of management* and managing the overall *process of management* and, as Drucker pointed out many years ago, specifically to address the key problem of *managing people*. It has also been written from the perspective that the practice of managing people is influenced by the *context* in which it is performed, and that contexts *change* over time.

Key questions on management knowledge

When we embark on any study of management, it is important for us to understand the relationship between theory and practice, not least because we are usually taught theories that we rightly expect to be able to put into action. During a period of more than 25 years teaching management students and executives in many different countries, there are two questions that I am continuously asked concerning the nature of management knowledge:

1. Is there a one-best-way or set of best practices in management? Or, to put this question in slightly more formal terms: (a) Is there a single set of truths about management that represents its core body of knowledge, and (b) if so, can this body of knowledge be applied in most, if not all, contexts?
2. Why is it that ideas about business and management seem to be a bit like the fashion industry, with new ideas being proposed every week?

Increasingly, I'm of the opinion that these two questions should be raised when studying management, or when contemplating any ideas from consultants, conferences or the increasing volume of business books that we find in airport bookstores and on the Internet. Such questions are particularly relevant because many managers, one suspects, are looking for knowledge that helps them simplify the world they must confront, especially given the increasingly complex nature of the environment in which they work. To be told there is the possibility of a 'magic bullet' or 'one-best-way' is an attractive proposition, because it means they don't have to think too much about what they are doing. And, as Henry Mintzberg (2004), one of the most insightful commentators on management, pointed out, managers are very much focused on 'doing' rather than reflecting, especially reflecting on academic theories dreamt up by people who have very little experience of practising management. However, the prospect of a magic bullet, contained in the nostrums of a single management book or 'bulleted powerpoint' presentation, is not something that usually accords with their experience. This is especially true when nearly all new books, courses or consultants tell them there is a better way of doing things, which is usually *the* way advocated by the author, teacher or adviser. First, however, they are usually required to discard their old models of management and, with them, their personal investment in old and 'no-longer-useful' ideas. For their pains, they usually get little more from new 'guru-speak' than a recycling of even older ideas, often with their origins in the early 1900s, but dressed up in new clothing or new 'spin'. As a result, they become sceptical or even cynical about any new business programme or form of management education. If such a process sounds familiar, then you are in tune with many of the critics of business education and the management consulting industry. Paradoxically, regardless of the extent to which the management consulting and education industry is challenged to explain its relevance by business leaders and politicians, its influence has become more widespread.

In this chapter we shall address the two questions raised at the beginning of this section. I do so because it is in everyone's interests – teachers, students of management and examiners alike – to avoid the reputation for lack of relevance that management knowledge enjoys with many practitioners (Dipoye, 2005). Such a reputation has largely come about because dominant sections of the producer community of management knowledge – the producers of business guru books and the management consulting industry – have oversold the idea of the one-best-way, in wave after wave of management fads (Pascale, 1999). Francis Wheen (2004) has labelled much of this material, especially the self-help books by ex-business leaders, as 'old snake oil in new bottles', pointing to the often messianic salesmanship of banal aphorisms dressed up in jargon and pseudo-scientific phrases, such as 're-engineering, benchmarking and downsizing'. If the guru industry has not helped the cause, neither have many management academics. In certain sections of the 'academy', it has become fashionable to adopt the opposite position of extreme relativism, that there are no truths about management and, since we live in an increasingly changeable and therefore unknowable world, there is nothing worth teaching about management. Serious practitioners and students of management, no doubt, are looking in between these two perspectives for something that combines the rigour of the best of the academic world with the relevance that good consultants and reflective practitioners can bring to organizational decision-makers. So, to address these questions, we have to go back in time to examine two concepts in management that go straight to the heart of the rigour–relevance debate. These concepts are *universalism* and *change*.

Management as a set of universal truths

Universalism and relativism in management

There have been many books aimed at helping managers understand and improve their management skills, not just in the area of people management but in other managerial functions such as managing information, budgets and finances, and operations. Many of these books take a *universalist* perspective on management.

Key concept: The universalist perspective on management

The proposition is that it is possible to discover a set of universal truths concerning principles, values and morals that can be equally applied in all business and management contexts. These truths can be established either by reasoning from first principles or by empirical observation. The fundamental points of this perspective are its universal application and its relative permanence, though most universalists acknowledge that the gradual accumulation of new knowledge can improve our thinking. Such a perspective is associated with attempts to establish a science of management, and to establish universal codes of ethics for business behaviour that transcend national boundaries.

Such a view dates back to before the end of the nineteenth century, best exemplified by the works of Frederick Taylor in the USA, the so-called father of scientific management, and by the French businessman-theorist, Henry Fayol. Both of these writers developed a set of principles of good management that have formed the basis for much management education (Clegg *et al.*, 2005), and their works are still discussed today in undergraduate and graduate classes in business and management all over the world. We shall return to their ideas later in this chapter.

Perhaps more controversially, the universalistic perspective contends that most of these management principles can apply regardless of national cultural and institutional context. Jack Welsh, the former CEO of General Electric, best exemplified this view when he once opined that what was good for his company was good for the rest of the world. Welsh's view reflected the dominance of the American management model, which has influenced thinking and practice in many countries. There are at least three possible explanations for such dominance. These are: (i) the influence of US multinationals on global economic development; (ii) the influence of management education programmes such as the MBA – an American invention in the late nineteenth century; and (iii) the influence of the global, but mainly US, management consulting and management guru industries.

There is undoubtedly something in the claims of universalists, given the history of post-Second World War reconstruction and the reliance on US finance and ideas to rebuild the economies of Europe and Japan. The UK, Germany and Japan adopted many American ideas and accepted aid that, in turn, was dependent on their acceptance of American ways of managing (Locke, 1996). However, the adoption of

American ideas did not, as some people claim, result in the 'Americanization' of business and management in these countries. For example, in the 1970s and 1980s, Japanese companies came to dominate world markets in industries that the USA had traditionally owned (Pascale and Athos, 1981) by using techniques of quality management and production management that have since become popular in many Western organizations. Similarly, German companies developed their own way of managing and running businesses, based on their historical veneration of engineering specialists and the adoption of 'co-determination' before and after 1945, a practice that gave employees a much greater say in the running of companies (much to the distaste of some US occupying generals and CEOs). Consequently, there were severe limitations placed on the forces for convergence on and around the American model of management. This limitation of universalist principles is one of the key themes of this book.

Time Out: Think about this: the history of co-determination in Germany

Historically, German business managers have had much less faith than the Americans or British in the powers of markets to regulate business and competition, and have placed greater store in the power of the national and state governments. Thus, co-determination in Germany has its origins in legislation passed in the early 1800s to give workers rights to social insurance and, later, in 1891, to rights to participate in management decision-making, involving joint consultation on social matters at work. Following the First World War, in 1918, German employers, rather reluctantly, succumbed to pressure to give 'employees rights to co-determination with management in social policy and to be consulted in personnel and economic decisions' (Locke, 1996, p. 58). Subsequent legislation in 1920 allowed for the creation of works councils in firms employing more than 20 employees to act on social, personnel and economic matters. Hitler and the Nazis dissolved works councils when they came to power in the 1930s, but following pressure from the Christian churches and trade unions after the Second World War, co-determination was re-established to give workers even greater rights to co-decisions in the running of firms on economic issues, including 'expansion, consolidations and shutdowns', and to joint consultation in the purchase and sale of equipment, changes in production methods, accounting procedures, etc.

The passing of such legislation was done when Germany was in the hands of occupying forces, most notably the Americans. This was surprising in some respects, because without US approval German discretion to pass legislation was severely limited. The

American attitude to co-determination during the period varied between early acceptance – it wouldn't work in America, but was perhaps good for Germany – to outright opposition. However, what became the official American line was that German business would lose control of its affairs, and thus the essential and inalienable rights of stockholders would be violated. Such opposition by the US to German attempts to reintroduce co-determination was exemplified by the role played by General Lucius Clay, leader of the occupying US administration, who obstructed and vetoed the rights of individual German states (the *Länder*) to pass such legislation for as long as he was able. Though, over time, American opposition to the rights of the German government to establish co-determination diminished, the business press and major figures in the US business community continued to see such legislation as an attempt to establish socialism in capitalist industry. To the extent that these people had influence over American aid through the Marshall plan to German industry, German managers were perceived to be playing a dangerous game, but continued to do so nevertheless. In this important sense, US attempts to impose on Germany a US-style 'best practice' and a way of managing failed: 'German entrepreneurs rejected American managerialism' (Locke, 1996, p. 64).
Source: based on Locke, 1996.

We can see from the above example that the universalistic view on best practice in management has not always found favour with managers outside the USA. Similarly, not everyone in the not-for-profit public or voluntary sectors of modern economies would agree that best practice developed in the for-profit, private sector is superior or transferable to contexts that are not subject to the overarching goal of increasing the value of shareholders in the business. Instead, we are beginning to witness an increasingly influential *relativist* view among management academics and practitioners (Whittington, 2000).

Key concept: Relativism in management

Relativism expresses the idea that it is not possible to establish a set of universal truths concerning principles, values and morals about management that will not at some later time be abandoned and replaced by another set of truths. Relativism in management is often associated with the idea that management practices and values cannot be abstracted from the context in which they were produced and easily transferred to other contexts. Extreme versions of relativism in management hold that there is no such thing as reality, certainty or 'social facts', and that all views about management are essentially value judgements. The principle aim of relativists in management is to give less powerful people and groups a greater voice in public discourse about how they should be managed.

For example, the practice of management in France is sometimes quite different from the practice of management in the USA because of the relatively unique nature of the French business sector, its history, its national cultural characteristics and institutional (legal, social, educational and political) norms (Lawrence, 2002). Thus, managers brought up in the French business system literally see through different eyes and ears to American managers, and are sometimes not able to understand each other, even if they both use a version of American English. French business management is reputed to be hierarchical and individualist in nature, and was unable to accommodate the bottom-up, group decision-making of quality circles, one of the fashionable techniques adopted by many global companies in the 1980s. Another example of a relativist perspective that is influential in management is the so-called *constructivist approach to learning*, which we shall discuss more fully in a later chapter in this book. The constructivist approach to learning is often contrasted with a cognitive or 'schooled' learning approach, in which abstract principles are taught to students in a classroom, as is often the case in many management courses. Constructivists argue that we learn most effectively through active participation rather than as a passive recipient in which knowledge is 'poured' into our heads through instruction in a classroom. However, when we engage in active learning, all such knowledge becomes personal to us. So, for example, my knowledge and understanding of what I am writing will be different from yours as an individual reader of this text, and it will also be different from that of others who read the same text. But, since all knowledge is personal and subjective, and not something that is literally 'out there' and ready to be grabbed like an apple on a tree, it is mainly tacit (in people's heads and hands) and highly specific to the context in which it is produced. Seen in this way, management is best viewed as a craft learned in context rather than as an abstract science (Mintzberg, 2004). So, learning to become a manager is most effectively undertaken by serving a long, on-the-job 'apprenticeship', often as part of a 'community of practitioners' in a particular industry or company (Wenger, 1998).

My position on this debate between extreme versions of universalism and relativism is somewhere in between the two, often depending on the context of application. Clearly, ideas about management developed in one situation can take root in other contexts. For example, the popularity of the MBA as a global form of management education would be unsustainable if this were not possible. Moreover, the success of multinational companies rests in part on their ability to transfer learning in one part of the world to another, often in the form of model practices and values. However, the perspective taken in this book is more relativist in the sense that context and individual interpretation of ideas are seen as very important in influencing action. Perhaps this is best explained by an organic, gardening metaphor. According to John Seely Brown (2000), an eminent American academic, transferring so-called best practices from one context to another is like uprooting a tree from the fertile soil that gave it life and its particular form or shape and attempting to replant it into a different kind of soil, the properties of which are unknown or at least partially uncertain. It is unlikely that one can know with any certainty in advance the kind of tree, or anything resembling the original tree, that the soil and microclimate will produce. Thus, at best, the status of such best practices can be described as 'promising' (Leseure *et al.*, 2004), but they are fraught with problems of becoming embedded into historically, culturally and institutionally different contexts (Zhang and Martin, 2003). This transfer problem applies equally to industrial contexts, such as the transfer of private sector practices to the highly politicized public sectors of healthcare, education and local government.

To return to the first of our two questions, concerning the possibility of a one-best-way of doing things or set of best practices in management, my answer is a qualified yes and no. A 'yes' relates to the contention that there is a body of knowledge about management that we can legitimately teach and use in many different contexts, even though that body of knowledge has been developed for the most part in the USA and was founded on a private sector, market-driven model. 'No' is an answer because there are no 'magic bullets' nor a 'one-best-way'. Our knowledge and practices should enjoy the status of no more than 'promising', and we have to think deeply and sensitively when applying these in different contexts, whether these are national cultural, industrial or company settings.

Stability and change in models of management

Key features of models of management

If context is an important theme in recent management literature, a second key theme concerns the nature of *change and stability* in models and theories of management and their acceptance by managers. Like many relatively immature bodies of knowledge, the study and practice of management is no exception to the influence of fashionable or faddish ideas, with change being a recurrent theme in the literature, and the new 'big' idea being promoted every few years.

However, as some writers have pointed out, the debates over what constitutes the best way to manage show a remarkable stability over time, especially with regard to the choices among available models and theories. These models are often said to resemble paradigms, a scientific word referring to the existence of particular kinds of worldview, which comprise a relatively coherent set of theories, metaphors and practices. Paradigms are also notable for being relatively stable in a particular scientific community for many years until the next 'big idea' is developed around which a competing paradigm forms.

In business and management, the term 'paradigm' tends to be used a little more loosely (Clarke and Clegg, 1998), often describing a set of assumptions and values about how the organizational world works and how it should work, which we might describe as a *mindset* (Morgan, 1997). This is rather different from the way in which the term was originally intended to be used in describing a set of coherent and explicit theories about what scientists were studying. Most managers operate and adhere to particular mindsets, even though they are unable to articulate the assumptions and theories underlying them.

There are at least three important points about mindsets. First, they are simultaneously useful and limiting, since a way of seeing is also a way of not seeing. Second, seeing the world through particular mindsets may lock us into our own 'psychic prison' (Morgan, 1997) and result in self-perpetuation of old ideas and managerial regimes. Self-perpetuation can be a force for stability, but it can also prevent or constrain much-needed change. For example, Richard Pascale (1999) has claimed that 'nothing fails like success'. He has argued that success is based on becoming highly attuned to, and skilled in, managing and organizing in one set of competitive circumstances. However, if and when these circumstances change, we are often unable to change our mindsets rapidly enough to produce the appropriate responses. Third, it forces managers to reflect critically on their mindsets to produce the kind of change that is needed in modern organizations.

These three points have given rise to what is probably *the* major debate in management theory over the last century between mechanistic forms of organization, characterized by 'top-down' modes of control, and organic forms of organization, characterized by 'bottom-up' modes of control, human relations principles and the attempts to engineer strong organizational cultures (Hoopes, 2003), issues to which we shall return in this book.

The mechanistic mindset

Many managers see their ideal organization as a well-oiled machine, in which everyone and everything is treated as a replaceable part. In such 'machines', predictability and control are the most important design features and are frequently accompanied by hierarchical organization structures. Not unnaturally, this view serves the interests of managers who advocate such a perspective, since the people who are most important in machine-like organizations are the designers and planners (i.e. the managers). Thus, managers who benefit from the machine view of organizations by running a 'smooth operation' tend to keep things that way. They do so by imposing their mindsets on others and by the kind of actions they take, such as recruiting, developing and promoting people with similar mindsets. Henry Mintzberg (1983) labelled these managers the 'technostructure' to capture their rational design and planning mindsets and characteristics.

This machine view of organizations is not in and of itself a problem, since classical machine-like organizations, such as public sector bureaucracies and armies, usually work well in stable and predictable circumstances – for example, in state-run, planned economies or during conventional warfare. However, if the circumstances change – for example, if economies suddenly become open to market circumstances, as happened in the former Soviet bloc, or if warfare becomes unconventional, as is the case with the 'war against terror' – machine-like organizations often lack the intelligent capacity to take action themselves to adapt to these changing environments. This inability to adapt is a direct consequence of the mindsets and actions of machine-like minds, and of the vested interests of those who are in control.

Beyond the mechanistic mindset

This machine view of organizations dominated much managerial thinking and action until the 1970s, and in some cases continues to do so. For example, you cannot run a highly reliable organization such as a nuclear power station on anything other than machine-like principles, for the most part at least. However, with the changes that occurred during the last few decades of the last century, it became increasingly obvious that old ways of seeing had to give way to new paradigms, based on the notion of open systems and the need for organizations to take into account their external environments. Thus, we began to see a mindset developing among managers of organizations as adaptive systems, in which they had to take into account what happened outside the organization, e.g. changes in market structure and customer preferences, and be able to respond quickly and flexibly to these changes. Such a mindset or metaphor is often described as the *organic view*, reflecting the biological origins of open systems thinking and the relationship between living systems and their environments. This organic metaphor has come to dominate much of managerial thinking and practice, especially in the economies of the developed countries, in which uncertainty and, often fundamental, change are the key characteristics. These changes have included the effects of disruptive technologies such as the Internet, which have effectively changed the rules of doing business in many industries. They have also included the effects on global competition from rapidly growing countries such as China and India during the first decade of the twenty-first century.

Explaining changing mindsets

The key questions

There are two key questions concerning the relationship between ideas and action that make it important for us to have some answers so that we can become more effective managers. The first question is: Why does a particular mindset, such as the mechanistic and organic one discussed previously, come to dominate managers' thinking at particular points in time? Though you may think that much of what you read in management texts is new, most of the 'new' ideas have their origins in much earlier theories, and those of us who have been around for a long time often get a sense of 'old wine (or even old snake oil) in new bottles'. The second question arises from the first one and concerns the idea of progress in our thinking and practice. Much of what we read in management textbooks implies progress, involving a change from one mindset or model to another, more ideal, mindset or model. This is particularly evident in the example of the mechanistic and organic mindsets, where we have come to believe that organizations (and their managers) that are 'fast, flexible and friendly' are inevitably superior to those of more traditionally mechanistic styles. Having an understanding of these questions is useful not merely to academics but also to practitioners because, as the famous British economist John Maynard Keynes once pointed out, everyone who claims to be practical is 'a slave of some usually defunct theory'. More recently, organizations such as the UK Chartered Institute of Personnel and Development (CIPD) have begun to examine the relationship between different kinds of knowledge, how we learn and what we do. Their research report on this issue (CIPD, 2002) has pointed out that whatever theory of learning one adheres to, they all agree that 'theoretical knowledge', often in the form of mindsets, has an intimate relationship with practice. So, to provide an answer to these two questions on changing mindsets, we can briefly examine two sources of explanation. These relate to changing models of national economic success and to sources of institutional pressure to adopt new ideas and practice, namely so-called 'guru' theory.

National economic success and business

As has already been pointed out, for most of the last century and certainly since the end of the First World War, models of business and management have been drawn from the success of the American economy and from the teachings of the US business gurus and business schools. American models of management, based on mass production, financial control and the M-form or multidivisional organizational structure, came to dominate (Goold and Campbell, 2002). As we have seen, their principles were exported overseas by the US government as a condition of aid for reconstruction, by US multinational companies, and by the growing number of business schools, academic research and business gurus that began to influence European and Asian economies (Hoopes, 2003).

Interestingly, however, for a short period during the 1960s and 1970s, managers also began to look to Germany and Sweden for inspiration, following the economic success of these two countries during the same period. This was best exemplified by the interest shown in newer forms of work reorganization developed in companies such as Volvo and Saab, which adopted autonomous group working and job satisfaction as guiding principles to produce their automobiles. These ideas of autonomous group working and more democratic forms of decision-making were offered as a contrast to the more top-down models of low-skilled mass production associated with the US automobile industry.

The best example, however, of just how powerful national economic success is in explaining the acceptance of ideas about management is the case of Japan in the 1980s and 1990s. During that period, Japanese organizations came to dominate in industries that the USA had once 'owned', including automobiles, consumer electronics and business machines, such as electronic cash registers and photocopiers. They also became major players in other forms of manufacturing, including shipbuilding, heavy engineering, construction and financial services. This was often explained by the quality 'revolution' initiated in Japan by Edward Deming, a US civil servant and academic who was neglected by senior US business leaders but idealized by Japanese senior managers after his lengthy visit following the Second World War. Japan was also noticeable for exporting ideas in labour relations, group working and new forms of organization to the USA and Europe, most noticeably the 'lean production' system, during the 1980s and 1990s.

However, during the 1990s, America experienced eight years of unprecedented economic success under the Clinton administration, which, coupled with the relative decline of Japan and Germany during that same period, left the USA as the dominant world economic superpower. By the beginning of the current century the wheel had turned full circle, with the American model of business being the only one to show sustained success, apart from the developing economies such as China and India. As a consequence, there have been many attempts to attribute such exceptional US economic and industrial success to the American way of managing and to American values and institutions (Collins and Porras, 1994; Collins, 2001), which, in turn, has pressured countries such as Germany and Japan to accept US ideas, especially in respect of the virtues of flexible labour markets and freedom from government intervention. During this same period, the influence of US business gurus and the major US business schools has also been exceptional (Mintzberg, 2004), with the Master of Business Administration degree (MBA) becoming one of the world's major educational brands, especially when gained from prestigious universities in the developed world.

Just as in the 1960s, however, there have been limits to US dominance over ideas on effective business and management, especially following the problems of the collapse of major international companies such as Enron, WorldCom and Tyco in the early part of this decade and the 'fall-out' from the Iraq war in 2003. For example, during that year a major study by DDB, a US consulting company, was initiated to examine the brand image of America and American companies among 17 countries. This work showed that America and American business were 'viewed as arrogant and indifferent to others' cultures; exploitative, in the sense that it extracted more than it provided; corrupting, in that it valued materialism above all else; and willing to sacrifice almost anything to generate profits' (*The Economist*, 28 February 2004, p. 76). A further study was conducted one year later, showing little improvement in overseas perceptions of America's image. In the field of human resource management (HRM), this problem with the American model has been especially true for some considerable period of time. For example, many Europeans have questioned the appropriateness of much of US employee relations practice, with its focus on individualism and 'short-termism', its morality in laying off employees without warning, and its appropriateness to social market economies that are based on employee participation in business decision-making. As a result, there have been various attempts to develop an alternative European way of managing people (Brewster and Harris, 1999). Similarly, Australians have sought to develop their own models of leadership and management, and the rapidly growing Chinese economy and indigenous industry have attempted to embed mainly American ideas into their own culturally and institutionally specific ways of doing things (Zhang and Martin, 2003). Consequently, it is sometimes argued that we may be witnessing a fragmentation of models, with no single set of ideas dominating the management agenda (Clarke and Clegg, 1998). We also seem to be witnessing a major debate on the appropriateness of the appeal of the US business and management model to the rest of the world. Some writers have described this debate as being between the forces of global convergence (largely those of American multinational corporations and consultants) and those of divergence, with its emphasis on the importance of national mindsets (local cultural and institutional ways of seeing and working) (Sparrow and Hiltrop, 1997).

Dominant ideas and 'guru theory'

As we have noted, paradigms also appear to change because certain influential theorists or practitioners who make up the so-called management 'guru' industry develop new ways of working and thinking (Collins, 2001). Acceptance of these new ideas occurs not only because these ideas are in and of themselves somehow better than previous ones, but also because you need willing consumers as well as willing producers in the rapidly growing marketplace for knowledge. And, as many critics of management consultancy have noted, willing consumption is often associated with serving the career interests of particular groups of people in organizations or for non-rational institutional reasons such as the pressures to imitate other organizations because of what is expected by institutional shareholders or government officials, or adopt practices to conform to social network pressures – the fear of being 'left out' (Wheen, 2004).

James Hoopes (2003) has described the role played by 'guru' academics, consultants and reflective practitioners who have had a major influence on new ideas and examples of so-called best practice in management during the last 100 years. Hoopes emphasized the two, recurrent big ideas in management and showed how interest in these two ideas has ebbed and flowed in popularity over time. These two ideas are *top-down control* and *bottom-up management.* Top-down control is best exemplified by Frederick Taylor and his school of scientific management in the late 1800s and early 1900s, which emphasized the importance and power of a new managerial 'cadre' in convincing or forcing workers to do what these managers wanted them to do. Usually, this involved heavy doses of close and direct supervision, and payment-by-results systems to motivate workers. Taylor and his followers, including Henry Gantt and Frank and Lilian Gilbreth, were important in spreading the gospel of scientific management. However, it took Henry Ford, the founder of the Ford Motor Company, to apply Taylor's ideas by linking them to technological control embodied in the moving assembly line, before they became practically important. As a result, Fordism became the dominant mode of organizing and managing during the twentieth century. It is usual in academic texts to trace some of the modern management techniques that we shall discuss during this course to Taylor and Ford's ideas of top-down control, including 'business process re-engineering' and 'lean production'.

By contrast, bottom-up management, according to Hoopes, is associated with a more humanistic or, some would argue, realistic belief that such top-down control is ultimately self-defeating. At least two arguments have been used to explain the negative side to top-down management. The first of these, the *alienation thesis*, became fashionable in the 1930s, and is still an important argument by many commentators on work and employment relations. It concerns the nature and scale of opposition by employees during the twentieth century to having their work 'Taylor-made'. Indeed, this kind of thinking was used to explain the rise of trade unionism during that period and much of the industrial unrest that characterized industrial and labour relations in many advanced economies. The second argument, the *changing nature of work thesis*, has two variants, according to which sector of advanced industrialized economies is being put under the spotlight. The slightly *older variant* has focused on the nature of work in the growing service sector of most developed and developing economies. Jobs in this sector, it is argued, are characterized by employees having greater control over how they perform their jobs than in the traditional manufacturing sectors, largely because of the difficulties in measuring employee output. Services are by definition more qualitative in nature because there is often no tangible output and, in the case of personal services, they are 'consumed' immediately. Think about the quality of service provided by checkout operators in a retail store and then think about the difficulties in measuring their output. High-performing retail organizations such as the UK-based Tesco, which regard the service provided by their checkout operators as the key to getting repeat business, place great emphasis on the links between satisfied and committed employees, high-quality service and strong brand performance. This link between committed employees and the service–profit chain is the major element in Kaplan and Norton's (2001) 'theory of the business', to which we shall return in Chapter 6.

The *newer variant* has developed because of the increased emphasis on knowledge work in modern economies, which became especially fashionable to emphasize following the 'dot-com' boom in the USA and Europe in the late 1990s. The argument here is that knowledge workers (and most skilled and professional employees can be labelled thus) enjoy genuine power *vis-à-vis* employers over the one scarce, non-substitutable resource that modern organizations use to compete, and that is knowledge and information (Evans and Wurster, 2000). The old adage that 'knowledge is power' has never been more true, it is argued, and in organizations that rest on knowledge as their distinctive competence, managing employees who have effective control over it has become a different proposition from managing large numbers of unskilled workers, whose prior knowledge has been effectively relocated into machines. So, for example, the models of top-down control that were employed in motor vehicle manufacture are not seen to be relevant in managing consulting firms, healthcare or science-based industries such as biotechnology. Getting the best from employees in these kinds of industry, where expertise is often located in unwritten, tacit know-how built up over years of experience, usually requires organizations to provide them with high levels of involvement in key decision-making rather than tell them what to do and how to do it, since managers often lack the expertise to do so. Think of the problems and conflicts that occur between hospital administrators and medical practitioners, or between managers who do not have a technical background and technologists, and you begin to get a sense of the need to manage differently.

There are two final points I wish to make in this section on dominant ideas and guru theory paradigms. The first is that our models of management do change over time, often in a cyclical fashion. In connection with the two big ideas of top-down control and bottom-up management, it is clear that they have ebbed in and out of fashion throughout the last 100 or so years. Often, this has been a reaction to the worst excesses of their application, as in the case of scientific management, or because they have failed to deliver what was promised, which was the case with business process re-engineering and some versions of human relations teaching. Change and changefulness are at the heart of business and management theory and practice because organizations are always in a process of 'becoming', especially given the often turbulent nature of their environments. Thus, any text and course on management has to reflect such change and make it a central feature of the analysis.

The second point is to warn you about some of the worst excesses of guru theory and the kinds of material that you can often pick up in airport bookstalls. Willing consumers of management knowledge, looking for quick fixes, are sometimes motivated by the search for 'newness'. As a consequence, we are witnessing the creation of a fads and fashion industry for management knowledge (Joyce *et al.*, 2003). Pascale (1999) identified many such fads that, in their day, laid claim to paradigm status, most of which have been discredited or else have been countermanded by other fads and fashions. Because of this faddist nature of management, the whole discipline of management has been characterized as little more than an immature body of knowledge lacking a proper scientific basis and bedevilled by inconsistencies and contradictions that would not be tolerated in any other area of scientific life (Micklethwait and Woolridge, 1997). This faddish nature of much of management knowledge has been seen as the cause of the low status of business schools within the university community and has raised severe question marks over the role and content of courses such as the MBA.

In this book I hope to help you avoid these pitfalls and help you learn useful, though often critical, ideas that have stood the test of time.

A framework for the book

Bearing in mind the issues previously raised in this chapter about the nature of management and change, the course focuses on the problems of managing people in changing contexts. To help guide you through the rest of the book, let's look at Figure 1.1.

Any book in management has to begin with an examination of the nature of what is being studied and practised, which is the subject of Chapter 2. In this chapter I have adapted and reworked some ideas by

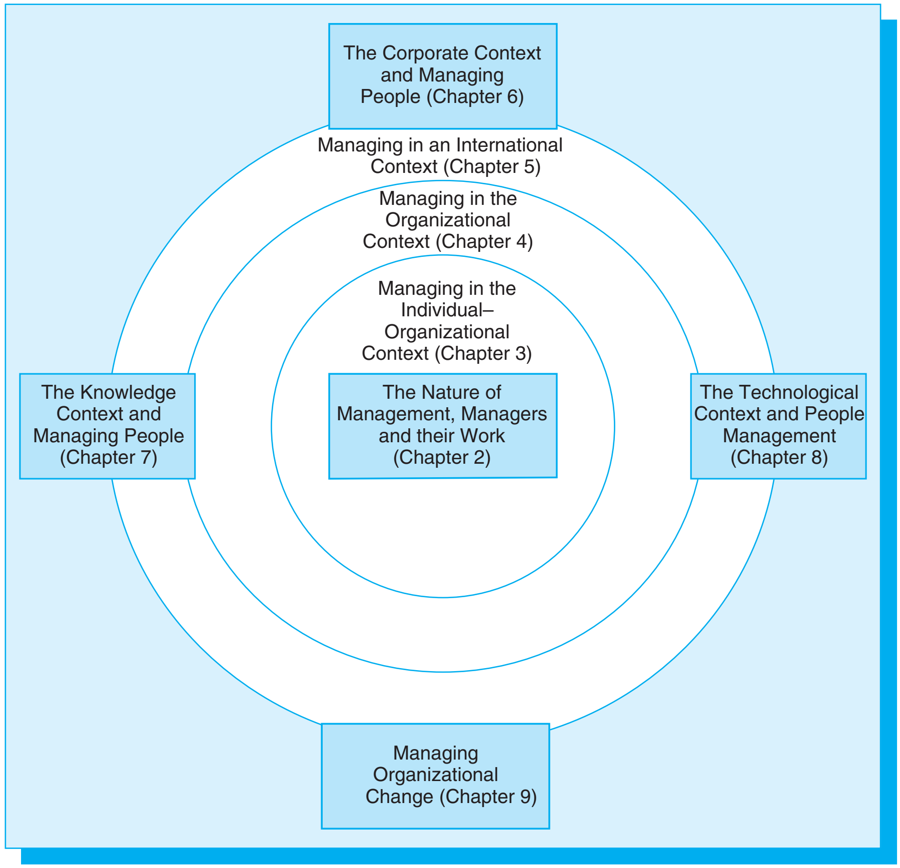

Figure 1.1 A framework for the book.

well-known management theorists to produce a model of a well-rounded manager who is capable of operating at different levels and in different contexts in modern economies. This model of management should help you to think more reflectively about your own job and others you may move into during your career.

The first premise of the model is that management is practised at different levels – managing on the inside, managing across the organization and managing on the outside, which we discuss in Chapter 2. Managers who are unable to deal effectively with people at these different levels are increasingly unlikely to deliver strategic goals. This is equally true for human resource managers and many line managers, who have traditionally defined their roles as managing on the inside, as well as marketing managers, whose roles have naturally inclined them to manage on the outside.

The second premise of the model is that managers are being asked to manage in changing contexts, which, in some respects, are qualitatively different from the experience of managing even a few decades ago. Let's take an example from a real life case I came across quite recently. A senior sales manager, working for a leading international instrumentation company, is asked to take on the role of managing a global team of highly qualified, highly paid sales engineers, operating in ten countries. It makes little sense to have these sales engineers relocate to head office, so the organizational structure has to be 'virtual' and the senior sales manager will have to learn to manage at a distance and across time zones. The problem has come about because the company has grown rapidly through acquisition and has taken over companies in these ten countries during the previous two years. His job is to instil a sense of corporate spirit into these engineers as well as support them in their aims to develop their own national markets. Thus, he faces the problems of managing a disparate group of people, from very different national and organizational cultures, to manage locally and integrate their efforts with each other, thereby aligning them with the strategic aims of the company.

This example throws up the problems of managing in multiple, changing contexts. Our senior sales engineer's initial problem is to understand the different expectations, needs and attachments that connect individuals with organizations – their psychological contracts – and how best to exercise leadership in circumstances where people are likely to differ markedly in their expectations, needs and attachments. This is the subject of Chapter 3. Then he has to understand how organizational structures can influence individual and group behaviour, and how to design and operate in structures that are more complex and virtual than those he has previously experienced, which is the subject of Chapter 4. He also faces the problems of managing in an international context, which is sometimes defined in terms of overcoming the 'liability of foreignness': How should managers deal with the costs of doing business abroad, arising from unfamiliarity with the cultural and institutional environment and the needs for coordination across time and space? This is the subject of Chapter 5.

Moving on, the example raises problems of how to create a sense of corporateness in a previously fragmented organization because the organization wishes to leverage its international brand for new markets. It also raises the problems of managing employees who are knowledge workers, many of whom are individualistic by nature and can exercise lots of power because of their understanding of local markets, and the issue of how technology might be used to achieve global integration of the sales team in a way that was close to impossible before the introduction of the Internet. So, in Chapter 6 we shall look at the corporate context and examine the problems managers face in creating strong corporate reputations and corporate brands. In

Chapter 7, we shall examine the changing nature of work, particularly the role of knowledge in creating value in organizations and the problems of managing so-called knowledge workers. In Chapter 8 we shall study the changing technological context, particularly the role of information and communications technologies in being a positive, but sometimes negative, force for change.

Finally, our senior sales engineer will face the problems of managing the change process itself; how should he turn his plans for a globally integrated sales team into action. The old saying about the best-laid plans falling down in the implementation is even more appropriate in an increasingly unknowable world, which is the subject of Chapter 9.

Learning summary

In this chapter we have learned about some of the key ideas underlying the management of people in changing contexts, including the relevance of universalism and relativism to management practice and the importance of mindsets in shaping how we view management problems and solutions.

First, I argued that the idea of 'best practice' is flawed because management practices are always 'context bound' in the sense that practices are developed in unique mixtures of organizational, industrial, cultural and historical 'soil'. Therefore, you cannot transfer practices easily from one situation to another without some adaptation and considerable time and effort to embed these practices in new fertile soil. Thus, practices can best be described as 'promising'; there is simply no 'one-best-way' to manage.

Second, I suggested that change is one of the few universals or constants of management. Therefore, understanding how contexts and ideas about management have changed and have often been recycled is important. However, such change is often cyclical, exemplified by *the* major debate in management theory and practice – top-down versus bottom-up management and organization. Management theory has been dominated at different points in history by the mechanistic mindset, which has resulted in bureaucratic organizations and control, and the organic mindset, which is revealed through a more bottom-up, humanistic and people-oriented mode of management. These cycles of interest reflect models of national economic and business success – for example, the Japanese model and organic management – and the role of management gurus in shaping dominant ideas. All managers are searching for something new; often, however, the latest fad is little more than 'old wine in new bottles', which usually turns into something quite disappointing. One good example is Case 1.1 on human relations, which is in the 'Review questions' section at the end of this chapter; the basis of modern human resource management rests on many of its assumptions and studies, which have continued to disappoint business leaders, judging by the lack of credibility of the HR function in most organizations.

Finally, I have set out a framework for the book. This framework is based on the ideas that management is practised at different levels and in changing contexts. Above all else, however, management has to produce change and innovation, for without these characteristics organizations are destined to go into a terminal decline. Given the importance of organizations to our economic success and social well-being, making effective managers is one of the key goals of advanced industrial societies; the remainder of this book is aimed at helping you in this regard.

Review questions

Multiple-choice questions

1.1 The study of management is based on which one of the following characteristics?

A The need to understand the difference between private and public sector work practices.

B Understanding the context in which management is practised and how this context changes over time.

C The role of management gurus and their ability to shift the dominant managerial mindset.

D The routines and structures that make up an organization.

1.2 Which one of the following is the main criticism of universalism?

A It is too abstract to work in practice.

B It stems from predominantly US theorists.

C It is seen as a fad and lacks concrete evidence.

D It assumes that practices developed in one context can be applied in all contexts.

1.3 For which of the following reasons was co-determination in Germany not popular with US business and political leaders?

A It directly contradicted the American belief in management's right to manage and hierarchical control.

B It meant a loss of US control over German worker relations.
C It threatened the US economy for German workers to have consultation rights.
D The US government did not want the German economy to grow.

1.4 Which one of the following provides the best definition of a 'mindset'?
A A biased point of view.
B A way of thinking and seeing that is based on one's values and attitudes.
C A fully articulated truth.
D A constant state of change.

1.5 Which one of the following explains how particular mindsets become fashionable in management thinking?
A Economic success of a country.
B Promotion of the most up-to-date theory.
C International conferences on new management practices.
D A positive response from the workforce to the application of new ideas in management.

1.6 Which one of the following is a characteristic of Taylorist and Fordist methods of production?
A Close levels of personal supervision.
B High levels of productivity.
C An emphasis on consultation with workers.
D Flexible production systems.

1.7 Which one of the following explains the backlash against 'top-down' control in industry?
A A rise in living standards.
B The rise of trade unions.
C The changing nature of work.
D An international anti-US feeling.

True or false questions

1.8 Managers don't trust theory because it doesn't fit in with their experience of practice. T or F?

1.9 Relativism in management knowledge and practice means that there is a single best way of managing that can be applied in all circumstances. T or F?

1.10 There is no middle ground between a universalist and relativist position. T or F?

1.11 The major difference between a mechanical and organic mindset is their opinion of the external environment of business and the ability to respond to outside influences. T or F?

1.12 The American model of management, although it has its critics, is broadly successful in most countries. T or F?

1.13 Japanese management models are characteristically 'bottom up' and give workers a great deal of say in how they are managed. T or F?

1.14 Richard Pascale's claim that 'nothing fails like success' in business is a form of relativist thinking. T or F?

1.15 The mechanical model of management is no longer applicable to modern business. T or F?

Case 1.1: The development of human relations, organizational behaviour and the role of academic gurus

Elton Mayo, the man who 'inspired organizational behaviour courses … around the world' (Hoopes, 2003), was of Scottish descent but grew up in Australia in the early 1900s. He attempted and failed a medical education in Adelaide, Edinburgh and London, but came to study economics and philosophy in Australia and was appointed to a lectureship in Queensland. How did this itinerant 'failure', with a rather conventional education, come to have such a huge influence on the study and practice of management for decades after his death in 1949?

Through a series of accidental meetings, Mayo became interested in the newly emerging discipline of psychology and psychotherapy and, following self-study, became Australia's first practising psychoanalyst. Because of previously formed interests in helping reduce conflict among workers and employers in Queensland, his adopted state, he wrote a book, published in 1919, entitled *Democracy and Freedom*, which warned against greedy employers and class-conscious workers and their unions pursuing their self-interests. Rather than see such a conflict of interests as a naturally occurring phenomenon during the early factory system, he described it in psychoanalytical terms as unconscious phobias. He proposed that the parties should act together to achieve a common social purpose through industrial cooperation and, in doing so, provide an alternative to political democracy. Intelligent managers, he argued, could, through therapeutic techniques and by allowing workers greater participation at work, promote social harmony, not only in industry but also in society at large. His message to the world became the importance of the human factor in an age that was dominated by the teachings of organizations as machines and the role of technology in transforming work and industrial enterprises.

Mayo decided to leave Australia in 1922 to return to London but, running out of money, ended up in California. Through personal charm, and an acute sense of opportunity, he managed to secure a research position with the influential Social Science Research Council, albeit aided by some rather dubious references he had created for himself. Through his heightened sense of networking as a way of getting career development, Mayo moved to the Wharton Business School and then to Harvard. By cultivating the attentions of its Dean, Walter Donham, Mayo managed to establish himself at Harvard Business School. Once there he introduced his ideas on psychotherapy into the curriculum and the notion that the manager's main mission was to produce social harmony in industry. While at Harvard he secured some grant funds, which he used to cultivate a group of gifted young researchers, who collectively became known as the 'Harvard human relations group'. He also made key connections with an anthropologist, W. Lloyd Warner, a statistician, T. N. Whitehead, and a biologist, Lawrence Henderson. This group would have an enormous influence on the progress of American industry and business education.

The most famous of their projects was the so-called Hawthorne experiments, begun in 1926–27 in the Western Electric subsidiary of AT&T, near Cicero, Illinois. This work began as a study of the effects of scientific management ideas on worker productivity and, in particular, the influence of natural or artificial lighting on worker output. However, manipulation of these variables seemed to have no effect. George Pennock, Hawthorne's technical superintendent who conducted these experiments, began to make other changes by introducing rest breaks, shorter hours and mid-morning meals. Eventually, Pennock decided to set up an experiment by isolating five girls in the now famous 'Relay Assembly Test Room' (RATR). Pennock asked them to work at a comfortable pace, and examined the effects of changes in work conditions on their output. At the same time, however, he also introduced a strong, group-based economic incentive. The five girls were separated from the main hall, where 100 or so workers were employed and paid on a departmental-wide system; what individuals produced here didn't have much effect on individual earnings. Following a series of experimental changes to heating, lighting, length of working day, rest-breaks, etc., productivity rose in the RATR by approximately 10 per cent.

The girls in the RATR had no supervisor, but Pennock introduced an observer called Homan Hilbarger, who initially became friendly with the girls, but gradually began to annoy them by making advances and unwanted remarks. Later on, Hilbarger created further problems when he overheard two of the girls discussing whether they would hold back their effort or go flat out. He told Pennock, who replaced them immediately. The result was record output levels.

Pennock couldn't understand what the cause of the improvements were – the small group effect, lunches, rest periods or whatever. He chose to reject the explanation of higher output for higher pay for reasons we can only speculate on.

Meanwhile Mayo came across these experiments as the result of an invitation from the Personnel Director, following a talk Mayo had given in New York. He was asked to comment on what Pennock had found, and this he did with unbounded glee. Scarcely could he believe that he had come across a set of experiments that confirmed his thesis that men and women could use work as the basis for creating social harmony and quickly set about reinterpreting the 'data' to fit in with his prior ideas. Mayo originally analysed the conflict that emerged in the group through neurosis, but when he returned in 1928, Pennock had temporarily returned the improved working conditions of the RATR to their original state by removing all previous benefits. Productivity rose yet again, and Mayo, expecting the opposite to occur, was presented with the task of explaining this unwanted result.

Mayo turned to the now famous theory that the more sympathetic supervision and counselling in the RATR, aided by the observer Hilbarger, had helped the workgroup establish a group spirit, a sense of belonging and sense of working for each other that could not be easily demolished by removing external conditions. He also castigated scientific management explanations for being unable to explain these rises in output. He went on to train supervisors in social therapy techniques so that they could interview workers and use these interviews as a valve for emotional release. However, he soon lost interest in the actual experimental side and gave control of the programme to some of his junior colleagues, who set up another experiment, the Bank Wiring Test Room. This experiment used more rigorous techniques of observation and found evidence that totally contradicted Mayo's theses. However, Mayo chose not to report the Bank Wiring Test Room in the book he persuaded the Western Electric Company to sponsor, the 1933 edition of the *Human Problems of an Industrial Civilisation*. In this book Mayo devoted only 40 pages to Hawthorne, but described it in eulogizing terms – as a near-utopia in which the girls were never under pressure. Therapeutic supervision had managed to create harmony among a group that subordinated its own self-interests in favour of the right to participate in the greater good of the group. To create such communities of practice was the job of the new breed of managers trained in psychotherapy. The result would be a form of industrial democracy in which unreasonable democratic conflict would be removed from the industrial landscape.

A subsequent, and much larger, account of the Hawthorne experiments by his acolytes, Roethlisberger and Dickson, was written in such a manner as to confirm much of what Mayo had suggested, preserving the idea that human relations should be concerned with the explanation of group dynamics and output changes, and not the more obvious scientific management explanations of pay and rewards (though they did recognize pay as a contributory factor). From what has been described as the 'dullest book ever written' (and I can confirm this), the 'scientific' study of human relations and organizational behaviour developed as a counter to Taylorism and the teachings of the day in American and European business schools.

Sources: Hoopes, 2003; Rose, 1975; Roethlisberger and Dickson, 1939.

1 Why do you think Pennock chose not to report the possible explanation that output in the Relay Assembly Test Room rose because of the economic motivations of the workers, and why did Mayo also reject the explanation that money was at the root of output increases?
2 Why should the ideas of human relations become so widely popular, despite the rather obvious flaws in the 'experiments' and the reporting of them by Mayo?
3 How have these ideas that Mayo promoted been adopted and transformed in modern management techniques?
4 How does the concept of universalism apply to this case, and how universal are the ideas of human relations?

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CHAPTER 2

The nature of management, managers and their work

Learning objectives

By the end of this chapter you should be able to:

- understand the key roles and activities of a manager's job;
- apply these roles and activities to your own job and to those of your colleagues;
- understand the importance of different contexts in shaping the jobs of managers;
- understand how management competences relate to the different managerial roles and levels at which managers perform;
- distinguish between management as a form of control and management as a form of leadership;
- understand and recognize the components of wise decision-making and how they relate to sound judgement;
- apply sound judgement to your work;
- understand how the personal qualities of managers relate to effective managerial performance;
- self-assess your personal qualities for management.

A framework for understanding managers and their work

Introduction

In the previous chapter we examined some of the key ideas underlying the study of managing people in context, including universalism and relativism, the importance of changing contexts and their influence on managers' jobs, and the role of management thinkers in shaping our understanding of management. These ideas are further developed in this chapter, in which I also want to 'drill down' into the practicalities of management.

We shall develop a framework for thinking about a 'well-rounded' manager by drawing on the work of highly respected writers in this field, including Henry Mintzberg, John Kotter, Gareth Morgan and Karl Weick. This framework integrates the personal qualities that managers bring to their jobs, the activities and contexts inherent in effective managerial work, and the different levels at which managers can take action. It also introduces you to the notions of wisdom and managerial decision-making, neglected areas in the literature on management but very important for you to understand and be able to apply to your career.

Because this is quite a complicated chapter, I have introduced four exercises along the way dealing with specific aspects of the well-rounded manager framework, rather than having an integrative case at the end of the chapter. This should help break up the text and show how specific aspects of the framework can be applied to managers' jobs.

The background to the study of managerial work

To understand managers and the process of management, we can draw on a long tradition of research into the nature of managerial work, what managers do and what managers should be doing. Since the 1980s much of this research has focused on defining, measuring and developing managerial competences, especially in the USA and the UK. For example, the USA Office of Personnel has developed a set of standards for supervisors and the UK government has sponsored research and development into producing new occupational standards for different levels and type of management, initially through the

Management Charter Initiative during the 1990s, and more recently through the Management Standards Centre, which launched its new standards for management and leadership in 2004.

Key concept: Management competence and standards

Management competences are the functions and activities that individuals with management and leadership responsibilities are expected to be able to undertake in their organization. Sometimes a distinction is made between competence and competency. Competence usually refers to the functions or activities undertaken by managers, such as developing people, whereas competency usually refers to the personal qualities an individual may bring to a job, such as networking skills or creativity. There have been various attempts to turn these competence frameworks into management standards – responsibilities that managers are expected to be able to undertake regardless of their industry sector or type/size of organization. The National Standards for Management and Leadership in the UK is an excellent example (http://www.management-standards.org.uk/). These standards, launched in November 2004, describe the level of performance expected for a range of management and leadership functions and activities, including managing and working with people, managing self and personal development, facilitating change, using resources, providing direction and achieving results, all of which are examined in this book.

In this section, we trace the origins and trajectory of these developments, and propose a new framework to help you think about the nature of management. This framework draws on different ideas from some of the leading thinkers on management, and will provide the basis for much of the subsequent discussion in this course.

Reviewing the literature on the future of management, Harry Scarborough (1998) described two schools of theory on management. The first of these is the *empiricist* perspective, which attempts to address the question: What do managers do? This stream of writing is best exemplified by the various studies of effective managers' roles and behaviour, such as Mintzberg (1973), Kotter (1990) and Stewart (1979). These writers developed rich descriptions of managerial behaviours and practices, classified them according to the functions they perform for organizations, and developed prescriptive theories of what managers should do. Probably the best known of these was Mintzberg's (1973) analysis of managerial work, work that has formed the point of departure for many subsequent discussions of management (see Box 2.1).

Box 2.1: Mintzberg (1973) – Managerial work: analysis from observation

Based on a one-week observation of the chief executives of five medium-to-large organizations, Mintzberg suggested a new answer to the question: 'What do managers do?'

He described the characteristics of the work of these managers in the following terms:

- Managers performed a great quantity of work at an unrelenting pace.
- Managers' activity was characterized by variety, fragmentation, and brevity.
- Managers preferred issues that were current, specific and ad hoc.
- Managers sat between the organization and a network of contacts.
- Managers demonstrated a strong preference for the verbal media (telephone and meetings, as opposed to mail and tours).
- Managers appeared to be able to control their own affairs (despite the fact that they have so many obligations).

Mintzberg broke down the content of the work of a manager into the following roles:

- Interpersonal roles – arise directly from his formal authority and involve basic interpersonal relationships
  – Figurehead: a symbol, attends ceremonial events, signs legal documents.
  – Leader: motivates subordinates, develops the work milieu.
  – Liaison: horizontal communication with other managers, informal relationship.
- Informational roles
  – Nerve centre (monitor): the focal point for the movement of non-routine (internal and external) information, including contacts with people who are nerve centres in other organizations.
  – Disseminator: transmission of information and values to subordinates.
  – Spokesman: transmission of information to outsiders.
- Decisional roles
  – Entrepreneur: looking for opportunities and potential problems that may cause him to initiate improvement projects.
  – Disturbance handler: handling situations that are not covered by the routine rules.
  – Resource allocator: scheduling their own and their subordinates' time, and authorizing all significant decisions before they are implemented.
  – Negotiator: as part of being the organization's legal authority, its spokesman and its resource allocator.

The second of the schools identified by Scarborough is the *essentialist* perspective, the various strands of which are characterized by the attempt to uncover the 'essence' of management and its relationship to the underlying functions management performs for organizations, such as controlling employees. This essentialism is closely related to the developments by the early writers on management, such as Taylor, Ford and Fayol, to uncover a one-best-way or science of management. Such a perspective has a long history, and is underpinned by the universalistic principles discussed in Chapter 1.

Both perspectives have weaknesses, one of the most important of these being their neglect of the institutional, cultural and national contexts in which management is practised. As we have already seen from the illustration on Germany in Chapter 1, there has been resistance to management practices developed in the USA. Similarly, private sector practices, developed in contexts for which profit maximization or increasing shareholder value are the dominant concerns, may have less relevance in the public sector. The public sector tends to be characterized by multiple stakeholders, all of whom have a legitimate claim on organizational goals and resources. Finally, neither perspective has much to say about the kinds of personal characteristics or competencies required of effective managers in different situations, a topic that has been the subject of recent work on leadership and emotional intelligence (Goleman *et al.*, 2002), and one to which we shall return in the next chapter. In the remainder of this chapter, I have put together a framework for thinking about management which draws on the ideas of the eminent management thinkers who are widely acknowledged to have made a major contribution to the literature on management and organizational behaviour.

Case 2.1: Using Mintzberg's descriptors

1 Using the description of Mintzberg's work in Box 2.1, would you expect to find significant differences between managing in the public sector and managing in the private sector? If so, which roles would you expect to be more important in the public sector?

2 Again, using the description of Mintzberg's work in Box 2.1, think about someone who has had responsibility for your work. Which of the roles did he or she tend to perform most effectively and least effectively? How did his or her performance in these roles affect your work?

A framework for understanding the well-rounded manager

Introduction to the well-rounded manager

Any selection of thinkers on management is bound to be restrictive, because writing about the topic has become 'big business' and, as we noted in Chapter 1, there is a growing guru industry that has developed to meet the insatiable demand for new insights into management. High on anyone's list of experts would be Henry Mintzberg, a Canadian whose earlier work we have already discussed. Mintzberg has spent much of his academic career studying managers in context and developing models of management, with a view to setting out his ideas for a 'well-rounded manager' who would be able to function effectively in most business situations.

As we have already seen earlier in this chapter, Mintzberg's earliest work during the 1970s helped map out the territory by describing a number of roles that managers performed during his studies of managers. This work was notable because it was based on observation and what managers did in practice, not on what managers were supposed to do. However, in a more recent formulation of the nature of management, Mintzberg (1994) attempted to 'round out the manager's job'. Prompted by criticisms of the 'atomistic' listing of managerial roles and competences, taken by many organizations, Mintzberg offered a more holistic approach to management. He argued that the listings of well-documented roles and competences 'even if joined up in a circle' did not capture the integrated nature of a manager's job. Nor did they attempt to explain how different competences related to each other, except in a very general sense. For example, such a criticism could be made of the older version of the UK Management Standards, developed by the Management Charter Initiative in the early 1990s. In these standards, competences were categorized together under roles such as managing people or managing resources. Little or no attempt, however, was made to show how the competences related to each other, except as part of managing people, etc., or to show how the roles themselves related to the overall job of managing in different contexts. The new version of the standards has gone some way to meeting these shortcomings.

Thus, I believe that Mintzberg's rounding out of the manager's job is an excellent starting point to develop a holistic *explanation*, rather than mere *description*, of management. It can also be used to relate the practice of management to some of the key contexts in which it is performed. Building on his work, I have attempted to show how important managerial competences, including the much-neglected issue of exercising judgement, relate to his model of the well-rounded manager in context (see Table 2.1 and Figure 2.1). In fleshing out Mintzberg's ideas, I have drawn on the work of three other academic writers who have also continued to produce excellent insights into the work of managers during the last few decades. These academics are Gareth Morgan, Karl Weick and John Kotter.

From Figure 2.1, you can see how Mintzberg's model of a 'well-rounded' manager can be depicted by relating the person in the job, through a series of concentric circles, to the context of the job, including its frame, its purpose and perspective, the agenda of the work and the internal and external contexts of the organization. Let's look at each of these factors in turn and provide some examples of how they help us understand the complex nature of management.

The person in the job

Mintzberg's framework of the well-rounded manager began with a discussion of the manager him/herself or 'the person in the job'. People come to managerial jobs not with a 'blank slate' but with a set of values about what is right and wrong and what is acceptable behaviour for managers. They bring with them a set of prior experiences that have helped them create a set of job and personal competences, and also develop a body of job-related knowledge (such as that needed for many professional occupations). And, as we saw in Chapter 1, such knowledge and experience also help them develop a set of mindsets through which managers view their world and create solutions to the problems they face. These mindsets are a way of seeing, and can lead to lots of creative insights, but they are also a way of not seeing (Morgan, 1997). For example, managers who lack knowledge and experience outside their own specific functions, organizations or even countries can run into trouble. If you can see from only one perspective – for example, as an accountant in XYZ organization in the UK – every problem will be framed in this way, summed up in the aphorism 'If you only have a hammer, every problem is likely to become a nail'. Mintzberg suggests that these specific combinations of values, experiences, competences, knowledge and models all go to make up a manager's personal style, which strongly influences how he or she tackles the job.

Table 2.1
The well-rounded manager

Person in the job	Frame	Context	Style	Level	Roles and associated competences (note that some competences are associated with two or more roles)	
Their values	Purpose of the job creation, maintenance, adaptation	Agenda of the work	Which role they favour: science, craft or art	Managing information	Conceiving	Creating and innovating, exercising judgement
Their experience		Managing inside			Communicating	Effective oral and written communication, interpersonal effectiveness
Their knowledge		Managing within			Controlling	Creating a performance culture
Their models					Scheduling	Project management, strategic flexibility
Their degree of emotional intelligence	Purpose of the job creation maintenance, adaptation	Managing outside	How they perform the roles	Managing people	Linking	Building teams, managing conflict, networking, interpersonal effectiveness and intrapersonal effectiveness
Their self-development		The nature of the organization			Leading	Strategic flexibility, delegating, managing change, giving and receiving feedback, creating a performance culture
		The nature of the industry	The relationships among the roles	Managing action		Interpersonal effectiveness and intrapersonal effectiveness, making wise judgements and decisions
Their 'attitude of wisdom'	Position the product/market strategy, structures and systems of the business	The national institution and cultural context			Doing	Building teams, coaching, dealing with ambiguity, creating and innovating

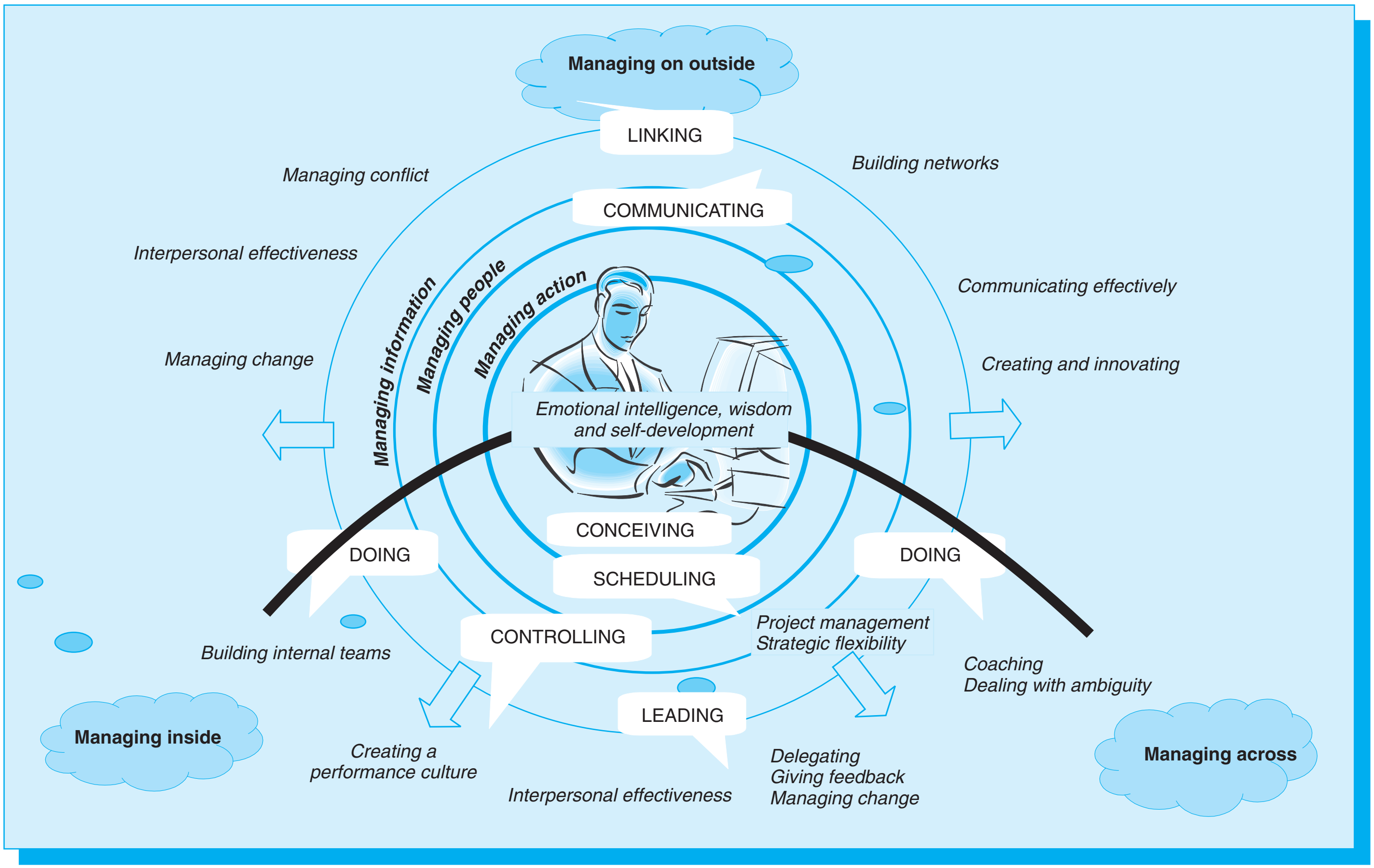

Figure 2.1 A model of the well-rounded manager.

Two key ideas I wish to single out for special attention in analysing what a manager may bring to a job are *emotional intelligence* and an *attitude of wisdom*. Both of these ideas are critically important in developing the necessary competences for effective management. The first, emotional intelligence, has become a widely discussed notion in management and leadership that we shall develop more fully in Chapter 3. At this point, however, we need to understand that, although managers usually need fairly high levels of what we call cognitive intelligence, or sometimes IQ, the mental reasoning abilities associated with these ideas are not enough to predict how well a manager will be able to perform in different organizational contexts. So, writers such as Goleman *et al.* (2002) have argued that emotional intelligence, which focuses on key personal qualities that managers bring to a job, is what will help managers perform effectively. Emotional intelligence has been defined by Goleman *et al.* as an individual's potential for mastering the skills of self-awareness, self-management, social awareness and relationship management. These skills, in turn, become the basis for learned abilities or competences. For example, self-awareness provides an accurate means for an individual to self-assess his or her strengths and weaknesses, a competence that is essential for someone seeking to manage a career. Emotional intelligence, however, is not something that one is necessarily born with, nor is it a fixed personality trait. One of its key features is that it can be developed, in some people quite substantially. A second feature that forms an important input into what a person brings to a job is an attitude of wisdom (Weick, 2001). I shall set out what this means in more detail later in this chapter. Suffice to say at this point that the abilities to reflect critically on what one has learned during the course of taking action and to exercise judgement in making decisions are likely to be critical skills in shaping managerial performance. It may be evident that there is also a close relationship between an attitude of wisdom and being self-aware, again a point to which we shall return later in the chapter.

The components of managers' jobs

Mintzberg's next contribution is in analysing managerial jobs into three components. The first is the *frame* of the job, the second is the *agenda* of the work to be undertaken and the third is the *context* in which the work takes place.

The frame of the manager's job

The frame of the job is defined in terms of its purpose, perspective and position. *Purpose* refers to what a manager is attempting to do with the unit he or she is managing. For example, the frame might be to run a business school to produce high-quality education, or to manage a hospital ward, or to run a whole organization. Usually, the job is circumscribed by the collective *perspective* the organization has taken on the unit or department's role and how it fits into its 'theory of the business', or what has become known in everyday business language as the 'business model'. For example, the US-based Sears organization developed a customer–service–profit chain to describe how all units might work together to create profits through high levels of customer satisfaction. Similarly, Scottish & Newcastle Breweries, a Scottish-based international brewery, has developed a theory of the business that shows how HR departments fit into its overall mission to develop profits through building effective brands. The final aspect of the frame of the job is its *position*, which broadly refers to how an organization or unit locates itself in its external product–market environment and how it proposes to do business. Michael Porter and other well-known writers on strategy have developed positioning models that provide good examples of the positioning concept, e.g. whether an organization essentially seeks to compete on cost-effectiveness, on differentiating its products and services from competitors, or on focusing on niche segments in the market.

The frame of the job gives rise to the first of Mintzberg's key managerial roles, which is *conceiving*. This role is defined as 'thinking through the purpose, perspective and positioning of a particular unit to be managed over a particular period of time' (Mintzberg, 1994, p. 13). As he also suggests, managers interpret their jobs differently depending on their style and on the circumstances of the organization. For example, some managers are forced to adopt a particular style because of external requirements or tight internal controls, whereas others are able to be more creative. Managers also vary according to how vague or sharp their frame is; some frames are characterized by a highly focused aim, such as achieving *x* per cent in sales revenue, whereas others are characterized by a more flexible desire to become the best company in a particular industry.

What does this conceiving role mean in practice? Gareth Morgan (2003) has described two general managerial competences that help managers 'imaginize' through new mindsets. These are:

- creativity and innovation;
- strategic flexibility.

Creativity, to borrow from Marcel Proust, a nineteenth century philosopher, is a voyage of discovery, and consists not in seeing new lands, but in seeing with new eyes. In his earlier work, Morgan (1997) developed a range of different metaphors or 'eyes' for reframing problems, based on the rationale that a way of seeing is also a way of not seeing. According to him, if organizations are to survive in an increasingly changeable world, managers need to use multiple lenses to analyse problems and be able to reframe them to produce novel and compelling solutions. More recently, he has relabelled these metaphors as *mindsets*, the concept we shall use in this book to describe different ways of seeing.

Being *strategically flexible* involves an attitude of mind, e.g. being wise and self-aware, as well as employing a number of practical competences. These include thinking about problems as opportunities for learning, anticipating major problems before they happen, learning through strategic planning by using techniques such as scenario planning and search conferencing, using multiple perspectives to analyse and solve problems, and challenging conventional organizational wisdom before it becomes a kind of 'psychic prison' that traps managers and their organizations into outmoded ways of working. For example, it has now become commonplace in industries such as air travel to 'put customers first' by creating a business class for those who wish to pay the extra money for such a service, but this was not always the case. Passengers in the 1980s were 'cargo to be transported rather than customers to be pleased', with engineering and logistics dominating airlines' policies rather than marketing and customer considerations (Pascale *et al.*, 2000). As a consequence, airlines that failed to adopt a new 'customer-first' perspective have gone out of business.

The agenda of the work

Mintzberg and other writers such as John Kotter (1990) have pointed to the importance of agenda-setting as a key influence on managers' jobs. Simply put, agenda-setting refers to 'figuring out what to do, despite all the uncertainty of what is going on inside and outside the organization'. Managers have to respond to particular issues that are framed by the job, in terms of position, purpose, perspective and also to their preferences, which are essentially dictated by their style. Such issues are usually 'chunked' into manageable tasks, where the key managerial role associated with setting and carrying out an agenda is *scheduling*. Scheduling is likely to involve prioritizing activities and allocating time and resources to carrying out these activities on a day-by-day and week-by-week basis. In addition to strategic flexibility, project management skills are likely to be essential. The kinds of skills involved here will include: defining the scope and mandate for the project and developing a project mission, producing a project plan, creating and deploying a project team, keeping track of the project progress and being able to close the project once the goals have been achieved.

Case 2.2: A certain kind of manager

Mario Moretti Polegato is the owner of Geox footwear, an Italian company that makes sports shoes. His company has grown rapidly from sales of 1.4 million pairs of shoes in 1998 to 6.5 million by 2004, with export sales accounting for nearly half. By any standards, this is impressive growth and his expectations were for 10 million sales by 2005, increasingly in a global market.

However, according to an *Economist* article, Polegato has a number of advantages. First, he is Italian, and Italy has led the world in footwear design and manufacture, especially in the region around Venice. Second, he has brought some innovation to the business by attempting to solve the problem of foot odour and clamminess around the toes. This interest in solving the problems of sweat derive from his personal experience of running in America, during which time he developed an idea of a 'membrane that fitted between the sole and the foot and stopped water from getting in through the holes, but allowed the vapour from perspiration to get out' (*The Economist*, 11 March 2004).

He patented this idea and others, which hetook to the branded designers of sport shoes, including Nike and Adidas, but without success. So he turned to design and production himself, initially with a staff of five. He now employs more than 2800 in Italy on design and production, plus many more in subcontracted manufacturing of shoes in low-cost Slovenia and Romania.

Like any business in the fashion industry, and sports shoes are a major part of it, tastes can change. So Polegato now plans to diversify into clothing, using his membrane technology to aid underarm sweat collected in shirts and jackets to dissipate, removing the need for deodorants. He has a vision of a world without underarm deodorants. This borders on the obsessive but then, according to *The Economist*, many inventors and innovators embody this quality.

Source: adapted from 'The Ferrari of footwear', *The Economist*, 11 March 2004.

1. What are the kinds of values and experiences that Mario Polegato has brought to his job, and how have they shaped his business?
2. How does he display creativity and strategic flexibility?
3. Thinking about yourself, what values that may influence you as a manager either now or in the future do you hold most deeply?

The context of the manager's job

So far, we have been describing the core of the manager's job, the person in the job, within a frame made operational through an agenda. We should note, however, that the core of a manager's job is located *inside*, *within* and *outside* the organization. The inside context is the department or unit in which the manager works, over which he or she may have direct control, and this context is often the main focus for many middle managers. However, managers also have to work within an organization and liaise with other departments to achieve their objectives. For example, sales managers have to work with production departments, and HR managers rarely enjoy direct authority over other departments but have to liaise with these managers and their units to achieve their HR objectives. Finally, managers achieve their objectives by working with people and resources outside the organization, often relying on these to get the job done, despite having no formal authority or leverage to draw upon to achieve their objectives. So, for example, the main activities of a chief executive often involve sitting on national committees, or developing close relations with key customers or partners, rather than in managing his or her executives. This external context can provide the most difficult challenges to a manager, and requires *networking, communications and interpersonal* competences of a high order to achieve success. Nowadays, recruiters in the UK who are responsible for taking on graduate management trainees emphasize communications and personal skills, rather than the class or type of degree, precisely because so much of modern work requires networking abilities (Goldthorpe, 2003).

Managing on three levels

To be effective, managers have to translate their personal qualities (or, as they are sometimes known, personal competencies) into effective behavioural skills (or behavioural competences) inside, within and outside their organizations. According to Mintzberg (1989), managers demonstrate these behavioural competences at three levels, moving outwards from the conceptual level to the doing or action level (see Figure 2.1). Thus, managers not only conceive and schedule, as we have just discussed, but also:

- manage *action*, by doing things directly themselves;
- manage *people* to get things done through others; and
- manage *information* to influence people to take action.

As Mintzberg pointed out, managers can choose to operate at any of these levels, but understand that any action taken at one level has 'knock-on' consequences for action taken at other levels.

Managers are also stylized by the level at which they prefer to work: some administrators, accountants or planners prefer to work at the informational level; 'people-oriented' managers prefer to work through others; whereas 'doers', often in front-line supervision, 'roll their sleeves up' and take direct action. In his most recent work on management, Mintzberg (2004) has reworked these issues of preferences in managerial styles and levels into a model of three poles of managing: management as a science, management as a vision and management as a craft (see Figure 2.2).

Managers who prefer to work at the informational level are often influenced by the idea of *management as a science*, which involves applying rational techniques and thinking about leadership and strategy, best achieved through systematic assessment and planning. Managers who prefer to work through people are more likely to be influenced by the idea of *management as an art*, which relies on creative insights and holding out a novel and compelling vision that others can buy into. Managers who prefer to work through action are influenced by the idea that *management is a craft*, learned and practised through direct experience, experimentation and action.

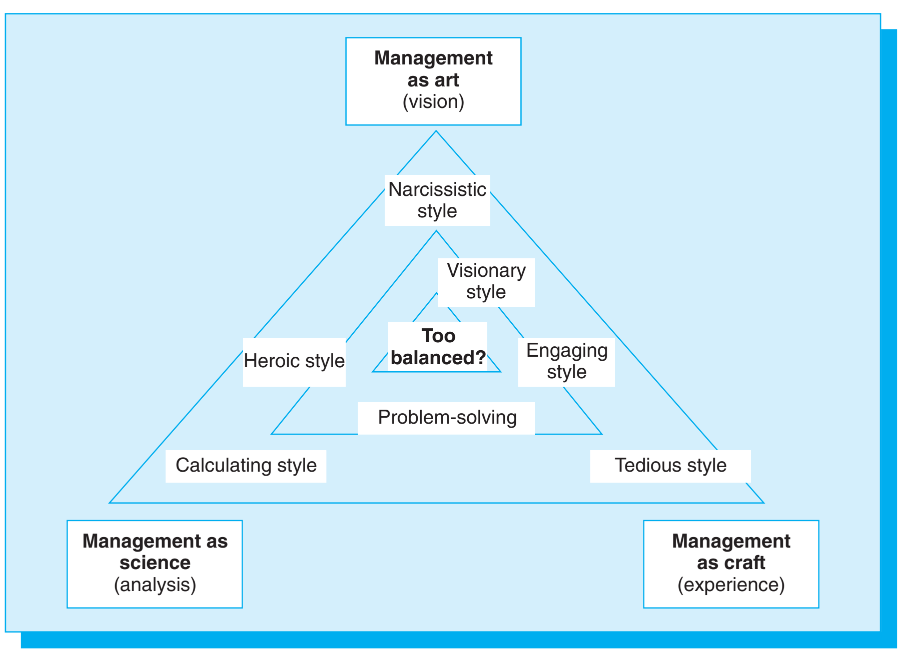

Figure 2.2
Managerial styles. (*Source*: adapted from Mintzberg, 2004, p. 93.)

The critical point, according to Mintzberg, is that the well-rounded manager needs to function effectively at all three levels and achieve a degree of balance among the three poles in Figure 2.2. He contends that there are three balanced styles:

- A *problem-solving style*, which combines the strengths of rational analysis with practical experience (and presumably just enough people-management intuition thrown in). Such a style, common among middle-level managers in production and engineering environments, is reminiscent of the Germanic model of management.
- An *engaging style*, which is people oriented and experience based, but with just enough science to take it out of the 'gifted amateur' category. Such a style is associated with those managers who prefer to coach and facilitate, and is reminiscent of a British cultural stereotype of good managers.
- A *visionary style*, which is strong on art and vision, but is also rooted in experience, again with just enough science thrown in to give the ideas credibility. This style is one that is associated with successful entrepreneurs, and is close to a stereotype of an American model of good management.

Note that his idea of balance among styles, however, lies in reconciling two out of the three, with just enough of a third style to keep things in check. His view is that if we try to achieve a balance among all three simultaneously, we run the risk of either having no style at all or of not making a choice over how to manage.

Mintzberg also highlights the dangers of too little balance in styles, an issue to which we shall return in a discussion of leadership in Chapter 3. *Calculating* managers who manage purely at the informational level run the risk of dehumanizing the situation and lacking sufficient grounding in experience. This charge has often been made against the recruitment strategies of firms that target inexperienced MBA graduates and provide them with high degrees of responsibility early on in their careers. In Chapter 3, we shall look at the idea of talent management and some of its problems that exemplify this danger. *Tedious* managers, on the other hand, are often guilty of not being able to see the big picture because they rarely move out of their own comfort zone of experience. Often, this charge is made against engineers or other professionals who are promoted because they have been good at their professional 'craft', but who fail to provide people with a compelling vision or well-worked-out strategy. *Narcissistic* managers run the danger of being strong on vision, but with little else. We shall also explore this style in Chapter 3. Finally, *heroic* managers, according to Mintzberg, are perhaps the most dangerous of all. Their style is influenced above all else by the need to promote shareholder value, which has involved a shift away from hard analysis but not from calculation. This time, however, the calculation is about how best to promote their careers (such as the account of Elton Mayo in the last chapter). The heroic style is largely about providing drama, rather than true art, and is focused on selling stories without substance to the investment community. Mintzberg's 'tongue-in-cheek' characterization of heroic leaders involves: (1) looking out rather than in; (2) ignoring existing business, because anything established takes time to fix; then (3) doing anything you can to get the stock price up and cash in before you are found out.

We are now in a position to attach behavioural competences to each of these three levels of managing and their associated poles.

Managing by information and the problem-solving style

The first broad category of competences is *communication*, which is the collection and dissemination of information. John Kotter (1990), in his work on general managers, pointed out that much of communication wasn't written and formal but oral and informal, sometimes operating at the non-verbal level – joking and kidding and talking about anything and everything remotely connected with the business with people inside and outside the organization. Mintzberg reinforces this point when he suggests that nearly every serious study of managerial communications has stressed the informal and face-to-face nature of communications. However, given the availability of electronic mail, other electronic means of communication such as mobile telephony, and the growth in 'virtual' organizations and globally distributed working that makes face-to-face communication more difficult, the emphasis on developing skills in electronic communication is likely to become more important (see Chapter 8). Regardless of the medium, much of managerial work is concerned with building human networks to access information, sifting through this information, and sharing what is relevant with outsiders and insiders. Given this key role, communicating effectively through formal and informal means and acquiring interpersonal effectiveness skills are essential to effective managerial performance.

Gareth Morgan (2003) has provided some excellent insights into what managers need to be able to do to communicate effectively.

There are at least three clusters of competences associated with effective communication. These are:

- cultivating emotional intelligence by developing self-awareness, self-regulation, motivation, empathy and social skills such as influencing and listening (see Chapter 3);
- communicating effectively by tailoring the message, ensuring clarity of communication, engaging in two-way listening, receiving feedback well and understanding non-verbal communication; and
- giving feedback to your boss, to colleagues, subordinates, etc., and being able to deliver good news, bad news and constructive criticism.

The second broad category associated with the informational role is using information in a *controlling* sense to get people to act. Such action is provoked by developing information systems, by designing structures of control and by issuing directives for people to follow. For example, managers often spend lots of time creating and using planning and performance control systems, including budgets and appraisal. By defining responsibilities and creating hierarchies, they indirectly influence information flows. Managers can also issue instructions and directives, though, as Kotter (1990) surprisingly pointed out, this is not something that managers usually do in a Western context, nor is it the traditional Japanese way of managing, which is focused more on managing by consensus.

There is little doubt, however, that one of the key competences associated with controlling is the ability to create a performance culture in an organization. In addition to the three sets of competences above, Morgan (2003) has stressed the following sets of skills that managers need to be able to use:

- Promote quality and continuous learning as core values in an organization.
- Create stretching benchmarks, by measuring performance against practices from other organizations or industries and continuously raising the standards of these comparisons.
- Use problems as opportunities, by using them as springboards for future success rather than treating them as barriers to change.
- Unlearn to create room for new developments, because progress often requires managers to take a couple of steps back and unlearn previously held beliefs and attitudes in order to go forward.

- Challenge conventional wisdom by looking outside an individual or organization's conventional mindset for new solutions and ways of thinking, or by appointing 'deviants', 'heretics' or 'court jesters' to think and say the 'unthinkable'.
- Improve performance through action-based learning, which uses real, workplace-based problems facing the organization as the basis for learning and aims to produce solutions to these problems, rather than to use 'schooled' learning that is remote from practice.
- Understand and deal with resistance to change, by 'knowing where people are coming from' and attempting to 'reframe' problems as opportunities for interested parties.
- Think 'win–win', by ensuring that all parties can achieve something of their aims, without any one party being seen to dominate the agenda.
- Manage projects, using the skills outlined in the previous section.

Managing through people and the engaging style

The second level at which to manage is through people, which is more direct than managing through information but not as direct as managing by action. As Mintzberg suggests, the focus here is on *affect* not *effect*. Once again, most of the studies of management have stressed that much of a managers' time is taken up with managing people over whom they have no direct control, such as those individuals and groups within and outside the organization. However, you would not get this impression from reading many of the management texts, which lay great stress on the relationship between superior and subordinates, and are rooted in a model of pyramid-style organizations. Such a focus on hierarchical relationships, while not outmoded, is likely to form even less of a manager's time in the new forms of organization, such as the virtual and networked companies that are beginning to appear in many industries (Cairncross, 2003). We shall look at these new organizational structures in Chapter 4.

We can identify at least three broad sets of competences associated with managing people within and without organizations. These are *leading*, *linking* and *networking*, which have received lots of attention in the business literature. Of these three, leading is the one that has received most treatment, and we shall look at this in more detail in

Chapter 3. However, it is worth noting at this stage that, as Mintzberg has pointed out, managers can exercise leadership at the individual, group and unit levels. *Individual leadership* refers to the ability of managers to inspire, motivate, coach, develop, drive, push and mentor people. Morgan's (2003) model also highlights these competences, many of which are associated with managing change and developing people. *Group leadership*, which Pettigrew and Whipp (1991) found to be one of the most important levels at which leadership can be exercised, has become more important with the 'rediscovery' of teamworking in the 1980s by Japanese organizations. Building and managing teams (Morgan, 2003) are key competences for group leadership. However, managers also have to provide a different kind of leadership at the unit level, which is sometimes differentiated from the personal or group level by applying the label 'strategic leadership' (Leavy and Wilson, 1994). Often, as we noted earlier, managers act as figureheads or in a symbolic role as strategic leaders, representing the organization to the outside world or at ceremonial events such as graduations. This level of leadership requires managers to be strategically flexible and to create strong, performance-based cultures (Morgan, 2003).

Finally, as Mintzberg (1994) argued, managers exercise leadership through linking the unit to the external world by advocacy and by being the focal point of external pressures and information coming inwards. Such a role is often underplayed in the texts on leadership, but is increasingly important in complex organizational networks and in newer forms of networked organization. For example, many managers spend much of their productive time promoting their units with managers of other units or with potential customers. At the same time, they act as a buffer or protector of their units from external pressures, such as the manager who spends his or her time taking criticism directly from irate customers when things go wrong as a result of actions taken by staff. Mintzberg used the metaphor of the manager as a valve to capture the essence of this role, which is probably more accurate than the use of the term 'gatekeeper'. Key competences associated with this linking and networking role are *interpersonal effectiveness*, *managing conflict* and *communicating effectively*. It also requires elements of emotional intelligence, which we shall examine in Chapter 3. The dimensions most associated with the linking and networking roles include a high degree of self-awareness, empathy and social competence. The networking aspect of the role also requires managers to create and develop a wide range of contacts to lobby effectively, provide information and set agendas for action, as well as mediate between the pressures coming in from the outside by disseminating information and delegating effectively.

Managing action and the visionary style

To manage effectively, managers have to take a direct involvement in actions. This is a controversial topic, with some writers preferring managers as thinkers rather than doers. However, in most Western industrialized settings, managers are required and respected for being able to take action, and for leading by example, and for not being seen as remote from colleagues. As we have already discussed, the debate over managers as thinkers rather than doers is reflected at the national cultural level. For example, one researcher who studied how British employees in Japanese-owned factories felt about Japanese managers concluded that Japanese managers were more likely to obtain respect from their British employees because they were willing to become directly involved in sorting out problems on the shopfloor, reflecting an engaging style. Similarly, senior German managers in manufacturing industry tend to be highly qualified engineers who are able to solve technical problems themselves, reflecting a problem-solving style. This ability to take direct action was contrasted with senior British managers in UK manufacturing firms, often with no technical background (Stewart *et al.*, 1994). Mintzberg labelled this the *doing* role, which refers to getting closer to the action, sometimes managing the doing of action directly in a supervisory sense and sometimes doing the job themselves. Doing can be 'inside', carrying out projects and solving problems, substituting and doing regular work such as a surgeon leading a medical team during a complex operation or a professor leading a research team by directly undertaking the work him or herself. In addition, doing can be 'outside', in the sense of doing deals and handling negotiations, essential components of many managers' jobs. Competences associated with this action level are being able to deal with ambiguity and helping others deal with ambiguity. On many occasions, especially during significant change, people will feel uncomfortable about the lack of clarity and certainty in their jobs. These feelings are related to personality and preferred learning and thinking styles. Understanding your own personal tolerance for ambiguity, and being able to strike the right balance with others between imposing structure on the one hand and creating an atmosphere of openness and flexibility on the other, are essential skills.

Case 2.3: Exercise on the distinction between management and leadership

Background

In the preceding text on the nature of management, I referred to the distinction that is sometimes made between management and leadership, though I argued that leadership was essential to the job of all managers. This exercise examines the distinction between these two concepts and shows how they overlap. It also helps to identify how you can implement leadership in your day-to-day jobs.

We know that organizational performance is increasingly a product of the motivation and focus of the people the organization employs. We have also argued that a major influence on people's motivation and focus is the quality of managerial performance, of which leadership is a key element in our model. Consequently, encouraging managers, supervisors, team leaders, etc. to be better leaders is an important and continual theme in management education and training.

According to Terry Gillen (2004), however, there are three problems that hinder learning about leadership:

- Most books on leadership concentrate on the activities of charismatic and maverick chief executives or on famous explorers whose situations are far removed from those of most managers and supervisors.
- Our views on what constitutes good leadership in today's organizations are changing. We have come to see leadership less in images of charismatic commanding officers leading troops into battle and more in terms of the subtle day-to-day interactions among all managers and their staff at every organizational level.
- Most managers' performance is monitored, assessed and rewarded in a way that encourages them to concentrate on scheduling and controlling management processes rather than on leading their staff.

Task 1

In Table 2.2 is a list of activities, some of which could be classified as managerial, some of which could be classified as leadership, and some of which could fall into both categories. Use Table 2.3 to position these activities.

Task 2

Reflect on why you have placed these activities in the various categories. What makes them management or leadership oriented? If you have placed some of the activities in the middle, why have you done so?

Source: adapted from Gillen, 2004.

Table 2.2
Lists of managerial and leadership activities

Delegate tasks	Act as interface between team and outside
Use analytical data to support recommendations	Plan and prioritize steps to task achievement
Motivate staff	Explain goals, plan and roles
Ensure predictability	Inspire people
Appeal to people's emotions	Coordinate effort
Coordinate resources	Share a vision
Provide focus	Give orders and instructions
Guide progress	Monitor feelings and morale
Create a 'culture'	Monitor progress
Check task completion	Create a positive team feeling
Follow systems and procedures	Ensure effective induction
Monitor budgets, tasks, etc.	Provide development opportunities
Unleash potential	Use analytical data to forecast trends
Monitor progress	Look 'over the horizon'
Take risks	Appeal to rationale thinking
Be a good role model	Build teams

Table 2.3
Worksheet for Task 1

Very high on management	Managerially oriented	Strong elements of both management and leadership	Leadership oriented	Very high on leadership

The well-rounded manager

The process of rounding out the manager

It should now be evident that effective management requires the role holders to be 'rounded out'; managers who emphasize one set of roles, style or preferred level of managing at the expense of others are likely to become unbalanced, and may fail to perform in the medium or long term. This is not to say that context and preferred style are unimportant – indeed, as I have already argued, the opposite is the case – but that a rounding out of a manager is likely to enable him or her to be able to meet changing contexts and preferences by those for whom they are responsible and accountable. A similar point has been made by Morgan (1997) in his claim that managers need to be able to read situations through multiple lenses and act on these more complex readings to organize and manage effectively. He quoted F. Scott Fitzgerald, an eminent American writer during the 1930s, who suggested that the sign of intelligent people was the ability to hold two or more contrasting ideas at the same time and work with them. This is a key competence for managers, and is obviously linked to the ability to deal with ambiguity and uncertainty (Morgan, 2003).

As Mintzberg cautions, slavish following of some of the well-worn nostrums produced by the management gurus and leading practitioners – such as 'don't think, do', 'steady, fire, aim' or 'it's all about communications' – is inconsistent with rounded managers. Moreover, although it is possible in conceptual terms to analyse managerial jobs into distinctive roles and knowledge-based competences, it is close to impossible to distinguish them behaviourally, because work is not practised as a set of independent or atomistic lists of competencies but as a whole. Thus, managers who think 'their way into acting' at the expense of 'acting their way into thinking' or who manage well on the outside but fail to manage on the inside will, more or less inevitably, be unable to achieve significant results in the long run. Similarly, the core roles of leading, communicating, conceiving, linking, controlling and doing cannot in practice be separated into outside and outside roles, nor can they be separated from each other, because they tend to infuse each other and blend into a mix of all.

If this is true of the key managerial roles, it is equally true of the competences that are associated with them. For example, interpersonal effectiveness is as important to linking and doing as it is to leading. Similarly, creating a performance culture and managing change are part of the roles most associated with managing on the outside as well as managing on the inside. Of course, how managers ultimately perform will be shaped by their preferred style as well as context. As Mintzberg argued, style will influence which roles a manager tends to stress, how he or she acts out these preferred roles, and how one role relates to another. For example, managers in 'ivy league' US or ancient UK universities and in the traditional healthcare sectors in many countries tend to prefer linking rather than leading, because they are often dealing with autonomous and relatively powerful professionals who have been brought up in a fragmented culture in which professors and doctors have considerable personal and positional power. On the other hand, the preferred management style in the US state and newer European universities and in some parts of the privatized healthcare sector, which have less of a history of employing autonomous, powerful and highly rewarded professionals, is more likely to emphasize leading and controlling. In terms of the acting out of roles, managers in small organizations and entrepreneurial firms will probably favour more doing than conceiving. As Weick (2001) points out, however, these roles are related. Acting your way into thinking about strategy, if done reflectively, has major benefits for managers over the think–lead–act style. The most obvious of these advantages is that it requires managers to learn through incremental actions and experience rather than implement abstract principles or theories without having knowledge beforehand of how they may influence outcomes.

Making wise decisions

Making sound judgements

We have already introduced this idea when discussing the person in the job in an earlier section. Surprisingly, making wise decisions thorough sound judgement is rarely discussed in the management literature. There were some early attempts to deal with this issue in the 1950s and 1960s, when a group of researchers at American universities set out to find a more scientific method to make judgements. They created a discipline called 'decision science', which aimed to take the human element out of risk analysis, claiming it would provide a way of making soundly based decisions for a future fraught with uncertainties. This approach involved using computer models for forecasting, estimating the probabilities of possible outcomes and determining the best course of action, thus avoiding the various biases that humans bring to decision-making. Such models, the researchers believed, would provide rational answers to questions such as whether and where to build a factory, how to deal with industrial relations negotiations and how to manage investments.

Many business schools adopted management science as part of the core curriculum, in part because it gave them some legitimacy with their science colleagues, and even some senior policymakers were persuaded by the arguments. Decision science's highpoint was probably during the Vietnam war, in the 1960s and 1970s, when Robert McNamara, then America's Defense Secretary, used such techniques to forecast the outcome of the conflict (though, as it turned out, without much success). But, for the most part, the approach did not quite catch on, especially in the less rationally oriented countries such as the UK. Decision-makers, whether in business or politics, were loath to hand over their power to computers, preferring instead to go with their gut instincts (*The Economist*, 22 January 2004). If this lack of faith in the application of rational sciences to business was evident in the last few decades of the twentieth century, it is even more so now as we operate in an uncreasingly unknowable and unpredictable world, disrupted ever more frequently by technology and global events (Cairncross, 2003; Wheen, 2004). As a consequence, many managers have been grappling with the problem of how to exercise judgements that strike a balance between overconfidence and over-cautious doubt.

Reflection and judgement

Karl Weick (2001) began an engaging discussion on this issue, suggesting that having an attitude of wisdom will be one of the key management competences in the 'increasingly unknowable world'. Drawing on case research from studies of disaster management, when decisions can have immediate and life-threatening consequences, Weick examined 'wise' practices. So, for example, firefighters cited in his research operated by a maxim 'don't hand over a forest fire to an incoming crew during the heat of the day' because that was when winds were strongest, the temperature at its hottest and humidity at its highest. Thus, a handover during the evening gave the incoming crew more time to learn and adjust to the conditions of uncertainty. Such maxims, he argued, revealed two initial properties of wisdom – *reflection* and *judgement.*

Reflection referred to a way of considering events in the light of their consequences in a wholly systemic fashion; in other words, it is about making considered decisions by articulating the 'big picture'. If reflection, as Weick argued, dealt with the substance of decision-making, judgement was more about the process involved in coming to reflective decisions. Judgement has often been thought of as 'gumption' or 'common sense', which to most of us means bringing to bear common knowledge to the decision-making process. However, Weick believes bringing judgement to the reflective decision-making process is more than mere common sense and must involve using the 'non-obvious, significant, shrewd and clever' characteristics of decisions that deal simultaneously with *knowing* and *doubt*.

This process of judgement exercised during reflective decision-making, according to Weick, focuses not so much on what is known but on how knowledge is held, shared and put to use. And, for him, having an attitude of wisdom is the key to exercising sound judgements, which is succinctly defined as knowing without excessive confidence or caution. Overconfidence, he argues, arises because managers and entrepreneurs find it difficult to doubt what they 'know' or admit to themselves that they can know only a small part of what is knowable about any situation. We have seen many examples of such overconfidence occurring during the dot-com bubble at the end of the 1990s, when a huge number of e-business start-ups came to market and subsequently failed. Not only were the entrepreneurs behind these businesses guilty of misplacing faith in the power of technology to generate new business models, but so were the financiers and venture capitalists who lent them the money (Cairncross, 2003). Once people made confident decisions, they became excessively attached to them, defending their positions even in the light of contradictory evidence. Such commitment to a course of action inevitably leads to blind spots and inattention to questions and alternatives, yet in business circles committed action is usually seen as preferable to doubt. This is because, as many writers have suggested, businesses and managers value action and anything that gets in the way of action – including reflection and wisdom – is likely to be discouraged.

If we accept the notion of excess confidence, though as we have pointed out this is less likely to be defined as a problem by practitioners, we can also be excessively cautious. On this last topic, there is a much larger literature, because it is seen by managers and businesses as a greater threat to action. This is reflected in their criticisms of business schools, which have been characterized as institutions that produce analytical thinkers rather than 'doers' (Mintzberg *et al.*, 1998). Excess caution, according to Weick, is a relative concept, depending very much on the position one starts from. So if we admit we don't know (the answer), or if we notice we fail to notice (I've just discovered I was wrong and I should have accepted your alternative answer – you were right!), we begin to doubt ourselves. If those doubts begin from a position of overconfidence, then we move towards wisdom; if, on the other hand, we are too cautious to begin with, then we move further away from being wise. In short, wisdom is a fulcrum around which attitudes vary, and people make sense of their worlds differently, depending on which side of the knowing–doubting scale they place themselves.

Improvisation and wisdom

The main problem for managers, according to Weick, is to act their way into confidence when confidence is already high, because that is a position from which they will find it difficult to return. Instead, Weick, rather controversially, argues that the point of balance between knowing and doubting is best summed up as an intended oxymoron – the 'achievement of ignorance'. This he defines as the ability to act while remaining doubtful. And achieving ignorance, the sign of the wise manager, is based on his or her ability to *improvise* – the metaphor of the manager as a craftsman. Such improvisation is not the ability to make something from nothing, as is sometimes believed, but is the ability to rework existing knowledge and materials to deal with unanticipated ideas and problems during the course of work. In doing so, we produce relatively unique solutions to 'local' problems set in particular contexts, rather than use preplanned recipes in an inflexible way (think again about the saying 'give someone a hammer and every problem becomes a nail'). To give an example, the wise manager is one who when presented with a novel problem – say, the need to get academics or doctors to become more business oriented – is able to use his or her knowledge of people, whether formally or informally derived, and to fashion a solution that will work in a particular context. Thus, in the case of academics and doctors, financial gain may work with some people at certain stages of their lives, whereas the opportunity for flexible work arrangements or to travel may work with others at different points in their careers. Such a wise course of action is qualitatively different from that taken by a manager who, following attendance on a business course where he read up on some theory or best practice on motivation through incentive schemes, then tries to apply these without regard to the local circumstances, history or culture of the organization. Such an approach is to treat his or her knowledge as infallible.

Instead, wise managers treat their knowledge as fallible, but at the same time have sufficient confidence to take what knowledge they have and combine it with other aspects of their repertoire to deal with new circumstances and problems. In short, this is a learning strategy, in which managers can act their way into thinking as much as they think their way into acting.

Case 2.4: Kenneth Lay and Enron

Read this account of Kenneth Lay and Enron.

The 1 June, 2000 edition of *The Economist* carried an article about Kenneth Lay and Enron, which was an interesting piece of foresight, unfortunately not widely shared among the financial community at the time.

The story began by praising Ken Lay for turning Enron from a 'stodgy gas concern into a soaring new-economy company' but added the qualification 'What has he learned along the way?'

Enron's success was due to its ability to read the future and help create it in a world of deregulated electricity and gas markets in the USA, Europe and Asia. Lay forecast how government-controlled markets for national supplies of energy would change; he also put pressure on the US government to liberalize the energy market and exploited every legal loophole to ensure that his company could benefit. The results were spectacular, with a nine-fold growth in market capitalization and an almost ten-fold rise in sales from $4.6 to $40 billion during 1990 to 2000.

However, Lay wasn't satisfied with that success; he also sought to do the same in the first decade of the millennium through his passion for leveraging market forces in the new, high-technology, digital economy. 'In a flurry of initiatives, he has propelled Enron into trading wholesale power on the Internet, into web sales of electricity to retail consumers, and even into Internet trading of bandwidth … The response from investors has been astonishment, followed by praise. Enron's share price has rocketed far faster than those of other energy companies ….' Lay asserted that Enron was a new-economy company ahead of its time and brashly stated that the best was yet to come. This boast was despite some costly mistakes in the Californian retail market for electricity and a major blunder in the UK North Sea involving gas exploitation some years ago. As *The Economist* noted, his replies usually laid the blame on someone else, mainly the regulators, but it 'leaves one wondering if he ever learns from such mistakes'.

The article also noted a problem of corruption during an Enron power project in Maharashtra, India, where it had also been accused of 'lack of transparency, insensitivity to local citizenry and complicity in human rights abuses by police'. During his presentations to senior business leaders, Lay has consistently denied these rumours and laid the blame on Indian bureaucracy. When asked about what lessons he has learned and what he might do differently, the answer was 'nothing'.

The company has been charged with arrogance, to which Lay responds with a characteristic defence. He pointed to the unfair treatment of other innovative American companies such as Drexel Burnham Lambert, a 'freewheeling investment bank that shot from nowhere to market prominence in the junk-bond boom of the 1980s'. Lay spoke in glowing terms about its leader, Michael Milken, another star who was accused of arrogance. He argued that he was just aggressive and innovative in trying to invent new rules, but, as *The Economist* article pointed out, Milken ended up in jail for breaking the existing rules and Drexel collapsed. The article concludes with the comment: 'For all of its arrogance, Enron is hardly likely to share that fate: but hubris (arrogance) can lead to nemesis (major failure), even so.' Just how prophetic the author was!

1 How does Karl Weick's discussion of wisdom help explain the analysis of Enron's prospects in this article?

A model of effective management

Bringing these ideas together on the well-rounded manager, we can map out the relationship between the person in the job (i.e. what managers bring to a job) and their effectiveness as managers. The core relationship is set out in the horizontal sequence of boxes in Figure 2.3.

So, what I propose is that effective management performance is related to the person in the job, including:

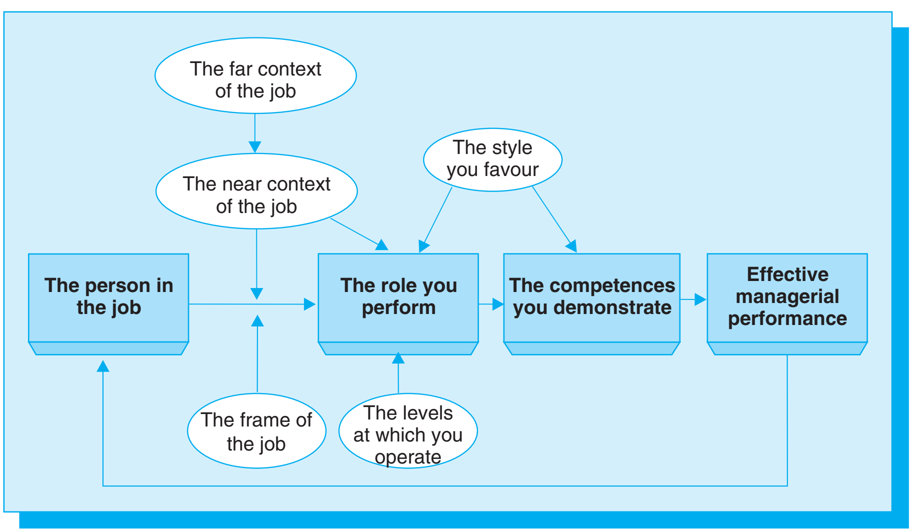

Figure 2.3 Modelling the relationship between the manager in the job and effective managerial performance.

- their values, previous experience, their models of management (assumptions);
- their degree of emotional intelligence and their self-development.

However, it is also clear from the previous discussions that the relationship between these personal qualities and management performance is directly influenced by two key *mediating* factors, which are:

- the roles they are required to play (or choose to emphasize) as part of their work, which include conceiving, communicating, controlling, linking, leading and doing;
- the level of associated behavioural competences they display in performing their new roles, including creating and innovating, communicating, creating a performance culture, project management, demonstrating strategic flexibility, managing conflict, building teams, networking, having an attitude of wisdom and making wise decisions.

In addition to this direct 'line of sight' between what managers bring to the job and their effectiveness, the different contexts in which individual managers work will have an important *moderating* influence on this relationship. Moreover, within given constraints, managers have a choice in which roles they emphasize in their work and how they perform these roles (e.g. some managers are noted for emphasizing close control over the work of their colleagues, whereas others prefer to delegate). These *contexts* and *choices* give rise to two related sets of moderating factors that we can place above and below the core, horizontal axis or line of sight in Figure 2.3:

- *The frame of the job.* This refers to its purpose as set out by the organization, the particular theory of the business employed by the organization (its assumptions regarding success and its business model), and its product/market position, structure of controls and systems, etc.;
- *The near and far contexts of the job.* The near contexts include the agenda set by the manager's bosses, the problems of managing inside the manager's department, the problems of managing within and across the organization, and the problems of managing outside the organization, including dealings with customers, suppliers, government departments and employer's associations. The far context refers to the nature of the organization, including its structure, etc., the nature of

the industry (product/services/consulting, etc.), and the national and institutional framework in which the manager is undertaking his or her work.

The choices that managers can make can be set out in terms of the two interrelated factors that Mintzberg identifies as style and level. Most managers have a degree of discretion over:

- Their preferred *style*, including the roles they prefer to perform, how they perform their roles, and how they choose to configure and relate one role to another. The choice is between how they achieve balance between the three polarities of management – management as science, craft or art.
- The *level* at which they choose to operate, which reflects their assumptions and preferred style of managing. They can choose to manage action directly, they can choose to manage other people taking action, or they can influence other people by managing the information flows surrounding their jobs so that they take necessary actions.

Let's see if you can apply this model to understanding your job as a manager or a manager with whom you are familiar.

Time Out: Self-reflection

Thinking either about yourself or a manager who is, or has been, close to you, use Figure 2.3 to analyse the relationship between what you (or they) bring to the job and your rating of yourself (or their) effectiveness as a manager. Use a sheet of paper to redraw and annotate the diagram, because it will take up quite a lot of space if you do this correctly. Doing so should be a useful exercise in understanding yourself or your managerial colleague, and can lead you to think about your own self-development.

Questions

1 What personal qualities might you (or they) need to perform more effectively as a manager?
2 Which roles do you (or they) choose to emphasize more than others in your (or their) managerial work? Are these the right choices for managerial effectiveness, given the context of the job?
3 What are the most important contextual factors that influence how you (or they) perform their jobs? What can be done to influence these (if anything)?
4 How does the frame of the job influence the roles you (or they) perform? And can anything be done to shape the frame of the job to make you (or them) more effective as a manager?

5 What about your (or their) preferred style and the level at which you (or they) mainly operate at, i.e. through information, people or directly through action? How can that be changed to make you (or them) more effective as a manager?
6 What are your (or their) key competences? Where are your (or their) shortcomings, and what can be done to improve them?

Doing this exercise should prove to be very useful in understanding yourself or your managerial colleagues, and can lead you to think about your own self-development or the development of others.

Learning summary

The key learning points from this chapter are:

- The well-rounded manager brings values, attitudes and experiences to the job, two of the most important of which are levels of emotional intelligence (in addition to cognitive intelligence) and the abilities and attitudes to engage in critical self-reflection and make sound judgements, which balance overconfidence and doubt.
- The frame of a manager's job, which includes its purpose, the mission of the organization or department and the position of the organization in its chosen market milieu, will have an important influence on how the manager performs his or her key roles, and the roles the manager chooses to play.
- Managers spend much of their time in figuring out what to do, or in setting agendas and priorities. Particularly at senior levels, they are rarely told what to do directly.
- How managers perform their key roles and the types and levels of competences they demonstrate will be influenced by the near and far contexts of their work. Effective management is strongly embedded in context, and being good in one situation doesn't always mean that someone will be good in another situation.
- Managers can operate at three related levels, indirectly through manipulating information flows, more directly through getting other people to act, or acting oneself. Effective managers operate at all three levels, depending on the context of the job and tasks at hand.
- Management is sometimes distinguished from leadership, in the sense that management focuses on stability and control whereas leadership is necessary to produce change. The

well-rounded manager has to have both of these characteristics in his or her repertoire.

- Having an attitude of wisdom, which means having enough self-confidence to take action while remaining doubtful, is a key feature in effective management. Acting one's way into thinking can sometimes be a more effective strategy for managers than thinking one's way into action. The former is a learning approach whereas the latter is a planning approach. Usually, however, managers need to be good at both.

Review questions

Multiple-choice questions

2.1 Early studies on managers were mainly criticized for which one of the following reasons?

A Being too simplistic.
B Not having enough prescription of how managers should behave.
C Lacking evidence of how managers behaved in practice.
D Lacking cohesion between roles and activities.

2.2 You have just been asked to think about taking on a new job, which takes you outside your present function and would put you in charge of a large number of people. Which of the following characteristics should be highest on your list of 'things to reflect on'?

A Your self-awareness.
B Your social awareness.
C Your interpersonal effectiveness.
D Your ability to deal with ambiguity.

2.3 According to Mintzberg, the frame of a job consists of which of the following?

A Networking, communications and interpersonal skills.
B Purpose, perspective and position.
C Conceiving and planning.
D Purpose, position and conceiving.

2.4 Scheduling is the ability to do which of the following?

A Understand the frame of the job.
B Prioritize targets, activities and resources.
C Create a performance culture.
D Produce a quantifiable outcome.

2.5 During your appraisal, you boss tells you that he wants you to develop a 'performance-oriented culture' in your department. He then asks you for ideas on how to achieve this at the next meeting. Which one of the following would be the best response for long-run success?

A Create an environment in your department in which everyone has an equal say in decision-making.

B Create an environment where you welcome new ideas and encourage everyone to engage in continuous off- and on-the-job training.

C Create an environment in which change is the norm and in which maintaining things as they are is discouraged.

D Create a system of rewards in which people are paid extra for their expertise.

2.6 Which of the following is considered a core competence when managing at the action level?

A Technical expertise.

B Effective communication.

C Managing conflict.

D Strategic flexibility.

2.7 Which one of the following best describes a 'well-rounded manager'?

A Someone who is flexible in exercising leadership styles.

B Someone who is flexible in style and can work at different levels.

C Someone who is slightly overweight.

D Someone who can deal effectively with customers and employees.

True or false questions

2.8 A detailed list of the kinds of competences needed by all managers is the best way of underpinning management development. T or F?

2.9 It is best to recruit managers who have little experience of managing because you can easily mould them into your own way of doing things. T or F?

2.10 The ability to be self-reflective is innate and cannot be taught. T or F?

2.11 Your boss says to you that a good manager should always 'lead from the front' by becoming directly involved. T or F?

2.12 Non-verbal communication is as important to managers as verbal communication. T or F?

2.13 The study of decision science aimed to take the risk out of decision-making by eliminating human bias. T or F?

2.14 Managers always need to be confident in their own judgements. T or F?

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CHAPTER 3

Managing in the individual–organizational context

Learning objectives

At the end of this chapter you should be able to:

- understand and apply the concept of psychological contracts to work situations;
- recognize good practice in managing psychological contracts in organizations, and take steps to influence these unwritten contracts;
- understand the problems of managing talent, careers, individual–organizational linkages and work–life balance;
- use the ideas of organizational commitment, identity and psychological ownership to analyse the strength of employee orientations to your organization;
- diagnose your strengths and weaknesses as a leader and those of other colleagues;
- construct a learning agenda to build your leadership competencies.

Introduction

In the previous chapter, we focused on the need for managers to understand themselves and to reflect on how they can be more effective by managing at different levels and in different contexts. Our model of the well-rounded manager has also highlighted the need for managers to develop their emotional intelligence, competencies and decision-making skills by developing an attitude of wisdom. In this chapter I shall develop some of these ideas, but this time focus on how managers can better understand the individual–organizational relationship and how they can provide more effective leadership that is sensitive to people's attachments to work and their needs.

This topic is potentially vast, and is usually covered by conventional texts and courses on organizational behaviour, which concentrate on understanding individual differences, motivation and job satisfaction, learning, group dynamics, leadership and the like. I shall not attempt to repeat what is already well treated in such books. Instead, I want to examine two linked sets of questions, the answers to which have enormous importance for managers:

- What is the nature of the relationships between individuals and organizations, how has it changed and how is it likely to change?
- Can we identify certain core leadership styles which are appropriate to managing the relationships between individuals and their organizations?

In addressing the first of these sets of questions I shall make use of a concept that has become popular in the human resource management literature, and is supported by research for the Chartered Institute of Personnel and Development (CIPD) in the UK as a key idea in understanding the individual–organizational linkage. This concept is the *psychological contract*, which we shall define and use to examine issues such as 'talent' management, careers, employee commitment and identification, and the problems of over-identification, such as workaholism. In addressing the second question, I shall make use of the concept of *emotional intelligence* introduced in Chapter 2 and show how leadership styles can be used to gain leverage in emotional intelligence to create effective performance. As we shall see, the two concepts of psychological contracts and emotional intelligence can be linked together and used to make us more productive in managing individuals in organizations.

First, let's look at some of the issues involved by examining the case in Box 3.1, which is based on some work that colleagues and I carried out on employee relations in the UK offshore oil industry (Martin *et al.*, 2003).

Box 3.1: 'Psychological contracts' among oil workers in the UK offshore drilling industry

The offshore drilling industry

In 1999 the industry comprised 14 companies employing some 6000 men and a limited number of women in onshore and offshore operations. The work of the offshore drilling employees is usually depicted as hazardous, involving long hours in shifts and working away from home. The majority of employees on the drilling rigs are semi-skilled roustabouts, supervisors, and drilling technicians and technologists, most of whom have worked in the industry for a number of years. Despite the contracting nature of employment conditions, some employers and many employees tend to treat the industry as a source of a traditional career rather than as a pure wage-for-work relationship with limited job security and no career progression. Though mobility between companies was a feature of employment in the industry because of the contract nature of the work, many of the employers had an implicit policy of retaining good employees because of their personal knowledge of particular drilling rigs. Consequently, it was common practice in the industry to attempt to offer a degree of security during slack times by standing down men for a period on limited pay until new contracts became available. Such work protection practices, however, were not a feature of all companies, and this became a source of difference among employers, from the perspective of both employees and of clients, who were the oil 'majors' operating in the North Sea, including companies such as BP, Shell and Exxon. These client companies regarded a degree of employment continuity among the contractors' workforces as sufficiently important that they would sometimes 'foot the bill' to keep good workers on the books of drilling contractors, especially if a new contract was imminent. Traditionally, these workers had also been highly compensated in relation to comparable jobs onshore, though through time the differentials had been eroded to a point where recruitment had become difficult in 2000.

The UK offshore oil and gas industry as a whole had been traditionally hostile to unions and union representatives. As a consequence, in the drilling industry, unionization was actively discouraged and no company gave any form of recognition to the unions with members in the industry. In 1998, however, the UK government's White Paper on *Fairness at Work* was introduced with provisions to reintroduce the rights of unions to pursue recognition claims if they could be justified in terms of union membership.

The UK offshore drilling contractors, which operated drilling rigs on behalf of the oil and gas majors in the North Sea oil and gas fields, immediately saw themselves at risk to predatory unions because they had been subject to attempts by a hostile union called OILC to organize members on the drilling rigs. So, when the employers became aware of the union recognition provisions of the White Paper, they perceived the threat of OILC for disruption as 'mission critical', particularly if the union was able to recruit sufficient members and gain recognition under the legislation.

As a consequence, the drilling companies combined themselves into a consortium, with the help of consultants, to decide what their stance should be. The first step the consultants recommended was that they should undertake an attitude survey of all employees in the industry to assess their general perceptions of what they wanted from work, what they saw as the key obligations of their employers, and whether these obligations were being met by their employers. The consultants also wanted the firms to understand the attitudes of workers to trade unions, so that they could advise the companies on how to proceed with union recognition. This survey involved all employees in the industry and achieved a relatively high response rate of more than 60 per cent.

The employee survey phase as a means of intervention

The survey data provided a wealth of information on employee perceptions. Tables 3.1 and 3.2 provide a selection of these data, which were presented to the drilling contractors' HR managers.

Table 3.1

Selected data from the employee survey on key elements of the psychological contract

(Scale: 1 = strongly agree; 3 = neutral; 5 = strongly disagree)

For the purposes of interpreting these mean average responses, you should treat any result lying outside the range 2.4 to 3.6 as statistically significant. Any figure lying within this range should be treated as similar to the mean average, given the sample size

Question	**Mean average response of all employees on a five-point Likert scale**
As far as could be expected the company has provided me with a reasonably secure job.	2.55
The company has provided me with fair pay for the work I do.	3.06
The company has provided me with good career opportunities.	2.94
The company has provided me with interesting work.	2.54
The company has ensured my fair treatment by managers and supervisors.	2.67
The company has helped me with the problems I have encountered outside work.	3.14
The company always provides me with a safe working environment.	2.33
The company provides me with good training for the job.	2.43

Table 3.2
Selected data from the employee survey on the need for union representation

(Scale: 1 = strongly agree; 3 = neutral; 5 = strongly disagree)

Question	Mean average response of all employees on a five-point Likert scale
Employee relations in this company would be improved by having an employee representative who could speak to management on our behalf.	2.20
Management in this company usually consult employees on issues that affect them.	3.01
Management in this company usually give employees plenty of opportunity to comment on proposed changes at work.	3.16
Having an employee representative would generally be beneficial in securing fairer terms and conditions of employment.	2.31
There is definite need for better representation in this company to give voice to employee wishes and grievances.	2.18

Based on these data and other findings and forms of analysis from the survey, the headline conclusions from the study, which were reported to the HR managers and their senior managers, were as follows:

- The standard predictors of why employees in non-union companies show little interest in joining unions are: (1) high levels of job satisfaction; (2) positive beliefs about existing communications, consultation and grievance-handling procedures; and (3) negative instrumental beliefs about the ability of unions to improve pay and conditions. From Tables 3.1 and 3.2, it can be seen that job satisfaction was not significantly high and that positive beliefs about existing communications were not high. Furthermore, unions were seen positively as a means of providing a voice on key issues and, of lesser significance, in improving terms and conditions of employment.
- Employees did not perceive that they were well managed, particularly in relation to supervisors treating people poorly and to perceptions of a lack of trust in supervisors to work in employees' best interests.
- Employees were particularly interested in future employability, and the perception of a lack of career development by employees was strongly associated with positive attitudes to unions as a means of representation and participation in decision-making.
- The lack of interactional justice (perceptions of fair treatment by the company and the lack of trust in managers) and the lack of affective commitment (attitudes

towards the companies) were associated with positive attitudes to unions as a means of representation and participation in decision-making.

- Expectations of job security were relatively low and, at the time of the survey, were worsening.

Source: adapted from Martin *et al*., 2003.

The psychological contract

The case above discusses the levels of employees' attachment to their work and to the companies employing them. I want to use the case to introduce the notion of psychological contracts and show how useful it can be in explaining the relationships between employees and their organizations. First, however, we need to define what we mean by psychological contracts, and look at how they are formed and then how they are transformed.

Defining and forming psychological contracts

Psychological contracts have been used to describe the expectations and beliefs that employees hold about the mutual obligations between themselves and their organizations, such as expectations about fair pay or career opportunities provided by their companies, or the amount of effort they might reasonably be expected to exercise in performing their work. Thus, the psychological contract mirrors the explicit legal contract by focusing on the largely implicit and unwritten reciprocal obligations, though certain writers have included written 'promises' by employers, such as those evident in mission statements, e.g. to treat people with dignity and fairness. Peter Herriot (2001) has provided a basic but useful definition of psychological contracts as:

> '… The perception of the two parties, employees and employer, of what their mutual obligations are to each other [*sic*].'

This definition needs some elaboration to tease out the key features of such contracts. To help us, we can draw on the excellent insights into psychological contracts and the employment relationship provided by Paul Sparrow and Cary Cooper (2003), who have produced an excellent book in this field. They have highlighted four key aspects of psychological contracts and how they come to be formed and changed:

- They are *subjective, unique and idiosyncratic*, in the senses that: (1) they reside in the subjective expectations and perceptions of employees (and employers); (2) every individual has his or her own interpretation of these expectations and perceptions; and (3) they vary from one person and organization to another. Therefore, you can gain an insight into psychological contracts by questioning only one party to the relationship, because the contract 'is in the eyes of the beholder'.
- They are *reciprocal*, in the sense that they emerge in the context of a *specific* mutual employment relationship. As there are two parties to this relationship, they each have their own expectations about the specific employment relationship (but not employment relationships in general).
- They are not objective 'facts', but based on *beliefs and perceptions* held by individuals. However, because people act on their subjective perceptions, they are no less real in their consequences than if they *were* fact.
- They arise from beliefs and perceptions of *obligations* that, in the case of employees, are what they believe they are entitled to as a consequence of perceived *promises*, either explicit or implicit, made by the employer. In that sense, a psychological contract is more than just a set of expectations that can arise in the absence of a promise. Only expectations relating to perceived promises are entitled to be considered as part of the psychological contract. Just what these promises look like in practice and how they arise are illustrated in Box 3.2.

Box 3.2: 'Promises' in the employment relationship that create obligations

Promises arising from spoken and written communications:

- strategic documents, employer commitments to certain courses of action, mission and values statements, agreements, pledges, speeches;
- financial statements or employer reporting statements;
- statements made on application forms, etc., by employees.

Promises arising out of behaviour and actions:

- observations of management or employee actions, e.g. how managers and employees act in relation to one another in treating each other with respect;
- interactions with manager or employee representatives, such as how recruiters behave during the interview process.

Breach and violation of psychological contracts

Like legal contracts, psychological contracts can be breached or violated if employees feel that the significant terms have been broken, or that perceived obligations are unmet. The distinction between breach and violation is largely one of degree; breaches are treated as minor, more short term and less significant, whereas violations are seen as more serious, more long term and significant in terms of outcomes. It is to the violation of psychological contracts that many researchers attribute major breakdowns in employee relations, or failures in organizational change programmes. For example, violation of psychological contracts has been used to explain strike action and rises in absenteeism and employee turnover; at the same time, violation has been used to explain rising levels of cynicism about never-ending 'programmes' of organizational change and lack of trust in managers to 'walk the talk' (see Chapter 9) (Martin *et al.*, 1998).

One way of thinking about employee responses to contract violation is to distinguish between active and passive 'actions' on the one hand and positive and negative 'actions' on the other (see Figure 3.1). Note how apparent loyalty or silence by employees may occur as a response to management actions that breach, or even violate, expectations regarding promises. In one sense, this can be treated as a positive

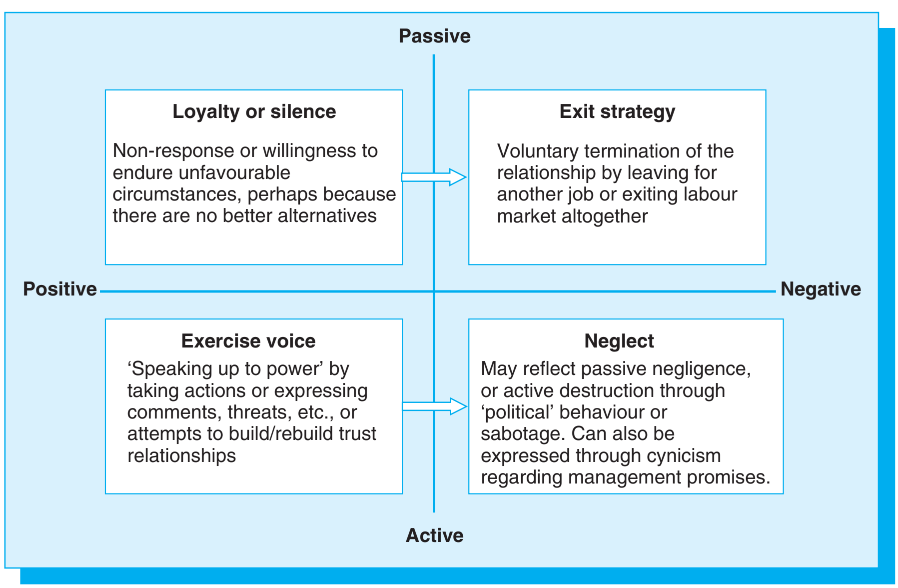

Figure 3.1 Range of employee responses to psychological contract violation. (*Source*: based on Turnley and Feldman, 1998.)

response to changes managers may make in the psychological contract, because they have built up a store of trust and a reputation for integrity in the past. However, it may also be seen as negative, because employees endure what they perceive as unfair treatment as they are unable to foresee alternatives to their current employment. When the employment situation changes, however, they are very likely to adopt an exit strategy if the breaches continue. A further implication of this framework is that managers should do all they can to encourage employees to 'speak up to power', rather than suppress discontent. By encouraging such actions, managers are able to rebuild trust, an essential component of employment relations. Otherwise, they run the risk of employees adopting a negative, 'neglect' strategy.

Predicting why and what happens when management actions that, through design, accident or miscalculation, lead to breaches being treated as violations has been studied by Conway and Briner (2002). They point to four characteristics of perceived promises that can have a major impact on employee responses to breach or violation:

- the degree of explicitness of a perceived promise – the more explicit the promise, the greater the sense of injustice and the more active (positively or negatively) the employee response;
- attributions of personal responsibility for contract breach or violation – the more personally responsible a manager or party is held to be for the perceived breach, the more intense the other party's reaction;
- the unexpectedness or infrequency of the breach – the more unexpected or infrequent the breach/violation (a break with past behaviour), the more intense or active the response will be from employees;
- the degree of importance the party attaches to the goal or relationship breached – the more important the interest/relationship breached, the more likely it will be treated as a significant violation and, hence, provoke a negative response.

Exercise 3.1

Drawing on the previous discussion on psychological contract breach and violation, do you think that the consultants should recommend that the drilling companies recognize a union for bargaining purposes?

Types of psychological contract

Though psychological contracts are individual in nature, resulting in as many contracts in an organization as there are people, psychologists have tried to classify some of their more general features. Three such classifications have emerged in the extensive research in this area (e.g. Rousseau, 1995; Thompson and Bunderson, 2003). These are set out in Table 3.3 and reflect changes taking place in organizations and the wider economy.

Table 3.3
Different types of psychological contract

Dimension	Transactional	Relational	Ideological
Organizational obligations	Degree of job security, safe work and a 'fair day's pay'	To provide a career with training and education, promotion opportunities, interesting work and long-term employment prospects	Demonstrate credible commitment to a valued cause
Individual obligations	'A fair day's work'	Go beyond contract by doing excellent work and demonstrating high commitment and identification with organization	Participate fully in the organizational mission/cause by being a good organizational and societal citizen
Beneficiary	Self	Mutual interest between self and organization	The organization and employee share same passion/cause
Beliefs about human nature	Self-interested, instrumental worker who works for money	Socialized employee, who is collectively oriented and finds satisfaction in work itself	Principled involvement
Characteristics of violation	Black and white	Grey areas, which are negotiable	Grey (negotiable) but also non-negotiable, moral 'hot-buttons'
Typical response to violation	Leave organization	Withdraw commitment and revert to a transactional exchange	Principled organizational dissent
Basis of attachment to work and organizations	Compliance and focus on the job	Identification with organization and career	Work as a calling

Source: based on Thompson and Bunderson, 2003, p. 575.

During the 1990s in the USA, it was argued that the traditional, relational contracts that many, mostly white-collar, employees held with their employers – based on commitment in return for job security and career prospects – could no longer be sustained because of increased global competition. Consequently, it was suggested that this traditional, relational contract was being replaced by a more transactional contract, but one with a slight twist on the model highlighted in Table 3.3. Organizations recognized that they could no longer offer stable employment to all, nor could they guarantee careers to all, even though they wished to retain the benefits of relational contracting from employees working 'beyond contract' and showing high levels of (temporary) commitment. Consequently, the notion of *employability* came into common usage: employers sought temporary commitment from employees as long as they remained in the job, but offered in return the opportunity for employees for self-development and to hone their skills on interesting and demanding projects. This employment proposition, which was a form of 'come and work for us and learn', was attractive to many mobile employees in fields such as computing and software development because it made them more employable for their next job. In effect, their career paths became boundaryless, because they moved in and out of organizations and even occupations. This notion of employability, however, was much less widespread than much of the literature would have had you believe, especially outside the 'new economy' organizations based in certain parts of the USA. We shall examine this idea of changed psychological contracts later in this chapter, and in other parts of this book, when we look at new forms of organization, technological change and the knowledge context.

Many organizations, however, are seeking through their mission and value statements to go beyond even relational contracts and create ideological relationships with individuals. Most mission-driven organizations aim to captivate employees by having them believe that they are working for a greater or higher-level purpose, even in those basic industries such as retailing. For example, Wal-Mart, the world's largest retailer, tries to engage employees by convincing them that they have the opportunity to 'give ordinary folks the chance to buy the same things as rich people'. In Chapter 6, we shall examine just how effective such employer branding propositions are in the development of ideological psychological contracts. However, it should be obvious to most readers that ideological contracts are more likely to be found amongst higher-level professionals in occupations with a sense of vocation, such as medicine, teaching, religion and even politics, or in voluntary organizations such as Save the Children or Cancer Research.

Exercise 3.2

Drawing on the material in this last section, how would you describe the psychological contracts of most employees in the North Sea oil drilling industry, based on Table 3.3?

Measuring psychological contracts

From a manager's point of view it is clearly useful to be able to gain insights into employee perceptions of perceived promises, because they have extremely important consequences for understanding the effectiveness of people management strategies and management actions. Figure 3.2 shows the relationship between what some researchers have found to be the important factors which shape psychological contracts, the key components or content of psychological contracts themselves, and positive and negative outcomes associated with the way in which psychological contracts are managed.

What most employees appear to expect from employers and what they regard as the most important employer obligations have been identified by a number of researchers (see Herriot *et al.*, 1997; Sparrow and Cooper, 2003; CIPD, 2004). These items are often used in surveys to determine the health of psychological contracts in organizations:

- to provide an adequate procedure for induction into the job and training to make people more effective and safe;

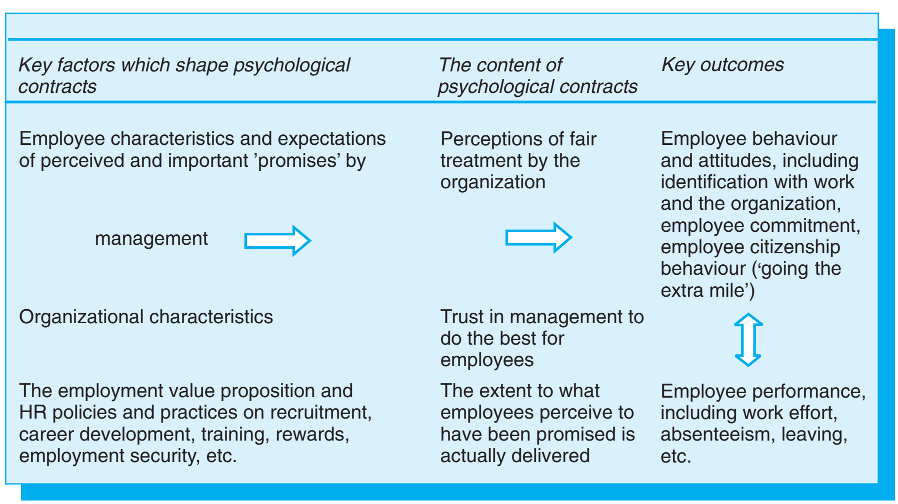

Figure 3.2 Inputs, content and outputs of the psychological contract. (*Source*: based on CIPD, 2003; Guest and Conway, 2002; Martin *et al.*, 1998.)

- to ensure that the procedures for selection, appraisal, promotion and lay-offs are fair;
- to provide justice, fairness and consistency in the application of important rules and on discipline and dismissal;
- to provide equitable treatment on pay and rewards in relation to market circumstances and to be fair in the allocation of non-pay benefits to individuals and groups;
- to provide interesting work where possible;
- to provide fair pay for taking on responsibility in the job;
- to provide career development and support for employees to learn new skills;
- to allow people reasonable time off and flexibility to meet family and personal needs;
- to consult and communicate effectively on matters affecting employees;
- to allow employees reasonable autonomy in how they *do* their jobs;
- to act in a personally supportive way to employees;
- to recognize loyalty and reward special contributions;
- to provide a safe and friendly work environment;
- to do what they can to provide employment security;
- for managers to act in such a manner that they keep promises and commitments and do their best for employees.

Employers, on the other hand, seem to expect that employees will work extra hours when needed, take on work outside their responsibilities when circumstances dictate, look for better ways of undertaking the job and suggest improvements, be flexible, save costs and adapt to changes in the work environment.

Exercise 3.3

Thinking back to the North Sea oil industry case in Box 3.1, design three written survey questions that might identify key elements of employees' psychological contracts.

Managing psychological contracts

Managing the individual–organizational relationship by shaping the psychological contracts of employees in a positive manner comprises many elements. In this section, I want to discuss four of the more important of these, especially in the light of recent and forecasted changes in employment and in the nature of organizations:

- managing talent;
- managing careers;
- managing organizational commitment and employees' identification with the organization;
- managing work–life balance.

These four management issues of the individual–organizational relationship have all been the subject of intense research and speculation, and are at the core of modern human resource management. As Sparrow and Cooper (2003) have argued, the *individualization of the employment relationship* has been one of the most important developments of recent times among organizations in most developed countries, as the influence of trade unions has decreased and the use of non-standard forms of employment contracts has increased. Such developments towards individualization can be seen in two ways. On the one hand, some writers and critics have highlighted the negative side by pointing to how modern national states and large organizations have rejected their responsibilities for providing employment security and passed the onus on to individuals to make themselves employable through calls for self-development and displays of flexibility. On the other hand, some writers and proponents of these changes have argued that many employees are increasingly motivated by the need for autonomy, and actively seek more career flexibility and the opportunities to follow rather different, boundaryless career and work patterns from those of their predecessors, a point discussed in the previous section. Many such individuals tend to work in knowledge-intensive occupations and organizations, business and financial consultants, professional engineers, entertainment, education and healthcare. Because these people have such different orientations to work and because they tend to be in short supply, organizations increasingly find themselves competing for talent and having to devise new ways of managing them.

Managing talent

The term 'talent management' has come into popular usage as a direct result of a major study by North-American-based McKinsey consultants Ed Michaels, Helen Handfield-Jones and Beth Axelrod, who undertook their original work in 1997 on the impact of how companies managed their leadership talent on corporate performance, and have subsequently followed this study up with further research (Michaels *et al.*, 2001). Prior to the bursting of the dot-com bubble in the USA in early 2000, the recruitment of talented people was seen to be the biggest single issue facing US business. Based on some in-depth research among business leaders these writers concluded that the 'war for talent' was, and would continue to be, one of the most important problems facing industry and commerce in developed countries. The changed labour market circumstances following the downturn in economic prosperity in the USA associated with the dot-com collapse did nothing to diminish their beliefs, and subsequent research by them has provided strong support for their thesis in certain industrial sectors and certain countries. Their work showed that only a small proportion of senior managers believed their organizations: (a) recruited talented people (their A-class high performers); (b) did all they could to identify and retain these talented performers, and to develop performers with potential (the B class); or (c) undertook to remove or replace low performers (whom they called C-class performers).

Box 3.3: Defining talent

Talent, in this context, is seen in individual terms, and is very close to what we defined in the last chapter as comprising the 'well-rounded manager', comprising '… a sharp strategic mind, leadership ability, emotional maturity, communications skills, the ability to attract and inspire other talented people, entrepreneurial instincts, functional skills and the ability to deliver results' (Michaels *et al.*, 2001, p. x).

Talent management, they argued, required a new talent mindset among business leaders, because it was so 'mission critical', and therefore could not be left to HR departments. Instead, it required the direct support of the organization's board and needed to be made a core element of the work of business leaders (see Table 3.4).

These authors proposed that organizations that sought to become top performers should implement three elements of a talent management strategy. There should be:

- disciplined talent management, through rigorous and continuous assessment, development of managers and matching them with jobs;
- creative recruitment and retention through refined and meaningful *employee value propositions* (EVPs), which we shall

Table 3.4
The new talent mindset

Old HR mindset	New talent mindset
The vague leadership and HR rhetoric of 'people being our most important asset'	A deeply held conviction that talented people produce better organizational performance
The responsibility for people management lies with HR	The responsibility for managers to do all they can to strengthen the talent pool
Small-scale and infrequent programmes for succession planning and training managers in acquiring and nurturing people	Talent management as a central component of the business and part of the ongoing role of senior leaders
Managers have to work with the people they inherit	Managers constantly taking active and bold steps to attract and develop their talent pool and actively manage low performers

Source: adapted from Handfield-Jones *et al.*, 2001, p. 4.

discuss more fully in Chapter 6 on corporate reputation, branding and HR;

- thoughtful executive development, using coaching, mentoring and on-the-job experiences at key points in managers' development.

Helen Handfield-Jones has turned this strategy into a useful consulting tool, which I have summarized in Table 3.5. It is worth noting how the language and ideas of marketing, especially branding, have been influential (see Chapter 6). First, this is apparent in influencing the recruitment process, seen as too important to be left to HR practitioners, especially those untutored in the language and methods of developing strong corporate and 'employer' brands. Second, the language and practice of marketing are evident in the proposals to segment internal labour markets rather than have just one offering for a company. Instead, the proposals are to create different EVPs or *employer brands* for each major segment or unit. This idea of differentiating workforces internally to reflect the multiple, differentiated external strategies of companies has become one of the key HR messages in recent times (Huselid *et al.*, 2005). In effect, this differentiation mirrors the language of psychological contracting in recognizing the individual nature of psychological contracts and the different types of contracts. We return to this issue in the next section on managing careers. Third, internal marketing is implied in the price segmentation, or rewards strategy, in organizations. Given that talent by definition is in short supply or, in the language of economists, inelastic in supply in the short to medium term, the price of talent has risen quite

Table 3.5
Elements of effective talent management

Danger signs	Signs of progress	Signs of achievement
Disciplined talent management		
A focus only on obvious successors in succession planning exercises	Some discussion of incumbents' performance	Clear identification of A, B and C performers in each talent pool
Lists of high-potential people, but little action	Consultation of list when vacancies occur	Written action plans for each high potential's development and retention
Belief that there are no poor performers	Admit that there are likely to be some, but avoid doing much about it	Act decisively on poor performers by improving or replacing them
Hold no one accountable for talent management, except for HR	Evaluate managers on how well they manage their staff	Hold leaders directly accountable for developing their talent pool.
Creative recruitment and retention		
Danger signs	**Signs of progress**	**Signs of achievement**
Empty rhetoric about being a good employer to work for	Think about the EVPs for each type of talent	Understand the strengths and weaknesses of the EVPs for each type of talent and plan to strengthen them
Hire only at entry levels and grow only from internal hires	Occasionally bring in senior or specialist people from outside	Recruit a steady flow of talent at all levels
Go to the same sources for recruiting talent	Experiment with new sources, but look for similar backgrounds	Creatively tap new pools of talent, looking for essential capabilities
Have high and consistent attrition rates among managers	Analyse attrition data by department and type	Know the attrition rates of A, B and C performers and understand why they are leaving, performing or underperforming
Thoughtful executive development		
Danger signs	**Signs of progress**	**Signs of achievement**
Leave the job assignments of managers to the manager who hires them	Suggest some candidates from the high-potential list or job-posting system	Involve leadership teams on every assignment decision, seeking to optimize these across the company
Recruit most qualified candidate with no discussion of development	Stretch people, but not in the context of any development plan	Thoughtfully consider the development needs of each assignment and the development needs of each candidate
Assume that the best way to develop people is by throwing them in at the deep end	Provide formal feedback through appraisal once a year	Embed candidate feedback and coaching into the routines of the organization and the jobs of leaders
Invest in training driven by top-down assessments of candidates and then only in response to immediate needs, threats or crisis	Offer regular but basic programmes for management development and leadership, usually off the job	Offer integrated management/ leadership learning programmes for each transition point of managerial careers

Source: adapted with permission from Handfield-Jones, www.handfieldjones.com/diagnose/index.html markedly over the last few decades in many countries. Thus, organizations, it is argued, will have to become used to 'paying for the person' rather than having fixed rates and bands for staff, and the differentials between high performers and average performers will gradually increase to reflect market values and the kinds of economic rent that accrue to factors in short supply. There is certainly evidence of this having occurred since the 1980s, with ratios of salaries between the top-paid managers and the average salaries of employees having increased significantly in most countries (Wolf, 2002). For example, CEO salaries rose by a factor of 10 during the period 1990–2000 in the USA, whereas the pay of the average employee barely rose at all during the same period (Sparrow and Cooper, 2003). The fourth link with marketing is in the segmenting of performance levels and in the strategies for dealing with different 'portfolios' of performers. The traditional Boston Consulting approach to the growth-share matrix uses language like investing in potential 'stars' (the As) and 'putting down the dogs' (the Cs).

Such language and approaches to individualizing talent, however, have not captured the imagination of all commentators and practitioners. The case below points to problems that can arise when individual talent management is overemphasized, especially at the expense of other members of the organization.

Case 3.1: The dark side of talent management

The 'talent mindset' is the new orthodoxy of American management. It is the intellectual justification for why such a high premium is placed on degrees from first-tier business schools, and why the compensation packages for top executives have become so lavish. In the modern corporation, the system is considered only as strong as its stars, and in the past few years this message has been preached by consultants and management gurus all over the world. None, however, has spread the word quite so ardently as McKinsey and, of all its clients, one firm took the talent mindset closest to heart. It was a company where McKinsey conducted 20 separate projects, where McKinsey's billings topped $10 million a year, where a McKinsey director regularly attended board meetings and where the CEO himself was a former McKinsey partner. The company, of course, was Enron.

The Enron scandal is now almost a year old. The reputations of Jeffrey Skilling and Kenneth Lay, the company's two top executives, have been destroyed. Arthur Andersen, Enron's auditor, has been all but driven out of business, and now investigators have turned their attention to Enron's investment bankers. The one Enron partner that has escaped largely unscathed is McKinsey, which is odd, given that it essentially created the blueprint for the Enron culture. Enron was the ultimate 'talent' company. When Skilling started the corporate division known as Enron Capital and Trade in 1990, he 'decided to bring in a steady stream of the very best college and MBA graduates [he] could find to stock the company with talent'. During the 1990s Enron was bringing in 250 newly minted MBAs a year. 'We had these things called Super Saturday,' one former Enron manager recalls. 'I'd interview some of these guys who were fresh out of Harvard, and these kids could blow me out of the water. They knew things I'd never heard of.' Once at Enron, the top performers were rewarded inordinately and promoted without regard for seniority or experience. Enron was a start system. 'The only thing that differentiates Enron from our competitors is our people, our talent,' Lay, Enron's former chairman and CEO, told the McKinsey consultants when they came to the company's headquarters in Houston. Or, as another senior Enron executive put it to Richard Foster, a McKinsey partner who celebrated Enron in his 2001 book (co-authored with Sarah Kaplan) *Creative Destruction*, 'We hire very smart people and we pay them more than they think they are worth.'

The management of Enron, in other words, did exactly what the consultants at McKinsey said that companies ought to do in order to succeed in the modern economy. It hired and rewarded the very best and the very brightest – and it is now in bankruptcy. The reasons for its collapse are complex, needless to say. But what if Enron failed not in spite of its talent mindset but because of it?

1 Can organizations overrate talented people? What does the case highlight about the dark side of talent management?

Source: based on *The Talent Myth*, by Malcolm Gladwell, available online at http://artsci.shu.edu/english/basicskills/02-exploratory/example-exploratory.htm.

Well-known academics such as Jeffrey Pfeffer and Nitrin Nohria in the USA have pointed out the dangers of talent management and the trends toward individualization of the employment relationship. The main thrust of their criticisms is that the competition created by talent management practices harms everyone, and not just the 'losers' or 'C' performers. This is because it undermines organizational loyalty, teamworking, knowledge sharing and the organization's overall ability to turn knowledge into action. To many people in the USA and UK, management practices that produce internal competition are so common nowadays that they seem unexceptional. Examples of such talent management practices include recognition awards given to individuals, such as 'employee of the month or year programmes'; forced distributions of individual merit raise budgets, so what one person receives another cannot; contests between departments or individuals for prizes; and published rankings of unit or individual performance. These practices often create a zero-sum contest in which the success or rewards of one person or department must come at the expense of another, and thus there is a built-in disincentive to share knowledge. Other problems identified by Pfeffer (2001) and Groysberg *et al.* (2004) include the following:

- The focus on hiring outsiders plays down the abilities of insiders, who can rapidly become demotivated and often leave. Organizations that 'enjoy' such a reputation for favouring external 'new talent' can attract poor reputations among potential recruits as a 'hire-and-fire' company, as well as among dissatisfied insiders (a point to which we shall return in Chapter 6).
- The focus on hiring outsiders leads senior managers to expend considerable effort in finding the 'right people'. Such a commitment leads them to rationalize their efforts by placing high value on talented outsiders and to assume they are better than insiders. Sometimes we refer to this as the 'neglect of prophets in their own land' syndrome. This syndrome is exemplified by the current fashion among some football clubs for recruiting football managers and football stars from other countries, which is often played out in the popular press by a 'will they come, won't they come' storyline and frequently leads to a bidding war in which outsiders are paid much more than insiders. Such strategies often lead not only to internal dissatisfaction but to a mercenary culture, because talented individuals who are attracted by money are equally likely to leave for money.
- Focusing on individual talent often results in playing down the need to repair problems with the organization as a whole, such as the 'fit' among individuals, business processes, organizational cultures and structures. Again, the football team example highlights the problems of relying on recruiting star players, a strategy that doesn't always lead to success.
- Arrogance and elitism often follow the recruitment of talented individuals – part of the problem at Enron. Such attitudes and behaviour run counter to the attitudes of wisdom, a delicate balance between knowing and doubting and one of the hallmarks of good managers and leaders (see Chapter 2).
- The stars' 'shine' typically begins to decline because they are uprooted from their supportive, previous organization and

workgroups and replanted, often in infertile soil. Stardom is over-attributed to personal qualities and under-attributed to the organizational context. Moreover, the performance of the group that has to work with the new star usually suffers because of declining morale, communication problems and interpersonal conflicts. These two consequences have been shown to be related to the declining valuation of companies following publicized appointments of stars in the financial services industry (Groysberg *et al.*, 2004).

Managing careers

We have already raised some of the issues concerned with managing newer patterns of careers in the previous sections. However, there are issues requiring more elaboration so that managers are better able to understand and deal with the problems they are likely to face, both now and in the future. These issues can be subsumed under the general trend in career patterns towards fragmentation, segmentation and/or idiosyncrasy.

I have already introduced the notion of boundaryless careers, employability and the individualization of employment in previous sections. Though there is still some argument over the objective evidence on the extent to which individual career expectations have changed, and whether there have been markedly different career behaviours exhibited by the majority of employees, there is little doubt that the *rhetoric of careers* has changed since the 1990s. What seems to be a widespread trend, in the developed world at least, is for employees to begin their disengagement from careers at an increasingly early age (Sparrow and Cooper, 2003). However, given demographic trends and projected labour shortages in certain countries over the next few decades, coupled with the pension crisis in which employers and many countries will find themselves increasingly unable to fund adequate pensions as a consequence of the ageing of the workforce (Drucker, 2001), we shall have to wait to see whether early disengagement is a fact of life for most people.

In the 1980s, Ed Schein (1990) developed the idea of people having different *career anchors*, relatively stable orientations to one's organization and one's career(s). He identified eight such anchors (see Box 3.4), which have been widely used to analyse career development and to provide advice to managers.

Box 3.4: Schein's career anchors

Edgar Schein has identified eight career anchors, and has shown that people will have prioritized preferences for these. For example, a person with a primary theme of security/stability will seek secure and stable employment over, say, employment that is challenging and riskier. Career anchors, he argues, are relatively stable, and people tend to stay anchored in one area, which will be reflected in their career and job choices.

- *Technical/functional competence*. This kind of person likes becoming expert at something, and will work to this end. They like to be challenged and then use their skill to meet the challenge, doing the job properly and better than almost anyone else.
- *General managerial competence*. Unlike technical/functional people, these folks want to be managers (and not just to get more money, although this may be used as a metric of success). They like problem-solving and dealing with other people. They thrive on responsibility. To be successful, they also need emotional intelligence competences.
- *Autonomy/independence*. These people have a primary need to work under their own direction, rather than be controlled. They avoid standards and prefer to work alone.
- *Security/stability*. Security-focused people seek stability and continuity as a primary factor of their lives. They avoid risks and are generally 'lifers' in their job.
- *Entrepreneurial creativity*. These people like to invent or innovate, be creative and, most of all, run their own businesses. They differ from those who seek autonomy in that they will share the workload to accomplish things. They find ownership very important. They easily get bored. Wealth, for them, is a sign of success.
- *Service/dedication to a cause*. Service-oriented people are driven by how they can help other people, often more than using their natural talents (which may fall in other areas). They tend to work well in public services such as education and healthcare, or in management occupations such as HR.
- *Pure challenge*. People driven by challenge seek constant stimulation and difficult problems that they can tackle. Such people will change jobs when the current one gets boring, and their careers can be very varied.
- *Lifestyle*. Those who are focused first on lifestyle look at their whole pattern of living. They not so much balance work and life as integrate it. They may even take long periods off work in which to indulge in passions such as sailing or travelling.

More recent work by Arthurs *et al.* (1999), however, has shown that the permanence implied by the notion of career anchors may be a little misplaced. They found that 75 participants in their in-depth, longitudinal study over a period of ten years were less likely to involve upwards progression and were much less linear and idiosyncratic than most career theory had suggested, often involving movements outside the labour market and downwards and sidewards moves. Thus, careers, they argued, sometimes lacked the objective rationality that was implied by these anchors, or else revolved around individuals' desire for personal fulfilment or maximization of their earnings or education, depending on their ambitions at a particular point in time.

- In relation to psychological contracting, research has found highly varied attitudes and expectations of such contracts, even within the same industry (retail banking) and in the same country (the UK) (Sparrow and Cooper, 2003). Once we move outside similar contexts, we are likely to find increased variations among typical psychological contracts (Herriot, 2001). For example, US researchers have found significant differences among career orientations and career-oriented behaviours of knowledge workers and managers in leading technology companies in America, Europe, Asia and Israel (Finegold and Mohrman, 2001) (see Table 3.6).
- This last piece of work has not only focused on what employees say in interviews about expectations and desires, but has also examined the relationship between key behaviours and levels of employee retention and commitment. The key point for managers from this research reinforces the idea introduced in the previous sections that organizations need to use their data on employees to refine their understanding of changing and varied employee expectations, psychological contracts and career-driving behaviours, and to segment their workforces and develop appropriate EVPs and employer brands.
- One general trend is for people to seek more flexibility in the type of employment relationship and psychological contract they have with their employers. Such flexibility is more likely to be sought and negotiated by people whose skills are highly valued and who are in a relatively powerful position to negotiate flexible deals. They are usually high-status employees who are also highly mobile and marketable. Denise Rousseau (2001), one of the most influential researchers of psychological contracting, has called this process *idiosyncratic dealing*. These deals are different from psychological contracts because they are based on more than employee expectations

Table 3.6
Potential variety in psychological contracts and career expectations

Sparrow's contractual deal (UK retail banking)	Herriot and Pemberton's career contracts (UK retail banking)	Finegold and Mohrman 'What employees really want' (Technology industry/cross country)
Still ambitious – accept constraints of new deal but believe they can still advance	***Career development core deal*** – organization sought flexibility, commitment, involvement and performance, while employees accepted this and sought trust, security, employability and career development	***Early career employees*** **(30 and under)** seek career advancement, satisfaction with professional work environment, influence within organization and to work for innovative company. Security less important
Frustrated mobile – disengaged mentally because managers did not understand need, and were on constant job search	***Autonomy*** – organization looked for specific, short-term, project-type skills and capability to work unsupervised, while employees sought autonomy, freedom to do work and challenging projects	***Mid career employees*** **(31–50)** seek degree of autonomy to manage own careers and professional satisfaction
Passively flexible – understood requirements for being flexible, but no enthusiasm for it	***Lifestyle or part-time deal*** – organization wanted flexibility to match workload and part-time, and usually high-customer service skills while employees wanted flexible work patterns and workloads to match their lifestyle loads	***Late career employees*** **(over 50)** These employees seek security above all else. Professional satisfaction and autonomy less important
Lifers – respected old relational contracts, and not impressed with high pay and employability. Believed technical competence was sufficient reason for advancement		
Buy me out – sought a deal to leave, but waiting for right offer from employers		
Guidance seekers – sought and needed help to understand their career possibilities		
Don't push me too fast – understood need for change but thought it was going too fast, too far		
Just pay me more – transactional outlook, and would accept most changes but at a price		

Source: adapted from Finegold and Mohrman, 2001; Sparrow and Cooper, 2003, p. 131.

and arise only when individuals actually negotiate different treatment from their employers than is normally the case with comparable others. Examples of such deals often involve working less than full-time contracts so they have time to work on their own behalf with other clients, or can enjoy 'portfolio' careers, working significant time at home and negotiating special monetary and non-monetary arrangements, including special performance or commission arrangements, pension deals, vacation time, etc. Idiosyncratic dealing, however, creates a number of problems for employers because it gives rise to a 'star' system that breaks normal conventions and can lead to some of the problems associated with talent management discussed earlier.

Exercise 3.4

Think about your career. Which description, if any, fits your own career pattern or expectations? Would you say that your career expectations have changed over time?

Managing organizational commitment and identification

We have repeatedly come across or used terms such as commitment, identification, citizenship or engagement; these are different ways of describing the nature of the linkage between an employee and his or her organization and the factors that influence this relationship. For managers, it is important they understand the differences in these linkages, especially what they refer to and their implications for practice (see Table 3.7). For example, commitment, identification and citizenship each have their own specific meaning, antecedents and consequences, yet each is used to describe the nature of psychological contracts and the strength of employee brands or EVPs. Furthermore, many employee surveys conducted by 'blue-chip' organizations fail to distinguish between them or, even worse, confuse them. As a consequence, HR managers often have to rely on measures for A (e.g. identification) while hoping for B (e.g. commitment). In this section, we shall look briefly at organizational commitment, organizational identification and the notion of psychological ownership, the three most important of the individual–organizational linkages (Sparrow and Cooper, 2003).

Organizational commitment

In the case on the North Sea oil industry, our measures of employees' relationships with their organization focused mainly on commitment, a term that is used to refer to a number of different attachments to work, including commitment to work itself, to specific jobs, to the union or workgroup, to a career or professional calling, or to the employing organization(s). It is the last of these that has received most attention because it has promised much in terms of desired organizational outcomes, such as loyalty, 'going the extra mile' (organizational citizenship behaviour), low absenteeism and good performance.

Organizational commitment is usually defined in terms of the reasons underlying people's wish to join and remain with an organization and their feelings towards it (Sparrow and Cooper, 2003). It is sometimes thought to have three components, which are set out in Box 3.5. An individual's commitment can be made up of one or more of these types of commitment, and usually a composite measure of all three is provided in general surveys.

Box 3.5: Three types of organizational commitment

1 *Affective (or attitudinal) commitment*, which is based on a willing acceptance of the organization's goals and an identification or emotional attachment with the organization and its values. Measures include items like 'I really feel as if this organization's problems are my problems'.
2 *Continuance commitment*, which refers to the extent to which employees are bound to the organization in terms of their intention to remain or leave. This may result from a weighing-up of the costs and benefits of staying or leaving, such as perceptions of alternative jobs, or the financial hardship associated with leaving. Measures include items like 'I would continue to work for this organization even though I received a better offer from another employer'.
3 *Normative commitment*, which refers to an individual's perceptions of obligation or loyalty to the organization. Measures include items like 'This organization deserves my loyalty'.

Source: based on Meyer and Allen, 1991.

There are several problems, however, with the notion of organizational commitment that render it a less useful concept in describing the strength of the relationship between individuals and their organization, especially in contemporary contexts (Swailes, 2002). First, it is used as both an explanation and an outcome of individual–organizational linkages, which can cause confusion in trying to establish the causes of commitment. Second, the notion that individuals may be committed to only one organization, especially in the light of recent changes towards networking in organizations (see Chapter 4), and in the light of boundaryless careers discussed earlier, may be becoming outmoded. Third, the goals and values of a large organization are likely to vary from one part to another, such as in those organizations that have strong lines of business brands, and rejection of one specific value (or line of business brand) may coexist with the acceptance of other values (or other lines of business). This could be the case, for example, with organizations that have ethically dubious products such as cigarettes as part of their portfolio.

Perhaps more than anything, however, the reason to be a little wary of the concept of commitment is its promised and expected relationship with desired organizational outcomes. Although high levels of continuance commitment have been shown to be related to lower labour turnover and absence, and affective commitment has been shown to be associated with job performance, the links between organizational commitment as a whole and performance are really quite weak (Sparrow and Cooper, 2003). And given the changes in the nature of employment discussed in the previous paragraph and throughout this book, even this weak relationship may diminish over time.

Organizational identification

This concept has become more widely used over the last decade or so because of its more direct links with values-based management, EVPs and employer branding (see Chapter 6). It differs from commitment, which is a more general term, and refers to only one component or type of commitment. However, psychologists who are experts in identity theory have claimed that organizational identification is a deeper and richer concept than that which is measured by commitment scales. It also has a specific meaning.

Psychologists argue that organizational identification occurs when employees incorporate their beliefs about the organization into their own personal identity, which is defined in terms of how individuals think about themselves. Social identity theory, the basis of this idea, suggests that we define our self-concept through the links we have with important reference groups by forming a relationship in our minds between the identity of those groups and ourselves. We tend to highlight the similarities between our own self-identity and those of the group we aspire to relate or belong to, and play up the distinctiveness between ourselves and those groups that don't fit in with our self-identity (Sparrow and Cooper, 2003). For example, suppose we are socialized into the values of entrepreneurship through participation in the kind of society we live in and, perhaps, through our education – as is often the case with US students. It is likely that we shall seek to work in an organization that embodies such values and, through time, gradually take on the other values associated with the entrepreneurial organization, such as creativity and excitement. It is also likely that we would begin to define ourselves as 'entrepreneurial', associate more with like-minded people, and put some distance between ourselves and those people who did not embrace entrepreneurial values. So, the more individuals believe the norms and values of an organization represent their own norms and values, the greater their level of organizational identification.

From the perspective of managers, as Sparrow and Cooper point out, organizational identification theory holds out much promise, because strong levels of identification have been found to be positively related to employee self-esteem, greater satisfaction and motivation, perceived superior job performance by managers, high levels of loyalty, a more attractive place to work, organizational citizenship and working beyond contract.

Psychological ownership

Jon Pierce and his colleagues (2001) have argued that, although commitment and identification are important constructs for understanding the relationships and attachments between individuals and their organizations, neither is a complete or even necessary explanation of psychological ownership, which they define as follows:

> As a state of the mind, psychological ownership … is that state in which individuals feel as though the target of ownership (material or immaterial in nature) or a piece of it is 'theirs' (i.e. 'It is MINE!'). The core of psychological ownership is the feeling of possessiveness and of being psychologically tied to an object.
>
> (Pierce *et al.*, 2001, p. 299)

These authors contend that 'mine' is a small word, but with enormous consequences for organizations. Ownership arises because people have an innate need to possess, or because it satisfies certain human motives, which are either socially derived or genetic. These include:

- the need to *control*, in which ownership confers on us certain rights and abilities to shape our environment so that we can become more effective – for example, the degree to which we can determine our working times;
- *self-identity*, which is formed partly through our interactions with what we possess and our reflections on what they mean – for example, company cars;
- the need to have a *place* or 'home' that we can call our own, which is not only a physical but also a psychological space – for example, employees not only seek office or work spaces they can call their own, but also look for 'soul mates' they can metaphorically set up a home with at work.

Ownership is achieved by three 'routes', involving:

1. Having a strong degree of control of the object of our ownership, such as the job or the organization and its performance.
2. Coming to know the object of our ownership intimately by having a 'living' relationship with it – for example, the gardener who comes to feel the garden belongs to him or her after a certain time of working in it.
3. Investing the self into the object of our ownership. Through time as we expend effort into shaping, creating or making something we feel that we come to own what we have shaped, created or made, such as machines, ideas and even people.

The consequences of psychological ownership are to create among individuals a set of perceived rights and responsibilities that help explain why individuals promote and resist change. Thus, change that is self-initiated by employees who have high levels of psychological ownership is more likely to be promoted and accepted because it enhances feelings of self-efficacy and control. Likewise, imposed change is likely to be resisted because it diminishes feelings of self-efficacy and self-control. This concept is extremely important in understanding the success or otherwise of stock or share ownership in organizations, often given as a form of reward to individuals and as a way of creating organizational identification. As Sparrow and Cooper (2003) point out, share ownership without psychological ownership will not produce the hoped-for benefits of greater organizational identification and motivated behaviour.

Finally, however, it is also worth noting that high levels of psychological ownership can also create pathological responses among those people who become separated from the objects of their ownership. For example, many years ago I worked as a personnel manager in a construction company. Some senior managers in that company proposed laying off a large number of young electricians who had spent many months installing electrical wiring in a new and high-profile building, on which many of these apprentice electricians were naturally proud to have worked. On hearing of the proposed lay-off, in a deliberate act of sabotage these young electricians systematically removed all the cabling and equipment they had installed.

Pierce and his colleagues have compared and contrasted the three concepts of commitment, identification and ownership, the outcomes of which are highly relevant to managers who hope to manage psychological contracts and individuals' attachment to their organizations. I have adapted their table in Table 3.7 to highlight the most important practical implications.

Table 3.7
The differences between commitment, identification and psychological ownership

Criteria for distinctiveness	**Organizational commitment**	**Organizational identification**	**Psychological ownership**
Core proposition of concept	Desire to remain with organization	Use of organization's identity to define oneself	Possession of the 'organization', job or area of work
Questions answered for individuals	Should I remain?	Who am I?	What is mine?
Motivational bases	Security Belongingness Beliefs and values	Attraction Affiliation Self-enhancement	Control Self-identity Need for place
How it develops	Decision to remain with organization	Incorporating organizational values into self Affiliation Emulating organizational characteristics	Active imposition/ investment of self on organization
Main consequences for practitioners from research findings	Organizational citizenship behaviour ('going the extra mile') Intention to leave or remain Attendance and absenteeism	Support for organizational values and participation in its activities Intention to remain Frustration/stress Alienation Lack of integration into organizational values/culture	Development of employee rights and responsibilities Promotion of/resistance to change Frustration, alienation and sabotage Integration of employees with work Organizational citizenship behaviour

Source: adapted from Pierce *et al*., 2001, p. 306.

Over-identification and workaholism

In the previous section we touched on negative consequences of high levels of psychological ownership in terms of stress and sabotage. One of the most popular discussions among the organization and families of many employees, however, is the subject of workaholism, which tends to be treated as a pathological response to the pressures of organizations on individuals and as a form of addictive behaviour, like drug taking. The prevalence of workaholism, especially among professional workers and certain cultures, has been estimated in some studies to be around 20 per cent of employees in the groups studied. So, for example, one study in the USA in 1980 estimated that whereas 5 per cent of the population might be classified as workaholics, 23 per cent of a sample of doctors, lawyers and psychiatrists were high on workaholism measures. Similarly, a study in 1996 of Japanese managers found that 21 per cent of the sample were workaholics (Burke, 2000). Yet, depending on where you stand, variations on so-called workaholic behaviour can be seen as a relatively positive force in society, at least in small measures, rather than as a wholly negative one.

For managers, it is important to be able to identify workaholic behaviour (especially among themselves), to understand its positive and negative consequences and how it can be managed for the good of both the organization and individual. Perhaps the most neutral definition is the three-step process identified by Scott *et al.* (1997), who suggested that workaholism can be identified by the amount of and attitudes to discretionary time spent on work, thinking about work when not working, and working beyond what the organization requires. When we discuss workaholic attitudes and behaviour, though, we usually refer to the negative aspects, including long work hours at work and at home, waking times, refusal to delegate, not taking holidays, low levels of trust in others, perfectionist behaviour, and a range of attitudes associated with such behaviours.

Workaholism has been distinguished from other types of engaged work behaviour in relation to three variables: *work involvement*, which refers to the degree of psychological involvement with work; *work drive*, which relates to the extent that individuals feel an inner pressure to work; and *work satisfaction*, which is the degree of pleasure gained from work. According to some researchers, workaholics tend to be high on work involvement and drive, but low on enjoyment (Robbins, quoted in Sparrow and Cooper, 2003). However, these findings may oversimplify the picture a little. For example, someone may claim to be involved in his or her work, but this does not necessarily lead to workaholic behaviour. Nor is it necessarily the case that workaholics don't enjoy their work. For example, a UK-based Chartered Institute of Personnel and Development study found that 51 per cent of self-reported workaholics agreed with the statement 'Sometimes I like my job so much that I have a hard time stopping', compared with 34 per cent of 'non-workaholics' (CIPD, 2001). A later CIPD survey also reported that work satisfaction levels were similar for those working 48 hours or more a week, compared with those working less than 48 hours (CIPD, 2003). The type of behaviour that seems to be most balanced and which serves the interest of the individual and organization best is what has been labelled 'work-enthusiastic' behaviour (Burke, 2000). Such people are high on scores of work involvement and work enjoyment, but low on work drive. However, even here, research has shown that moderate amounts of work drive are consistent with psychological well-being.

The causes of workaholism have been attributed to three sources (Burke, 2000):

- *Individuals' experiences in their family.* Work addiction, it is argued, is often passed on through generations and is seen as a learned addictive response to dysfunctional family circumstances, e.g. a negative cycle of poor relations between husband and wife, which is associated with long work hours and then passed on to children as normal behaviour.
- *Personal beliefs and fears.* Workaholism has been shown to be related to beliefs about the importance of striving against others (e.g. people who score highly on beliefs such as 'there can only be one winner in any situation') and on the lack of 'moral principles' (people who score highly on items such as 'I think that nice guys finish last'). They also score highly on factors such as the need to prove themselves (measured by items such as 'I worry a great deal about what people think of me').
- *Organizational values.* Workaholism also seems to be related to individual perceptions of whether they see their workplaces as supportive of work–life balance, or whether they feel the organizational culture values imbalance, such as travelling to and from work destinations in your own time, working weekends, etc. This is obviously one source of behaviour that organizations can influence positively, as we shall see in the next section.

Work–life balance

Work–life balance has become a major issue in many developed countries, with legislation being passed in the EU to limit the length of time spent at work by people in all kinds of employment. The basis for much of the debate is over the 'long hours culture' of some countries and of certain organizations within these countries, which is attributed to the adoption of new information and communications technologies, global competition and job restructuring, and has resulted in greater pressure on employees to work harder and more flexibly.

Tables 3.8 and 3.9 show the variations in average hours worked and annual leave entitlements among selected countries, and also show how working hours in five of the largest industrial countries have varied over time. More recent evidence has shown that even with annual leave entitlements, in relative terms, as low as they are in the USA, American workers don't use up the holidays to which they are entitled (*The Economist*, 19 April 2004).

The debate, however, has a number of angles to it. The proponents suggest that work–life balance as a concept implies a balanced relationship between paid work and life outside work, with a presumption that the two are distinct and that people have and should seek a degree of control over their working lives. Often, the term is used in the context of an agenda that seeks to preserve the institutions of family life, caring for children and older people, and one that seeks to promote genuine equality of opportunity for women. Set against this balance are the forces of technology and more intensive competition, discussed in the previous section on workaholism, which have led some organizations to exercise pressures for long working hours, even

Table 3.8
Annual total hours actually worked (production workers in manufacturing industry), 1980-98

Country	1980	1990	1996	1997	1998
Japan	2162	2214	1993	1983	1947
USA	1893	1948	1986	2005	1991
France	1759	1683	1679	1677	1672
Germany	1719	1598	1517	1517	1517
UK	1883	1953	1934	–	1925

Source: Japan Institute of Labour.

Table 3.9
Annual leave and public holidays in the EU, Japan and USA

Country	Average annual leave entitlement*	Statutory minimum annual leave entitlement	Public holidays per year	Average annual leave plus public holidays	Statutory minimum annual leave plus public holidays
Austria	n/a	20	13	n/a	33
Belgium	n/a	20	10	n/a	33
Denmark	30	25	9.5	39.5	34.5
Finland	25	24	12	37	36
France	n/a	25	11	n/a	36
Germany (west)	29.2	20	9–12	38.2–41.2	29–32
Greece	23	20	10–12	33–35	30–32
Ireland	20	20	9	29	29
Italy	28	20	12	40	32
Luxembourg	27	25	10	37	35
Netherlands	31.4	20	8	39.4	28
Portugal	22	22	12–14	34–36	34–36
Spain	n/a	25	12–14	n/a	37–39
Sweden	25	25	11	36	36
UK	25	20	8	33	28
EU average	25.6	22	10.8	36.4	32.8
Japan	17.8	10**	15	32.8	25
USA	16.9***	0	10	26.9	10

* Average collectively agreed entitlement for EU countries, average paid holiday entitlement for Japan, average vacation days in medium and large private sector for USA.
** Basic entitlement after six months' service – increases with length of service.
*** After 10 years' service in medium and large private sector.
Sources: EIRO (Banking on your holiday?, http:www.eiro.eurofound.eu.int/2002/12/feature/tn0212101f.html, August 2001). European Commission (Employment in Europe 2001), Eurostat, Japan Statistics Bureau, Japan Institute of Labour (JIL), US Bureau of Labor Statistics (BLS).

though these extra hours may not be productive. For example, managers often talk about cultures of 'presenteeism', referring to situations where employees present themselves for work but don't actively engage in productive work ('there in body but not in mind'). As a consequence of this tension, governments and some organizations have introduced policies to help mitigate the 'colonization' by long working hours and the increasing length of working lives over non-working hours and non-working lives. Central to this balancing act is the idea that the individual–organizational employment relationship should be a negotiated psychological and legal contract that meets the expectations and obligations of both parties (Sparrow and Cooper, 2003). The increasing degree of autonomy and control provided by this revised psychological contract is brought about by steps taken:

- to increase the variety of ways in which individuals are able to integrate work and non-work activities by giving them choices over working hours or job sharing;
- to help bring about changes in how employees balance work and non-work by constructing their own boundaries between the two, such as working at home, tele-commuting, sabbaticals, extended leave, unpaid leave, parental leave and extended breaks for family responsibilities.

Policies that organizations develop to provide employees with these two forms of control have become more common in many organizations. Box 3.6 illustrates how two UK companies have attempted to put these ideas into practice.

Box 3.6: Work–life balance programmes in the UK

ASDA retailing

'Every single one of our flexible working policies comes from our colleagues themselves. They show we're serious about listening to colleagues and that we really mean it when we say it's our people who make the difference in our business,' says David Smith, who is the People Director of ASDA Stores, the UK-based subsidiary of Wal-Mart.

Supermarkets are a business that is heavily reliant on customer service and the quality of its people, and ASDA believes that its innovative work–life balance policies have enabled it to improve staff motivation and customer service at its 258 stores. The practices have also had a very positive effect on reducing absenteeism and staff turnover. ASDA's 120 000 employees have a wide range of flexible working practices on offer. Childcare leave allows parents to stop work for a short period during the summer holidays, returning in term time with continuous service and maintained benefits.

ASDA is also working hard to attract more females into general store management by making these positions available on a job-share basis to enable people to manage their work and home commitments. Meanwhile, a shift-swapping scheme enables colleagues to be absent from work for specific family or domestic reasons, and students who work for the company on a part-time basis can even swap the store they work at if studying away from home. Or they can choose to take study leave if going away to university, returning to work in the holidays.

There are also policies aimed at the over-50s, who are able to take up to three months' unpaid leave regardless of job, contracted hours or length of employment, but maintaining continuous service. ASDA believes that all these measures play an important part in retaining a committed and engaged workforce that will provide high-quality customer service.

BAA (British Airports Authority)

'Adopting flexible working reduces the need for BAA office space, reduces total and rush hour car journeys and enables us to offer services to our business partners over a longer period of the day,' claimed Stephen Golden, Group Equal Opportunities Manager.

During 2002/3 a project group, made up of staff and trade union representatives from across the business led by the Group Retail Finance Director, worked on promoting work–life balance across the BAA group. The result is a new work–life balance policy that was sent to all staff during April 2003.

The focus of the policy is to make people aware of the various options available to them to help balance home and work commitments. It gives examples of flexible working options and states their right to discuss flexible working options with their manager. Each case will be considered fully and take into account the business need and operational requirements, but will aim to meet the needs of staff wherever possible.

Applications to work part-time can generally be approved in all work areas. Such arrangements can take various forms, mixing office and home-based working, or job sharing as the business needs dictate.

Source: adapted from www.dti.gov.uk/work-lifebalance.

Despite the volume of research conducted on the relationship between working hours and key outcomes, including health and general well-being, few strong conclusions can be drawn (Sparrow and Cooper, 2003). A large-scale study in 1997 found only a small, statistical correlation between working hours and health (Sparks *et al.*, 1997). Perhaps the main reason for introducing such programmes may be more to do with attracting and retaining non-traditional employees to organizations and contributing to meeting the expectations of individuals with respect to modern employment conditions.

As I have already mentioned, however, there are some strong criticisms of the work–life balance agenda that suggest why the idea may have limited appeal to some organizations and to some employees. The first of these is the impact on productivity and output. Critics of work–life balance point to the example of the USA, which has the longest working hours in the developed world, but also has among the highest levels of productivity growth. Indeed, this comparison has influenced the French government to change its legislation on working hours by increasing them only shortly after having reduced them. Another example of the importance of flexibility over working hours to productivity is an agreement negotiated by Volkswagen, the German motor vehicle company, with its German employees to trade flexible working (longer hours when required) for guarantees on job security.

Box 3.7: The importance of flexible working hours – VW in Germany

A report in *The Economist* in late 2004 suggested that Volkswagen, Europe's largest vehicle manufacturer, was in trouble, especially with the Volkswagen brand. Losses had amounted to a €47m operating loss for the period January–September in 2004. The article pointed out that its production was less efficient than other German car-makers, including BMW and Chrysler Benz, with labour costs 11 per cent more than their competitors and wages 20 per cent higher than the union average. Nevertheless, this fact didn't stop unions putting in for an above average 4 per cent pay increase. But, like all German industrial workers, the article went on to say 'what they really crave is job security', which has persuaded the workers to modify their demands and accept more flexible hours, sometimes translating into longer hours and a wage freeze until 2007, in return for job security until 2011.

VW's response was to pay its 100 000 plus workers €1000 each in cash as a flat-rate bonus, which it hoped would cut its labour costs by 10 per cent. However, this was only a small dent on its longer-term target, which was to reduce its wage bill by 30 per cent by 2011. The reaction of the investment markets to this news was to punish VW by devaluing its share price by 3 per cent for the 'compromise' deal that wouldn't go anywhere near to solving its long-standing productivity problem.

As *The Economist* noted, 'It sees that long hours are not enough to satisfy investors in Germany who also want to see traditional job security deals removed.'

Source: adapted from *The Economist*, 'Darwin meets job creationism', 6 November 2004.

The second criticism is the rather arbitrary distinction between work and life outside work, which the notion of work–life balance implies. For many people, as Robert Taylor (2004) has pointed out, work and life overlap, with work often the main source of meaning in people's lives, whether or not they are being paid for it. In essence, work–life balance is a subjective concept and will vary from one person to another.

However, most commentators and governments would agree that organizations and their senior managers are obliged to ensure that they are not placing undue pressure on people to see the balance in such a way that it leads to ill-health and the detriment of family relationships.

Leadership in organizations

So far, we have looked at the nature of individual–organizational linkages, but have said little, other than in passing, about what managers can do to promote positive relationships between employees and their organizations. In this section we look at the question of leadership in organizations, which, in the context of this chapter, can be thought of as a key factor in shaping employee perceptions of their psychological contracts and in helping generate organizational commitment, identification and psychological ownership.

In the previous chapter on the nature of management we undertook an exercise in which a distinction was made between management and leadership. This distinction, first promoted by Abraham Zeleznik from Harvard in 1977, has become well accepted in business circles. Indeed, it is probably true to say that, among many American and British business and management academics, leadership has become one of the 'hot topics' and is often used as the single most important explanation of the difference between success and failure in organizations. So great has been the volume of material produced on leadership in recent years that one well-known presenter was heard to reply, when asked whether leadership was an art, study, discipline or concept, that 'leadership is an industry' (Barker, 2001).

Leadership, however, is not an issue that is particularly new, with over 100 years or so of systematic research into what makes an effective leader. This long academic and practical interest in leadership is rather surprising, given that it is only relatively recently that the subject has had significant 'air time' on business school curricula and on the shelves of bookstores in most developed economies. The general interest in research about leaders is mirrored, as noted earlier in this chapter, by a dramatic rise in the average remuneration of CEOs in the USA by a factor of 10 during the period 1990–2000, when the pay of average workers hardly rose at all (Sparrow and Cooper, 2003). Such a recent explosion in relative pay for leaders, however, may be both a consequence and a cause of the rising 'star' of business leaders, with high rates of remuneration reflecting (a) the increased importance in certain societies of the value of its leaders and (b) to some extent at least, the need to justify the importance of leadership by having past and present leaders and fellow travellers write about them.

Despite the recent popularity of leadership in the USA and UK in particular, leadership does not convey the same meaning nor carry the same level of importance in all countries or cultures (Kets de Vries, 2001). Instead, leadership seems to play a different role and takes on different forms, even in some successful Western European countries that are quite close, in many respects, to the USA. For example, Finnish, Swedish and Dutch perspectives on leadership are rather different from current US perceptions in placing less emphasis on individual leadership, self-confidence-bordering-on-arrogance and the 'cult' of the hero-leader, and more emphasis on collective leadership and humility (Kets de Vries, 2001). Moreover, the ratio of average remuneration between most European and Chinese CEOs and their average employees is nowhere near as large as in the USA, nor has it increased as fast since the 1960s (Sparrow, 2000).

Despite the recent appeal of leadership to many in the West, and perhaps because of its lack of universality, we haven't been able to agree on just how important it is to business success. The 100 years of research have produced lots of controversy and mountains of manuals, but no widespread agreement on a model of successful leadership. With these two 'warnings' in mind, what can we usefully say about leadership in business, and are there certain core ideas, styles or even principles that seem to be generally appropriate to developing the relationships between individuals and their organizations? In these next few sections I shall provide a brief commentary on the research in this field, but focus on the notion of emotional intelligence and leadership that we raised in the previous chapter. This is because emotional intelligence presents an interesting way of thinking about leadership beyond the platitudes of many of the 'airport' books on the subject, and also because it can be learned, unlike some approaches to leadership that imply you have to be born to lead, or which are too complicated to implement.

A commentary on leadership

In a review of leadership studies, Bryman (1992) set out four main approaches, which are summarized in Table 3.10.

This is not the place to review all of these different approaches, which are examined in specialist texts on leadership that you may wish to read. It is sufficient to say that the first three have all been influential in the

Table 3.10
Approaches to leadership

Time period	Approach	Core ideas
Popular until the 1940s	Focus on traits	What the leaders 'is' in terms of core personality dimensions
Late 1940s–late 1960s	Focus on style (or behaviours)	What the leader 'does' in terms of behaviours and styles, e.g. autocratic style accompanied by directive behaviours
Late 1960s–early 1980s	Focus on contingencies	'It all depends'. How is the process of leadership affected by key contingencies of situations, such as crises, the nature of followers, life cycle of organization, etc.
Since 1980s	The new leadership	Visionary and transformational leadership which emphasizes key characteristics and functions

Source: based on Bryman, 1992.

past and still remain so to a greater or lesser extent. This is a point to which we shall return later in this commentary but, for the moment, it is worth examining the 'new leadership' theory (see Table 3.10), because it is this approach that has coincided with the rise in popularity of leadership studies referred to earlier.

Mainstream thinking in new leadership agrees on the overarching nature of the goals of leaders, which are to motivate followers to achieve organizational goals, usually by tapping into or shaping the motivations of individuals so that they coincide with what the organization desires (Barker, 2001). It is based on three, arguably questionable, premises:

- The study of leadership is and should be about leaders and their functions in organizations.
- Leadership is what results from leadership performance.
- Performance can be attributed to leadership characteristics rather than the organization's environment.

In other words, conventional leadership theory is rooted in a 'great men' theory of history based on an 'obsession with the persona of kings and conquerors' and with its roots in Greek mythology and the Bible (Barker, 2001, p. 476). Despite leadership theory's attempts to rid itself of a preoccupation with traits or the personal characteristics of leaders over the last 100 years or so, it has not been able to do so. Discussions about leadership continue to focus on the leader rather than on the nature of leadership, which are not the same phenomenon. What leaders do, such as direct, encourage, guide, support and so on, is not the same as what has become accepted as the key traits of effective leadership – drive, personal motivation, honesty and integrity, self-confidence, cognitive ability and knowledge of the business (Kirkpatrick and Locke, 1991). These traits of effective leaders are associated with the new leadership theory, which defines leaders as those people who can move followers to go beyond their own narrow interests for the good of the group or organization, and who can command respect and strong feelings of identification among followers. New leadership approaches are also characterized by the 'one-best-way', universalistic assumptions that we examined in Chapter 1 and found wanting. So perhaps we need to think more closely about those older theories on leadership that, like contingency approaches in the 1960s, paid more heed to how leadership may be influenced by situations.

One such approach to leadership is to see it as something related to the context from which it emerged. Rather than using the formula and direction of cause-and-effect implied in the 'great men' theory – that good leaders cause people to perform in ways that they might not have otherwise done – it may be equally true that people perform in less self-interested ways because they value important outcomes that the leader holds out a real promise of achieving for them. In other words, the question may be better put: What motivates people to work towards common objectives? Here the focus is less on the qualities of leaders and more on the *motivations of followers*. Such a perspective is, perhaps, best illustrated in democratic political situations – for example, in the election of George W. Bush in 2004 to the US presidency. Arguably, he seemed to *reflect* the religious and family-oriented values of many ordinary Americans rather than possessing any charismatic personal characteristics himself, or because of any actions he took in shaping the values of the US electorate. Context also refers to factors such as the nature of the external environment, the history of the organization, the strategy choices available to the organization, and the internal politics and relationships that help to shape and select leaders.

A feature of this approach is to see leadership as a process in which leadership might be better thought of as part of an unfolding dynamic collaboration between the motivations and values of individuals on the one hand and the demands of the organizational context on the other. Thus, leadership results from this collaboration and also helps produce it. In this way, leadership is different from management in that it is produced by and helps produce *change*, rather than stability, and is a property of *situations* rather than of the characteristics of individuals. Leaders, from this perspective, come to *symbolize change* rather than cause it to happen.

This contextual version of leadership is particularly useful when examining the relationship between strategic change and leaders' behaviours, as we shall do in more detail in Chapter 9. One excellent example, from which a number of important lessons can be drawn, is the work of Leavy and Wilson (1994), who researched into the strategy formation in a number of Irish organizations. Using historical and case-based research rather than surveys, they found that leadership was very sensitive to strategic contexts, describing the leaders in their study as 'tenants of time and context'. They found that leaders were able to influence organizational strategies and destinies, but only in certain contexts or 'strategic windows' of significant change. During these strategic windows, which could often be quite short in terms of time, leaders were able to transcend the constraints of context by adopting a range of different styles, 'building', 'revitalizing' or even bringing about complete 'turnarounds' in organizational strategy. During periods of slow change, which were the norm for most of the organizations they examined, leaders were much more constrained or dominated by their environmental context, and were concerned more with ensuring 'continuity and consolidation' among the organizations they inherited.

Emotional intelligence and leadership

One very influential approach to leadership that has its roots in the study of leaders and their capabilities, but is also sensitive to the contextual approaches discussed in the previous paragraphs, is the work by Daniel Goleman and his colleagues (Goleman, 1998; Goleman *et al.*, 2002). They have used Goleman's concept of emotional intelligence to research into effective leaders, and have produced a very useful way of thinking about leaders and leadership. Their basic starting point is that cognitive abilities, such as intellectual skills and technical know-how, are not enough for effective leadership. These may be important *threshold* or entry-level abilities, but do not create effective leadership. Nor, they argued, can we reduce leadership to a set of styles, such as democratic or autocratic, and employ the theoretically simple but practically complicated prescription that leaders have to vary their styles according to the particular context of the organization and the problems it is facing at a point in time. Instead, Goleman contends that his work, and that of his colleagues, has shown that emotional intelligence is the universal *sine qua non* (essential condition) of effective leadership (1998, p. 82), without which leaders are unable to perform. His original work identified five components of emotional intelligence at work – self-awareness, self-regulation, self-motivation, empathy and social skill – which have been modified in his latest work on leadership to produce four domains of leadership competencies (see Box 3.8).

Box 3.8: Emotional intelligence and leadership

Daniel Goleman and his colleagues, Richard Boyatzis and Annie McKee, have researched for more than 15 years into competency models that are linked to effective leadership and management in many organizations in different parts of the world and among many MBA students and managers. The competency models are usually validated against high performers, and Goleman found that four emotional intelligence (EI) domains accounted for most of the variation in leadership performance at the highest levels in organizations. The higher the level, the more EI seemed to matter; 90 per cent of the variation in performance between top and average leaders was accounted for by EI rather than by cognitive abilities. These four domains, two of which were personal competences, and two of which were social competences, are:

Personal competence (how we manage ourselves)

- Self-awareness, which refers to: *emotional self-awareness* (being in tune with your own feelings and recognizing how they may affect job performance); accurate *self-assessment* (knowing your own strengths and weaknesses); and *self-confidence* (being able to play to one's strengths and being self-assured without being overconfident).
- Self-management/regulation, which refers to: *self-control* (calm and clear-headed under stress); *transparency* (open to others about feelings and mistakes); *adaptability* (able to juggle multiple demands); *achievement* (high personal standards and seeking constant performance improvement); *initiative* (seize opportunities rather than wait); and *optimism* (see opportunities and others positively).

Social competence (how we manage relationships)

- Social awareness, which refers to: *empathy* (sensing others' emotions, understanding them and taking an active interest); *organizational awareness* (reading currents, understanding and using decision networks and organizational politics); and *service* (recognizing and meeting the needs of followers, customers and clients).
- Relationship management, which refers to: *inspiration* (create resonance and move people with compelling or shared mission); *influence* (persuasive and engaging); *developing others* (cultivate other people's abilities); *change catalyst* (challenge status quo and champion new order); *conflict management* (understand all parties and find common ground); and *teamwork and collaboration* (develop collegiality and respect others' collective efforts).

Source: adapted from Goleman *et al.*, 2002, Appendix B.

Three key points were stressed by Goleman *et al.* concerning the links between EI and leadership:

- EI competencies can be learned, as they are not innate talents. This is good news for organizations, because it means that existing leaders can be developed (see Table 3.12).
- No single person is likely to be strong across all domains or competencies. Effective leaders demonstrated significant strengths in one of the EI domains, the most effective leaders typically demonstrating strengths in about six of these specific competencies, which spanned one of more of the four EI domains.
- Given that no one was equally skilled in all domains of EI, there was no single formula for effective leadership, with different leaders having different permutations and combinations of the competencies associated with the four EI domains.

A concept at the heart of Goleman *et al.*'s work is the idea of *resonance*, which refers to the need for leaders to be in tune with people's feelings and be able to help them move in a positive emotional direction. Returning to our earlier discussion on the individual–organizational linkages, a leader's ability to resonate with his or her people relates directly to a capacity to influence employees' feelings of identification, psychological ownership and commitment to the organization, and to influence their perceptions of fairness in the psychological contract. However, resonance is not just about a leader's ability to attune him or herself and to communicate effectively, but arises from a set of linked activities, which may be called a *leadership style*. Six leadership styles were identified by Goleman *et al.* (see Table 3.11), with only four of these being typically resonant – the visionary, coaching, affiliative and democratic styles. The two others – pace-setting and commanding – were more likely to be a source of *dissonance* because they were rarely used effectively. This was not to say, they argue, that such styles shouldn't be used at all, but used only with caution. For example, pace-setting should be used only in highly *receptive contexts for change* and then only sparingly. Their research highlighted the fact that the constant pressures for demanding targets can create enormous emotional costs and can lead to negative results. Similarly, a commanding style may generate some short-term gains but at a high long-term price, because coercion and imposition by leaders are rarely likely to be effective in the long run.

According to Goleman *et al.*, learning these leadership competencies (see Table 3.12) requires that individuals have the *motivation* to change and also the *ability* to sustain these changes. Motivation is driven by the need to discover your ideal self and then to interrogate yourself

Table 3.11
Leadership styles and resonance

Style	How it builds resonance	Impact on organizational climate	When appropriate (receptive context)
Visionary	Moves people towards shared vision	Most strongly positive	When change requires a new vision, or when transformation change is required
Coaching	Connects what a person wants with the organization's aims	Highly positive	Helps employees improve by building long-term capabilities
Affiliative	Creates harmony by bonding people together	Positive	Heals conflict in teams, motivates during bad times, or strengthens connections between groups
Democratic	Values people's inputs and gains commitment through involvement	Positive	To build buy-in and consensus, or to get valuable input from knowledgeable empolyees
Pace-setting	Meets challenges and excites people	Because it is often poorly done, it is negative	To get 'stretching' and quality results from an already motivated and competent team
Commanding	Meets insecurity by providing clear direction and action in emergencies	Because so often misused, highly negative	Crisis situations, to transform situations rapidly, or to deal with major employee relations problems

Source: adapted from Goleman *et al*., 2002, p. 55.

Table 3.12
Learning leadership: a cycle of five self-discoveries

First discovery – My ideal self	Who is it that I want to be?
Second discovery – My real self	Who am I, and what are my strengths and weaknesses?
Third discovery – My learning agenda	How can I build on my strengths and reduce or eliminate my weaknesses?
Fourth discovery – The importance of action and experimenting	Experimenting with and practising new behaviours to the point where you have achieved mastery
Fifth discovery – The importance of relationships	Developing supportive and trusting relationships that allow change to occur

Source: based on Goleman *et al*., 2002, pp. 111–112.

honestly to *discover the 'elusive' real self*. This requires an ability to avoid self-delusion and blind spots. Sustaining the changes is best achieved by *crafting a learning agenda* that is your own, rather than one that is handed down, and one that builds on existing strengths and is personally credible. Sustaining change also requires a *reconfiguration of one's brain* through a process of reflective observation of effective leadership in practice, reflective of one's own bad leadership habits and then constantly practising a better way of performing. Learning by performance, however, can be costly and ephemeral, because performing key competencies tends to happen infrequently. Thus, they argue for *experimentation and constant practice* at every opportunity to 'rewire' the brain, often best conducted through a form of mental rehearsal, in which leaders imagine or envisage what success might look like. Finally, sustaining change requires that leaders *develop trusting relationships* with other leaders, with whom they can reflect, observe and practise, and engage in realistic self-appraisal. Often, this process was achieved with the help of experienced mentors early on in the leader's career and supported by executive coaches who understood the organization, the individual's strengths and weaknesses, and the basic concepts of EI.

A final note of caution on leadership

Leaders can be bad people as well as good people; leadership is not a moral concept and leaders often have a dark side to them. We only need to look at recent history for examples, including those from recent wars and from recent business collapses such as Enron. Moreover, we can learn from bad leaders just as much as we can learn from good leaders (Kellerman, 2004). One major failing, which has been written about extensively to counter much of the 'feel-good' evangelism of the new leadership, is *narcissism* among leaders (Kets de Vries, 2001). Narcissistic leaders can be defined as people who have an unhealthy desire for recognition and external affirmation. Though all leaders exhibit these characteristics to some degree (which help drive such people to achieve great things), narcissism, as Kets de Vries points out, can cause leaders and their followers to do strange things. Many leaders, especially males, become assertive, tenacious, overconfident and creative beyond the point of credibility, and followers often encourage them to become even more extreme by projecting their own desires onto an already narcissistic leader. As a consequence, such leaders can become detached from reality, unable to see their 'blind spots', and get caught up in a 'whirl of hyperactivity' that often leads to dangerously risky decisions (see the case of Kenneth Lay in Chapter 2). Such a process is associated with the notion of *groupthink*, in which strongly cohesive teams of managers, often dominated by a charismatic leader, become imprisoned by their success, culture and sense of importance. Kets de Vries points out that history shows that every leader needs a 'fool', who is able to hold up a mirror and reveal his or her blind spots and foolhardy actions. Such leaders also need to encourage their followers to 'speak up to power'. For it is only by recognizing the dangers of narcissism, and opening themselves up to new influences, that effective leaders and their followers can avoid such problems and remain open to creative development and change.

Exercise 3.5

1 Think about your own emotional intelligence, set out in Box 3.8. How would you rate your own emotional intelligence competencies?
2 Take the first step in learning leadership by addressing the first and second discovery cycles in Table 3.12. Who is it that you want to be, and who are you? You will need to refer to your self-assessment in question 1.
3 Thinking about the idea of narcissistic leaders and groupthink, how might these features of some organizations combine to cause organizations to fail?

Learning summary

In this chapter we began by examining the idea of psychological contracts as a way of understanding the relationships between organizations and individuals at work. The concept of psychological contracts has become a popular one with practitioners and academics alike, and should help you understand your own relationships with your employer or potential employer. You should have learned how to apply the idea of psychological contracts in analysing and designing work situations, including the importance of recognizing the different type of contract – transactional, relational and ideological – the potential outcomes of breaching and violating contracts, and the questions used to measure psychological contracts.

We then examined the problems of managing psychological contracts at work, which include managing talent, managing careers, managing different kinds of individual–organizational linkages and managing work–life balance.

Talent management has become one of the major issues for many employers in developed countries; it is generally defined as the ability to attract, inspire and retain high-performing employees, and develop others so that they can perform more effectively. We examined the elements of a talent management strategy, which focuses on identifying A, B and C performers and using different approaches to recruiting, developing and retaining these groups. However, talent management has a dark side, especially if it focuses on external recruitment to the detriment of growing people inside the organization, and you should be aware of the shortcomings of many talent management programmes.

Managing careers has been characterized by general trends towards fragmentation and individualization. The notions of employability and boundaryless careers have been used to illustrate these changes in psychological career contracts between employers and employees. There is little doubt that the evidence supports these changed expectations among employees who are seeking different things from careers at different stages of their working lives, and possibly greater variety, flexibility and autonomy at work. Employers need to be aware of these changes, and design contracts to reflect the different groups within their workforces.

Psychological contracts can also be applied to the measurement of different kinds of individual–organizational relationship, including commitment, identification and psychological ownership. The importance of these three concepts to managing relationships between people and their organizations cannot be overestimated; too many organizations engage in surveys of employees in which they are unclear as to what they are measuring and attempting to manage. Often, they measure and manage one aspect of individual–organization relationships while hoping for positive outcomes from some other, quite different, feature. Commitment is essentially focused on whether people will remain with the organization; identification focuses on a person's sense of who they are and the extent they can use the organization's values to define their identity; psychological ownership indicates the extent to which an individual sees that organization as part of him or herself. These different constructs are associated with different outcomes, with identification arguably the most important when examining the extent to which individuals will provide behavioural support for the organization's values and branding strategies.

An area we also examined was the problems of over-identification and workaholism. Workaholism has been seen as a major problem by many employers and governments, which are attempting to reduce the negative consequences of people being too attached to their work. Workaholism has been attributed to three causes: family background and how young people learn addictive behaviour; personal beliefs and fears; and organizational values that encourage high levels of attachment. Many organizations have put programmes into place to deal with various dysfunctional consequences of workaholism, including flexible working, home-working and culture changes focusing on working 'smarter' rather than 'harder'.

Finally, we examined the role of leaders in organizations, an enormous topic in its own right. We pointed out that leadership carries different meanings in different countries, and that there is no single theory or approach to leadership that will apply in all circumstances. The most recent 'new leadership' theories stress the importance of leaders being different from managers in promoting visions and inspiring others to achieve visions. However, there is a dark side to this approach to leadership, which is often quasi-religious in nature, male oriented, and has little to say about the different characteristics of followers.

One fruitful approach to leadership is to use the concepts of different emotional intelligences, made up of personal competences (how we manage ourselves) and social competences (how we manage relationships). Central to this theory of leadership is the idea of resonance: leaders need to be in tune with the changing and different needs of followers, and no leader will be strong in all dimensions of emotional intelligence. Leadership is likely to involve a focus on teams, and the capacity to lead will be learned (not inherited) during a cycle of self-discovery that involves self-analysis, learning and experimentation.

Review questions

Multiple-choice questions

3.1 A psychological contract differs from a legal contract in which of the following ways?

A It is based on perception and individual expectations.
B It is based on spoken communication.
C It is based on individual circumstances.
D It is based on written communication.

3.2 A trade union has adopted a 'passive positive' stance to new changes that have been enforced after many months of tense negotiation. Which one of the following is most likely to occur?

A The employees and union representatives call a meeting to discuss the new changes.
B The employees accept the negotiated deal.

C The employees and union representatives go out on a strike.

D Some employees take voluntary redundancy.

3.3 A CEO makes a number of promises on providing bonus payments to his workforce as part of his personal vision to have everyone benefit from the success of the business. Unfortunately, the promises failed to materialize because of poorer-than-expected results. As a result, workforce morale plummets dramatically and many people begin to look for other jobs.

Which of the following reasons is most likely to be the main cause of these negative outcomes, resulting in employees treating the psychological contract as having been breached?

A The CEO lied.

B The CEO should have consulted his colleagues before announcing this direction.

C The rewards did not materialize.

D The CEO had made a personal commitment regarding the bonuses.

3.4 Which one of the following best explains why the *employability thesis* has not become a widespread phenomenon in all industries?

A There is little evidence to support the claim that many people are taking greater responsibility for managing their own careers.

B Employability is restricted mainly to knowledge workers.

C The evidence suggests that organizations are still characterized by traditional relational psychological contracts and long-term careers with a single company.

D Most employers don't want to project an image of instability among the workforce.

3.5 Which one of the following has been the most damaging consequence of 'the individualization of the employment relationship'?

A The short supply of talent.

B The lack of flexibility among employees.

C The greater responsibility given to HR to manage individual careers.

D Employers decreasing responsibility for job security.

3.6 A new CEO wants to introduce a talent management strategy and has asked her HR managers to initiate the process. Which one of the following should the HR manager set as her first priority?

A Look for new pools of talent from non-traditional sources.

B Evaluate existing staff to identify their performance levels.

C Create comprehensive action plans for the development and retention of high performers.

D Use consultants to identify lists of high-potential people.

3.7 When creating a survey to find employee expectations, why is it important for an HR manager to distinguish between commitment, identification and citizenship?

A To be precise about what you are trying to measure and achieve.

B To show line managers that they are actively seeking to achieve 'bottom-line' results.

C To show they know what they are talking about.

D To relay to the employees that HR managers are truly concerned about finding out their real beliefs and attitudes to work.

3.8 Which one of the following describes the most likely outcome from increased feelings of psychological ownership?

A Employees are more likely to feel self-worth.

B Heightened perceptions that employees have rights and feelings of a sense of duty.

C Increased employee support for the organization's values.

D Employees are more likely to remain in the organization.

3.9 When thinking about leadership, why might it be less important to focus on the characteristics of leaders than on the motivations of followers?

A The characteristics of leaders are not as important as the style of leadership.

B Leaders cannot lead people in a direction that they don't want to travel, but have to establish a common purpose.

C Researchers cannot agree on the key characteristics of leaders, but understand employee motivation.

D In order to understand what motivates people in different cultures.

True/false questions

3.10 An organization that seeks an ideological 'contract' relationship with its employees usually focuses on the aims of what it is trying to achieve rather than the rewards or development opportunities for employees. T or F?

3.11 Talented people are those who are the most intelligent and knowledgeable. T or F?

3.12 Recruiting 'stars' from outside nearly always leads to increased levels of wisdom in an organization. T or F?

3.13 Those who sought challenge in their careers would be more likely to remain with a single organization. T or F?

3.14 Idiosyncratic deals are more likely to take place when employers are in powerful positions in the labour market. T or F?

3.15 Workaholism is not necessarily a negative characteristic of managers. T or F?

3.16 Leadership means the same thing in different national cultures. T or F?

3.17 Leaders who set teams stretching and exciting goals achieve the best results. T or F?

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CHAPTER 4

Managing in the organizational context

Learning objectives

At the end of this chapter you should be able to:

- understand the problems created by organizational structure, systems and processes in achieving strategic aims;
- identify different types of organizations and know when they are appropriate to changing strategic environments;
- apply three well-known frameworks to the analysis of organizational problems;
- suggest creative solutions to these problems, based on rigorous research;
- understand why organizations change from simple to more complex structures, and the problems accompanying these changes;
- understand the strengths and weaknesses of new organizational forms, including virtual and networked structures;
- apply a rigorously researched test of effective organizational design to your own organization or one with which you are familiar.

Introduction

According to John Roberts, a writer whose work won *The Economist* Book of the Year prize in 2004, 'the most fundamental responsibility of general managers is setting strategy and designing the organization to implement it' (Roberts, 2004, p. ix). Designing organizations and managing in the organizational context refers to the tasks of understanding, analysing and designing structures, systems and processes to coordinate and motivate large numbers of people undertaking interconnected activities, often in different locations. At this level, managers have to take more macro-level decisions than those affecting only individuals and teams. These decisions can have significant consequences for the strategic aims of the organization, because it is through organizational structure that strategy becomes realized. Consequently, it is extremely important that you understand some of the basic design principles of organization and the potential advantages and drawbacks of adopting different organizational forms, including some of the newly emerging ones that have captured the imagination of the business press. So, in this chapter we shall attempt to address the practical problems of organizational design, first by examining a case study and, second, by introducing you to some concepts and models that will help you understand the problems faced by senior managers in designing organizations and the solutions available to them.

You should read the case study of Innovative Electronics, a pseudonym for a company that we shall use throughout this chapter to help you understand and apply key concepts. Your ability to analyse the problems faced by the company and your choice of design solutions should improve as you work your way through the chapter. We shall also look at a case of a newer form of organization that is becoming more popular in certain contexts and industries, especially those connected with knowledge-intensive organizations, which are discussed in Chapters 7 and 8 of the book.

Case 4.1: Innovative Electronics – an integrative case study

Background: strategy and organizational structure

Innovative Electronics is the pseudonym of a major subsidiary of a US multinational operating in Europe. It produces sophisticated electronic control equipment, which is used by other major firms in testing and measuring mobile phones, chemicals and laboratory instruments. Its parent company is a well-known Fortune 500 company, with interests in many countries, and which is highly regarded in published lists of the 'best places to work' in many of these countries. It has diversified into a number of related fields in recent years.

Innovative is an important part of the parent company's core business, but over the last five years its performance has been patchy, owing largely to the downturn in the market for certain of its core products. The company built its reputation on technological breakthroughs in the test and measurement field, based on extensive research and development. Each decade since the 1950s had seen success, with employees benefiting well from financial success. The company adopted an 'employer of choice' policy (see Chapter 3), in which highly talented people were recruited at all levels in the company and were paid well. These employees were treated well by Innovative, enjoying major benefits and privileges, internal career advancement, and time off to undertake education and training. It became known as one of the best places to work in the region, with a strong internally focused promotion and benefits system, which was associated with high levels of employee commitment and identification with the organization.

With the downturn in the market since early 2000, Innovative was forced to rationalize its activities and introduce a small number of compulsory lay-offs for the first time in its 55-year history. Headcount management from the US parent company, which was also experiencing problems, made the situation worse a year or so later, when more lay-offs were implemented. However, the senior management at Innovative was confident matters would improve once the business cycle began to move into an investment phase for their principal customers, and employees were encouraged to 'weather the storm'. The company still continued to pursue its 'employer of choice' policy, keeping benefits and career development at relatively high levels in anticipation of better times.

As the decade wore on, however, things didn't really improve. The technical developments by Innovative didn't really seem to be attractive to existing and new customers, and the company became ever more open to threats from new competitors. The mixture of less innovative developments and new competition resulted in losses being posted for the years 2000–2005 of more than €15 million per year, against a gross yearly revenue of between €450 million and €500 million. The real state of affairs, however, is unknown because of internal transfers between companies in the group of which Innovative was a part. Innovative was forced to use many of the services of sister companies, and paid a premium price for some of these services, including some of the research and development on which technical breakthroughs were achieved. Innovative's management believed that real losses were probably much less than the €15 million per year, with the figure being €2 million according to the senior managers.

The US parent company urged Innovative to maintain greater control of variable costs, mainly labour costs, and set it targets for increased sales revenues. However, the US parent also insisted it use the centralized research and development services and keep local research to a minimum. This was troublesome for a number of reasons to Innovative's managers, most importantly because US products were not always suited to the mainly European markets served by Innovative, particularly regarding calibration into metric measures and different standards used in mobile telephony. Consequently, they had always followed a local policy of encouraging new business ventures that showed promise to work around the parent company strictures. However, cash constraints now prevented them from following this local product development strategy, and Innovative found itself having to make do with the core products that seemed to be unsuited to the local markets or required modification.

Innovative Electronics' management team were mainly highly technically competent scientists and engineers. They regarded themselves as working for a leading-edge engineering company, with first-class products, and despite current problems always saw light at the end of the tunnel.

The drive to teamworking

Innovative was organized as a traditional bureaucracy, set within a global matrix structure. This meant that subsidiary companies such as Innovative were given responsibility for a specific geographical area, but were expected to replicate the functional structure of the US parent company. Thus, people at the top levels of the organization and the functional heads dominated, and power had been concentrated in the hands of a powerful CEO at Innovative, who integrated the fragmented functions.

His power and control were exceptionally great, and he exercised his leadership through a careful reporting system of performance, costs and other policies. He was also the single most important interface between the company and the US parent company, and was also HQ's ambassador to Innovative. He had been in post for 15 years, and more or less followed the US parent company's policies to the letter without making local amendments. Though delivering excellent returns for the first 10 years of his reign, like Innovative Electronics his performance had suffered recently. His successor was John Fox, a 52-year-old British engineer, who had substantial experience in the US parent company in marketing. He had seen the problems of the ageing product range at Innovative and was committed to a turnaround, but didn't really want to do anything that rocked the boat. He was also of the opinion that the company had to be research and technology driven, like his senior management in the parent organization. Fox suffered the problems faced by all senior managers in subsidiary companies caused by the tensions between demands for corporate control and local autonomy. However, in the final analysis his decisions reflected the need to satisfy his career and senior management team in the USA.

Soon after his arrival, Fox had begun to make changes to the bureaucratic structure of Innovative by trying to foster closer collaboration between marketing, research and development, and the traditionally powerful production, sales and engineering functions. He set up management teams incorporating these functional heads and new appointees to HR and Finance and gave them the mandate to work towards a more collaborative organization by 2006. Only the HR manager was female. This development was enabled by management 'away-days', based on a new vision and values framework, plans and objective-setting. The head of HR experienced some problems with the male-dominated, 'football club' atmosphere, but gradually became used to the culture and worked her way into a powerful position, along with the new, 45-year-old Head of Finance and Accounting.

There were still lots of problems, however, partly associated with Fox's inability to 'walk the talk' (as the Americans say) through his actions. Although espousing teamwork values, he wasn't seen to be a good team player himself. When times were difficult, which was more and more frequent, he resorted to authoritarian behaviours and a 'bottom-line' performance mentality – 'it's the shareholders and parent company that pay your salary'. In addition, given the resource constraints of the US parent, there were problems associated with allocation of resources among departments. Competition among departments led some members of the management team to pursue their own departmental interests and those of staff in their departments at the expense of overall company cohesion and team spirit. Thus, certain departments began to be run as personal 'fiefdoms', rather than contributing to the overall mission and goals of Innovative.

After some time functioning like this, the management team made a decision to embark on a continuous improvement (CI) programme, which they labelled 'Project 2006', signifying the desire to have this change programme last beyond the normal one to two years of many other initiatives introduced by the company. Continuous improvement through Project 2006 gave rise to a number of project teams that looked at issues such as quality improvement, six sigma, production improvement schemes, suggestion schemes, organizational development and HR initiatives. The middle-level managers who staffed these teams were all sent on courses to develop their understanding of teamworking and to help them develop new teamworking skills. Being selected for one of these project teams was seen as having 'arrived', because the management team selected only the fast-track, high-quality managers who were seen to be going places. Almost without exception, these people were highly committed to the company, technically very well qualified, and ready to go 'beyond contract' for the sake of the company and their careers.

The first year of this CI programme produced some excellent outcomes, with project team members being seen as highly engaged and highly productive in their tasks. However, not many of the team recommendations were taken up, except in a watered-down fashion. The management team was always full of praise, but often found reasons not to implement recommendations, usually because of budgetary reasons, the time not being right, or that they didn't quite fit the strategic plans. This lack of implementation began to generate a great deal of cynicism and mistrust, not only among the middle managers on the project groups but also among the members of the management team, who felt that the project teams weren't pursuing the interests of the company, nor were they coming up with the kinds of improvement that the management team would have suggested. Instead, they felt that nearly all improvements were 'bids for resources', rather than genuine, cost-effective improvements.

Project team members began to complain to each other that they didn't have the necessary information or policy guidelines to do their jobs effectively. The management team was rarely seen to issue 'straitjackets' (dictums that had to be followed), but let it be known through innuendo and hints what was and wasn't acceptable. Consequently, project teams often had to go through a number of iterations of improvement plans to learn what might really be acceptable. Most of the time, what they found was rarely radical but only marginal improvements on the status quo. Complaints made along these lines to the management team caused the senior members of management to take a much more controlling approach to the workings of the project teams, often by dropping in on team meetings and overriding their discussions.

Gradually, the project teams began to become more sceptical of the management team's objectives, which they determined weren't really about improvements but about socializing them into the ways of Innovative Electronics – what was acceptable and what wasn't. Naturally enough, those groups of middle managers who wished to get on began to play the game, which was concerned more with style than with substance, and 'second-guessing' what might be acceptable to their sponsoring managers in the management team. Over the period of the next year or so, however, the project team members put in less effort and less commitment to the CI programme. As this project work wasn't rewarded in any specific way, and was over and above their departmental responsibilities, most project team members put their efforts into attaining good appraisals for their regular jobs.

After a further year of operation and wavering commitments by the management team and the project team members, it became clear that the CI programme wasn't going to deliver much in the way of transformational change, and even when the management team espoused the rhetoric of creativity and innovation, teams rarely believed that was what was required. Often, they ended up repackaging and producing 'old wine in new bottles', because, although innovation was called for, it was rarely implemented and never really rewarded tangibly or intangibly. This rather depressing vicious circle of cynicism was made worse by the management team's informal feedback sessions to the CI project teams, which, though designed as 'full and frank' discussions, often turned out to be blame sessions and calls for the teams to develop more teamworking skills and controls – this despite the company having a 'no blame' culture as one of its aspirational values.

Following a further year of operation, the CI programme was still officially in existence but was essentially moribund. Few ideas that had been produced had been implemented, and although there were a few examples of success in quality controls, the senior management team had spent a lot of money on training and culture change for very little reward. If anything, they had produced a cynical and somewhat demoralized middle management group who played the game but weren't really committed. The management team settled down into a comfortable way of working with each other, in which formal relations were good but there was little in the way of team camaraderie. Fox's beneath-the-surface authoritarian streak and the latent rivalries within the management team continued to plague developments in Innovative, and gradually their expectations of Project 2006 became much more modest.

At the time of writing, the company has shown little in the way of significant improvements, and most work is carried on through the formal, hierarchical structure of reporting relationships. The company management team continues to talk about innovation, entrepreneurship and 'breakthroughs' from HQ, which will guarantee its future, but know that the rhetoric bears little relationship to the reality of how they are doing.

Based on your current understanding of organizational design principles, and before you read the following text, make a brief attempt at answering the following questions:

1 How would you describe the organization of Innovative Electronics?
2 What are the causes of the problems?
3 What changes would you make to the organizational structure to improve things?

Organizational structures

To help you provide an in-depth and more informed analysis of the problems faced by organizations such as Innovative Electronics, we should begin by looking at some basic ideas from the organizational design literature. A constant theme of the book is that there is no one best way of managing and organizing; ultimately, firm performance and problems that arise in organizations such as Innovative depend on the degree of *fit* between the organizational design solutions, the strategies being pursued and the context or environment in which they arise. This is a contingency theory of organizations that implies that there are no right answers, only those that fit the context. So to help us understand the case more fully, we should begin by defining different types of organizational structure, the problems to which they give rise and the contexts that seem to influence their effectiveness.

Determinants of organizational structures

One very useful starting point is to consider the approach of Jay Galbraith (2002) to the design of organizations. He has outlined the following six influences or 'shapers' of organizational forms relevant to the contemporary business environment:

- *Buyer power.* The new rules of competition, aided by access to information and communications technologies (ICT) and global sourcing, have shifted power to consumers and buyers, who are learning how to use that power effectively. As a consequence, we are seeing a shift in organizations to reflect the desires of key customers and market segments.

- *Variety and solutions*. In response to customer demand and the segmentation of markets, organizations have developed an increased numbers of products and services, and have shown a willingness to customize their offerings. To do this, however, managers must be able to deal with ever more information, make more decisions and set priorities – this means that more people have to be involved in the decision-making process. Increasingly, business customers are seeking integrated solutions to their problems, not merely bundles of products and services. To provide such solutions organizations have to develop cross-product and cross-functional teams.
- *Information and communications technologies*. As we shall see in Chapter 8, the Internet has been an incredibly powerful influence on organizations, especially in creating web-based portals and new business models such as those used by Amazon, Dell and eBay. The new economics of information have altered the old-style trade-off between 'reach and richness' of information, allowing firms to do more of both simultaneously, which has had the result of deconstructing traditional industries (Evans and Wurster, 2000). Also, increasingly customers and staff require a single point of contact for their problems, so the functions of the organization, such as sales, delivery, call centre operations and HR, have to be coordinated.
- *Complexity*. Like many other writers in this field, Galbraith has identified environmental complexity, or what he labels 'multiple dimensions', as a key factor in shaping organizations. Originally, companies were structured along functional lines, but as the environment became more complex, so organizations began to develop divisional (multi-product or multi-region) structures to reflect customer segments. Throughout the last century and the early part of the present one, the environments of organizations have become more complex in terms of the products, markets and geographical regions they are serving; organizational structures have had to reflect this complexity.
- *Change*. One of the nostrums in business of the last few decades has been 'the only constant is change', also a recurring theme of this book. Both the pace and direction of change have had a marked influence on organizations, particularly on

information flows and on decision-making structures. Changing environments have been at the heart of developments towards decentralized structures and cross-functional/departmental teamworking designs.

- *Speed*. The pace of change in customer demands and tastes has caused organizations to design along more flexible lines to meet these challenges. Demands for reduced operations and production cycle times and shorter lead times to market – for example, in the motor vehicle industry – have led to organizations changing their structures to cope with less inventory and increased response times. Thus, speed is associated with developments in outsourcing and decentralized structures, as well as increased take-up of ICT.

Galbraith has argued that organizational designs able to meet the demands of these organizational 'shapers' are a source of real competitive advantage that cannot be easily copied, because they are a delicate and complex mix of different design features. He sees the choice of organization as a design issue in much the same way that buildings and machinery are designed to meet competing and often contradictory claims, in which trade-offs have to be made. For example, balances have to be struck between time to market, with the focus on reduced design and production cycle time, and production organizations that achieve cost advantages through scale economies. Consequently, effective organizational design is a constantly evolving balancing act between these environmental pressures and the policies that senior managers can use to influence appropriate design solutions. These policies are summarized in his 'star model', set out in Figure 4.1.

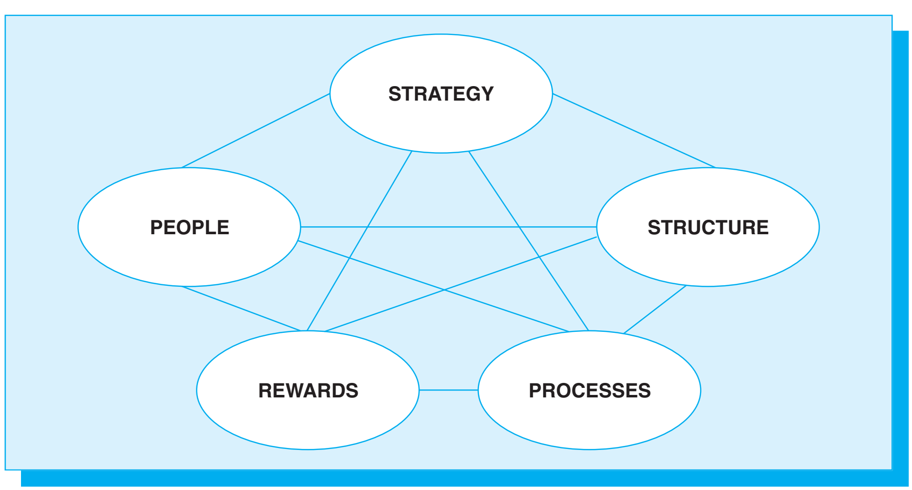

Figure 4.1
The star model.
(*Source*: adapted from Galbraith, 2002, p. 10.)

Corporate *strategy* refers to the mission, goals and objectives of the organization, and sets out its basic direction. Business-level strategies refer to the products, services and markets the organization seeks to serve. Different organizational designs are appropriate to different strategies. For example, companies that pursue cost efficiencies are likely to have more centralized decision-making, whereas innovative strategies are likely to be better served by decentralized decision-making. *Structure* is concerned with the distribution of power and authority in organizations. The following are its main dimensions:

- *Specialization* – the number of jobs and job specialists found in an organization.
- *Span of control* – the number of people reporting to any specialist manager.
- *Distribution of power* – this can be both *vertical*, referring to the levels of hierarchy in an organization, and *horizontal*, which refers to how close a particular department or manager is to the core, mission-critical decisions.
- *Departmentalization* – the basis on which departments are developed, which can be functional, product based, workflow based, market or geographically based.

Processes refer to the information and decision-making processes that are the lifeblood of any organization. Again, these can be vertical, reflecting hierarchical power, or lateral, with teamworking being a good example. *People* policies are one of the main subjects of this book, one that we have and will elaborate on in great detail in later chapters. It is perhaps sufficient to point out at this stage that different structures require people with often contradictory abilities to make them work, with team-based organizations being a good example. Such organizations rest on the ability of people to *cooperate* rather than compete with one another, but at the same time people in teams have to show individual *initiative* (Roberts, 2004). Selection and development policies for team selection have to reflect these potentially opposing characteristics. Finally, the purpose of a *rewards* system is to align the needs and motives of employees with the goals and structure of the organization. To reuse the teamworking example, reward systems, which can be both monetary and non-monetary, have to be designed to facilitate interpersonal cooperation as well as be motivating to individuals.

Apart from warning us that the process of organizational design is a constant balancing act between the nature of the environment and the five policy areas of the framework in Figure 4.1, one of the main implications of the star model is that too much time is spent on designing structures on paper and not enough time is given to thinking about how they might align with processes, people and rewards. Galbraith has suggested that, given the pace of change facing most organizations, it is process, people and rewards that will become more important in organizational design, rather than the formal reporting structures, as they have the most direct impact on organizational performance and culture. However, he does recognize that the five points of the star have to be dynamically aligned (see Figure 4.2).

Exercise 4.1

1 What are the key shapers of the organizational structure of Innovative Electronics?
2 How does Galbraith's star model in Figure 4.1 help us understand the problems of Innovative Electronics?

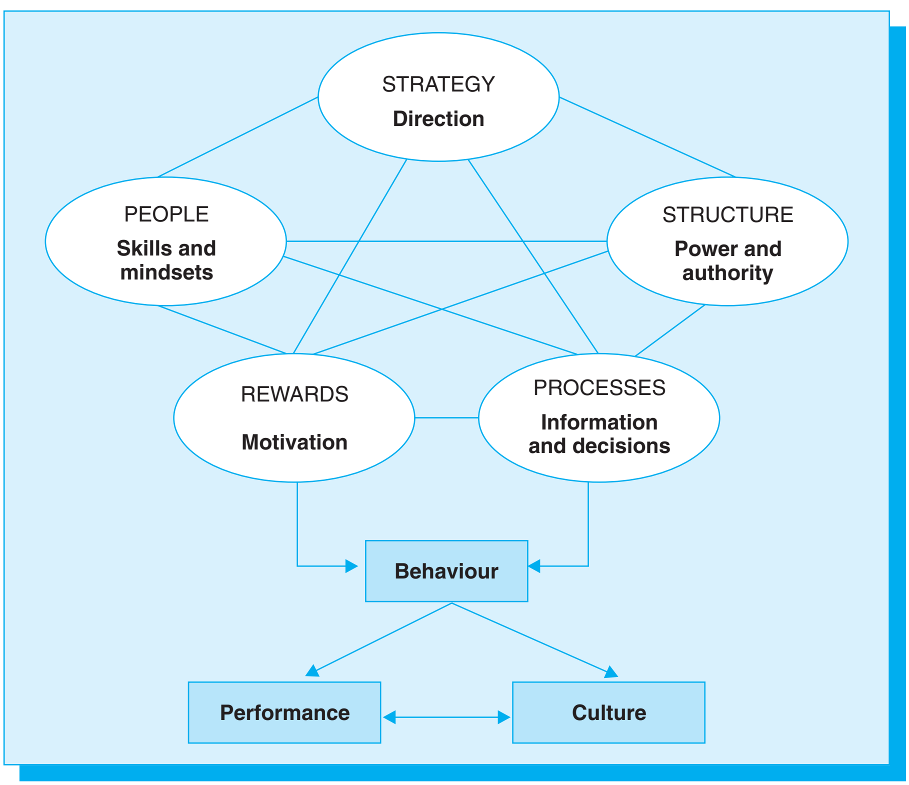

Figure 4.2 How organizational design shapes performance and culture. (*Source*: adapted from Galbraith, 2002, p. 15.)

Mintzberg's different types of organizational structure

There have been a number of very useful attempts to classify structures according to how they relate to the nature of the environment in which they operate. Two such attempts have attained 'classic' status precisely because they are so useful in helping us understand the kinds of problems set out in our introductory case. The first is by Henry Mintzberg (1993), whose work on different forms of organization is one of the most often cited. The second is by Raymond Miles and Charles Snow (1978) who, once again, have much to say about the problems faced by modern organizations (see Ghoshal, 2003).

Like Galbraith, Henry Mintzberg sees an organization's structure as shaped largely by the degree of environmental variety it faces. For Mintzberg, environmental variety is determined by *environmental complexity* and the *pace of change*. He identified five organizational forms, four of which are associated with different degrees of complexity and change (see Figure 4.3).

Environmental determinants of organizational structure

Environmental variety = Complexity x Pace of change

	Simple	**Complex**
Stable	**Machine bureaucracy** Standardized work processes and outputs	**Professional organization** Standardized skills and norms
Dynamic	**Entrepreneurial start-up** Direct supervision	**Adhocracy** Mutual adjustment

Figure 4.3 Four organizational forms related to environmental variety.

To explain the shape of these four organizational forms, Mintzberg set out five basic organizational component subunits: the strategic apex, the technostructure (the technically qualified planners and analysts), the support staff (as distinct from line managers), the middle line (the line managers) and the operating core (the 'doers') (see Table 4.1).

The relative importance of these five component subunits in any organization helps define its overall shape (see Figure 4.4).

The real insight of Mintzberg's work was in linking the importance of different mechanisms of coordination to the four organizational forms depicted by his typology in Figure 4.3 and Table 4.2. His argument was that these four forms were dependent on fundamentally different mechanisms for coordination, which could vary from direct supervision through to the standardization of operating norms or

Table 4.1
Basic component units of an organization

Component subunit	Possible positions from a firm such as Innovative Electronics
Strategic apex	Board of Directors, Chief Executive Officer
The technostructure	Planning, HR, Research and Development, engineering managers
Support staff	Legal Department, Public Relations, Marketing
Middle line	Vice Presidents of Production, Marketing and Sales
Operating core	Purchasing administrators, machine operators, assemblers, sales staff, dispatch staff

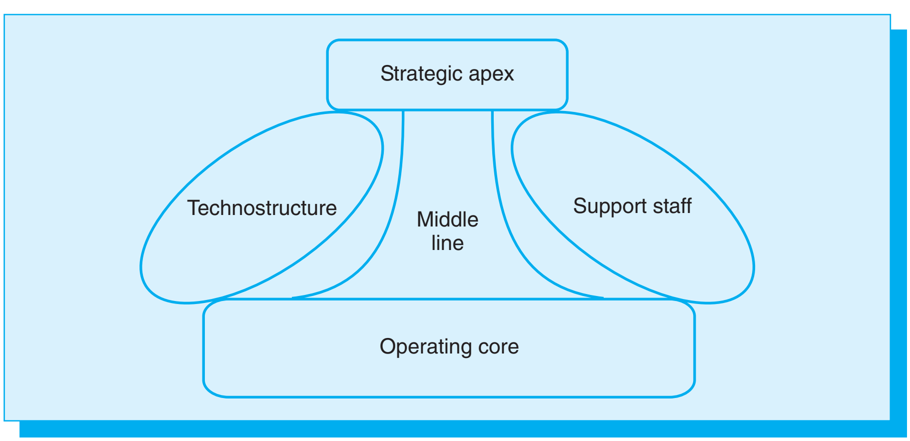

Figure 4.4
The shape of a typical organization.

Table 4.2
Linking organizational form to coordinating mechanisms

Organizational form	Coordination mechanism
Machine bureaucracy	Standardized administrative procedures, work processes and outputs, e.g. through quality assurance manuals, procedures manuals and strict templates for production or services (the nature of a telephone call in a call centre or the final product from an assembly line)
Professional bureaucracy	Standardized professional skills through education and training and operating norms through culture management techniques (e.g. a hospital or university that relies on the professional training and norms of medical or teaching staff)
Entrepreneurial organization	Direct and personal leadership, supervision and control from the CEO (e.g. a newly formed business or a new department in an established organization)
Adhocracy	Mutual adjustment of ad hoc work teams (e.g. teams brought together to work on a one-off project, which have to develop their own ways of adjusting to each other, as in a crew brought together to make a film, create a major conference or sporting event, or a unique construction project)

culture (see Figures 4.5 and 4.6). Furthermore, in each particular form, different subunits tend to have greater influence.

The basic shapes of the four organizational forms, reflecting the relative importance of the component subunits and dominant mechanisms of coordination, are shown in Figure 4.6. Note how Mintzberg implies the importance of the operating core (e.g. the people who actually produce the services) in professional bureaucracies (e.g. hospitals and universities), and how unimportant they were in some versions of an adhocracy where many of the operations could be routinized or mechanized. Also note how the strategic apex of an organization is less important in coordinating professional organizations and adhocracracies, both of which form the basis of many knowledge-intensive organizations that are discussed later in this book.

Exercise 4.2

How would you describe the organization of Innovative using Mintzberg's design framework? What are the principal methods of coordination used and are they appropriate to the teamworking structure?

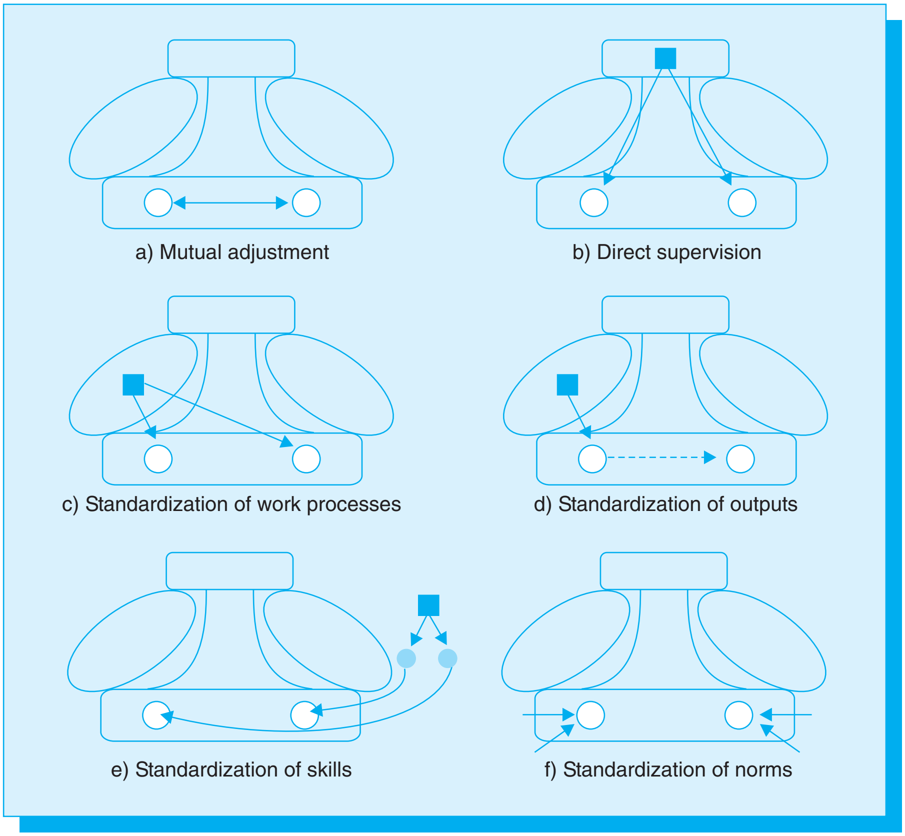

Figure 4.5 The basic mechanisms of coordination.

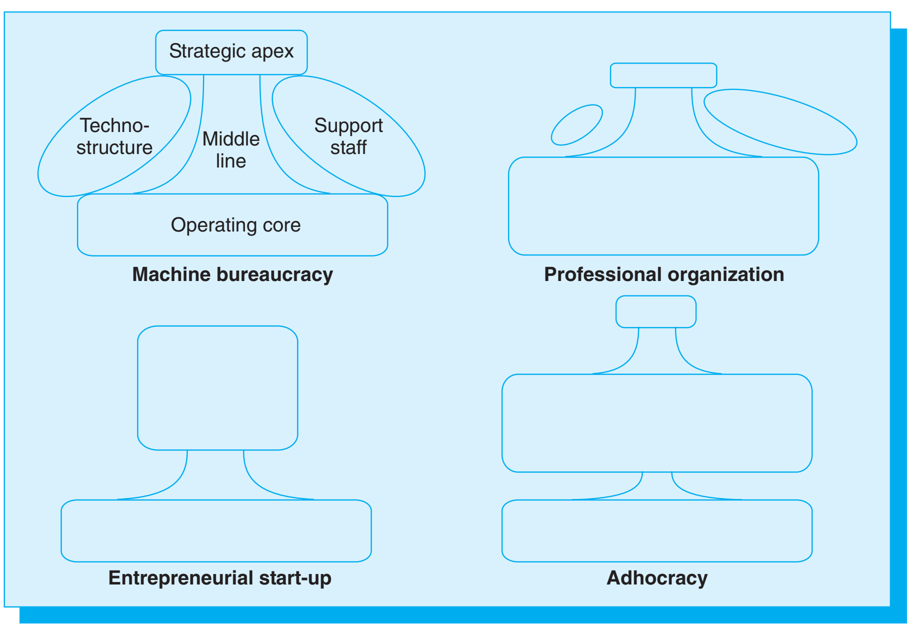

Figure 4.6 The basic forms of organizations.

Box 4.1: Illustrating Mintzberg's organizational configurations – the organizational structure of the university

A university such as my own is a good example of a professional organization or professional bureaucracy, but support units may be composed of other forms. For example, support units such as printing, which perform routine functions, may have a machine bureaucratic management structure, but technocratic subunits, such as HR or estates management, may be administered as professional organizations or adhocracies.

As the university struggles to cope with the introduction of new information technologies in the areas of HR, student admissions and online learning, its overall organizational form may tend towards adhocracy in the form of new project teams. But the stress of working in an adhocracy puts pressure on the organization to organize subunits according to one of the other forms. In other words, specialist departments are set up to take on board these new functions.

Finally, the professional orientation of academics toward autonomy and in providing their own brand of 'unique' services in the form of teaching and learning, and the bureaucratic needs and orientation of the technostructure and support services towards creating disciplined compliance with quality and operating procedures, are opposite approaches to work, and can create conflict in professional organizations.

Miles and Snow's strategy, structure and process model

Alongside Mintzberg, Miles and Snow's 'strategy, structure and process' model of organizations is the best known and one of the most useful to managers who wish to improve their organization's competitive position through new organizational structures and processes. First developed in 1978, this model has stood the test of time and has recently been revised to show its application to contemporary circumstances (Ketchen, 2003).

Their contribution began by setting out the idea of an adaptive cycle, which referred to how organizations adjust to changes in their environment (note, once again, the importance of matching organizations to their environments). The key proposition was that successful organizations needed to develop consistency among their strategy, their business model, which included the dominant form of technology, and their organizational capabilities, including human resource management practices. They viewed the adaptive process as addressing three problems – the entrepreneurial, engineering and administrative problems – that an organization had to solve in a coherent way (see Table 4.3):

Table 4.3
The four organizational types

	Defender	**Prospector**	**Analyser**	**Reactor**
Entrepreneurial problem	Narrow market focus Limited external analysis Penetration of existing markets Limited development of existing products	Broad market focus Broad range of external analysis Growth through development of new markets and new products Search for new technologies	Multiple markets, both stable and dynamic Steady growth through penetration of existing markets, with some product development Fast-follower strategy, rather than innovator	Poorly articulated or ambiguous strategy with no clear direction Often following strategic paths that are out of date
Engineering problem	Single core technology Relatively low on knowledge creation and work	Multiple technologies Low degree of routine operations High on knowledge creation and work	Dual technologies, stable core and innovative periphery Moderate degree of knowledge creation and work	No clear business model
Administrative problem	Functional organization Production and finance are predominant functions Relational psychological contracts and traditional careers Centralized control Coordination through standards and schedules Intensive planning	Product/geographical divisional structure Marketing and R&D heavily influential Transitory management structures and job tenure Many task forces and project teams Non-traditional careers and range of psychological contracts Decentralized control Extensive rather than intensive planning	Matrix structure Marketing and applied research are main influences Moderately centralized control Complex coordination and planning	Organizational features not consistent with strategy Organizational features not consistent with each other Persistent strategy–structure imbalance of degree of fit
Risks and benefits	Good for defending existing markets and in conditions of little change Unable to exploit new markets	Effective in dynamic environments but vulnerable because of low profitability and focus	Robust portfolio but needing constant review Complex internal environment	Inability to respond to market changes Poor performance

Source: adapted from Miles and Snow, 2003.

- The *entrepreneurial problem* focused on the choices of products/services and markets the organization would serve. In established organizations these choices are constrained by history, and discussions typically focus on creating new ventures.
- The *engineering problem* focused on putting into operation the solutions to the entrepreneurial problem. Choices here revolved around which business model and types of technology to adopt and implement. The engineering problem is one that has been identified in many studies as one of the most critical in determining the success of organizations (Nohria *et al.*, 2003).
- The *administrative problem* related to the structure and processes of the organization, including its design and people management policies, the topic of this chapter.

Miles and Snow's next contribution lay in developing a set of categories for organizations based on how they responded to the adaptive challenges. These categories were not intended to be static representations of reality, but integrated organizational strategy/structure/process configurations that changed in a dynamic interaction with their environment. They identified four such archetypical configurations – the defender, the prospector, the analyser and the reactor – the first three of which were coherent and sustainable in the long run. The reactor, by contrast, was incoherent and fragile (see Table 4.3).

Exercise 4.3

1 Based on Miles and Snow's typology, how would you classify Innovative Electronics?
2 What would their typology suggest about the changes that need to be made in Innovative Electronics to make it more effective?

Developments from simple to more complex structures

These two approaches to understanding and designing organizational structures are relatively simple in the sense that they focus on single businesses or narrow product–market segments. Mintzberg's machine bureaucracy and even Miles and Snow's innovator organizational configurations are good examples of such designs. Even as early as the 1930s, however, organizations such as General Motors began to adopt an organizational design based on divisionalization, which served a more complex, multi-product–market environment. This form of multidivisional structure (the M-form organization) became known as a *strategic business unit* (SBU) structure, and was, and still is, the dominant form of organizational design (Roberts, 2004). These SBUs had the following characteristics (Goold and Campbell, 2002):

- They were market or customer focused, serving specialist customer segments, e.g. small, family motor cars in Europe.
- They were largely autonomous, usually having a CEO, general manager or president (or management team) who had the responsibility and authority to make key strategic and operating decisions that affected the results of the SBU.
- They generated revenues, incurred specific costs and were accountable for profits from serving their customer segments, and their managers were held to account for these revenues, costs and profits (or losses).

Having such characteristics, these SBUs developed a specific focus and were delegated sufficient control and authority to make key decisions without interference from the parent company. In effect, the role of the parent company (corporate headquarters) was to act as a central banker, allocating funds to the various SBUs on a strict 'return on investment' basis. Such SBU-based organizations were managed as portfolios of assets by the parent company, which treated the individual SBUs as independent businesses. As such they provided an ideal training ground for general managers, who could step up to the problems of leadership at corporate level.

However, SBUs also gave rise to the following important management challenges:

- Choosing the appropriate market focus for the SBUs and weighing up the trade-offs in such decisions. For example, some organizations have chosen to focus on geographically based customers, allowing them to develop local expertise in customs, cultures and tastes. However, such a focus makes it more difficult to develop global products, develop global sourcing of materials, or reap the benefits of global branding.
- Silo management and achieving cooperation between SBUs. Organizing along SBU lines provides the advantages of local autonomy and the motivation for local managers to display initiative, but inevitably creates 'silo' mentalities among SBU

managers as they compete for resources from the parent company. This is another example of the cooperation–initiative dilemma referred to earlier. SBU managers are often accused of managing their own personal ‘fiefdoms’, like medieval barons, often striving to achieve their own units’ objectives at the expense of others and the company as a whole. Achieving coordination between these units, especially when they act as internal suppliers or customers to one another, or are required to share common services such as research and development or HR, is a frequent problem in many organizations.

- Parenting SBUs by adding value to them through, for example, setting stretching business objectives, providing shared critical services, such as research or marketing, or creating a powerful global brand reputation. Tensions often arise between the value-creating actions of the parent company and what SBUs may regard as local interference or value-destroying activity. For example, global brands can be perceived both as a strength and as a weakness, especially if they do not take into account local tastes.
- Adapting to changing circumstances. Although SBUs are not inherently inflexible, they can become over-adaptive to local circumstances, or tied by design to particular customer segments that may decline in the long run. Such situations lead to ‘skilled incompetence’, in which SBUs become locked into their own ‘psychic prison’ and deny the existence of a changing world outside their purview. In effect, they become very skilled at what they have always done and incompetent at changing course.

To cope with the problems presented by SBU-based organizations, while retaining the benefits, large companies began in the 1970s to develop more complex structures, most of which revolved around the idea of a matrix or hybrid structure (see Figure 4.7). In Figure 4.7 I have simplified the original structure of a UK bank for the purposes of illustration into three autonomous customer segments – retail banking, corporate banking and a small number of overseas clients who warranted special attention. Gradually this bank has expanded into the US and continental Europe, creating multiple dimensions of focus, but wished to retain the benefits of common marketing and product design, a shared IT platform and shared HR services, including the e-enablement of HR, training and development, and reward management. Figure 4.7 shows a simplified version of its new structure.

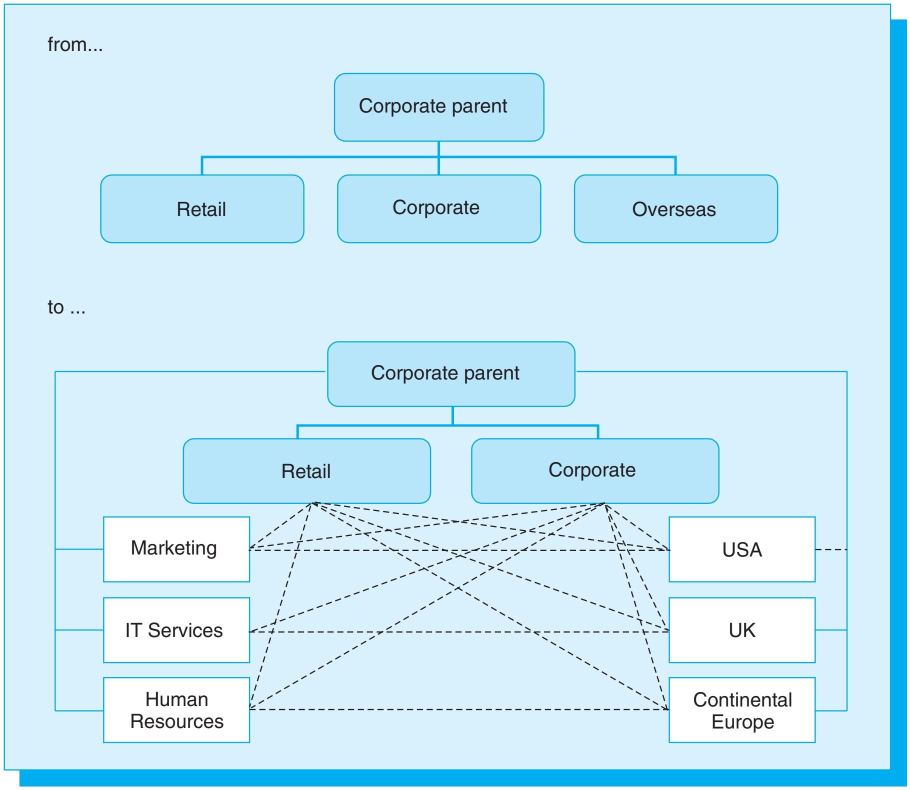

Figure 4.7 Evolving from a simple SBU structure to a more complex, interdependent structure.

These more complex structures have the following characteristics:

- Multiple dimensions of focus, usually linked to serving differently defined market segments such as products, specific geographical areas or industry groupings.
- Overlapping responsibilities, in which units will be much less self-contained and autonomous and more likely to work in collaboration with other units, or work in integrated project teams.
- Shared accountabilities, in which units are accountable for their own results and for how well they contribute to the work of other units and the company as a whole. This is a concept far removed from the profit and cost accountability of SBUs.

Like SBUs, however, these more complex structures pose significant management challenges (Goold and Campbell, 2002). First, decision-making can be slow and complicated, because consensus is often required between the various units. Originally, the theory of matrix structures suggested a *balance* of authority between the different units so that, for example, country managers and customer managers would have equal say in the marketing of a new product. Such balanced authority relationships have come to be seen as unworkable and time-consuming in resolving disputes, with the main focus now on deciding which units will have the authority. These newer structures, however, are faced with the problems of either (a) deciding on the main sources of sustainable competitive advantage, or (b) being able to change structures to reflect a competitive context in which there is no sustainable source of advantage, e.g. where new technologies or sources of knowledge become readily available to all would-be competitors. Often, this means that organizations need to be designed on a *reconfigurable* basis (Galbraith, 2002) to reflect changes in the competitive environment, and enormous resources are now being put into organizational change or 'reinvention' (Goss *et al.*, 1993).

Second, complex organizations have to deal with the challenge of coordination across unit boundaries. Such coordination is rarely achieved through mutual self-interest, and has to be designed into organizational structures. Sometimes this is achieved through developing informal networks, but more often team-based or project-based methods of coordination are used to ensure that units collaborate to share knowledge. For example, customer teams can be set up if the main source of competitive advantage lies in serving a few, large, global customers well. An alternative solution might be to create a new role of global account manager to ensure that country managers focus on these key, globally important, customers.

Third, more complex structures lead to less obvious accountabilities and are less exposed to market disciplines and self-correction when things go wrong. Complex structures mean that simple performance measures, such as unit profitability, are less relevant, and that there is a need for more rounded measures that take into account the ability of a unit to collaborate and share its knowledge. As we shall see in Chapter 7 on managing knowledge, there are measures that can assist in this process, based on ideas such as a balanced scorecard. These types of measure may reward unit managers and their teams for balancing the interests of key customers, geographical units and product groupings, as well as implementing corporate HR and IT policies.

Exercise 4.4

Can some of the problems of Innovative Electronics be attributed to the problems of the 'global matrix structure' of which the company is a part?

New approaches to organizational design

New organizational forms and networks

The approaches to analysing and designing organizations we have discussed have stood the test of time, and provide excellent insights into most conventional forms of organizational structure. The principles underlying these structures, however, are based on hierarchy as a governance and control mechanism. During the 1980s and 1990s the notion of flexibility became a much more important design principle, and organizations began to adopt more flexible structures, as presaged by both Mintzberg and Miles and Snow's earlier work on adhocracies and innovative organizations. Writing in 1984 in the UK, John Atkinson proposed the model of the flexible firm, based on the distinction between core and peripheral tasks. He noted that organizations were progressively segmenting their workforces between those employees who were 'mission critical' to the core tasks of producing and selling the key products and services of the company, and those employees who were peripheral. These peripheral employees were to be found at all levels in the organization. For example, they could be people such as accountants and HR staff, whose work could be outsourced, or whole departments, such as estates management or even manufacturing, if the organization saw its main capability as the marketing, design or development of products and services, such as the sportswear firm, Nike. The periphery could also include work that could easily be undertaken by temporary employees who could be hired and fired when needed. The principle underlying this form of flexible firm was to translate as much of the fixed labour costs as possible in an organization into variable costs that could be adjusted to the fortunes and circumstances of the organization.

Around the same time, writers in the US, such as Rosabeth Moss Kanter (1989) and Miles and Snow, were proposing a model of the networked organization, based on the theory of loosely coupled systems of organization that operated throughout the value chain.

Key definition: Tight and loose coupling

According to Roberts (2004), a tightly coupled system is one where any changes in the organization's environment or design, or the fit between them, will result in compromised performance. In effect, organizations are designed to be highly attuned to one set of competitive circumstances, such as large-scale and hierarchical production plants, which used inflexible assembly-line forms of manufacture to produce single models of motor vehicles for the mass-consumption markets in America during the 1970s and 1980s. Such tight coupling works well until the competitive conditions change, when the organizational design becomes a liability by preventing a change in strategy.

Loosely coupled systems are more flexible in design. They are less attuned to a particular set of competitive circumstances, and offer the possibility of more rapid change when the environment changes. This is the thinking underlying the design of many modern motor vehicle plants, including the Toyota production system that we shall discuss in Chapter 8.

The ideas underlying these new, networked organizations began to emerge from places such as Silicon Valley in California, where rather unusual organization structures were being developed to take advantage of the rapid change associated with the high-technology environment. Agility and versatility became the bywords for organization design, rather than hierarchy and control. Many of these new organizations were more akin to loose federations or constellations of business units that relied on each other for expertise and know-how. One good example, though not based in Silicon Valley, is Microsoft with its Certified Partners programme. The illustration in Box 4.2, taken from Microsoft's website, gives you some insight into how organizations such as Microsoft have grown through networking with smaller organizations that can provide expertise in helping them develop their products and services and by providing channels to market for Microsoft products.

Box 4.2: An example of growth through networking

This is an extract taken from Microsoft's website for its partnership programme.

Microsoft Partner Program builds relevance and value into all the tools and resources we provide to help you thrive in the market. You'll find benefits and resources to support all stages of your business cycle, helping you to:

- *Plan your business.* The tools and resources to help you grow and develop your business.
- *Build and maintain expertise.* Assistance in building and maintaining expertise in your particular areas of specialization through training resources and access to Microsoft software for development, support, sales or internal-use purposes.

- *Market and sell.* Marketing activities and resources to help you create demand and build sales around Microsoft software launches and new marketing initiatives.
- *Provide service and support.* The tools and services you need to aid in delivering and supporting Microsoft software and solutions.
- *Retain your customers.* Tools to help you connect with and strengthen your customer relationships.

Goold and Campbell (2002), well-known authorities on organizational design, have suggested that the kind of example set out in Box 4.2 is one of the most compelling images of organizations in the twenty-first century – the idea of such self-managed networks, free from bureaucracy, built on expertise and highly motivated, creative units interacting with each other in a mutually adjusting fashion (see also Case 4.2 on TCG). The image is particularly attractive because it contrasts markedly with the conventional, bureaucratic form many of us are used to working in, which is often characterized by a lack of innovation and by internal political behaviour. Table 4.4 sets out the contrast between conventional and emerging network-based organizations in more formal terms. The table contrasts the two forms on the basis of three dimensions: the process of strategic decision-making; how integration is achieved between units; and how the necessary differentiation is achieved within the organization. On this last point, note the implications for careers and attachments to organizations, and the changed basis of the psychological contracts discussed in previous chapters.

The virtual organization and networking

Particular constellations of networked organizations can come together to create a '*virtual firm*'. Such organizations are usually defined by what they are not (Galbraith, 2002). That is, they are not the conventional, vertically integrated and directed organizations described earlier in this chapter. Instead, they are 'virtual' in the sense that all or most of the activities in the value chain, from acquiring raw materials to customer relationships, are contracted out. The result is a series of networked companies, focusing on doing what they can do most effectively and acting *as if* they were a single organization. In this sense, the network *simulates* a single company, which is why we use the term 'virtual'. Such organizational structures aren't new, as many industries have operated on the basis of contracting out for many years. The construction industry is

Table 4.4

Contrasting old and new organizations

Organizational activity	Conventional organization characteristics	Emerging organizational characteristics
Strategic management, goal-setting and implementation	Top-down, centralized decision-making	Decentralized goal-setting
	Concentrated power and authority	Distributed power and authority, and freedom from hierarchy
	Preference for large units and wide-scope SBUs, with single-dimension focus to reflect relatively stable and simple environments	Preference for smaller units and multidimensional focus to reflect more complex and changing environments, need for constant renewal and 'reconfigurability'
	Leader control, monitoring and specific objective-setting through use of formal authority	Leaders provide guidance and support, but also manage conflict and act as brokers
	Vision dictated by senior managers	Vision emergent often from middle
	Knowledge routine and knowledge secrecy	Knowledge intensive and knowledge sharing
	Focus on costs and 'playing within the rules of the game'	Focus on innovation and 'changing the rules of the game' by setting stretching targets
Maintaining necessary integration within organizational boundaries and defining organizational boundaries	Firms or SBU as unit of analysis	The value chain or network as the unit of analysis
	Boundaries of organization clearly specified and durable, with most support services undertaken in-house	Boundaries of organization permeable, fuzzy and flexible, with more outsourcing and markets for spin-offs and buy-outs
	Standards, reliability and replicability as key bywords for managers	Flexibility as key management principle
	Vertical communications	Horizontal communications
	Rules and procedures dominant	Relationship based and personal networking
	Assets, budgets and investment decision linked to organizational units	Assets, budgets and investments independent of organizational units and often focused on projects and initiatives
Maintaining necessary differentiation with the organization, including functions and roles, duties and rights, and governance	Specialized roles and detailed division of labour, with people hired for jobs	General roles and little heed paid to division of labour, with people hired to fit organization
	Clear job and function definitions	Fuzzy job and function definitions
	Uncertainty absorption	Adaptation
	Relative permanence of jobs and careers, based on relational psychological contracts	Relative impermanence of jobs and boundaryless careers, based on transactional psychological contracts and employability
	Efficiency orientation	Innovation oriented

Source: based on Miles *et al*., 1997; Child and McGrath, 2001; Goold and Campbell, 2002; Malone, 2004; Roberts, 2004.

one such example, often with the architect acting as the network '*integrator*' on behalf of the client and managing the supply chain from design, through construction to handing over the building to the customer. The main advantages of this kind of organization are in specializing in what they are good at and in being comparatively small when it is advantageous to be small, while being able to scale up when size and scope are important.

Good examples of well-known virtual organizations are Benetton, the Italian fashion house, and Dell, the computer retailer. Both of these organizations contract out most, if not all, manufacturing, and act as network integrators in bringing together all aspects of their respective value chains to provide distinctive value propositions to their customers. It is not only organizations that are becoming virtual, but also major functions such as HR. For example, BT, the global communications technology company, has reduced its HR department from employing nearly 8000 HR staff in 1991 to 550 in July 2005. Like all virtual organizations, the operations of Benetton, Dell and BT's HR departments have been made possible by new information and communications technologies in linking the various companies and outsourcing contractors together to provide a seamless service to their respective customers.

However, as several writers have pointed out, virtual corporations have a number of disadvantages and face many challenges (Pettigrew *et al.*, 2000; Galbraith, 2002; Goold and Campbell, 2002):

- The loss of proprietary knowledge, when providing information and learning to other members of the network. For example, Apple taught independent subcontractors about its operating system so that they could write applications for the Mac. Microsoft, one of these firms, eventually learned these only too well. BT also suffered from losing control of proprietary knowledge in outsourcing much of its HR function to Accenture during the 1990s, a problem they are only just overcoming through changing the nature of the outsourcing partnership deal.
- The more an organization contracts out, the more potential profit through value-added services it loses. Perhaps as important, contracting out means that an organization has less control over the business process. If even one of these processes is 'mission critical', any conflict that arises from disagreements can damage the reputation of the whole virtual network.
- The feasibility of networks, which depend on the attitudes of partners and the information available to them. In a virtual organization, success often depends on the personalities,

emotional intelligence, motivations and career trajectories of individual managers. It may be difficult for managers brought up in large SBU organizations, many of whom have been used to relatively rich resources, stable career paths and competition, to work in smaller, often resource-poor, organizations with very different career structures, and expect them to collaborate and share their knowledge.

- A final problem with networks arises from the time and effort often required to create them. Because of the initial investment in management time, they are likely to become closed systems, resistant to new partners and to future change.

Thus, designing effective virtual organizations is very much based on effective partnering, which Galbraith (2002) sees as addressing the following issues:

1. Creating a partnership strategy, in which companies play appropriate roles. These roles can range from being a specialist contributor, who performs only a few activities such as payroll services, to a network integrator such as Nike, Benetton, Dell or even Boeing, the aircraft company. As discussed above, the network integrator has to balance contracting out mission-critical and potentially profitable activities against the value of having expert outside suppliers contribute to the network.
2. Designing appropriate external relationships and coordination mechanisms, which can vary according to (a) the degree of control the integrator has or desires over other companies in the network, (b) the levels of day-to-day coordination necessary, and (c) the value the network integrator wishes to capture from the partnership: this refers to the proportion of total value added by the network supply chain that the network integrator seeks to appropriate for itself.
3. The design choices available range from developing pure *market or contracting relationships*; through *sourcing and alliance partnerships*, often found in motor vehicle manufacture; *equity relationships*, in which an integrator may take out a financial stake in the other companies; to outright *ownership* of the other companies. As all of these choices have their strengths and weaknesses, solutions are specific to the context of the partnership. For example, BT set up an equity relationship with Accenture in the 1990s to deliver HR services to other companies, which it relinquished later on in part because of problems of lack of trust between the partners.

4 Partner selection is another and often critical design issue. In many respects, the issues here are similar to those involved in selecting individuals to fit organizations, and revolve around having common aims and compatible cultures or characters. As Galbraith suggests, firms skilled at creating alliances, whether they be networks, sourcing alliances, joint ventures or equity partnerships, spend a lot of time and effort evaluating potential partners for 'fit' during the selection process, to ensure that all issues that may cause the partnership to go wrong are uncovered during the 'courtship' process.

5 Finally, supporting policies for people and reward policies, key components of Galbraith's star model in Figure 4.1, are critical design choices. As noted above, the success of partnerships depends on the qualities and motivation of the managers who have to make them work; these qualities are often different from those that are successful in competitive contexts. Key skills include the ability to influence without authority, negotiating and working with people from different corporate and international cultures. They also include the ability to be able to cooperate and reveal information, as well as retain information that is confidential. Reward systems, like cooperating skills, have to be based on the idea of a win–win scenario in which the deals and arrangements struck bring benefits to all parties.

Case 4.2: TCG – an example of a virtual organization based on cellular principles

Technical and Computer Graphics (TCG), an Australian privately held information technology company, is a classic example of a virtual organization, based on cellular principles. TCG develops a wide variety of products and services, including portable and hand-held data terminals and loggers, computer graphics systems, bar-coding systems, electronic data interchange systems, and other IT products and services. The network comprises 13 individual small firms as partners, the basis of the cellular approach. Drawing on the biological metaphor of a living organism, each firm or 'cell' has its own aims and can live independently from the others, but all share a common bond with other network members. For example, some TCG firms specialize in one or more product categories, whereas others specialize in hardware or software.

At TCG, the various partners have existing high levels of technical and business competence. However, the ambitions of the network are to ensure system-wide competence for the group as a whole. The process used to develop this overall partnership competence is called triangulation; it is the means by which TCG continually develops new products and services.

Triangulation is based on a partnership model with three components: (a) a partnership among one or more TCG firms; (b) an external joint-venture partner, such as Hitachi, which may provide equity to the venture; and (c) a principal customer or client that can provide large orders and additional cash and resources to the partnership in return for contractual and intellectual property rights for the innovations or developments.

The process of venturing is critical to the partnership, with all TCG networked firms expected to search continually for new product and service opportunities. Once there is some interest shown by a potential client, the initiating TCG firm acts as project leader for the remainder of the venture. The first step in the triangulation process is to identify and collaborate with a joint-venture partner that has specialist competence in the underlying technology or process involved. TCG will seek some funding for the project from the joint-venture partner and also gains access to the key technology, etc. The second step is to locate and work with a potential customer for the new product, for whom they will agree to custom-design a product. By working with the joint-venture partners and end-user, TCG can produce high-technology solutions and products that meet the particular demands of a client who is not taxed with having to set up a specialist in-house organization to innovate.

The credo of TCG ensures that the project leader firm in the network must partner with other firms in the group, not only for their specialist contribution, but so that the collective competence and knowledge base of the network is enhanced. Triangulation thus serves a dual purpose of building on collective expertise and also enhancing it by diffusing the learning gained from business development, partnering and project management. The principles of networking are interconnected at TCG and serve to reinforce each other to bind the network together. First, acceptance of entrepreneurial responsibility is required for admission to the group and is increasingly enhanced by the triangulation process. Second, the principle of self-organization gives the individual firm both the ability and the freedom to adapt to changing partner and customer needs. Third, each firm's profit responsibility, as well as the guaranteed ability to take out equity in other TCG firms, provides the motivation and rewards for overall collective growth and use of each others' specific competences.

Source: adapted from Miles *et al*., 1997.

1 To what extent does the TCG network embody effective partnering? Can you foresee any problems?

Tests of effective organizational design

So what have we learned about the kinds of problems faced by organizations such as Innovative Electronics, and what can we do to help them restructure more effectively? During this chapter, you have been introduced to a number of ideas that might suggest useful ways forward from the perspective of Innovative and its parent company. You have also learned about the virtues of new organizational forms that companies like Innovative may consider. However, I wish to reiterate the point that there is no single solution for organizations such as Innovative. Instead, there are only sensible general questions we can ask, the answers to which may help us design an organization appropriate for a particular context and time frame. To help us ask and answer such questions, Goold and Campbell (2002) have proposed a way of thinking about organizational design by setting out nine design tests, based on two basic concepts:

- *fit*, which is based on the idea that organizations should be fit for purpose;
- *design principles*, which have been distilled from previous good practice in organizational design.

The four drivers of fit and the five design principles are best defined by the nine tests that Goold and Campbell associate with them (see Figure 4.8 and Table 4.5). These design tests are extremely useful because they can be used to assess the strengths and weaknesses of existing organizations, those of major changes to an existing organization, or proposals for a new organization.

This, most practical, set of principles would be a good place to begin to evaluate your own organization, focusing on its existing structure or

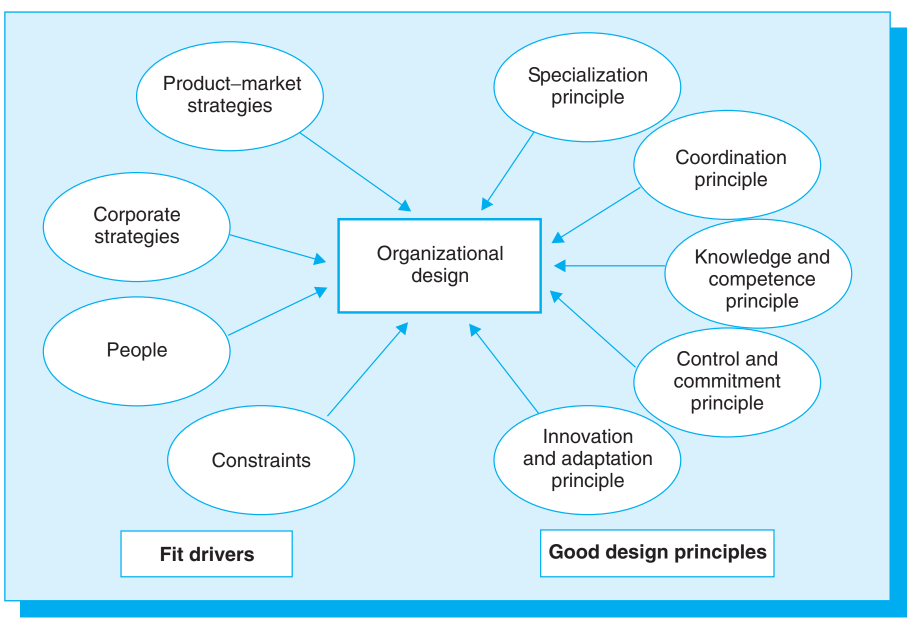

Figure 4.8 Fit drivers and good design principles. (*Source*: Goold and Campbell, 2002, p. 250.)

Table 4.5
Linking fit drivers to fit tests

Fit drivers	Fit tests
Product–market strategy	Market advantage test: Does the design allocate sufficient management att-ention to the operating priorities and intended sources of advantage in each product market area? Structures should attend to the needs of customers in each product–market segment served by the organization, e.g. particular models of cars, and to the sources of advantage and major operating initiatives that will help them succeed in each product–market segment, e.g. supplier relationship management in motor vehicle manufature.
Corporate strategy	Parenting test: Does the design allocate sufficient attention to the intended sources of added value and strategic initiatives of the corporate parent? The organizational design should reflect the chosen 'parenting' propositions, e.g. to provide research support for operating units, or to enhance the corporate brand, *and* to reflect key strategic initiatives or actions planned by the company, e.g. implement a corporate-wide customer relationship management system (CRM) or outsource all IT services.
People	People test: Does the design adequately reflect the motivations, strengths and weaknesses of the available people? The structure should fit the available potential core talent needed to deliver the strategic aims, e.g. the kinds of recruit that will be needed for the future *and* the existing talent in the organization, e.g. the top management team or the core software team.
Constraints	Feasibility test: Does the design take into account the constraints that might make the proposal unworkable? The requirements are to ensure that the external environment has been scanned to identify all possible constraints, e.g. legal and government directives in setting up joint ventures in particular countries, and the robustness of the design against each constraint or possible source of failure, e.g. how will a major breakdown in one part of the organization affect the whole operation?
The good design principles	**Design tests**
Specialization principle	Specialist culture test: Do any units need to have specialist cultures that are different from sister units and layers above, and do these units have enough protection from the dominant culture, e.g. do innovative or research and development units have enough 'space'?
Coordination principle	Difficult links test: Does the organization call for any coordination benefits that will be difficult to achieve on a networking basis, and does it include 'solutions' that will ease the difficulty, e.g. does the organization require critical quality standards throughout the company that would be difficult to achieve on an informal basis?
Knowledge and competence principle	Redundant hierarchy test: Are all levels in the hierarchy and all responsibilities retained by managers at these levels based on knowledge and competence, e.g. do different levels of managers add value in terms of their specific knowledge and competence?
Control and commitment	Accountability test: Does the design facilitate the creation of control processes for each unit that are appropriate to their roles and responsibilities, economical to implement, and motivating for the managers and employees in the unit, e.g. are customer-facing units given enough 'slack' or autonomy to meet their objectives and are they rewarded for doing so?
Innovation and adaptation principle	Flexibility test: Will the design help the development of new strategies and be flexible enough to adapt to future changes, e.g. do innovative units have enough access to talent to meet demands for new products or services, and are they rewarded for learning, passing on their learning and for putting it into practice in the form of innovations?

on any proposed changes. Returning to the case of Innovative Electronics, managers in the company would be well advised to look at these design principles before continuing with their changes to the organizational structure. At the time of putting this book together, however, there is little sign of them doing so.

Learning summary

In this chapter we looked at the kinds of problems faced by many large organizations that can cause them to underperform and, possibly, go out of existence. We looked at three well-known frameworks that help us understand organizational analysis and design, and applied these to the problems faced by Innovative Electronics, a pseudonym for a real firm undergoing problems of change.

We have also examined developments in organizational forms, beginning with changes from simple to more complex structures, including the M-form and matrix structures. We also focused on the more recent introduction of virtual organizations and networking. These latter types are not yet widespread, but evidence suggests that they will become more common in all countries, creating new opportunities for businesses but also presenting new problems for managers, especially in managing in situations with traditional levels of authority and power.

Finally, we looked at a highly practical test of good organizational design that I hope you will use in your future career to analyse the problems faced by the organization you work for or any changes proposed for its future.

Review questions

Multiple-choice questions

4.1 Which of the following defines complexity in an organizational context?

A Organizations designed to reflect functional divisions.
B The trend towards the individualization of markets.
C The infinite number of possibilities created by global networking through ICT.
D The wide range of demands and forces placed on modern organizations.

4.2 An HR area manager wants the employee reward system to support a team-based organizational structure designed to deliver high levels of customer satisfaction. Which one of the following is most likely to achieve this?

A Linking rewards to group-based objectives.
B Having everyone paid equally.
C Creating bonus targets for high achievers.
D Creating a competitive reward structure for individuals based on customer feedback.

4.3 According to Mintzberg, when trying to understand key influences on organizational structure, which one of the following should be taken into account?

A The local context and the amount of flexibility.
B The local context and the historical structure of the organization.
C The historical structure of the organization and the organizational culture.
D The historical structure of the organization and the processes that inform them.

4.4 According to Mintzberg, which one of the following is a necessary condition for the standardization of outputs?

A An influential HR department.
B A powerful strategic apex.
C A dominant operating core.
D Equality of power among departments.

4.5 Which one of the following best exhibits the characteristics of an SBU?

A A specialized division of a large company that is responsible for its own revenue and costs.
B A department that is highly integrated with other departments.
C A division of a company that, though responsible for achieving sales targets, is centrally controlled by the parent company head office.
D A small department that runs its own operations.

4.6 A senior management team of a parent company wants to ensure maximum coordination between units. Which one of the following would be the least constructive means of achieving this in the long run?

A Direct supervision of units by parent management team.
B Regular coordination meetings of unit managers.

C Regular training sessions among unit managers.
D Develop mutual projects to work on.

4.7 Which of the following is the key feature of most new forms of organization?

A A collection of interdependent units.
B Small flexible units with a central core and support facilities.
C An organization that deals primarily in knowledge.
D A network of loosely coordinated, independent organizations.

True/false questions

4.8 According to Galbraith, speed and information and communications technologies have become the two most important influences on organizational design. T or F?

4.9 In the star model, behaviour, performance and culture are a result of rewards and processes. T or F?

4.10 Miles and Snow's model suggests that innovative organizations are the most appropriate in modern circumstances. T or F?

4.11 Complex structures are less likely to develop shared accountabilities across units. T or F?

4.12 Marketing staff are rarely likely to be mission critical in organizations. T or F?

4.13 Many new forms of organization are analogous to living cells that are independent but are linked together. T or F?

4.14 When designing organizations it is necessary to take into account the career ambitions of senior managers and professionals in specialist departments. T or F?

4.15 SBUs are the ideal basis for creating departmental cooperation. T or F?

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CHAPTER 5

Managing in an international context

Learning objectives

At the end of this chapter you should be able to:

- understand the problems of 'going international' and the implications for managers;
- understand the forces for convergence and divergence in international management;
- apply the ideas of national cultural differences to the analysis and solutions of international management problems;
- apply the ideas of national business systems to the analysis and solutions of international management problems;
- identify key international management competences, and use these to reflect on your ability to become a more effective international manager;
- understand the problems of developing managers for international assignments, and construct appropriate management development programmes and activities to help them become more effective overseas;
- construct a learning agenda to build your own international management competencies.

Introduction

During the first four chapters of this book, we have discussed how important it is to understand business and management from an international perspective. As noted earlier, one of the dominant trends in the development of modern economies is the increased 'globalization' of business, though as some writers have pointed out, this trend is the subject of a number of myths and misunderstandings (Mendenhall and Oddou, 2000). Leaving aside its economic and cultural impact, globalization has a significant influence on how we manage, not only in multinational enterprises (MNEs) but also in our home-based companies as, increasingly, we borrow ideas on 'best practice' from companies in the advanced industrialized countries. Much of this borrowing has come from US-based companies that are headlined in the international business press and much of the US-based academic literature as models of excellence. Some researchers have argued, however, that US companies, partly because of the US government's generally isolationist approach to world affairs throughout much of its history (at least until the Second World War), are among the least well-equipped organizations to conduct effective global management in a multinational context. Moreover, they may also be among the most reluctant 'globalizers'. For example, although US companies feature heavily in the world's largest firms by revenue, no US company features in the OECD's top ten of transnational companies, as measured by the proportions of revenue earned and employees outside the USA (Whittington, 2000). At a more prosaic, though no less important level, it has been pointed out that, during the 1990s, only 50 per cent of US senators held passports, a figure that should come as no surprise since 90 per cent of ordinary US citizens had no inclination to travel abroad, at least as measured by those who held valid travel documents.

Yet at the same time a number of major US organizations have been at the forefront of the internationalizing (if not globalizing) process, initially in Britain and the rest of Europe after the Second World War, and more recently in their operations in the Asia-Pacific region. Such efforts at internationalization, although generally successful in bringing economic success to the USA and to the host countries of US subsidiaries, have been plagued by problems. These problems are often the consequence of US 'exceptionalism' (a belief in the superiority of their own values), ethnocentrism and the attempt to export US-style 'best practice' in management to other countries, especially in the field of human resource management. As a consequence, major mistakes have been made by US companies in working overseas. By no stretch of the imagination, however, is such exceptionalism and ethnocentrism unique to America and American organizations. The political and economic history of the last 400 years is characterized by European and, more recently, Japanese problems in internationalizing (Jones, 2003). Perhaps the most notable example of internationalization was the British Empire, in which the UK attempted to create a world in its own image and which reached its apogee in the early 1900s, comprising 25 per cent of the world's land mass and 25 per cent of its population. This was internationalization on a scale never seen before or since, and virtually every lesson in how to conduct global management – good and bad – can be drawn from Britain's imperialist era (Ferguson, 2003, 2004). Like the British East India Company, which once controlled most of India, European organizations have sometimes found that their internationalization strategies have failed because of their excessive commitment to parent company values and practices, and a failure to understand the institutional and cultural characteristics of host countries and their subsidiaries. Amusing examples of such problems include the early attempts by Marks & Spencer, one of the world's largest retailing organizations, to set up operations in France. So entrenched were their British values that they attempted to operate a 'buy British' campaign in a country that has competed with England for hundreds of years, and to sell Christmas puddings, a uniquely British dish, without any cooking instructions. French customers bought them and ate them cold, which only confirmed their already low opinion of British food products.

Thus, we face the possibility of companies throughout the world destined to repeat many of the mistakes of history when operating in each others' territory. As a consequence, it is critically important for globalizing firms to make sensible and contextually sensitive decisions in key areas of marketing, knowledge management and human resource management: decisions that take into account institutional, cultural and psychological differences between parent company institutions, values and practices, those of host countries and those of third country nationals employed to work in global organizations. And because there are so many lessons that can be drawn from the past, we shall spend a little time taking an historical perspective.

In this chapter, then, we shall explore the international context of business and management and address three key questions often asked of practising managers and of academics who research in this interesting area:

1. To what extent do countries differ in their business environments, and how does this affect the practice of management in these countries?

2 What has been the impact of the internationalization of business and the growth of so-called global firms on the practice of management?
3 What lessons can we learn from research and practice about managing people in an international environment?

The problems of internationalization and its implications for management

As an academic and consultant with experience of working in a number of different countries, I have been asked to provide advice to a small number of US 'start-up' companies in the technology field thinking about setting up operations in the UK and continental Europe. These companies and their managers are not naive and appreciate the problems of 'going international', especially in countries of which they have little knowledge. Academics refer to this practical problem as the 'liability of foreignness', which is the cost of doing business abroad arising from the unfamiliarity of the environment, from cultural, political and economic differences, and from the need for coordination across geographic distances.

Key concept: The liability of foreignness

This has been defined by Zaheer (1995) as 'the costs of doing business abroad that result in a competitive disadvantage for a multinational enterprise (MNE)'. These costs broadly refer to all of the additional costs that a firm operating in a market overseas incurs that a local firm would not incur. Four such categories of costs are likely to arise:

1 Costs directly associated with distance, such as the costs of travel, transportation and coordination over distance and across time zones.
2 Firm-specific costs based on a particular company's unfamiliarity with and lack of roots in a local culture and business system.
3 Costs resulting from the host country environment, such as the lack of legitimacy of foreign firms and economic nationalism among governments and people.
4 Costs imposed by home country governments on doing business overseas, such as the restrictions on high-technology or weapons sales to certain countries.

The relative importance of these costs, and the choices that firms can make to deal with them, will vary by industry, firm, host country and home country. Regardless of its source, the liability of foreignness suggests that, other things being equal, foreign firms will have lower profitability than local firms and, perhaps, a lesser chance of survival.

Most companies seeking to exploit their assets by trading across international boundaries have to address two basic questions:

1. To what extent should they *standardize* their operations across national boundaries to exploit existing products and services, brands, intangible assets and human resource management practices?
2. To what extent should they exploit the benefits of *localization* by adapting these products and/or services, and policies to fit in with their overseas markets?

The balance between standardization and localization that a firm eventually settles on (and it usually is some form of balance) is often thought to be based on the extent to which organizations calculate the liability of foreignness in different market circumstances. This calculation turns on whether these organizations assume that the countries they seek to enter are similar (convergent) to their own national cultures or are dissimilar (divergent) from their own national culture. The internationalization strategies that organizations might choose can take a range of forms (see Table 5.1), dependent on the extent to which they seek to have equity (ownership) in their overseas ventures. However, all such strategies rest on the liability of foreignness perceived by a firm and their convergence–divergence assumptions. Should, for example, an internationalizing firm invest in recruiting, developing and rewarding managers in their own country so that they can be sent overseas to transfer their knowledge and practices to the local situation? Or should they rely on the 'insider' judgement of local managers and their knowledge and practices? If, as organizations are increasingly seeking to (or are required to) partner with local firms, should they enter into a joint venture or a full-blown merger, and should they attempt to impose a homogeneous organizational culture by transferring home-based practices into the local firm?

National differences in the business environment

Converging or diverging cultures?

To answer the questions posed in the previous sections, we need to understand not only how societies differ but also whether these differences are significant and if, as a result of globalization, these differences are likely to diminish. For instance, some people believe that societies are becoming alike, so understanding international differences and

Table 5.1
Entry strategies into overseas markets

Non-equity modes	**Forms**	**Characteristics**
	Exporting	Selling overseas, which is usually low risk and requires little investment
	Licensing	Giving a local firm legal rights to produce or sell a product or service, which is usually low risk but may lead to problems of local quality control
	Franchising	Providing local firms with a complete package of trademarks, products and services, and operating principles
	Contract manufacturing and service provision	Contracting out non-core business activities to overseas operations, which requires no local ownership or investment. Problems associated with quality control and contracting out 'moral responsibilities' to local entrepreneurs who may have different standards and attitudes to labour management
Equity modes		
	International joint ventures	An agreement by two or more companies to produce a product or service together, usually involving an equity-sharing arrangement between a local partner and an MNE. Provides rapid entry into new markets and local knowledge, but often associated with political problems between partners over the sharing of core technology and knowledge
	Fully owned subsidiaries	Can take the form of an overseas acquisition or merger, or a new business start-up. Acquisitions provide ready markets and local knowledge, but present major difficulties in merging cultures and creating new identities. New start-ups are most costly in terms of management time and highest risk, given levels of investment. However, they are often preferred as they minimize the cost of transferring knowledge to partners and of sharing technologies.

developing strategies to take these into account will be much less relevant in the near future. On this issue, informed opinion is divided over the extent and rate of convergence of national economies as a consequence of these changes. It splits between those who emphasize the forces for *convergence*, most notably the globalization of business, and those who emphasize the forces for *divergence*, principally the existence of what might be called 'national mindsets' (Sparrow and Hiltrop, 1997).

Convergence and globalization

The *convergence* '*thesis*' has become an established paradigm in the management literature: it is based on evidence that organizations and their managers around the world embrace many of the same values, attitudes and behaviours, and are increasingly likely to do so given the internationalization of technology and markets. Convergence exists, it is argued, despite the influence of obvious historical differences in national culture and key institutions in these countries, such as the legal, political and educational systems. A modified and more recent form of the convergence thesis is the *globalization* '*thesis*', which has been used to herald the creation of worldwide markets and the growth of huge corporations with few roots in, or ties to, a specific country, some of them with revenues greater than many countries (Joynt and Warner, 2002). According to some writers, globalization is an overworked concept, because economic activity has always taken place across borders, and truly global companies, which are not tied to their home country in important ways, are limited in number (Sparrow *et al.*, 2004). These writers also point out the more negative connotations of globalization as a form of neocolonialism and as a set of transformative social forces that lead to exploitation of labour in the developing world, such as the charges levelled at Nike and Gap during the 1990s, and major environmental problems such as global warming and depletion of natural resources. However, despite these arguments over the meaning of globalization, most writers broadly acknowledge the increased permeability of traditional boundaries of almost every kind, including those more tangible ones (time and space, nation-states and economies, industries and organizations) and less tangible ones (cultural norms and assumptions of 'how we do things around here'). Thus, the proponents of this globalization thesis propose that convergence among nations is occurring as a result of the globalization of economies, techniques and communications, and that national mindsets and institutions are less important in understanding the nature and effects of international business and management. Perhaps more importantly, it is sometimes argued by enthusiastic 'globalizers' – for example, the International Monetary Fund – that in a global economy national mindsets are an impediment to the modernization and interests of business in a specific country (see Box 5.1).

Box 5.1: Kultur clash

Mannesmann, a leading German company, has been taken to court accused of breaches of German securities law, but not so serious to warrant any individual being convicted of a criminal breach of trust. This followed the Vodafone takeover in 2000 and the accusations against six senior managers of committing or abetting a breach of trust in awarding bonuses worth €57m to themselves.

The issue has been portrayed in the German media as 'corporate greed' on trial and as a clash between two business cultures: the importation of Anglo-Saxon capitalism into the more socially oriented Rhineland variety. As an *Economist* article has pointed out, 'Big German firms have traditionally been run by consensus: a German executive board has no real CEO, in the American sense. Each executive is directly answerable to the supervisory board, which contrasts with the autonomy enjoyed by the boards of American and British companies.'

In German companies, however, it is unusual for a senior executive to be sacked, US style, by the supervisory board, though there have been some recent examples of this occurring. The article cites Ulrich Schumacher as one example, the American-influenced leader of Infineon, a semiconductor firm, when he was abruptly ousted by his supervisory board for his reputation for, among other things, lecturing his own executives 'like children'.

The norm is that some German managers who may have been sacked under an Anglo-American regime are able to survive because they are adept at playing consensus politics with the supervisory boards, including Jurgen Schrempp, head of loss-making DaimlerChrysler. But, according to the article, if the Mannesmann trial leads to the more widespread adoption of Anglo-American management governance practices in Germany, it should also highlight the need to govern well, since 'the supervisory board of Mannesmann has been revealed as "Germanically" sloppy … Adding American methods to traditional German business strengths may be a better strategy.'

Source: adapted from *The Economist*, 3 April 2004.

One of the main engines for convergence and/or globalization has been the role played by large, transnational corporations such as Vodafone and Daimler in the cross-border transfer of products, ideas and processes to their subsidiaries, and indirectly to other organizations in those countries that copy them or are subject to their influence. For example, many multinational corporations seek to promote a corporate brand image and culture across all of their subsidiaries; this practice sometimes extends to suppliers of those subsidiary companies and to local companies that imitate their 'winning formula' (see Chapter 6). Few such MNEs exemplify the globalization thesis as well as McDonald's, the food retailing organization, which has had an enormous impact on eating habits and on business practices around the world. Until a change in strategy during the early part of this decade, McDonald's, one of the world's most recognizable brands, has been associated with promoting an American way of life around the globe and a one-best-way formula for fast-food retailing and for managing a franchise operation (see Case 5.2 for an example of recent changes at McDonald's).

In addition to MNEs, another important engine, as we have pointed out, has been the growth in global management education and the growth of global consulting firms in the transfer of ideas and best practices. Sparrow *et al.* (2004) refer to this argument as the development of a 'like-minded international cadre', a class of managers whose thinking has become 'de-nationalized' as a result of attendance at international business schools that broadly follow a similar syllabus and ethos of business in their MBA programmes or internal consultancy training. For example, they have pointed out that continental Europe runs a huge deficit of approximately $4 billion on the education of its managers in US and UK business schools. This financial and cultural deficit has led the French government to invest much more heavily in the training of its own managers to prevent the cultural imperialism of the Anglo-Saxon business world. However, given the rapid developments in information and communication technologies, principally the Internet and mobile telephones, such transfer of knowledge and practices from the US- and UK-based schools and major consulting firms is likely to become even more pervasive, an issue to which we return in Chapters 7 and 8.

Divergence, culture and institutions

Although the convergence and globalization theses have had many adherents, some writers believe that differences between national cultures and institutions have remained relatively marked and consistent over time. These writers adhere to the *divergence thesis*, which is premised on two sets of observed and relatively enduring differences among societies. The first of these differences comprises the strength of locally held *cultural values* and their impact on management practices, despite obvious and growing economic and social similarities among nations (Hofstede, 2003). Such business-related cultural values typically include the extent to which national cultures endorse individualism and individual freedoms, the extent to which risk-taking behaviour by individuals is encouraged and rewarded, attitudes towards inequality and to competitive behaviour, conceptions of time and attitudes towards the open display of emotions (Trompennars and Hampden-Turner, 1997; Hofstede, 2003). We look at this cultural values approach in more detail in this chapter.

The second relates to the historically embedded *institutional differences* among countries (Whitley, 1999; Ferner, 2001). These institutions refer to the social, political, economic, business and labour market features of a country or region that have historically interacted to create a distinctive national business system. So, for example, we often talk about a distinctive American business system or an Asian business system.

This *national business systems approach*, which has become more influential in the management literature since the 1990s, is a broader concept than culture and has emphasized the difficulties in borrowing and diffusing best practices from overseas countries. Though competition among national business systems at the international level has led to borrowing and copying of practices, this process of diffusion does not necessarily result in convergence, because the embedding of such practices has to occur in pre-existing and nationally distinctive configurations of business practices. The consequences of this line of thinking for organizations seeking to export their values and practices are threefold: (1) they need to be aware of the historical and institutional configuration of the business system in which they seek to operate; (2) they are likely to meet with institutional resistance to such 'foreign' practices; (3) even if companies are initially successful in implanting their home-grown practices, they can never be sure how these transferred practices will interact with the existing systems to produce anything like the originally intended outcomes. Again, we shall examine these ideas in more detail later in this chapter.

To help you understand the role of institutional constraints, read the case of Wal-Mart's entry into Germany (see Case 5.1).

Case 5.1: Wal-Mart and overseas expansion

Traditionally, retailers are not very good at going abroad. Wal-Mart is no exception. It has done well in America's border countries. It has been successful in Canada, for instance, and in Mexico, where Wal-Mart is the biggest private employer.

But, in Germany, Wal-Mart ended up with egg on its face. Wal-Mart entered Germany, the third biggest retail market after America and Japan, in 1997–98 by buying two local retail chains, Wertkauf and Interspar, for $1.6 billion. Whereas Wertkauf was well known and profitable, Interspar was weak and operated mostly run-down stores. Wal-Mart has lost money in Germany ever since. Problems have included price controls preventing below-cost selling, rigid labour laws and tough zoning regulations that make it extremely difficult to build big stores.

Wal-Mart also faced well-established rivals in Germany, such as Metro, and hard discounters such as Aldi and Lidl, already comfortable with razor-thin profit margins. Many retailers in Germany are owned by wealthy families whose business priorities are not always the maximization of shareholder value.

But there was more to it than that. Wal-Mart's entry was 'nothing short of a fiasco', according to the authors of a 2003 study at the University of Bremen. At first, Wal-Mart's expatriate managers suffered from a massive clash of cultures, which was not helped by their refusal to learn to speak German. The company has come to be seen as an unattractive one to work for, adds the study. In part, this is because of relatively low pay and an ultra-frugal policy on managers' business expenses.

This contrasts with Wal-Mart's much smoother expansion into Britain, where it bought ASDA for $10.7 billion in 1999. ASDA already had a strong business competing on price, and it has since overtaken struggling J. Sainsbury to become the second biggest supermarket chain after Tesco. But that may say more about Sainsbury's difficulties in overcoming its problems than ASDA's successes. Unlike Tesco, under its boss Sir Terry Leahy, Sainsbury was slow in responding to Wal-Mart's expected arrival in the British market. In particular, it was late in expanding into non-food goods, the source of much of Tesco's growth.

1 What institutional features of the German system have prevented Wal-Mart from making a successful entry into that country?
2 What could they have done to overcome these problems?

More pragmatically minded writers have argued that the convergence–divergence debate isn't particularly helpful because it casts everything in terms of 'either/or' scenarios. Instead, they make a case for 'both/and' thinking in which nation-states, industries and organizations deal with the tensions promoted by convergence and divergence in new, more appropriate ways. So, for example, nearly all MNEs seek to secure global economies of scale, to promote consistent brand images, and have employees align with a single corporate identity and set of values. At the same time, they also seek to secure the benefits of differentiating their products and services in local markets and in respecting local product and labour market circumstances by developing locally relevant practices. For these reasons, we have witnessed the development of 'think global and act local' policies by some MNEs, sometimes referred to as 'glocalization' (see Case 5.2 on McDonald's in Europe).

It is argued by some writers that such a glocalization orientation is possible if organizations make a distinction between business *principles* and *practices*. Principles and values that many large MNEs espouse, such as respect for individuals and trustworthiness, tend to be more general and universal in application, but local context, contingencies and firm-specific aspirations are likely to shape the practices that arise from such principles and value frameworks. In the remainder of this chapter we shall expand on the problems of cultural differences, institutions and business systems, and how managers should address these differences.

Case 5.2: McDonald's in Europe

McDonald's has performed well in the USA during 2004 but its European operations have not been so good, except in the most unlikely country – France. An *Economist* article has put that down to its French CEO, Denis Hennequin, who ran McDonald's in France, and has just been made head of McDonald's European operations.

Given the French love of *haute cuisine*, 'le fast food' was not expected to take off. Yet, 'France is the only place in Europe that has consistently loved McDonald's since the first outlet opened there in 1979.' Contrary to the popular image of the French distaste of everything American, particularly its pop culture, French families and children seem to love McDonald's: so much so that it has outperformed all its indigenous fast-food rivals and is the most profitable European subsidiary.

The answer, according to the article, lies in Hennequin's strategy for France as 'upgrading and transparency'. Put simply, restaurant décor has been improved, the menu has been widened and enhanced with better quality products, and relations with the difficult French unions over low pay – an often-made criticism of McDonald's – have been relatively cordial.

McDonald's was clever in adapting food and décor to local tastes and concentrating on children. The ham-and-cheese 'Croque McDo' is McDonald's version of a *croque monsieur*, a French favourite. McDonald's teamed up with French companies to offer local fare – for instance, fruit yoghurts produced by Danone, coffee from Carte Noire and the French soft drink Orangina. McDonald's in France also sources most of its raw material from local farmers and has used this fact to enhance its reputation as a socially responsible company – at least in French eyes.

Hennequin's aim is to use the McDonald's France formula in the rest of Europe, where sales have dwindled. His innovations include a 'food studio' and a 'design studio' near Paris to research and innovate new products and interior designs for Europe's restaurants, under the supervision of a top French Michelin-star chef. One of the newest innovations has been 'Salads Plus' to provide a number of healthier options to the often-criticized traditional McDonald's fare of burgers and fries. These have already been tried out in America, perhaps to stave off litigation over its contribution to American levels of obesity. McDonald's calls the new salad menu 'a strategic change in the positioning of its menu in Europe'.

Source: adapted from 'Burger and fries a la Francaise', *The Economist,* 17 April 2004.

1 To what extent has McDonald's sacrificed its principles in France?
2 How might this strategy influence its cost base and competitive advantage?

National cultural values

Understanding national cultural values

We have already introduced the importance of national cultural values as a key factor in explaining the relatively enduring differences among countries and their approach to business and management. This 'cultural' school has resulted in many cross-cultural studies, usually comparing values and practices in a range of countries to shed light on the difficulties that organizations may face in doing business outside their own territory, or to provide advice for managers on how to behave with 'foreigners'. The cultural values approach has been extremely influential in the management literature, but it is not without its critics, some of whom believe the 'national cultural card' has been overplayed. In this section of the chapter we shall review the work of two of its most influential theorists, and point out its limitations. First, however, we should describe what culture means in an international context.

Generally, in the management literature at least, culture refers to 'systems of meanings' – values, beliefs, expectations and goals – shared by a particular group of people distinguishing them from members of other groups (Gooderham and Nordhaug, 2003, p. 131; Schneider and Barsoux, 2003). Ed Schein, one of the founding fathers of cultural studies in management, has defined culture as:

> 'a set of basic assumptions – shared solutions to the universal problems of external adaptation (how to survive) and internal integration (how to stay together) – which have evolved over time and are handed down from one culture to another'
>
> (Schein, 1985)

This definition is appealing for two reasons. First, it links (a) the external but universal problem that all organizations face in searching for effective strategies and ways of addressing markets and customers with (b) the internal and often unique solutions of designing effective organizations and appropriate people management practices. Second, it points to the internalized ways in which people behave and in what they believe and value. Schein usefully distinguished between different levels of culture in an organizational setting (see Figure 5.1). These distinctions can also be applied to the international context, and indicate how we might discover these behaviours, values and beliefs and the basic assumptions that underlie them.

Thus, translating Figure 5.1 into a national setting, the most visible levels of cultural artefacts might be exemplified by traditional modes of greeting each other, forms of address and titles, dress codes, national symbols such as flags and buildings, etc. For example, many emerging countries seek to create buildings of national significance to reflect their aspirations to be a modern economy – the Petronas Towers in Malaysia is a good illustration. Older countries also use architecture to signify something distinctive about their national identity, such as the new Scottish Parliament Building in Edinburgh, Scotland, the Guggenheim Museum in Bilbao, Spain and the Pompidou Centre in Paris, France. In greeting each other, Japanese business people bow to show respect; the lower one bows the more respect one is showing, usually to seniors. Titles are used quite differently in different cultures, with Germans usually insisting on the use of titles such as professor and doctor in social as well as work situations, whereas in the USA the title 'doctor' may be dropped because it has elitist connotations. In the UK such

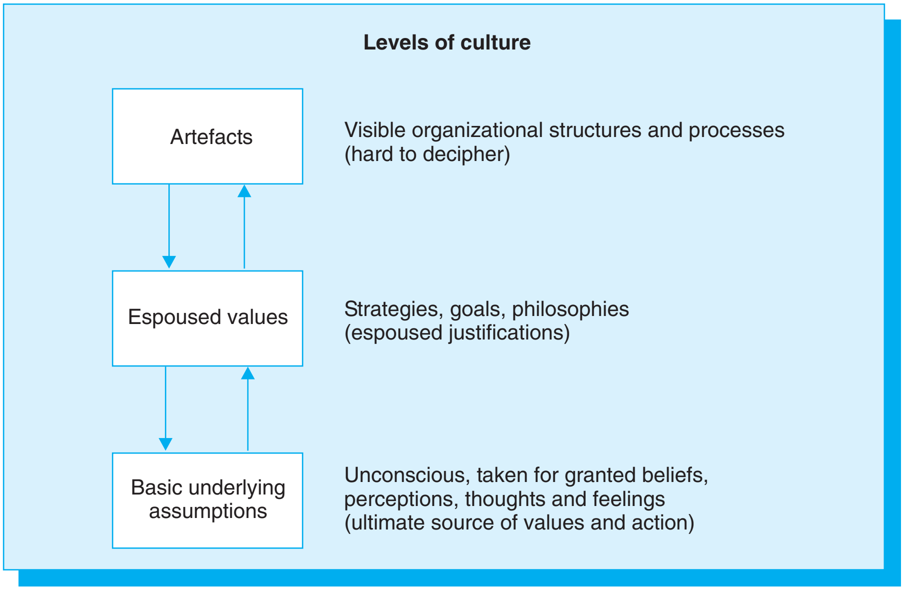

Figure 5.1 Different levels of culture. (*Source*: adapted from Schein, 1985.)

a title, used in a non-medical context, may even have negative connotations that reflect the historically low value placed on higher education beyond first degree level (though this is changing). Office architecture is another good example of artefacts that reflect values, so in Germany one is likely to find enclosed offices with official titles on the doors, whereas in the USA open-plan is quite normal (though people do attempt to personalize these spaces) (Schneider and Barsoux, 2003).

Espoused values and beliefs in a national setting refer to the goals, norms of behaviour and everyday philosophies that guide actions in a particular country – for example, in relation to making money, displaying wealth and promoting entrepreneurship in a society. As an illustration, it is widely accepted that national cultures vary in their beliefs and values about the criteria for success, with America well known for its business culture that promotes the 'divine rights' of shareholders, risk-taking behaviour, materialism and open displays of wealth. In other countries such beliefs and values would be anathema, with the Japanese valuing customer service, market share and obligations to colleagues, Swedes valuing the rights to be consulted, job security and social benefits, and the Germans (and Swedes) valuing product quality. German managers in manufacturing industry will often place the high-quality design and reliability of their products over shareholder interests or customer satisfaction; engineering, producing and selling are functions valued much more highly than marketing or finance. In France, the beliefs and values in technological leadership are paramount, with a high premium placed on engineering and science degrees, in sharp contrast to the UK, where engineering has enjoyed low status for many years.

At the deepest level, basic underlying assumptions refer to the unconscious, taken-for-granted beliefs, perceptions, thoughts and feelings that shape values and guide actions. Schneider and Barsoux (2003) have organized this idea of basic assumptions into three overlapping domains (see Figure 5.2). Two of these we have already discussed – how different cultures manage relationships with the environment (external adaptation) and how different cultures manage relationships with people (internal integration). The third domain is a set of linking assumptions on how different societies regard time, space and language.

It is worth setting these assumptions out in a little more detail.

Environmental assumptions

Societies differ according to beliefs in their ability to *control nature*. So, for example, the notion of management implies control over nature,

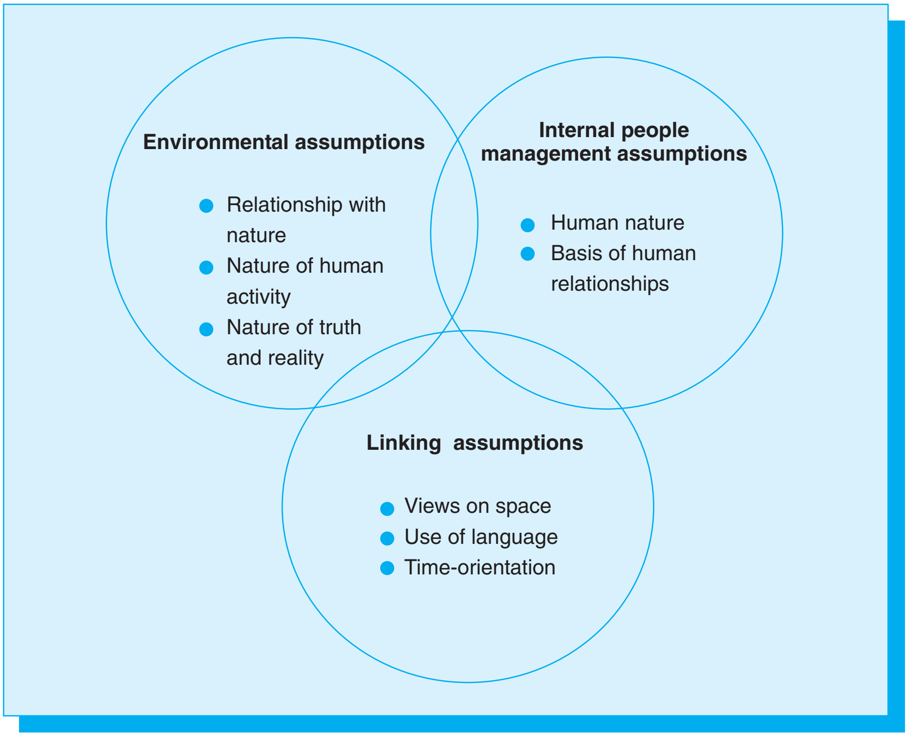

Figure 5.2 Underlying cultural assumptions. (*Source*: based on Schneider and Barsoux, 2003, p. 35.)

even though some economists argue that managers and management can exercise little such control in reality (since, according to one school of thought at least, it is markets and competition that shape economic activity, not managers). However, most Americans believe in the ability of managers to shape their destiny, so leadership has become a major preoccupation in US business teaching and practice. In contrast, fate or destiny is seen by Islamic cultures to be predetermined, so that assumptions regarding the power of leadership to shape the future, especially leadership of a secular kind, are limited. The burial in 2005 of the King of Saudi Arabia in a modest grave illustrates this point. Linked to this belief in fate are beliefs in the power of *human activity*. So, for example, beliefs in control over the environment go hand in hand with taking action and making decisions – to act one's way into thinking (Weick, 2001).

It is also linked to the idea that achievement is a result of what a manager accomplishes. Contrast this 'American Dream' with societies that believe more in predetermined destiny. Such is the case of French managers, who value reflection, analytical thinking and planning – 'thinking their way into action' – and in 'being', which reflects the quality of their education and who they are rather than what they do. Finally, societies differ according to their assumptions about *truth and* *reality*. Anglo-Saxon cultures place emphasis on facts and science, whereas Asian, Latin European and Latin American cultures are more likely to assume that truth(s) can be uncovered by intuition, feelings and spiritual means – for example, by astrology, graphology or fortune-telling in Brazil, France and China respectively (Schneider and Barsoux, 2003).

Internal people management assumptions

Societies differ according to their views of *human nature*, with some believing in the virtuous side of people (mainly those of a Protestant persuasion) and their ability to do 'God's work' on earth by achieving material wealth through hard work. This argument has been used to explain why the UK, USA and Germany were the first countries to industrialize compared with the mainly Catholic countries like France and Spain. In these latter countries, there was (and is) a greater expectation of people sinning, repenting and being forgiven by spiritual means, rather than earning forgiveness through secular hard work (Anthony, 1977; Weber, 1930). Societies also differ in their assumptions regarding the relationships of people to tasks or to people. In the USA, a task orientation is pre-eminent, and 'getting things done' and 'strictly business' are guiding principles. Contrast this with the more relationship-oriented Latin cultures in which business cannot be done effectively unless strong personal relations are established between people. Associated with these ideas about task and relationship orientations are the assumptions about taking care of people in business. In 'feminine' societies (see Hofstede below), there is an assumption that the role of business is, in part, to improve the quality of life and nurture relationships, whereas 'masculine' cultures assume that competition, assertiveness and winning are important. Finally, societies differ in their assumptions regarding the importance of hierarchy in structuring relationships between people. In France, hierarchy and the power of the senior individual manager are enshrined in law, business practice and the higher education system, whereas in northern European countries, such as Sweden and Denmark, hierarchy is played down to a much greater degree.

Linking assumptions on space, language and time

Societies differ in their assumptions about *space*, which are expressed in the areas of architecture, personal space and public–private space.

For example, North Americans, probably because land is plentiful and available, place a great deal of emphasis on privacy and on geographic and professional mobility. In Japan and countries such as Hong Kong, where space is limited, assumptions regarding privacy and mobility are somewhat different.

Language is another, and critically important, linking assumption, because it helps us shape our thoughts as well as express them. So, for example, it is often claimed that Inuits who live in snowy climates have many different words to express snow, which help them 'see' different kinds of snow and convey their meanings to others. In 'high-context' cultures, communications between people are highly dependent on the person and the situation, so a great deal can be communicated by what is not said and how it is said, such as in Japan. In 'low-context' cultures, the assumptions are that language and communications are means of expressing precisely what is meant, regardless of who is doing the saying and the nature of the situation. Such is the case in the USA, where short, to-the-point, written and oral communications are the norm. It is in such a society that PowerPoint slides have become the basis of classroom presentations, the bullet-point nature of which tend to exasperate and bore managers in the UK and continental Europe ('death by PowerPoint').

Finally, different cultures have quite different conceptions of time. The usual distinction is made between *monochronic and polychronic conceptions of time*. In Anglo-Saxon and northern European cultures time is seen as a limited commodity and the clock as a crucial device in educating people about the value of time. Arguably, Anglo-Saxon capitalism could never have developed without the invention of the clock and synchronous time. Time tends to be thought of in a linear sequence, with strict scheduling, clocking-in and time management features of such societies. Being 'on time' is an extremely important signifier of efficiency and in your respect of other people's limited time – the more important the person you are to meet, the more likely you are to be 'on time'. This contrasts with cultures in which time is seen as expandable to accommodate different activities concurrently. For example, in Latin and Middle Eastern cultures, engaging in several activities at the same time, without bothering too much about punctuality, would be the normal way of working, as I have discovered to my frustration when working in Cyprus, Greece and Saudi Arabia. Assumptions also vary in relation to the importance of past, present and future time, with older cultures such as the UK revering their past and tradition, whereas the Americans look to the future (Schneider and Barsoux, 2003).

Box 5.2: Cultural assumptions and education

One good example of a basic national assumption over which societies differ is the belief in education as a way of advancement. In Chinese societies, learning and education are held in high regard, both as an end in themselves and as ways of advancement. Consequently, Chinese families are willing to sacrifice a lot for the education of their children, and educationalists, especially top-level university scholars, are held in great esteem (Zhang and Martin, 2003). By contrast, education in England (as distinct from Scotland), at least historically, was not believed to be of such great value in defining who a person was and, consequently, as a way of advancing themselves in society (Weiner, 1989). This rather negative view of education as a way of getting on applied most notably to vocational education, such as engineering and, more recently, business studies (which began in earnest only in the 1960s in the UK compared with the late 1880s in the USA). Thus, vocationally based higher education in the English universities and the academics who work in vocational subjects have not been held in high regard by the academic community or by the general public at large in rankings of social esteem. It is these underlying assumptions that are the most pervasive aspects of national culture but which are the most difficult to surface and most resistant to change. Such is the legacy of the 'English disease' and its assumptions and attitudes to vocational education that nearly all governments since the 1960s have been forced to bring in one programme or another to generate interest in vocational subjects and vocational careers in areas such as engineering or, more recently, entrepreneurial activity (Wolf, 2002).

Classifying national cultures according to fundamental dimensions such as values and beliefs has been of great importance to practitioners, if only to explain the notion of cultural distance. This concept is self-explanatory, and refers to the distance between one national culture and another in terms of values, beliefs and deep-rooted assumptions. Thus, for example, the UK and USA share a common history, certain religious beliefs, language and legal system, and it should come as no surprise that the dimensions on which these countries are deemed to differ reveal very little cultural distance. The writers most associated with explaining national cultures according to key dimensions are the Dutchman Geert Hofstede and the Anglo-Dutch cooperation between Fons Trompenaars and Charles-Hampden Turner.

Hofstede and cultural values

Geert Hofstede began his work in 1967 on a large research project into national culture differences across subsidiaries of IBM, the computing

MNE, in 64 countries. According to Hofstede, this original work and the follow-up studies by him and his colleagues have identified and validated five independent dimensions of national culture differences (see Box 5.3).

Box 5.3: Hofstede's cultural values

Power distance

High- and low-power distance refers to the extent to which the less powerful members of organizations and institutions such as the family accept and expect that power is distributed unequally. This bottom-up view suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Power and inequality, according to Hofstede, are fundamental facts of any society, and experience of living in different societies will lead anyone to the conclusion that all societies are unequal, but some are more unequal than others.

Individualism

This dimension is defined in contrast to *collectivism* and refers to the degree to which individuals are integrated into groups. In individualist societies the ties between individuals are loose: individuals are expected to look after themselves and their immediate family. In collectivist societies people from birth onwards are integrated into strong, cohesive groups, more often than not in extended families, which provide protection and a level of identity in exchange for unquestioning loyalty. Notions of the American and Sicilian Mafia come to mind here. It should be noted that Hofstede did not intend the notion of collectivism to have a political meaning, such as occurred in the old USSR. It refers to the group, not to an official state ideology.

Masculinity and femininity

Hofstede attracted much criticism for his use of terms here, especially from writers concerned with gender studies. However, he claims that he has been misunderstood or misinterpreted. His argument was that different societies distribute roles between the genders in different ways. His IBM studies revealed that: (a) women's values differ less among societies than men's values; (b) men's values from one country to another contain a dimension from very assertive and competitive (and very different from women's values in a country) to modest and caring (and similar to women's values in that country). The assertive pole he called 'masculine' and the modest, caring pole 'feminine'. The women in feminine countries he described as having the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as the men, so that these countries show a gap between men's values and women's values.

Uncertainty avoidance

This refers to a society's tolerance for uncertainty and ambiguity and how it deals with these issues. According to Hofstede, it refers ultimately to a society's search for and belief in a universal truth, and indicates the extent to which a country's culture mentally programmes its members to feel comfortable in unstructured situations. Unstructured situations refer to new and perhaps surprising ones, different from those usually experienced. Uncertainty-avoiding cultures try to minimize the possibility of such situations by imposing laws and rules, safety and security measures, and at the philosophical and religious level by a belief in absolute truth. People in uncertainty-avoiding countries also tend to show more emotions in everyday interactions. By contrast, uncertainty-accepting cultures tend to be more tolerant of different opinions and new ideas, have fewer rules and value rule-makers less, and on the philosophical and religious level they are more relativist in their views (see Chapter 1). People within these cultures are more matter-of-fact and tend not to express emotions openly.

Long-term versus short-term orientation

This fifth dimension was brought to public notice by one of Hofstede's colleagues, Michael Bond, in a study among students in 23 countries around the world, using a questionnaire designed by Chinese scholars. Values associated with long-term orientation are thrift and perseverance; values associated with short-term orientation are respect for tradition, fulfilling social obligations and protecting one's 'face'. Both the positively and the negatively rated values of this dimension are found in the teachings of Confucius, the influential Chinese philosopher who lived around 2500 years ago. However, the dimension also applies to countries without a Confucian heritage.

According to his extensive research and further replication studies by other people, countries differ significantly along these dimensions, the ranking of which can be seen in Table 5.2.

Hofstede found that power distance scores tend to be high for Latin, Asian and African countries and smaller for Germanic countries. Individualism prevails in developed and Western countries, whereas collectivism prevails in less developed and Eastern countries. Japan takes a middle position on this dimension. Masculinity is high in Japan, in some European countries such as Germany, Austria and Switzerland, and moderately high in Anglo countries. It is low in Nordic countries and in the Netherlands and moderately low in some Latin and Asian countries such as France, Spain and Thailand. Uncertainty avoidance scores are higher in Latin countries, in Japan and in German-speaking countries, but lower in Anglo, Nordic and in countries with a dominant Chinese culture. A long-term orientation is

Table 5.2
Country rankings according to Hofstede's values

Country	Power distance	Individualism	Uncertainty avoidance	Masculinity	Long-term orientation
Arab countries	80	38	68	53	
Argentina	49	46	86	56	
Australia	36	90	51	61	31
Austria	11	55	70	79	
Belgium	65	75	94	54	
Brazil	69	38	76	49	65
Canada	39	80	48	52	23
Chile	63	23	86	28	
China, mainland	No data available				118
Colombia	67	13	80	64	
Costa Rica	35	15	86	21	
Denmark	18	74	23	16	
East Africa	64	27	52	41	
Equador	78	8	67	63	
Finland	33	63	59	26	
France	68	71	86	43	
Germany FR	35	67	65	66	31
Great Britain	35	89	35	66	25
Greece	60	35	112	57	
Guatemala	95	6	101	37	
Hong Kong	68	25	29	57	96
India	77	48	40	56	61
Indonesia	78	14	48	46	
Iran	58	41	59	43	
Ireland	28	70	35	68	
Israel	13	54	81	47	
Italy	50	76	75	70	
Jamaica	45	39	13	68	

(*Continued*)

Table 5.2 (*Continued*)

Country	Power distance	Individualism	Uncertainty avoidance	Masculinity	Long-term orientation
Japan	54	46	92	95	80
Malaysia	104	26	36	50	
Mexico	81	30	82	69	
Netherlands	38	80	53	14	44
New Zealand	22	79	49	58	30
Norway	31	69	50	8	
Pakistan	55	14	70	50	
Panama	95	11	86	44	
Peru	64	16	87	42	
Philippines	94	32	44	64	19
Poland	No data available				32
Portugal	63	27	104	31	
Salvador	66	19	94	40	
Singapore	74	20	8	48	48
South Africa	49	65	49	63	
South Korea	60	18	85	39	75
Spain	57	51	86	42	
Sweden	31	71	29	5	33
Switzerland	34	68	58	70	
Taiwan	58	17	69	45	87
Thailand	64	20	64	34	56
Turkey	66	37	85	45	
Uruguay	61	36	100	38	
USA	40	91	46	62	29
Venezuela	81	12	76	73	
West Africa	77	20	54	46	16
Yugoslavia (former)	76	27	88	21	

found mostly in East Asian countries, in particular in China, Hong Kong, Taiwan, Japan and South Korea.

These rankings allowed Hofstede to map countries on two dimensions at a time to create typologies of cultural systems or maps. Perhaps the best known is his mapping of uncertainty avoidance and power distance, which was particularly relevant in explaining the relationship between national culture and organizational structures (see Figure 5.3). Countries that were high on both power distance and uncertainty avoidance, such as France and most South American countries, tended to favour bureaucratic or mechanistic organizational structures. This grouping was labelled the *pyramid of people*. Countries that were the opposite – low on both of these dimensions, such as Denmark and Sweden and, to a lesser extent, the UK and USA – tended to favour more flexible, decentralized, organic organizations that were less bound by rules and procedures. This grouping was called the *village market*. Countries high on uncertainty avoidance but low on power distance were called the *well-oiled machine*. These were located mainly in the Germanic region and were high on routines but low on the needs for centralized leadership. Finally, those countries high on power distance and low on uncertainty avoidance tended to be located in South East Asia and exhibited the *family-like* tendencies of Chinese cultures. Organizations in these countries operate on the basis of centralized personal leadership rather than on routines and rules.

More recent research has confirmed many of Hofstede's findings (Schneider and Barsoux, 2003). This research described variations in 'implicit' organizational models found in different cultures that closely

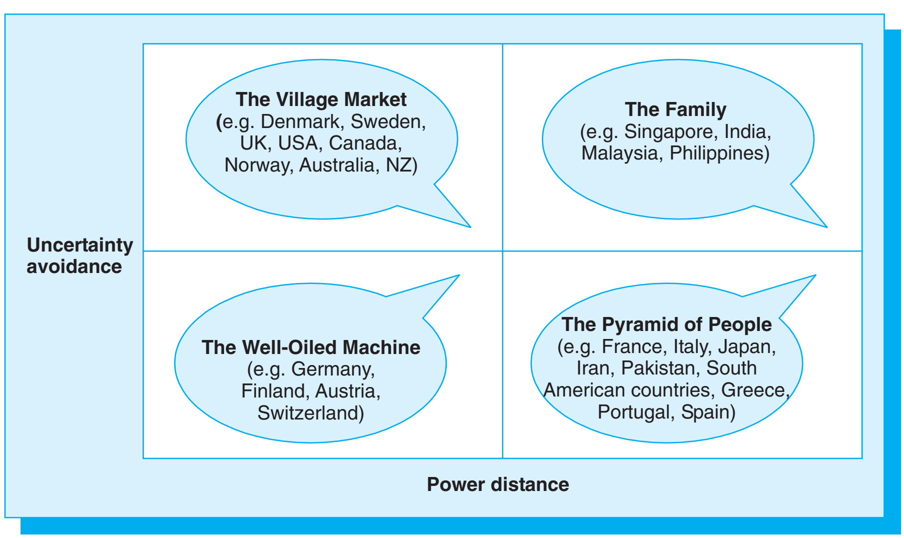

Figure 5.3 Hofstede's mapping of uncertainty avoidance and power distance.

resembled the pyramid of people in France, and the well-oiled machine in Germany. The UK organizations researched in the study were found to reflect the more flexible village market, with British managers more willing to fit organizations to people, rather than the other way around. Similarly, studies in Asia have confirmed the family model in the Indian, Singaporean and Hong Kong banking systems.

Trompenaars and Hampden-Turner and cultural values

Trompenaars and Hampden-Turner's (1997) work can be compared with Hofstede's approach in so far as they both used bipolar dimensions to classify cultures. However, Trompenaars and Hampden-Turner began from a different position in drawing on ideas from sociology rather than empirical studies. Subsequently, they have tested their ideas on cultural dimensions with 30 000 managers in companies across 28 countries. They have identified seven value orientations. Some of these value orientations described below are nearly identical to Hofstede's dimensions, whereas others offer different insights into culture.

- *Universalism versus particularism.* In universalist cultures there is an emphasis on formal rules and contracts regardless of circumstances. Universalist countries take contracts very seriously and employ lawyers to make sure that the contract is kept. A good example is the USA, with probably the highest rates of lawyers per capita. Particularist countries think that the relationship is more important than the contract and that a good agreement does not require a written contract; the relationship and trust between particular people and the particular situation are more important than universal rules. Particularist countries include Russia, China and India.
- *Communitarianism versus individualism.* Very similar to Hofstede's individualist/collectivist dimension, in communitarian cultures people stress allegiances to groups first and foremost, whereas in invididualist cultures people stress individual freedoms, rights and effort. Alongside Israel and Denmark, the USA is regarded as an individualist culture, with China and Germany seen as communitarian cultures.
- *Neutral versus emotional.* This value dimension refers to the extent to which emotional behaviour is used freely and openly in a business situation. In a neutral culture, emotions would not be seen as acceptable in interpersonal relations. Most South American and Latin European countries would be

regarded as emotional, whereas China, Japan and India would be regarded as neutral.

- *Diffuse versus specific.* A specific culture can be regarded as one in which a strong separation is made between work and private life, so that the authority relationship that exists in a work situation is not carried over into wider social life. A manager is only a manager at work and not in the social community in which he or she lives. In diffuse cultures, authority relationships carry over into the wider social situation, where formal relationships are maintained. The USA would be regarded as a specific culture, whereas China, Russia and Japan might be regarded as diffuse cultures.
- *Achievement versus ascription.* This value refers to the basis on which societies accord status to individuals. An achievement orientation is based on performance at work and through education, with the USA, UK and Denmark scoring highly on achievement. An ascription orientation allocates status on the basis of factors such as age (China), kinship (India) and gender (Japan). Other status factors also come into play, including the kind of school that one attended (the UK).

Trompenaars and Hampden-Turner also refer to the two key dimensions of time and human nature, which we discussed in the earlier section on understanding cultures.

Of these seven value dimensions, two closely mirror the Hofstede dimensions of collectivism/individualism and, to a lesser extent, power distance. Trompenaars and Hampden-Turner's communitarianism/individualism value orientation seems to be virtually identical to Hofstede's collectivism/individualism. Their achievement/ascription value orientation, which describes how status is allocated in society, reflects Hofstede's power distance index, at least if one accepts that status is accorded by nature rather than achievement, and that this reflects a greater willingness to accept power distances. It is, however, not a complete match, as Hofstede's power index relates not only to how status is accorded, but also to the acceptable power distance within a society. Trompenaars and Hampden-Turner's other dimensions seem to focus more on some resulting effects of underlying value dimensions. For example, their neutral/emotional dimension describes the extent to which feelings are openly expressed, i.e. a behavioural aspect rather than a value in itself. Their universalism/particularism value orientation, describing a preference for rules rather than trusting relationships, could be interpreted as part of Hofstede's uncertainty avoidance dimension on the one side, and to some extent the collectivist/individualist dimension.

However, their diffuse/specific value orientation, describing the range of involvement, seems to have no direct link to any of Hofstede's dimensions.

Problems with the cultural values approach

Hofstede's work, in particular, has been subject to a number of criticisms, which he has acknowledged in his recent writings. Three of the most important are discussed below.

- He generalized about the culture of national populations on the basis of a small number of questionnaire responses of one organization, IBM, in particular countries. Small-sample research is prone to error. In addition, attempting to describe national variables while undertaking research at the level of the firm is a dangerous strategy. The corporate culture of the firm is always likely to influence respondents' answers.
- He didn't acknowledge the variation in cultures within countries that, as noted earlier, can often be greater than the variation between countries.
- Questionnaires are not a good means of identifying deep-rooted concepts such as culture. Many academics claim that survey methods only tap the surface of culture, which can only be fully understood by more in-depth qualitative research, or by living in a culture in the way anthropologists do.

These criticisms have sparked off a greater interest in qualitative and historical approaches to understanding national differences, including interest by Hofstede himself. We can now turn to this focus on institutions and business systems.

Institutions and business systems

A definition of business systems

Sociologists often refer to institutions in their analysis of societies, by which they typically mean the key 'pillars' of society such as the family, religion, education, the mass media, business and financial institutions, labour movements, the state and its agencies, and so on. These key institutions both shape and are shaped by national cultural beliefs, assumptions and values (Tayeb, 2003). We have already seen this process at work when describing how the cultural values concerning education in different countries have been related to business success. In addition to the national institutional framework, we also have to consider the role of supranational institutions, which include bodies such as the European Union (EU), the World Trade Organization (WTO) and the North American Free Trade Association (NAFTA). Thus, it is possible to make an analytical distinction, at least, between the more abstract notion of national culture, with its emphasis on values, assumptions and beliefs, and the more concrete notion of institutions that refer to the particular organizational forms and structures of behaviour that define a society.

In the business literature, institutional analysis has been used to describe the variety of national or regional models that provide alternative and often competing modes of operating in the global economy. We touched on this concept in Chapter 1 when examining the sources of ideas on management. As we have suggested, competition between national systems has led to much borrowing and diffusion of practices, but these cross-border developments have not resulted in the wholesale convergence predicted by the globalization thesis. Institutionalists accept that national systems are increasingly interlinked and interdependent, and that we are witnessing greater mutual influence among such national systems, but they also point out that the picture is of a more complex pattern of simultaneous *convergence* and *divergence* in any system (Ferner, 2001). These institutionalist writers have introduced the concept of national (or regional) *business systems* to describe these complex patterns, now an accepted way of comparing and contrasting business and management issues in countries and regions of the world. We can get a better idea of what a business system might comprise by examining the following definition.

Key definition: A national business system

National business systems comprise the interlocking institutions that shape the markets, nature of competition and general business activity of a country (or region). These institutions include: the industrial relations system; the systems of training and education of employees and managers; the typical structure of organizations; the typical relationships among firms in the same industry; typical firms' relationships with their suppliers and customers; the nature of financial markets of a society; the conceptions of fairness and justice held by employers and labour; the structure of the state and its policies for business; and a society's idiosyncratic customs and traditions, as well as norms, moral principles, rules, laws and recipes for action.

Source: based on Hollingsworth and Boyer, 1997, p. 2.

As you can see, this definition refers to the cultural features of society, such as assumptions about fairness and justice, norms, moral principles and recipes for action, but it also highlights the specific organizational forms, relationships and systems that both reflect and give rise to these cultural features of a nation's or region's business system. Like a number of authors, I believe that this wider conception of business systems and how they develop provides additional insights for practitioners, making the approach indispensable to gaining a deep understanding of how to manage in specific countries. There are at least five characteristics of a business system approach that are worth highlighting:

1 The importance of a historical perspective.
2 The systemic and enduring nature of business systems.
3 The role of critical turning points in changing systems.
4 The basis for comparing business systems.
5 The interaction of national systems with regions and industry systems.

The importance of a historical perspective

The first of these insights is the emphasis on the *historical development of business systems*, an area that psychologists interested in international comparisons and cultures have either neglected or played down. To those of us who have lived and worked in different countries, this neglect of history may seem strange, as people in everyday situations are often proud of their history when describing their countries' distinguishing achievements. For example, ask the Scots, Israelis or Greeks, all inhabitants of small countries with a long tradition of education, what they have done for the modern world and they will point out a long list of mainly historical inventions, ideas and people that they have 'gifted' to the 'New World'. Thus, 31 US presidents have claimed Scottish descent, as well as inventors of the telephone (Alexander Graham Bell), the steam engine (James Watt), the television (John Logie Baird), and the sciences of economics (Adam Smith) and sociology (Adam Ferguson) (Herman, 2001). So, to stick with these countries for the moment, it seems inconceivable that we could understand how international firms with origins in Scotland, Israel or Greece operate abroad without some form of historical understanding of the relationships between education, innovation and export of people for which these countries were noted.

To widen the discussion, we might ask the question: Why is it that two countries as geographically (and, in some respects, as culturally) close as the UK and Germany have developed distinctively different forms of economic organization, industrial relations and attitudes to management, particularly managing people? The answer requires an insight into the timing of industrialization in these two countries, their relationship to the development (or absence) of political parties that supported the working classes, the development of trades unions, approaches to the development of managers, and the legacy of major events such as the two world wars during the twentieth century. As some researchers have pointed out, trade unionism in the UK developed prior to mass industrialization in the eighteenth and nineteenth centuries to provide support for craft-based workers, and predated, by many decades, the political party (the Labour Party) that was created to support mass working-class interests. As a consequence, the structure of trade unionism in the UK has been complex, with large numbers of unions pursuing different aims and often competing with each other for members and for pay. Historically, many of these unions have had a strong political agenda because they were formed before the Labour Party, the consequences of which, according to some commentators, served only to increase the conflict between management and labour for most of the twentieth century in Britain. Strike activity, particularly unofficial strike action by small groups of workers, became a marked feature of industrial conflict after 1945, at least in the minds of the popular press, and gave birth to the phenomenon known as the 'British disease'.

Overlaid on these political and labour factors was a traditional approach to recruiting and developing business leaders and managers in the UK (predominantly England) who were not experts in the task they were managing (witness the previously described attitudes to vocational education), but were noted more for social skills and graces, for which their education and social class backgrounds partially equipped them. It is not surprising that these 'gifted amateurs' defined their roles predominantly in terms of people management and external networking, rather than as managing through taking direct action or by managing sophisticated information flows, except in the field of accounting information (see Chapter 2). What might be more surprising, given the people-management bias of the traditional British manager, is that so much industrial conflict resulted. This can be partly explained by the historically marked differences in social class values that permeated UK management and labour. These differences exacerbated the 'arm's length' relationship created by the relative inability of managers to relate to their workers in terms of expertise or the task (Stewart *et al.*, 1994).

By contrast, much of German industry and its labour movement had to be reconstructed from scratch, following the demise of Hitler and the Nazi Party and the devastation caused by the Second World War. The German trade unions were purposely reorganized, with British help, along industrial lines, so that the competition between unions for members and pay never developed to the same extent that it did in the UK. These factors, coupled with the return to a supportive system of labour legislation that had been developed by the social democratic political party prior to the 1940s and the new capital formation associated with much of German industry, resulted in a relatively peaceful industrial relations system for many decades. This state of relatively harmonious industrial relations has provided the stability necessary for rapid German economic development since 1945, and consensus between management and labour continued to be a feature of German industry even when economic development slowed down during the late 1990s.

Overlaid on these industrial relations factors and the effects of the Second World War is the traditional German attitude to education, particularly engineering education, and the beliefs of German managers in expertise and the importance of the task. German managers are noted for not distinguishing technical work from managerial work. Management is necessary to get things done, is not 'over and above' technical work, and is best done by taking action themselves (see Chapter 2 and the well-rounded manager model), rather than necessarily working, once removed, through other people (Lawrence, 2000). Such an attitude, coupled with the much higher technical education of many German managers, meant that they were able to define their jobs less as people managers and more as experts. So, given a more harmonious context, higher level of technical capability and the greater respect from workers for this ability, it is not difficult to explain why the German business system might be very different and why British managers may have difficulty in such a system.

Box 5.4: A business history approach

In an interview, Harvard Business School Professor Geoffrey Jones was asked what his research had told him about the success and impact of businesses around the world. He replied as follows:

'[It] shows how entrepreneurs and firms have occupied centre stage in driving the wealth of nations. It also demonstrates that there has never been a single model for successful or unsuccessful capitalism.

To give only one example, business and economic historians have often taken a sceptical view of the merits of family-owned and -managed firms. Harvard Business School's Alfred Chandler, the doyen of business historians, famously ascribed Britain's relative economic decline to the United States from the late nineteenth century to that country's proclivity towards family or "personal capitalism".

This was contrasted with the separation of ownership and control and the growth of professional management seen in the United States. That debate continues. But this book does report compelling research that shows that, historically, family ownership and management in many countries has been a dynamic force. Leading firms such as Michelin in France, Heineken in the Netherlands, or Cargill or Mars in the United States are the tip of a huge iceberg of successful and long-lived family firms worldwide. Even today around a third of *Fortune* 500 companies are family controlled.

It may sound a simplistic conclusion that there has never been "one best way"of achieving business success. However, this historical experience stands as a powerful corrective to over-simplistic management fads and fashions, and to slavish transfers of management systems and practices that might work well in one country but can be disastrous in another.

… I intended our chapter comparing British and Dutch business history to be provocative. The business historians of these two countries have frequently made comparisons with the United States, and sometimes Germany. Generations of British business historians explained their country's economic "failure" by establishing what it did "wrong" compared with US or German business. They then explained this by identifying idiosyncratic factors in Britain's development, such as the class system, or an alleged industrial "anti-industrial" bias of its social elite, or the post-1945 flirtation with socialism and extensive state intervention. We maintain that comparisons which use the United States as a benchmark can be misleading. The United States is an idiosyncratic country by virtue of its size and growth, high levels of entrepreneurial energy, legalistic culture, and a number of other unusual features.

In our work, we show that the business systems of Britain and the Netherlands shared many similarities. Both countries had an imperial and mercantile heritage. Family business stayed important. The service sector was strong. Multinational activity was extensive and persistent. The two countries even shared the ownership of two of the world's largest multinationals, Shell and Unilever. Many allegedly distinctive features of British and Dutch capitalism turn out to be part of a wider pattern for countries with shared geographical positions, cultural orientations, and historical patterns of development.'

Source: adapted from an interview with Geoffrey Jones, available online at http://hbswk.hbs.edu/item.jhtml?id=4106andt=bizhistoryandnl=y (accessed 12 May 2004).

The systemic and enduring nature of business systems

A second feature of business systems is the *interlocking and enduring nature of business-related institutions* in any country or region over time. Often, we find that new industries, developing in a particular country or region, call for new kinds of skills and work patterns. Good examples of such developments during the latter part of the twentieth century include call centres and software development in India, electronics manufacture in Malaysia and China, and motor vehicle manufacturing in the southern states of the USA. These new industries and the typical kinds of employment policies and practices associated with them were necessarily overlaid on the existing, dominant system of older industries and human resource management patterns. Although changes occurred in the business systems of the affected areas of India, China, Malaysia and the southern USA, these changes were constrained by previous institutional frameworks, such as the dominant patterns of worker organizations, including trade unions, legislation and patterns of business ownership (e.g. the importance of family-owned firms in Malaysia and the state ownership of traditional Chinese firms). For example, foreign companies wishing to set up in China were required to form a relationship with a local partner to form a joint venture, though this requirement is being relaxed as a result of legislation in 2004. Such joint ventures are governed by a system of regulations on employment practices regarding contracts, union recognition and safety that continue to reinforce the role of national and regional governments and the control of the Communist Party on economic development (Zhang and Martin, 2003). Thus, it has often been the case that the rise of new industries and associated employment practices may herald some significant changes in certain aspects of the business system, but because these changes do not fit closely with the previously dominant business institutions, the interlocking and conservative nature of these previously dominant institutional arrangements means that the existing system remains largely intact, albeit in a modified form.

Some companies have understood this problem of institutional inertia only too well when setting up new facilities overseas. For example, most Japanese car manufacturers that entered the US market during the 1980s set up their production facilities in southern locations to avoid many of the institutional constraints associated with typical US vehicle manufacturing in the northern states of the USA. Indeed, some researchers have pointed out that these Japanese firms tended to locate not in the major centres of population in these southern states but in formerly rural small towns to source employees without previously formed expectations of a manufacturing environment and without a previous history of trade union membership. Such was the case with Toyota, which set up one of its major US plants in Georgetown, Kentucky, a small town quite far removed in distance and 'mentality' from the major centres of vehicle manufacture in Michigan and neighbouring Ohio.

The role of critical turning points and changes in systems

A third feature of a business systems approach is the importance of aptly named *critical turning points* in bringing about radical change (Hollingsworth and Boyer, 1997, p. 267). These turning points include wars, economic crises and political upheavals. Such events have often revealed severe problems in previously dominant systems and resulted in transformational institutional change. The new institutional frameworks that were imposed following these upheavals often redefined the pre-existing relationship between employers and employees. As a consequence, the changes in management–employee relationships became embedded in institutional arrangements (e.g. laws, bureaucratic systems, lobbying bodies) that persisted long after the upheavals giving rise to them. An excellent example from the USA is the New Deal era, following the critical turning point of the Great Depression in the 1930s that led to a new industrial relations framework, based on a highly codified system of collective contracts and trade union recognition, which exists to this day in the northern US states. As the inwardly investing Japanese car manufacturers attempted to point out in their location decisions, the New Deal institutional arrangement might have been appropriate during an era of mass production with an emphasis on a standard and limited product range and cost containment, but was not suited to their novel 'lean production' strategy of providing high levels of quality, a wider product range and even lower costs.

A more complex basis for comparing and contrasting international business systems

A fourth feature of the business systems approach is to allow comparisons of different national systems on a more complex range of key dimensions and, at the same time, to reveal their unique nature. These key dimensions for comparison cover major institutional arrangement such as the nature of product, labour and capital markets, the organization of firms, the role of the state, systems of vocational education and training, and industrial relations. However, the unique character of any one system is guaranteed by the particular configuration of what dimensions are important and their interaction over time. In the example of the development of the US business system below, the timing or 'path dependence' of each of the key features of the system means that the US business system is unique (Jones, 2003), even though we can use most of these dimensions to compare it with other capitalist systems (see Box 5.5).

Box 5.5: Business systems analysis and the USA

Anthony Ferner (2001) has provided an excellent illustration of how a business systems approach can be used to analyse a national system, such as the USA, and how the features of this system affect how US multinationals manage overseas. He identifies eight key components of the US business system that help to compare and contrast it with other national systems:

- the development and nature of firms and product markets;
- the development and role of the state and interest associations;
- the development and nature of financial markets;
- the development and nature of labour markets;
- the developing relationship between capital and labour;
- the nature of work organization, the education and training system, and skills;
- the nature of management;
- the development and organization of the HR function.

To give a flavour of this type of analysis, I have summarized and added to the main arguments from his work.

Firms and product markets

There were a number of key features of the ways in which US firms have developed, especially in their relationships with product markets:

1. The early emphasis on market competition and managerial capitalism as the main ethos in organizing economic competition and organizations, compared with the more cooperative form of market competition of Germany and the 'personal' form of capitalism that characterized the UK.
2. The early development of mass markets in the rapidly growing US, mass marketing techniques, such as the development of catalogue retailing and large stores, and the rise of multidivisional organizational structures associated with companies such as General Motors.
3. The mass production, standardization and large-scale organizations associated with the development of the application of scientific management and the moving assembly line in motor vehicle manufacture – for example, Ford in the 1920s.
4. The early development and rise of a managerial class, functional management, including the growth of accountants and sales specialists, and the beginning of the

separation of control by professional managers from the ownership of these large-scale organizations by financial institutions.

5 Early diversification overseas, including some of the earliest MNEs.

The role of the state and employers' associations

Historically set out as an argument between 'big' and 'small' government in the USA, the state has been characterized by relatively weak central government as an economic actor, with a fragmented federal/state structure. Its role has been limited to creating a favourable climate for private sector investment and providing a limited safety net for its inhabitants. There has been no explicit industrial policy, in contrast to countries such as Germany, Japan, France and Singapore. The USA has embarked on brief periods of global intervention, e.g. Marshal Aid and GATT, but has traditionally been reluctant to provide economic aid to overseas countries or to become involved in major initiatives such as the Kyoto Protocol on limiting the effects of global warming. Its relatively weak business associations and industry groups reflect the historical weakness of organized labour. The USA, more than any other country, has promoted the idea of economic coordination and performance through market forces and contractual relationships rather than trust-based long-term relationships (see below).

Financial markets

There has been an historical absence of close relationships between financial organizations and industry, with Wall Street having an arm's length relationship with corporate organizations. In comparison to other countries, the central bank and the banking system have been historically weak and have not intervened in industry. Probably more than any other country, there has been a strong market for corporate control, involving many takeovers and mergers. Corporate control has been a key method of disciplining underperforming companies. This market for corporate control, coupled with the early development of equity markets, has led to a rapid turnover of shares and charges of short-termism. The impact on long-term investment in areas such as strategy, R&D and training has been noticeable. During the last decades of the twentieth century, this system was associated with increased downsizing and focus on creating shareholder value. However, the promise of extremely high rewards through 'playing' the financial markets has led to the large-scale development of new businesses and innovation.

Labour markets

Historically the US labour markets have been highly flexible, with few restraints and with labour bearing the brunt of market difficulties. It was no surprise that the idea of human resource management was born in the USA as costs to be cut rather than as people to be invested in. As a consequence, amongst developed economies, the skills are standardized and there is a relatively high proportion of low-skilled workers in comparison with countries such as Germany, France and Sweden. Traditionally, there have been highly rigid internal labour markets and career structures in organizations, with strong demarcation between groups, often based on education and qualifications. More recently, there has been a decline of organizational careers, with old-style psychological contracts offering job security becoming less important. Instead, there has been a growing importance in the idea of employability (a chance for individuals to learn new skills and make themselves more employable on the open labour market) in blue-collar and managerial labour markets. Historically, there have been few institutional constraints to flexible labour markets and insecurity apart from equal opportunities legislation. The consequence, according to some writers, has been a lack of incentives to invest in employees because of the short-termist orientation of firms and the system of standardized mass production (see section on work organization and skills).

The relationship between employers and labour

Traditionally, US employers have been anti-unionist, stemming from their beliefs in economic liberalism, which has also been the official ideology of the state. Both Democratic and Republican governments have provided state support for employers at the expense of labour, except during the New Deal era. Historically, labour relations have been marked by often violent and sustained anti-labour tactics, such as those employed by Ford during the 1930s. Apart from early flirtations with left-wing politics, the USA has lacked a radical labour movement that already had political rights. This was in contrast to the labour movements of many European countries. Such a system resulted in company-based bargaining and 'business' unionism. This lack of a working-class movement was also brought about because the USA has historically been a middle-class, wealthy society (even during the eighteenth century), with the Frontier and the West a useful safety valve for minorities, and with high rates of social mobility that allowed such minorities to pursue the 'American Dream'. There has been a relatively recent and increasing division between classes in terms of income since the 1950s, which has been a feature of the end of the New Deal.

The non-union model or sophisticated paternalism

The last few decades have seen ever-declining levels of unionism coupled with resurgence of a sophisticated paternalism (human resources management) by naturally inclined, anti-union employers. This is a unitarist strategy, in marked contrast to the pluralist, New Deal strategy that governed much of labour relations before the 1970s. Such strategy has also been associated with the growth of US welfare capitalism, in contrast to European state capitalism. Employers have sought to employ 'high commitment strategies' designed to provide an alternative to unions, based on a heavy reliance on behavioural science techniques to secure compliance and commitment. Market-based pay became a guiding principle in the design of rewards systems, with a heavy emphasis on performance and shareholder value as criteria in determining pay differentials, which have widened markedly. This was accompanied by a decline of internal career progression and an increased reliance on recruitment from external labour markets and employability (employers offered high pay and the opportunity to learn, but no guarantee of employment security in return for high commitment from employees).

The system of work organization and skills

The US work organization and skills profile is a legacy of mass production and the application of Taylorism to many aspects of US industry. Historically, it has been marked by the assertion of managerial control and the relocation of manual skills into technology and management. Managers have played a major role in innovation and in leading teams, with the effect of broadening rather than deepening skills. The accompanying mass higher education system and the concern for vocational skills have been other marked features of the USA, with anti-intellectualism as a current in US society and the veneration of the 'practical' wo/man. This system has helped produce the focus on the external labour market and relatively low investment in training. Some economists have argued it has also produced a relatively inefficient use of cheap labour and lack of investment in technological innovation.

Organization of the HR function

The HR function historically has been proactive and quite well developed in its pursuit of high commitment and welfare strategies, with a growing professionalism, assisted by bodies such as the Society for Human Resource Management (SHRM). Some researchers, however, have argued that HR has remained a minor administrative function compared with finance and marketing. Because of the absence of legal constraints, HR has had wider latitude in developing procedures for labour relations, especially when compared with the bureaucratization and formalization of other countries, e.g. planning, testing, performance management, job evaluation, monitoring compliance, affirmative action. There are, however, systematic differences between union and non-union firms and the priority assigned to labour relations.

Different types of business system

Similar to Hofstede, business systems writers have attempted to classify different types of system according to key dimensions. Whitley's (1999) work is the most widely cited typology of business systems. He has identified six categories:

1 *Fragmented systems*, which are dominated by small, highly competitive family businesses, with little overall coordination of

economic activity, e.g. Hong Kong. Short-term contracts are the basis for cooperation and employment.

2 *Coordinated industrial districts*, such as those existing in the northern Italian clothing industry. Here small firms are closely integrated across the value chain of an industrial sector and between sectors. High levels of employee commitment are the basis for innovation.
3 *Compartmentalized systems*, associated with the traditional joint stock countries of the USA and UK. Large firms dominate, and activity between and across sectors is highly integrated. However, cooperation and commitment between firms, partners and employees are based on contract rather than on trust.
4 *Collaborative systems*, such as those found in Germanic countries. Large alliances of inter-country collaborators, resting on interdependent relations between firms, managers and employees. Comparatively high level of trust.
5 *Highly coordinated systems*, such as those found in Japan after the Second World War. Highly coordinated system of alliances and networks between and within sectors of industry, with government sponsorship.
6 *State-organized systems*, such as the Korean *chaebol*. System of large, family-owned firms or partnerships, directed by the state.

Another such approach is to compare the relative weight of different 'governance' mechanisms by which economic and business activity is coordinated in a country or region (Ferner, 2001; Gospel and Pendleton, 2004). Traditional economic and organizational analysis has identified three such governance mechanisms:

1 *Market mechanisms*, which have emphasized the role of free markets, contracting and the price mechanism as the principal means of coordinating and controlling activities in organizations and economies during the nineteenth century and during the Thatcher–Reagan era of national economic policy, which was accompanied by large-scale deregulation of markets in the late twentieth century.
2 *Hierarchies*, which emphasized the increasing role of bureaucratic organizational structures, rules, rewards and traditional career systems during the twentieth century to govern organizations and regulate economies.
3 *Corporatist structures*, which emphasized the interlocking roles of the state, informal networks and associations. These

corporatist arrangements have been especially important historically in the governance of European business systems and in Japan. The state refers to government and institutions, including government agencies. Informal networks refer to the loosely connected groups of key individuals and organizations in a business system that are influential in government–business relationships. These networks conduct their relations on the basis of mutual trust and confidence rather than on a legally enforceable basis, and are bound together by common values and/or dependence on resources (Ferner, 2001). Associations, of which employers' associations and unions are the most important examples in business systems, usually have a legal identity, and are interest groups that enforce cooperative behaviour on their members and engage in collective contracts with other associations on behalf of their members.

In an interesting application of governance mechanisms to human resource management, Gooderham and Nordhaug (2003) have identified four different contexts or business systems in Europe. They distinguish such systems according to two dimensions that reflect the ideas of Whitley and others. The first of these is the extent to which the state exercises a highly pervasive or limited role in labour relations. In turn this influences the extent to which organizations can exercise choice in how they manage people. Thus, organizations in the UK, USA, Denmark and Norway can exercise considerable freedom in human resource management, whereas firms in Germany, France and Spain are highly regulated, albeit in slightly different ways. The second, which maps onto the distinction between market and corporatist governance structures set out above, is the extent to which market individualist or communitarian infrastructures dominate in shaping business relations. Market individualism refers to the belief in self-interest, market forces and price as a coordinating mechanism, whereas communitarian infrastructures refer to a belief in high-trust informal networks and mutually obligated associations as the most effective form of shaping business relations. These writers contrast the UK and USA particularly as having a pervasive and strong market mentality that inherently leads to low-trust relations and limited cooperation between managers and their employees with countries such as Germany, Norway and Denmark, in which firms are embedded in communitarian obligations and relatively high trust relations. Figure 5.4 compares and contrasts European countries along these two dimensions.

Scope for organizational initiatives	Market individualism	Communitarian infrastructures
High	The USA The UK Australia	Norway Sweden
Low	France Spain	Germany

Figure 5.4 Comparing key countries' governance structures. (*Source*: adapted from Gooderham and Nordhaug, 2003.)

Managing people in an international context

In the earlier chapters, we spent some time examining the nature of management and produced frameworks for thinking about the well-rounded manager. In constructing these frameworks, my desire was to make you aware that effective management had to be related to the contexts in which it was practised. We referred to inner and outer contexts and to near and far contexts in these frameworks, but only touched on the international context. This chapter has been written to provide you with a much greater insight into this increasingly important international backdrop to how cultures and institutions will affect the work of managers and their dealings with others. In this section, we need to spell out in more detail what internationalization or globalization might mean for managers in their everyday working lives. We can do this by looking at the changing views of the 'international manager' and the kinds of characteristics, biographies and competences that seem to be necessary to work well in diverse cultural and institutional contexts. We can also examine how organizations best approach the development of international managers for such changing contexts.

Lessons from the field

Most companies have first learned about the international context through the stories told by expatriate managers who may have been sent out on 'expeditionary' missions to particular countries and who have returned to tell the 'horror' or 'wonderment' tales. These tales are nearly always comparatively based, and for managers from developed countries the comparison is against their own national 'benchmark' cultures and standards of behaviour. Such benchmarking is most apparent when managers are confronted with situations that touch directly on their ethical or moral positions, such as having to deal with requests for 'bribes', or where women are treated as 'second-class' citizens. These tales reflect the problems of expatriate adjustment on international assignments, which have been estimated to cost US business around $2 billion as a consequence of the early return home of expatriates (Schneider and Barsoux, 2003). It has been estimated that around 30 per cent of expatriates in US multinationals fail to complete their full term overseas, with a large proportion of this rate put down to the failure of *cultural adjustment*.

This process of cultural adjustment to foreign countries is often thought to follow three phases:

1. The *honeymoon*, characterized by positive feelings and optimism.
2. The *morning after*, which is a period when the charm wears off and when interpersonal and/or work experiences become unsettling or annoying. This is the phase that creates most difficulty for expatriates and can result in serious problems. Although these problems are more likely to occur as a result of a number of minor events or situations, the term 'culture shock' is used to describe feelings associated with this phase.
3. *Happily ever after*, when expatriates have become gradually adjusted to the new culture.

These phases are not universal, because expatriates have different family circumstances, prior experiences and motivations, and are placed in different work situations. Moreover, the culture shock of moving between countries is usually related to the cultural and institutional distance between them. It should come as no great surprise that US MNEs invested more heavily in the UK than in any other European country following 1945, in part because of this lack of cultural and institutional distance.

Research has shown that adjustment evolves when expatriates acquire greater knowledge of the local culture and language, and through positive work and social relations with local employees and people outside work. Stereotyping tends to diminish, and there is a greater likelihood of shared understandings and similarities. However, if work or social experiences are negative, then these tend to reinforce previously held views and make adjustment more difficult. Moreover, expatriate managers often have to resolve the dilemma of usually having formal responsibility over locals, but not having the local 'knowledge' or resources to get things done. As a consequence, they run the risk of managing at a distance, through information or through different layers of hierarchy. As we have already seen, this is inconsistent with the model of the well-rounded manager, which requires people to manage directly through action, at least on certain occasions.

International management competences

So, what is required to become a highly effective international manager, and how does this affect our model of the well-rounded manager? Again, we have to consider the contexts of such work as set out in our model of the well-rounded manager in Chapter 2. These contexts include the agenda of the work, managing on the inside and managing on the outside. In this connection, Sparrow *et al.* (2004) have set out a model that identifies four sets of stakeholders with whom managers may have to interact:

1. *Shareholders*, who will value quality, innovation and financial control among other strategic objectives.
2. *Customers and suppliers*, whose interests lie in product/service quality, design, costs, availability and so on.
3. *Regulators and governments*, whose interests lie in compliance with legal, socio-cultural and environmental norms.
4. *Employees*, whose interests lie in being treated with respect and in having interesting and rewarding jobs and careers.

Such a focus on these stakeholders reminds us that managing in an international context often involves managing multiple and conflicting agendas, which are set by a wide variety of stakeholders, and that successful management is as much about managing on the outside as managing inside. It concerns managing one's own career, which is increasingly becoming defined as 'boundaryless', involving less hierarchical progression within a single organization, and more national and lateral movement within and across organizational and national boundaries (and even outside organizations themselves, as people increasingly work for themselves or take career breaks) (see Chapter 3). Such career patterns are associated with changes in the willingness of organizations to guarantee secure employment, and with employees' changing career orientations, away from security to concerns with lifestyle, excitement and psychological growth (Arthur *et al.*, 1999). According to Schein (1990), this concern for managing one's own career involves managing an 'external' career, which is concerned with objective notions of advancement upwards and between organizations, and managing the 'internal' career, which involves dealing with subjective issues such as 'Where am I going in life?' and 'What kind of person do I want to be?'

The evidence suggests that having an international career doesn't always lead to objective notions of advancement, because it will often take an individual away from the centres of key political decision-making. It comes as no surprise, then, that most lists of competences for such a career highlight the need for even greater emotional intelligence than may be conventionally inferred from our well-rounded manager model, and will include the *motivation to live overseas, cultural empathy* and *linguistic abilities* (see Table 5.3).

In addition to expatriate managerial competences, which refer to what is required to work in another culture, international managers are increasingly required to work across many cultures and institutional contexts simultaneously. These situations also require managers to work across levels simultaneously. Often, this means managing a project in one situation, but being a team member in another situation. This situation requires a further set of competences (see Table 5.4).

Schneider and Barsoux (2003) summarize these lists of competences for being able to manage internationally at home as having a *global mindset*. This meta-competence, or umbrella concept, refers to the ability of managers to think simultaneously about integration (global or corporate issues) and differentiation (local cultural or subsidiary issues), and to understand how such answers to specific problems of internationalization may change over time. Returning to our discussion of multiple perspectives in earlier chapters, having a global mindset implies being able to work with competing ideas at the same time – in being open-minded rather than believing in a one-best-way. Above all, it implies a learning culture: which leads us nicely into a discussion of how we should develop managers for international roles.

Developing international managers

The problems of developing international managers

Let's begin with a short case in Box 5.6 that gets to the heart of some of the problems of developing managers for an international role, either at home or abroad.

Table 5.3
Competences for managing abroad

Interpersonal effectiveness	Usually seen as the key competence, this refers to the ability of managers to form relationships by building trust and getting along with others. The values of consensus and cooperation are important in developing such competences
Linguistic ability	Often, this means developing a feel for what language is important to others in a symbolic sense, and in being able to use this effectively in conversations, rather than complete mastery of a language in a technical sense
Cultural curiosity and the motivation to live abroad	Cultural curiosity of managers and families is based on genuine interest in other cultures and experiences
Tolerance and dealing with ambiguity	Recognizing that uncertainty and ambiguity is a normal state of affairs and that flexibility and multiple mindsets are necessary
Patience and respect	Again, these map onto the emotional intelligences of self-regulation (self-control) and empathy, but are even more important in an international context
Cultural empathy	Linked to the above, cultural empathy implies understanding the needs and cultural values of others without being judgemental
Strong sense of self-awareness	Another form of emotional intelligence that refers to being in tune with your emotions and recognition that negative emotions, such as insecurity and a lack of self-identity, can hinder work performance
Sense of humour	A key social skill, which acts as a coping mechanism to help gain a sense of perspective and as a relationship-building skill

Source: adapted from Schneider and Barsoux, 2003.

Box 5.6: The problems of educating managers for international business

A study by Reiss and Ones (1995) showed that the attempts to internationalize US undergraduate and graduate courses by including substantial information about the global environment and cross-cultural differences in a business context may have backfired! The headline findings were that:

- Ethnocentric attitudes, as measured by standard questionnaire studies, increased during the period of the course.

- Most significant increase in ethnocentrism occurred when taught by US faculty members.
- 'International' faculty members, who had been recruited specifically to provide an international perspective, were associated with neither an increase nor a decrease of the subsequent ethnocentricism of these students.

This study showed that the conventional solution of education and training may not produce the intended outcomes that, to revert to our original question at the beginning of the chapter, are to reduce the

Table 5.4
Competences for managing internationally at home

Understanding interdependencies	Usually seen as the ability to manage complex and interlocking systems that cut across hierarchy in organizational situations. This often means taking the lead in one situation and being a member in another
Responding to multiple cultures simultaneously	The ability to learn about multiple cultures and work with them simultaneously, which means dealing with people who are often different from each other as well as from yourself
Recognizing cultural differences 'at home'	Cultural curiosity of managers and families is based on the genuine interest in other cultures and experiences
Being willing to share power and learn from others	Recognizing that boss–subordinate relations are inappropriate in modern management situations, especially given increased educational levels and importance of subsidiaries in MNE performance. This is associated with the acceptance of the reverse diffusion of ideas and practice
Thinking and acting with 'local worldwide' mindset	The ability to understand and work with the needs of companies to differentiate by thinking local while integrating by thinking global simultaneously
Adopt a 'culture-general' approach	This means understanding the dimensions along which cultures are likely to differ, rather than having a specific understanding of one culture
Rapidly learning and unlearning	The constant challenging of old assumptions and ways of doing things, and trying out of new ideas and approaches – sometimes referred to as double-loop continuous learning

Source: adapted from Schneider and Barsoux, 2003.

liability of foreignness. I have suggested that this means developing a global mindset, sometimes translated into 'thinking global but acting local'. However, this is not an easy skill to develop, given the paradoxical and ambiguous nature of the problem, because it attempts to link abstract issues such as global competition and outlook with concrete issues of 'place'. Moreover, as Lorbiecki (1997) points out, acting local usually assumes some kind of semi-fixed national cultural unity, itself a problematic concept. For example, can India really be characterized as one culture, given the various historical ethnic, religious and class divisions, and can we reasonably talk of a British culture, without offending the Scots, Irish and Welsh?

Instead, in addressing this question, it is usually more useful to think in terms of the two options available to companies wishing to internationalize their managers that mirror the cooperation–initiative discussion raised in Chapter 4. The first is the *integration solution*, which focuses on creating cooperation through standardized structures, systems, processes and, especially, development and training opportunities, so that a strong corporate culture becomes the main point of reference for managers. Good examples of this integration approach include systems of managerial control, including ABB, the well-known Swiss–Swedish MNE, 'seven-ups' benchmarking system and the role played by their international management development conferences in diffusing benchmarking, and the role played by corporate universities such as Motorola in standardizing the education of managers across their various subsidiaries in different countries. The second is the *differentiation solution*, which focuses on preserving variations in international cultures and institutions that are deemed necessary for local identity and initiatives and encouraging diversity among managers.

One way of thinking about this problem is to use the classic distinction made by Perlmutter (1969), whose work has been used to discuss approaches to international staffing and deployment (see Figure 5.5), and draws on these integration–differentiation dimensions:

- *Ethnocentric* approaches are characterized by organizations with little interest either in developing a strong corporate culture across subsidiaries/markets or in establishing a strong local identity. Often, they have a strong belief in the virtues of their own culture and institutions, and seek to export them overseas. The approach to staffing, deployment and development is focused on head office interests and its predominant needs to maintain financial control. 'Exporting' home managers to run local subsidiaries with little or no thought given to the role and training of local managers is the usual

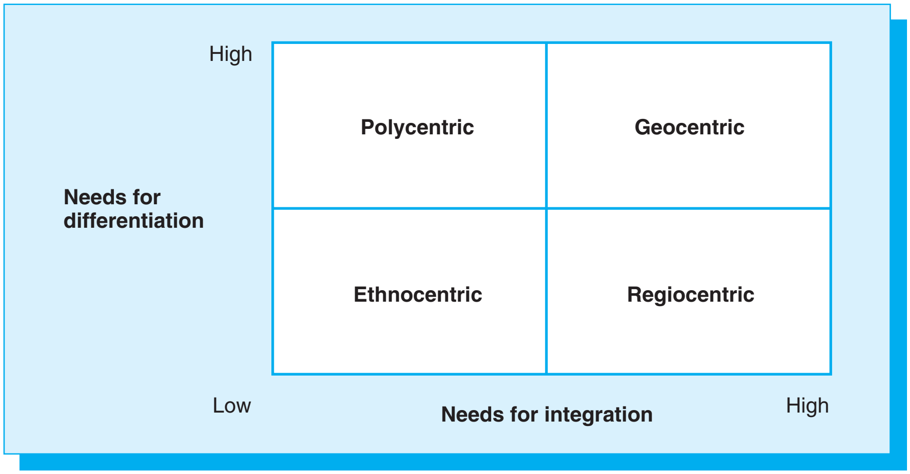

Figure 5.5 Classifying approaches to international management development and deployment.

approach to management 'development'. They may even see educating local managers as a dangerous strategy (too much knowledge!). This approach resonates with political or economic colonial/imperialist styles of management.

- *Polycentric* approaches are characterized by firms that have little knowledge of local product and/or labour markets, or which believe in the importance of differentiation above all else. Such an approach is evident in the hiring of local managers, developing them locally and in 'letting them get on with the job' with minimal interference.
- *Geocentric* approaches are characterized by a belief that nationality has no place in modern business and that home office 'imperialism' is bad for business because it promotes monocultures and inhibits change. High needs for integration and differentiation are thought to be reconcilable, but such organizations are relatively rare. They believe in recruiting managers from inside or outside the company, regardless of nationality, and in developing them to have a global mindset through education in international (academic and/or corporate) business schools and through frequent assignments in different countries.
- *Regiocentric* approaches are characterized by a strong emphasis on regional integration, such as having a strong regional brand, or regional corporate culture that reflects product and/or labour market features. Japanese firms setting up in Europe are good examples. Managers tend to be recruited from the home office, deployed in a particular region and educated into a regional mindset.

It is important to note that no one solution is advocated as the best in all circumstances, although there is the implication in this kind of theorizing that the geocentric approach is the most progressive. Even the ethnocentric approach has advantages and still dominates the HR strategies of many internationalizing organizations. It also has some historical justification, as it was the basis of the British Empire's strategy for most of its 200-year dominance of world affairs (although there were periods and places when Britain pursued a more polycentric strategy). It has also been a strategy employed by many US MNEs as part of the USA's 'economic imperialism' at various points in recent history and in certain regional contexts.

Exercise 5.1

1 Think about the outcomes of the international management education programmes discussed earlier. Why should students have become more and not less ethnocentric during their international management courses?
2 What are the difficulties that organizations face in developing a geocentric strategy?

Management development for international managers

Developing international managers involves devising a set of policies and practices aligned with the needs of the organization for managerial talent and the needs of individual managers for continuous professional development (Thomson *et al.*, 2001). Such a process has to be set in the external and internal contexts of an international organization. The critical factors which make management development in an international context different from developing managers for the domestic environment are: (i) the competences needed to reduce the liability of foreignness, as discussed above; (ii) the need for an international organization to create and transfer learning among its subunits for competitive reasons, often through the transfer or expatriation of managers to subsidiaries; and (iii) the embeddedness of managers in the institutions and educational systems of their own countries.

With regard to the last of these three factors, it is quite clear that management development in international companies is strongly influenced by the institutions of their home countries. It is instructive to see how countries differ in their typical approaches, and these differences raise questions about the roles of managers and about management education.

Table 5.5
Differences among national systems of management development

	US	France	Germany	Japan	UK
Status/role of managers in society	High recognition and increasing	High recognition, the 'cadre' mentality	Medium but increasing	High status and elitist	Medium status. gifted amateur model
Nature of labour market	Externally focused, decline of internal labour markets	Limited managerial mobility, except at top	Limited mobility, strong internal labour markets	Limited mobility but increasing. Strong internal labour markets	Changing from internal to external focus
Focus on 'off-the-job'/role of education	MBA as a screening device. Often criticized for lack of application	'Grandes Ecoles' (major universities) act as screening device. Seen as too intellectual	Middle status vocational schools providing Diplom Kaufmann. PhD for senior managers	Almost no graduate degrees in business. Undergraduate degrees as screening device	Part-time MBA increasing. Professional qualifications also important
Focus on 'on the–job' development	Little emphasis. Rise of 'corporate universities' with strong emphasis on education	Considerable proportion of wage bill spent on management development, for middle/lower managers	Strong apprenticeship system with job rotation	Integrated career structure, planned learning and mentoring, multifunctional approach	Relatively unplanned but improving. Development of corporate universities with focus on experiential
Nature of education system/ relationship to industry	Mass higher education. Rationalist focus of education. Unplanned 'system' of MD	Elitist and rationalist system of ESCs, linked to chambers of commerce. Planned system	Elitist universities supported by new polytechnic universities. Weak links with industry. Strong links with chambers of commerce and industry	Elitist universities, with strong focus on technology and business. No strong links with industry	Moving to mass higher education, with some universities having strong links with industry

Source: based on Lawrence, 2000, 2002; Thomson *et al.*, 2001.

For example, comparing systems of management development in the USA, France, Germany, Japan and the UK, we get quite different views on the roles of managers and management education, as we have already seen in some of our illustrations. Although there is a growing convergence in that all of these countries seem to require some form of self-development beyond their initial education, graduate education, based on the MBA model, is becoming more important in the UK, Germany, Japan and France. On-the-job development in Germany, Japan and, probably to a lesser degree, in the UK and France is more planned than in the USA (Thomson *et al.*, 2001). The UK is relatively unique in managers having low status compared with other occupational groups, a reflection of the low levels of qualifications of many managers. However, in the UK there is probably the most systematic attempt of all countries to have a national policy for management development, based on the National Training Organization Framework and the development of the Management and Enterprise Training Organization.

Attempts to draw comparisons in a few paragraphs are difficult, but Table 5.5 highlights some of the important characteristics of national systems of management development, based on key features of national business systems.

The main point of this comparison of approaches to developing managers is, once again, to reinforce the idea that there is no one-best-way, though certain trends are observable. As we noted in Chapter 2, Henry Mintzberg (2004) is highly critical of management development that is not related to practice and context, and many of the more effective approaches to developing international managers require considerable periods of time spent in reflective practice while working in overseas countries. However, such reflection is aided by a critical understanding of where you stand, and one of the best exercises that can be undertaken off-the-job is to have managers understand how their views of others are influenced by the idiosyncratic nature of their institutional and cultural upbringing. To help you do this, I would like to end this chapter by asking you to engage in some personal reflection by attempting Exercise 5.2 for your own personal development.

Exercise 5.2: Personal reflection

1 Re-read Box 5.5 and then construct a brief analysis of your country's national business system, reflecting on:

- the development and nature of firms and product markets;
- the development and role of the state and interest associations;

- the development and nature of financial markets;
- the development and nature of labour markets;
- the developing relationship between capital and labour;
- the nature of work organization, the education and training system and skills;
- the nature of management;
- the cultural values, norms and standards of behaviour.

How does it differ from the example of the USA? And how do these differences influence how you see things at work?

(If you are from the USA, you can still benefit by choosing another country: reflect on how different its institutions and culture are from the USA and how that might affect how its people view American business practice.)

Learning summary

In this chapter we have examined the problems of organizations 'going international' and the implications for managers. We began by examining the notion of the liability of foreignness and the practical problems to which that concept gives rise, such as whether firms should expatriate their own home country managers or use mainly local managers in overseas operations. Decisions such as these depend on the different entry strategies used by internationalizing firms and on the experience and values of senior managers in the parent company.

They also depend on whether the parent company managers see the countries into which they are entering as convergent with or divergent from their own in terms of culture and institutional frameworks. So, in the middle section of the chapter we examined the nature of national cultural differences and applied them to the analysis of different countries and their organizational and management practices. We also examined the idea of national business systems and applied these to the analysis of Wal-Mart's entry into Germany to show how a lack of understanding of institutions, as well as culture, can seriously hamper ambitions to develop overseas markets. Indeed, one of the most practical exercises you can do as a manager charged with developing overseas markets or working overseas is to undertake an institutional and cultural analysis of the target country. It is also extremely beneficial for you to undertake a similar exercise on your own country, to understand more fully your own idiosyncratic views and to compare these with other countries. Such comparisons, however, are not without dangers, which are highlighted in Box 5.6 on the 'Problems of educating managers for international business'.

The problems of educating international managers lead us into the final section on identifying key international management competences and developing managers for overseas assignments. The capability to think global and act local was a starting point for a more complex picture of competences required for managing abroad and for managing internationally at home. These competences are quite distinct, requiring managers not only to have an understanding of one country, but also to be able to work across many cultures and institutional contexts at the same time. As a consequence, there is no one best way to develop international managers, with different countries taking different routes to preparing managers for their jobs. However, there is little substitute for reflective practice while working overseas in making you a more effective international manager; such reflections are assisted by having a deep understanding of how to analyse the institutions and cultures of your own country as well as those overseas.

Review questions

Multiple-choice questions

5.1 Your are the business development manager of an international firm that wishes to enforce a strong ethical policy on the employment of women in your organization. Which one of the following strategies would be most appropriate when doing business overseas?

A Contracting out service provision.
B Franchising.
C Taking out equity in a subsidiary company.
D Licensing to an overseas company.

5.2 Countries increasingly adopting similar attitudes to education is an example of which one of the following?

A Standardization.
B Localization.
C Convergence.
D Divergence.

5.3 'Think global and act local' best applies to which one of the following?

A Historical differences are the most significant factor in the understanding of international business.
B Creating a strong brand image.

C There is no connection between principles and practice.

D Having a strong corporate identity but allowing local brands to be developed.

5.4 Which one of the following illustrates an espoused cultural value?

A Education is the best way to improve oneself.

B How office space is used.

C An understanding that human nature is essentially good.

D A national anthem or song.

5.5 Which one of the following is most likely to exhibit a high degree of masculinity?

A A nation with a strong long-term orientation.

B A nation that places a low value on empathy with colleagues.

C A nation that places high value on family networks.

D A nation with high power distance.

5.6 Japanese car manufacturers in the 1980s located in the southern US states for which one of the following reasons?

A To access a supply of labour.

B Because the US government wanted to provide job opportunities in the South.

C Because the southern states were closest to major customers.

D Because they wanted to avoid the problems of taking on unionized labour.

5.7 Germany is an example of a nation that exhibits which one of the following?

A Limited state intervention in labour relations and high collective values.

B Limited state intervention in labour relations and strong market awareness.

C High levels of state intervention in labour relations and a belief that market forces aren't necessarily the best means of allocating resources.

D High levels of state intervention in labour relations and self-interest as a coordinating mechanism.

5.8 A company that typically recruits and develops local managers to run its businesses is using which one of the following strategies?

A Polycentric.

B Geocentric.

C Regiocentric.
D Ethnocentric.

True/false questions

5.9 Managers in small, domestic businesses do not need to understand international management issues and practices. T or F?

5.10 Calculating the liability of foreignness includes an assessment of the costs of training managers for overseas assignments. T or F?

5.11 The geography of a country has an impact on its cultural values and assumptions. T or F?

5.12 Hofstede's research shed light on the extent to which managers in different countries make a distinction between work and leisure time. T or F?

5.13 The USA is a good example of a corporatist business system. T or F?

5.14 The 'morning after' period is defined as the time of adjustment into a new culture. T or F?

5.15 Managers working in an international environment should always see things through the eyes of local staff. T or F?

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CHAPTER 6

The corporate context, organizations and managing people

Learning objectives

At the end of this chapter you should be able to:

- understand the importance of the corporate context and the role of managing people in creating corporateness;
- identify the different concepts that contribute to the corporate image of an organization;
- apply the AC^2ID frameworks to the analysis of organizational identity;
- develop an appropriate employer-branding programme for an organization;
- understand the complex relationships between people management, organizational identity, corporate branding and corporate reputation;
- apply the model of the relationship between people management, organizational identity, corporate branding and corporate reputation to an organization seeking to develop a stronger corporate brand and reputation.

Introduction to corporate reputation, identity, brands and people management

There can be few better justifications for a chapter in a book on management than the importance of its intended topic to the fate of a nation and its major corporations – in this case the USA. Take a few minutes to read this case, which was written just after the end of the war with Iraq in 2004.

Case 6.1: America's image abroad – reputation management, branding and people management

Can Keith Reinhard persuade the world to love American business?

An *Economist* article referred to Keith Reinhard, the chairman of DDB World wide, whose challenge was to sell American business and American brands to the world following the Iraq war. 'I love American brands, but they are losing friends around the world and it is vital to the interests of America to change this' was the message of a talk to an audience at Yale University Business School during February 2004. He argued that the reputation of America abroad was at an all-time low and that this perception, however misguided, was damaging the economy.

To tackle the problem Reinhard, with senior executives in America's advertising industry and some academics, set up Business for Diplomatic Action (BDA) to improve the reputation of the USA overseas. The idea wasn't new, since President Bush had speculated on the reasons as to why 'everyone hates America' after 11 September 2001. But Reinhard felt the need to use consumer research to tell American business what most people outside the USA seemed to know about America's declining image.

His worries have subsequently been reinforced by a DBB study covering 17 countries, which provided the feedback that 'America, and American business, was viewed as arrogant and indifferent toward others' cultures; exploitative, in that it extracted more than it provided; corrupting, in how it valued materialism above all else; and willing to sacrifice almost anything in an effort to generate profits'. Further evidence came in the shape of a survey of global brands by Roper ASW, which showed a marked decline in support for and trust in American brands.

Interestingly, Reinhard's group has decided against advertisements to promote the virtues of America. It has also stopped using the term 'Brand America' because it smacked of 'spin-doctoring'. Instead, it is addressing three of the four main criticisms that it believes people overseas have of America: the threat that global brands pose for local firms which lack equivalent marketing and managerial resources; the perception that America cares only about America; and the threat that American popular culture poses to local cultures and religions. (The fourth, foreign policy, is not something business can solve, says Mr Reinhard.)

Source: adapted from 'Selling the flag', *The Economist*, 26 February 2004.

1. In your view, what are the causes of America's poor reputation abroad in this case?
2. What should BDA do about it?
3. What role can more effective people management play in improving the brand image and reputation of American companies and America generally?

The above illustration sums up the growing realization that organizations and even nation-states need to create and maintain strong ideas of 'corporateness' for competitive advantage. The case also raises issues of America's image abroad and that of its major corporations, invoking notions such as identity, branding and reputation. These corporate-level concepts have become key areas of strategic interest among the boardrooms of companies in sectors as diverse as financial services, information and communication technology (ICT), retailing, food and beverages, hospitality and tourism, healthcare, local and national government, and charities. They also provide one of the key contexts for shaping the nature of people management in the new millennium.

There are strong negative reasons driving organizations throughout the world to focus on their corporate identities, brands and reputations, including:

- *The decline in general levels of trust and consumer confidence* following the highly publicized cases of *questionable corporate governance* and *questionable ethics*. Good examples of these are the Enron, Andersen Consulting and WorldCom financial scandals during the early part of this decade, the recent cases of Volkswagen and Parmalat in Europe, and the case of Philip Morris, the US tobacco conglomerate that denied any link between its products and health.
- *Problems associated with inferior and dangerous lines of business products and services*. Examples here include Intel's problems with its Pentium processor that couldn't handle some simple maths calculations; the Ford/Bridgestone fiasco, during which Ford sued the Japanese company Bridgestone for providing faulty tyres that caused their Explorer 4 × 4 to be involved in a number of fatal accidents; the UK high street jeweller, Ratners,

> whose products were so cheap that even the chairman, with a disarming but fatal honesty, admitted even he wouldn't buy them; Sunny Delight's high-sugar orange juice, which was marketed to children as a healthy way to begin a day but was associated with dental decay and obesity; and the continuing problems of poor reputation faced by motor vehicle servicing companies in the UK over the last 30 years, reported by the consumer magazine, *Which?*, in October 2004. At the time of going to press, Merck, the US pharmaceutical MNE, had damages of $253 awarded against it for promoting a drug, Vioxx, which was associated with cardiovascular complications, and promptly $27 billion of its share valuation. Also Transco, the British gas utility, had a record fine for safety violations, which has done untold damage to its reputation.

More positively, however, organizations also see strong corporate brands, identities and reputations as significant intangible assets, sometimes worth up to twice the book value of their tangible assets (Hatch and Schultz, 2001; Fombrun and Van Riel, 2003). For instance, the world's best-known brand, Coca-Cola, has been estimated to be worth $67bn in 2004 (see Table 6.1), and the newer brand images of companies such as Nokia, Sony, Virgin and the UK-based budget airline EasyJet have allowed them to extend their product–service offerings into completely new areas of business. So a firm's corporate brand and reputation can lead to significant strategic advantage through the power to differentiate itself in the marketplace (Fombrun and Van Riel, 2003). Moreover, this differentiation is often difficult to copy, precisely because the sources of differences are intangible and take many years to create.

The illustration in Case 6.1 of the reputation of American organizations abroad also serves to highlight another important feature of corporate brands, identity and reputation, which is the role of *people* in creating and maintaining these valuable assets. Corporate image is largely created through the *unscripted and discretionary* actions, attitudes and behaviours of employees, which lead customers, investors and the public at large to infer favourable or unfavourable impressions of the company (Sjovall and Talk, 2004). The key point is that it is not only the formal communication of corporate identity or image an organization wishes to portray that is important, it is also the informal impressions created by employees in the normal day-to-day conduct of their work that, in turn, lead key stakeholders to attribute to the company fundamental attributes, such as its culture, character or reputation. This is one of the central messages of the example of 'America

Table 6.1
Top ten brands by value

Brand	2004 estimated value ($billion)
Coca-Cola	67.39
Microsoft	61.37
IBM	53.79
GE	44.11
Intel	33.50
Disney	27.11
McDonald's	25.00
Nokia	24.04
Toyota	22.67
Marlborough	22.13

Source: *Business Week*. Available at http://www.businessweek.com/magazine/content/04_31/b3894096.htm, accessed 8 December 2004.

abroad', particularly its conduct of the war and the actions of its managers and employees in business. So, many organizations have come to recognize that one of their few unique and inimitable assets is their *human resources* in creating *reputational capital*, because their products and services, and many of their internal management processes, including financial engineering, supply chain management and purchasing strategies, are all tangible sources of capital, are open to copying and therefore provide little sustainable differentiation (Joyce *et al.*, 2003).

The business literature is replete with anecdotal evidence of how customer service, linked to good human resource management, makes a significant difference to consumer purchasing decisions, on which companies such as Hewlett-Packard, Heinz, Ben & Jerry, South West Airlines, Yum! Brands, who own Kentucky Fried Chicken, Pizza Hut and Taco Bell, and First Direct in the USA, and British Airways,Virgin, Nokia, Saab, BMW and Tesco Stores in Europe have sought to capitalize (Haig, 2004). More solid justification for this proposition comes from two widely cited sources, both of which we shall examine further in this chapter:

- Mary Jo Hatch and Majden Schultz's (2001) work on more than 100 leading companies in the USA and Europe, which found that organizations wishing to create a strong corporate brand had to align three essential, interdependent and largely intangible elements – the organization's vision, its culture and its image. These included the top management's aspirations for the company, the organization's values, and the way employees felt about their organization and the image (or reputation) held of the organization by its major stakeholders – customers, shareholders, the business media and potential employees.

- Charles Fombrun and Cees Van Riel's (2003) work on corporate reputation management since the early 1990s has demonstrated a close link between the financial fortunes of companies worldwide and their reputations. They have found that bottom-line returns, operating performance cash flows and growth in market values are closely tied to their reputation quotient (RQ), a measure that includes important people and culture management variables.

In this chapter we shall look at the relationship between corporate-level concepts such as brands, identity and reputations, and their relationships with human resource management, as this is one of the most important areas in which the effective management of people has been proved to impact directly on performance. First, we shall address the rather vague notion of corporateness to clear up some of the confusion of ideas in this area. Second, we shall look at some of the human-resource-based literature to see what it can add to our understanding. Then we shall examine a model created by some colleagues and myself that brings these two sections together to show the links between people management, branding, identity and corporate reputation. Finally, we shall use this model to analyse one of the cases we have researched, so that you can learn to use it in real-life situations.

Defining and explaining 'corporateness'

In a major contribution to this whole subject area, Balmer and Greyser (2003) have argued that the interest in corporateness or corporate-level concepts has never been higher, because the promise of benefits derived from strong corporate brands, images and reputations is now being taken seriously by businesses on a global scale. At one and the same time, the notion of corporateness provides a new and powerful lens through which to reveal how corporations can improve performance, *and* creates a good deal of confusion because of the myriad of concepts competing for prominence. This confusion has arisen because of the different disciplines and interests contributing to the growing body of ideas, evidence and practice that has served only to mystify practitioners and academics.

To help clear up this state of affairs, Balmer and Greyser have set out six questions that are important to anyone working in this area (see Table 6.2). These questions relate to six corporate-level concepts that are often used synonymously, thus producing much of the confusion of terminology in this field. When brought together, however, and defined in more exacting terms, they seem to capture the notion of corporateness.

Balmer and Greyser have pointed out that each of these concepts has been popular during different time frames since the 1970s, reflecting the problems that organizations faced at the time and the various disciplinary interests and ambitions of those contributing to the debate. For example, corporate branding is the concept favoured in the middle part of this current decade, perhaps because marketing specialists are making an all-out attempt to colonize this field of study and practice for their own ends. Interestingly, Balmer and Greyser identify the potential for bringing together these concepts and interests under the umbrella of 'identity studies', which comprise the various definitions of identity, branding and reputation discussed in this chapter. We shall return to this proposition later in this chapter. However, from our perspective, and to repeat the core message, what is common to all of these concepts is the critical importance of people in helping shape or even 'make or break' them.

Table 6.2
What 'corporateness' means: six questions and related concepts

Key question	Key concept
What are the corporation's distinctive attributes?	Corporate identity
To whom and what do/should we communicate?	Corporate communications
What is our corporate promise or pledge?	Corporate branding
What are organizational members' affinities, or 'who are we'? (see Chapter 3)	Organizational identity
How are we perceived as time goes on?	Corporate reputation
How are we perceived right now?	Corporate image

Source: adapted from Balmer and Greyser, 2003, p. 4.

Let's look at these definitions and distinctions between corporate branding, reputation and identity in a little more detail before building our model.

Corporate branding

Branding of products and services has played a significant part in the marketing strategy of firms for many years, with a number of products and services having worldwide recognition and helping create market values well in excess of book values (see Table 6.1). We have already highlighted the example of Coca-Cola. Another good example from the service sector is the MBA – the single most recognizable global brand in educational services. The classic case of branding lines of products, however, is associated with Procter & Gamble, the American multinational, which is attributed with 'inventing' the branded strategy for its household cleaning, personal hygiene, baby and pet care goods (see http://www.pgprof.com/). Although some of its brands are global, such as Crest toothpaste, Sure deodorant and Old Spice aftershave, others are specific to particular countries.

Nevertheless, it is the *branding of companies* that has become increasingly valuable, especially in particular industries such as financial services and consumer goods and services (Alessandri and Alessandri, 2004; Miller and Muir, 2004). Marketing jargon for company or corporate branding is *monolithic branding*, because it reduces the needs of firms to promote individual lines of business or products/services. Such developments are not new: some strong corporate brands have retained their place in the top 100 global brands for 50 years or more, including Coca-Cola itself, Hewlett-Packard, Gillette, Heinz, Volkswagen and Kellogg's. In the case of the MBA, it is Harvard that is mostly associated with this brand, although it was not the first school to develop the course. So, to some extent at least, the fact of the continued existence of these organizations reflects the power of corporate brands to bestow the following advantages on their companies by:

- building long-term trust by increasing customer loyalty and convincing consumers of the benefits of their products and services;
- reducing customers' search costs for perceived quality products and services and also conferring on them certain psychological rewards;
- ensuring repeat purchases, assisting in the development of new product launches, facilitating market segmentation by

communicating directly to the intended customers of the product or service and facilitating premium pricing.

As we noted, branding specialists are beginning to stake out a claim for the whole area of corporate-level studies and practice, because it is a concept being used more and more by organizations to express their distinctiveness. A website for a major branding consulting company puts the inclusive case for corporate branding as the key unifying concept, which is, the author suggests, 'no less and no more than the face of business strategy, portraying what the corporation wants to be known for in the marketplace. The corporate brand is the overall umbrella for the corporation's activities and encapsulates its vision, values, personality, positioning and image among many other dimensions' (Roll, 2004).

Given its popularity and inclusiveness, Balmer and Greyser (2003) believe that the concept of the corporate branding philosophy offers the 'superior organizational lens'. It is the *explicit covenant* between an *organization and its key stakeholder groups*. The corporate brand has to articulate its agreement with these stakeholder groups – consistently and over time – to indicate that it has kept its word or pledge. In this sense it is similar to the concept of corporate identity, discussed in the introduction, but is also quite distinctive in a number of important ways:

- Corporate branding usually applies only to organizations, whereas identity can apply to individuals, groups, organizations, regions and countries.
- Corporate brands usually take longer to develop than identities.
- Corporate brands focus mainly on the external world.
- Corporate brands usually attempt to achieve high visibility.
- Corporate brands typically require support through organizational communications and designers, e.g. through logos and symbols.
- Corporate brands can be portable – extended to cover new products and services – in a way that identities cannot.
- Corporate brands can be valued financially in terms of goodwill.

Corporate branding, however, is also recognized for a further, significant reason, and that is its ability to *engage* the 'hearts and minds' of employees. The reverse is also true: corporate branding *depends* on the hearts and minds of employees, because, as we have already seen, much of the value of corporate brands is delivered through people, having employees identify with the brand and align their efforts behind the brand (Miller and Muir, 2004). Marketing professionals recognize more and more the role of employees in delivering the brand. As one leader in this field has argued: ‘One of the challenges of brand management is ensuring that staff have values that concur with those of the firm’s brands’ (De Chernatony, 2001, p. 5).

As a result, corporations have begun to use the language and tactics of branding internally, to create employers’ brands, which, as we suggested in Chapter 3, is quite widespread in the USA, Europe and Asia. One good example is the financial services company HSBC, which is a bank that has grown rapidly through acquisitions on a global scale. Part of the secret of its success has been to transfer the brand equity of these acquired firms into the corporate brand equity, so that customers and employees identify with the corporation rather than the local banks they used to be served or employed by. We shall return to this idea of employer branding later in this chapter.

There is one important note of caution, however, regarding the universal importance of corporate branding. Not every organization wishes to, or needs to, have a corporate brand. Indeed, many large organizations have chosen to continue with a branded strategy, or have gone for a halfway-house *endorsed brand strategy*, in which business units enjoy brand status in their own right but derive benefits from carrying the overall corporate brand. For example, in the financial services sector, major banks such as Bank One have only recently adopted a corporate branding strategy and allowed key subsidiaries such as the First Chicago NBD to retain its own brand identity when it was first acquired, albeit carrying the Bank One logo (Balmer and Greyser, 2003). Similarly, the Royal Bank of Scotland, one of the largest banking groups in the world, has not attempted to develop a corporate umbrella branding strategy for its acquired brands such as NatWest, Ulster Bank and its US subsidiaries. However, at the time of writing, it is beginning to develop an endorsed branding strategy in which these companies are seen as part of the Royal Bank of Scotland Group (available online, http://www.rbs.com/about03.asp?id=ABOUT_US/GROUP_STRUCTUREdefault.htm, accessed 13 December 2004).

Corporate reputation and image

Organizations have always had a concern for their image and in the 1950s academics began to examine the idea of image in terms of personality theory in the retailing sector (see, for example, Martineau, 1958). This concern led a number of commercial research organizations to conduct image studies, such as Marketing and Opinion

Research International (MORI) in the UK and the Opinion Research Center (ORC) in the USA. The concept of image and image research, however, has been bedevilled by a number of problems, because it has been used to refer to quite different aspects of an organization. These include the transmitted image (the visual image or desired image, transmitted by the corporate designers), the received image (how stakeholders perceive the brand, corporate reputation or the organizational symbols) and the construed image (how, for example, employees believe that customers see the organization). As a consequence, image is a concept that is difficult to pin down and, consequently, has ceded ground to the idea of corporate reputation as a more useful concept (Balmer and Greyser, 2003). So, from the 1990s onwards, the study of corporate reputation has grown rapidly, bringing together scholars and practitioners from marketing and branding, organizational studies, communications and strategic management and, more recently, from HRM (including our own work: see Martin and Beaumont, 2003; Martin *et al.*, 2005; Martin and Hetrick, 2006).

Though branding and corporate reputation have a common origin in being concerned with the external image of an organization, corporate reputation claims to be a distinctive and, arguably, higher-order concept than either branding or image because it includes past as well as present and future impressions of a company's image, a wider range of measures of corporateness, and a wider range of stakeholders. In this sense, corporate reputation currently competes with branding and identity to be the superior organizational lens. It has become the subject of a number of influential press ratings, including *Fortune* magazine, *Asia Business* and the *Financial Times*, which have lent it credibility with the general public and other stakeholders. As we indicated earlier, such a positive reputation can lead to significant financial advantages. However, it has also become notable because of its ability to help defend an organization when it encounters adverse publicity. For example, Johnson & Johnson was able to survive the catastrophic, malicious tampering with Tylenol, one of its core products, by recovering well from a small decline in its market value because of the company's past reputation for good business principles – its reputational capital. Other companies, when facing similar disasters, have suffered more severe and sustained declines in market value because they did not have the depth of reputational capital to sustain them through their crises (Fombrun and Van Riel, 2003). Corporate reputation is also important in the wake of the corporate governance and financial irregularities of Enron, WorldCom, Arthur Andersen, Parmalat and Volkswagen, because it acts as a form of ethical control by creating a culture of ethical values and standards of behaviour that help guide employees in their dealings with customers, clients and governments, and answers the question: Would my actions be in line with the organization's reputation?

So, what do we understand by corporate reputation? Two leading scholars in the field, Mary Jo Hatch and Madjen Schultz (2002), see it as a result of the interaction between the objective and subjective evaluations of existing and potential stakeholders, comprising three interrelated dimensions:

- *Informal* interactions among stakeholders – for example, through sales meetings, employee storytelling or accounts from satisfied or dissatisfied customers. These incidents strongly influence an organization's reputation or external image but are largely uncontrollable.
- *The business press*, such as the rankings of the best places to work and industry press ratings of organizations, as outlined above.
- *Potential stakeholders*, such as possible recruits, shareholders and other funders, government organizations and the community at large.

Grahame Dowling (2001), an eminent Australian writer in this field, sees corporate reputations resulting from the alignment between the images that organizations are best known for and the values held by different stakeholder groups. So, for example, if organizations are known for being innovative and embodying engineering excellence and these images fit with a person or group's free-standing values of what a good company should embody, then it will be held in high esteem by that person or group. The implication of this approach is that organizations can have multiple reputations, based on the different perceptions held by the stakeholder groups and their free-standing values.

Perhaps the best-known work on corporate reputation, however, is by Charles Fombrun and his colleagues at the Corporate Reputation Institute, based in the USA but including colleagues throughout the world. The definition of corporate reputation used by Fombrun and his colleagues has five characteristics:

- Corporate reputation is rooted in the past, as well as the present.
- It is of equal concern to internal and external stakeholders.
- It is based on past actions and achievements.
- It is best assessed by examining the benefits accruing to individual stakeholder groups (see Dowling's view above).
- It can be used to position the organization against competitors and benchmark against the best ones; it can also be used to relate the organization to its external environment.

Fombrun and Van Riel (2003) have developed a widely-used measure of corporate reputation – the *reputation quotient* – which is used to evaluate organizations across the globe. This aggregate measure scores an organization on emotional appeal, products and services, workplace environment, social responsibility, financial performance, and vision and leadership (see Table 6.3) through extensive questioning of stakeholders' views. These views can be drawn from stakeholders of companies in an industry and across industries and countries. It is interesting to note that, even among countries as close in culture and institutional background as Norway, Denmark and Sweden, the relative weighting of these factors varies significantly (Aperia *et al.*, 2004). It is also noteworthy that the most important factor in the minds of the general public concerning corporate social responsibility is the perceived treatment of

Table 6.3
The corporate reputation quotient

The corporate reputation quotient is an overall measure of the perceptions of key stakeholders in a company, such as customers, investors, employees, suppliers, etc. It aggregates the following six measures.	
Emotional appeal	Good feelings about the company Admired and respected Trust in the company
Products and services	Stands behind products and services Offers high quality Develops innovative products and services Offers good value
Vision and leadership	Has excellent leadership Has a clear vision for the future Recognizes and takes advantage of market opportunities
Workplace environment	Is well managed Looks like a good company to work for Looks like it has good employees
Financial performance	Record of profitability Looks like a low-risk investment Strong prospect for future growth Tends to outperform competitors
Social responsibility	Supports good causes Environmentally responsible Treats people well

Source: Harris and Fombrun, available online at http://www.valuebasedmanagement.net/methods_corporate_reputation_quotient.html (accessed 5 December 2004) employees: this factor, when combined with perceptions of the workplace environment, tends to rank highly in influencing evaluations of corporate reputations.

We can now define corporate reputation as 'a collective representation of a firm's past actions and results which describe its ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing with employees and externally with stakeholders, in both its competitive and institutional environments' (Fombrun, 1996). This collective representation creates favourable accumulated impressions which, as Fombrun and Rindova (2000) propose, '… crystallize into the intangible asset of a corporate reputation'.

However, this definition isn't quite good enough in setting out what 'valued outcomes' might mean and how they may be related to corporate brands. Grahame Dowling's (2001) work is useful in this regard in linking reputations to what he calls 'super-brands'. In line with our earlier discussion on the importance of corporate brands, he sees the valued outcomes of reputations as building: (a) *trust* among customers, employees and other stakeholders that the organization will act in their best interests or that of the community; and (b) *confidence* among customers, employees and other stakeholders that the organization will continue to value their contributions and their trust. The valued outcome of such trust and confidence is that these groups will continue to lend *support* to the organization by continuing to use it for products and services, and to recommend others to use it. It is from high levels of such confidence, trust and support for organizational reputations (for valued characteristics such as superior performance, fairness, honesty, social responsibility and professionalism) that super-brands result.

Corporate and organizational identity

The interest in corporate reputation management had its origins in earlier work on organizational identity, discussed in Chapter 3 of this book. In a classical interpretation of organizational identity, there are three central principles that can be used in any assessment (Albert and Whetten, 1985):

- it should capture the essence or 'claimed central character' of the organization;
- it should set out its claimed distinctiveness;
- it should show continuity over time.

This last principle has been subject to challenge, especially in the modern environment of continuous change, with other writers claiming that fluidity and flexibility are requirements for organization identities to cope with environmental turbulence (Gioia *et al.*, 2000). Perhaps, as some writers argue, the third principle should capture the essence of endurance *and* flexibility, rather than being 'either/or'.

A second feature of identity noted by a number of authors is the notion of multiple identities: this concept runs counter to the notion of a monolithic corporateness, but is probably a more realistic image of most organizations. For example, a hospital can be seen as a business, a caring organization and a professional organization at one and the same time. How you see an organization at any point in time thus depends on where you are viewing it from – from the perspective of a politician or financier looking for value for money, as a patient looking for high levels of care, or as a doctor looking for a place to practise a craft and develop a reputation. This feature leads us to a third characteristic, that the issue of an organization's identity surfaces and resurfaces at different points in its career or life cycle. For example, during the start-up phase the concern will be to establish an identity, whereas during a period of retrenchment the concern will be with embracing the need for change but retaining previously held identities for acting in good faith so that they are able to retain valued employees.

However, as we have already pointed out, in addition to the notion of organizational identity, we can also talk about corporate identity. Stretching (some might say, straining) the concept even further, Balmer and Greyser (2003) contend that identity has five meanings, which incorporate the aforementioned notions of corporate and organizational identities but also include others that broadly coincide with our ideas of corporate image, strategic vision and corporate strategy (see Figure 6.1). They also contend that the field of corporate-level studies can cohere around the management of these *multiple identities* of a corporation, and they propose a useful multidisciplinary approach – the AC^{2}ID *framework* – to the management of image and identity.

- The *actual identity* is defined as the current attributes of the corporation, including the values shared by management and employees. It is close to, but not synonymous with, the notion of organizational identity discussed in Chapter 3, and broadly addresses the question: Who are we? The actual identity is shaped by leadership styles, organizational structure, ownership characteristics, and the businesses and markets in which

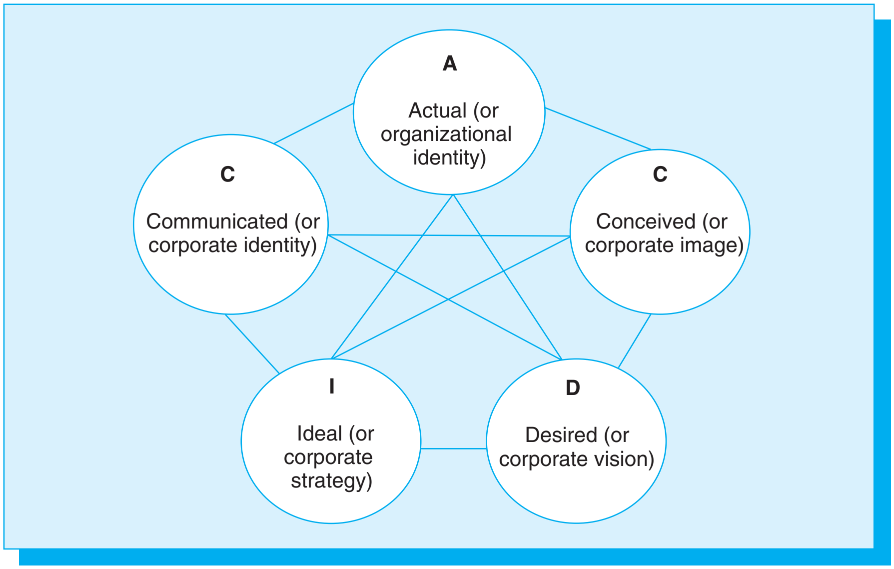

Figure 6.1 The AC[2]ID framework. (*Source*: adapted from Balmer and Greyser, 2003, p. 17.)

the organization operates, as well as the psychological contracts and motivations held by organizational members.

- The *conceived identity* refers to the perceptions of image, branding and reputation held by stakeholders. Managers have to make judgements about which of these to focus on.
- The *ideal identity*, the optimum positioning of the corporation in its given markets at a point in time, is based on an analysis of external environmental–internal resources fit. This identity is associated with the work of strategic planners, and is close to the notion of corporate strategy and strategic positioning.
- The *desired identity* is synonymous with the vision of the organization held by its leadership. It is not the same thing as ideal identity, which is mostly the result of serious analysis. The desired identity is very often a personal and egotistical statement made by senior leaders.
- The *communicated identity* is the 'official' identity put into the public domain through the corporate communications function – the official rhetoric of the organization that communicates what the organization wishes to be. It is also, however, communicated by less controllable media, such as 'word of mouth' and the financial press, which require a great deal of management time spent on internal communications and public relations.

The main practical value of this framework is the proposition that all five identities need to be broadly aligned over time. If any two of these are out of alignment at a particular time, this is manifested as a 'moment of truth' from which a corporation's reputation is in danger of suffering serious damage. So, for example, the dangers of communicated identity (or corporate identity) running ahead of the actual identity (or organizational identity) can, as we pointed out in Chapter 3, lead to persistent cynicism among employees and also lead to a breach of trust among customers if this cynicism is communicated by disaffected employees. Another situation could be where redundancies lead to mass disaffection among employees (organizational identity) who are simultaneously being exhorted to 'live the brand' image that 'puts people first' (the conceived identity).

Connecting corporate branding, reputation and identity to people management

Let's turn to the human resource management literature and practice to see what we can learn about the concept of corporateness. Our key message – that good employee relations is a necessary (but not sufficient) condition for creating and maintaining corporate brands, reputations and identities – is lent considerable support by five streams of writing and practice in the HR-related fields. These are: the culture–excellence movement, the strategic HRM literature, the employer of choice thesis, employer branding and the corporate reputation management literature itself.

The culture–excellence movement

One reading of the corporate branding and marketing literature is that it demonstrates close parallels with the 'culture–excellence' movement which dominated much of management thinking and practice during the 1980s and 1990s. This work, which began with Peters and Waterman's (1982) well-known book *In Search of Excellence*, fuelled the idea that the search for business success began with a serious examination of the internal culture of the organization. They promoted the message that, as the environment of most organizations was increasingly unknowable and uncontrollable, the 1970s focus on 'outside-in', rational management techniques was misplaced. Instead, it was to feelings and people – the organizational culture – that they turned for an explanation of excellence. Excellence was achieved through a strong emphasis on customer focus, which, they argued, 'all began from people'. This focus on culture as a source and driver of success has re-emerged over the past two decades from its earlier human relations incarnation, which we discussed in Chapter 1 and will examine further in Chapter 9. It has influenced many of the 'business guru' writers, and has also influenced the development of the new resource-based view of strategic management, which focuses on internal resources as the key driver of competitive success.

Peters and Waterman took some of their ideas from Ed Schein (1992), who defined the major problem of organizations as one of simultaneously managing external adaptation to the changing environment of organizations with internal integration. This process of alignment, which we encountered earlier in this chapter, involved managing cultures and people to fit with the external image of the organization. However, the process is not a simple one, and requires managing dualities, paradoxes and tensions; these have become key features of the organizational change literature to be examined in the final chapter.

The culture–excellence literature, however, has been roundly criticized for its overemphasis on the internal workings of organizations at the expense of market analysis (Porter, 1996), for the belief that managers can easily control or shape organizational cultures (Martin, 1992) and, from an ethical standpoint, by critical management writers who see culture management as little more than indoctrination (Ogbonna and Harris, 1998). We return to these criticisms in the final chapter, but there is little doubt that the managerially oriented, 'optimistic' literature on culture management has had an unquestionable influence on the practice of many organizations; it provides the rationale for strategic human resource management and for the corporate reputation and branding literature with its emphasis on vision and values.

The strategic management literature

A second important stream of literature is the new strategic management or *resource-based view* (RBV) of the firm (Barney, 2002) and its derivative, *strategic human resource management* (Boxall and Purcell, 2003). This approach has developed as a counter to the traditional 'outside-in' approaches, in which the starting point for thinking about strategic management and competitive advantage is the external environment. The work of Michael Porter is most associated with this outside-in perspective. The resource-based view on strategy and, by extension, on HRM sees the fundamental, and indeed only, sustainable route to competitive advantage as arising from how you put together unique and enviable combinations of internal resources – the most important of these being people and their relationship to other key systems in the organization, such as knowledge and information. Such a perspective has led some writers to argue that the way organizational cultures are managed and employees are selected, developed, rewarded and organized is what differentiates firms, especially in knowledge-based industries or the growing service sectors in Europe and the USA (Pfeffer, 1998). Thus, the resource-based view has strong links with humanist ideas on learning organizations and organizational learning (Easterby-Smith *et al.*, 2000), subjects that you can study in more detail in the companion course on human resource development.

Like the earlier outside-in approaches, however, these 'inside-out' theories have in common a tendency to offer a one-best-way solution, regardless of context, and to proselytize employees at the expense of other aspects of the business. As Porter (1996) has contended, resources in and of themselves are of no competitive value; it is how and in what context such internal resources are used that leads to value creation. Both camps are beginning to recognize, however, that the answer to this fundamental question of competitive strategy probably lies somewhere in the middle, with both perspectives having something to offer (Boxall and Purcell, 2003). Nevertheless, the RBV has managed to rebalance the debate, based on the rationale that you don't move a seesaw by sitting in the middle. This view has also provided a major intellectual and empirical justification for HR and its links to key strategic decisions on issues such as branding.

Consistent with the RBV, another stream of influential strategic management literature has begun to explain effective and sustainable strategic advantage, which is based on the notion of *core internal competences* (Hamel, 2000) and the complementary idea of the *balanced scorecard* (Kaplan and Norton, 2001). The balanced scorecard is particularly relevant to the links between HR and branding, because it makes explicit and very practical links to balancing the needs and measurement of satisfying customers and financial objectives with the effective management and measurement of internal business processes, including people, and individual and organizational learning and growth. In their most recent book they have also developed a strategy map or *theory of the business* that is, in summary, a cause-and-effect model to help managers understand the relationships between critical performance drivers and their associated outcomes. Especially in the context of service industries, such as retailing and financial services, there have been a number of important contributions linking the marketing of services and customer satisfaction to internal market and human resource management (Loveman, 2001). The best known of these is the employee–customer service–profit chain identified by the Sears corporation in the USA (Kirn *et al.*, 1999) (see Figure 6.2).

Further evidence on the central nature of the service encounter was reported by McEwen and Buckingham (2001). They discussed the results of a recent Gallup poll in the USA of six major sectors on the factors influencing brand performance; the poll found that, for all sectors, the single most important factor in building brand loyalty was employee behaviour. In the case of the airline industry, interaction with employees was three times more powerful than any other factor, including product performance. On the negative side, poor employee performance was also important in customer dissatisfaction, particularly

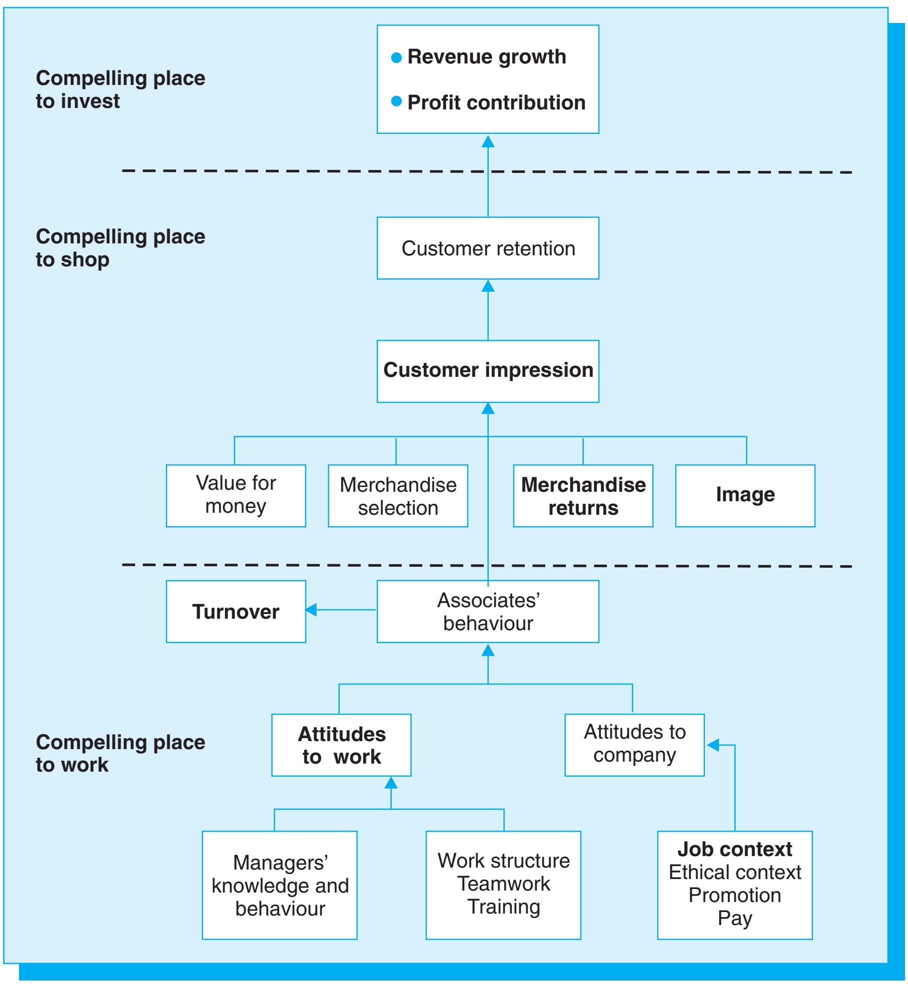

Figure 6.2 The employee–customer service–profit chain at Sears. (*Source*: adapted from Kaplan and Norton, 2001.)

when there were no other features to differentiate among products or services.

Employers of choice

As we discussed in Chapter 3, during the 1990s an important stream of literature emerged on *new psychological contracts* (Guest, 1998), based on the need to become an employer of choice (Cappelli, 1998). This argument served as an antidote to the business process re-engineering, delayering and downsizing exercises undertaken by many organizations during the early part of the 1990s, and has led employers to think more closely about the connections between employee satisfaction and retention, hiring, customer satisfaction, branding performance, financial performance and corporate reputation.

According to some consultants, becoming an employer of choice is a deliberate business strategy that has driven some large US and UK employers to benchmark themselves against others in rankings of the 'best place to work', published by *Fortune* magazine in the USA and *The Times* in the UK (Ashby and Pell, 2001). Although such ideas and strategies have their roots in a decade of unprecedented economic growth in the USA, when recruitment and retention became among the most important business issues for American employers (Michaels *et al.*, 2001), they appear not to have diminished in importance since the economic downturn following the winter of 2000/2001. Instead, the interest in talent management has continued to grow, as we saw in Chapter 3.

For some organizations, following an employer of choice strategy means little more than more sophisticated and sensitive recruitment practices, such as improving recruitment design, online recruitment, sensitive induction, retention analysis, cafeteria compensation and benefits, and 'growing your own' talent (Michaels *et al.*, 2001). For others, it means a new, more contextually sensitive, version of the old-style, relational psychological contract (Cappelli, 1998) in which long-term commitment from employers, demonstrated through the organization's goals, values and trust initiatives, is matched by high-commitment and low-turnover responses from employees. Such a psychological contract is characterized by highly competitive remuneration and benefits, often including elements of contingent pay, interesting, challenging and varied projects, a commitment to training and development tailored to individual needs, flexible working arrangements, family-friendly policies, and a motivating work environment.

This consulting recipe for an employer of choice strategy is reminiscent of the influential work by Pfeffer (1998), in which he identified seven practices of highly successful companies from his review of the US and European literature. The list encompassed prescriptions on: employment security, selective hiring, self-managed teams and decentralization, high compensation contingent on organizational performance, extensive training and development, reduced status distinctions, and extensive information-sharing on performance and financial issues. Contrary to some of the ideas fashionable during the 1990s, which advocated changes in the terms of the traditional psychological contracts to a new, transactional employment contract based on employability and no long-term commitment to individual careers inside an organization (e.g. Cappelli, 1998), Pfeffer made it a central part of his argument that employment security provided the necessary 'table stakes' for the implementation of other high-performance work practices. He reviewed a number of studies that showed the negative consequences of downsizing, including important connections between downsizing and the adverse impact on organizational performance with its strong, negative correlations between employee turnover and positive assessments of customer service, a vital factor in establishing and maintaining strong brand identities. If downsizing had to be undertaken, Pfeffer argued that it could be accomplished sensitively and sensibly, in a way that retained the morale of those surviving and minimized the impact on the company's image in concurrent and future hiring campaigns.

Employer branding

This final stream of work deals most obviously with issues of branding and attempts to use branding and marketing concepts to align employees behind strong corporate and line brands (Sparrow *et al.*, 2004). However, as we shall argue, there are strong similarities between this work and the newer versions of the psychological contract literature.

Over the past few years, the concept of employer branding has entered into the lexicon of HR specialists, particularly consultants, with firms such as Versant in the USA and People in Business in the UK offering an employer-branding toolkit to engage employee loyalty and build organizational commitment. Perhaps the most complete study to date of employment branding is the US Conference Board's work (Dell and Ainspan, 2001), which surveyed and undertook follow-up interviews with executives in 137 major US companies. This study found that employees were becoming a much more important target for corporate image-makers, although they did not necessarily use the term 'employer branding'. Forty per cent of respondents reported using the methods of corporate branding in their attempts to attract, retain and motivate employees. Other less systematic evidence has reported a fast-growing interest among European companies, such as Nokia, Philips, Siemens, Saab, Fiat and Deutschebank, in the idea of employer branding. Such an interest is closely associated with the concept of brand risk, which results from investors perceiving a threat to their brand brought about by poor brand management, including the increased perception that poor employee performance can be most damaging to a brand image and reputation (McEwen and Buckingham, 2001).

Employer branding has been defined as the 'company's image as seen through the eyes of its associates and potential hires', and is intimately linked to the 'employment experience' of 'what it is like to work at a company, including tangibles such as salary and intangibles such as company culture and values' (Ruch, 2002, p. 3). Like the minimalist version of employer of choice, much of the content of employer branding programmes emphasizes the traditional HR activities of attraction, recruitment, motivation and retention (see Table 6.4). What is new, however, is the application of sophisticated marketing techniques of employee segmentation and the communication of employer value propositions, also discussed in Chapter 3. For example, Mitchell (2002) has set out three marketing principles and five communications messages for 'selling the brand inside'. The marketing principles are the following:

- *Choosing the moment* – capitalizing on critical receptive contexts for change, usually when a fundamental revisiting of the values, direction and structure of the company is taking place.
- *Linking internal and external marketing* – ensuring alignment in the messages internally and externally, enabling employees to deliver on the external message and ensuring that the external message is a credible one with employees.
- *Bringing the brand alive for employees* – creating an emotional connection between employees and the brand by drawing on key values and attitudes of different segments of the labour force and extensive participation in the design and roll-out of the employer branding messages.

The communications messages for selling brands are these:

- Don't preach, but listen to employees and use their language.
- Emphasize beliefs rather than intentions, because beliefs capture the brand essence and are more inspiring to employees.

Table 6.4
Lessons from employment branding consultants

McKenzie and Glynn (2001, pp. 22–26) – Ten recommendations for communicating an employee brand	Govendik (2001, pp. 14–19) – Engaging employees to define the brand at Lante	Ruch (2002) Employer brand evolution: a guide to building loyalty in your organization (versant consulting)
Get consistent: build a layer of a few key messages that can be reinforced by facts	Find the company from within, by surfacing the brand image through the eyes of employees	Assess your company culture, using the cultural elements survey
Recognize what is not part of the message to be communicated	Create a brand vision and brand attributes or values that will ring true with brand ambassadors	Construct an appropriate employer brand identity that can be marketed externally and internally
Understand the key moment of truth in the recruitment process, especially the point at which people would accept an offer. Make this as early as possible	Roll out the brand by compelling employees to understand the brand, their responsibilities in making the brand live, and by getting them excited and engaged in the brand roll-out	Develop an employer brand promise, which describes the value proposition to employees
Know what's compelling about the organization, especially for high performers	Gain employee buy-in through consistent education and training	Develop an employer brand voice, a tool for ensuring consistent communications with associates
Understand the 'brand promise', particularly which elements are non-negotiable	Reinforce key brand attributes by giving employees first crack of the whip in giveaways, gifts, etc., associated with the roll-out of the brand	Implement the brand promise, using the brand voice and integrated communications tools
Work *with* employees to ensure that there is consistency in the story	Define the brand as part of the organizational culture by creating a constant stream of stories and events designed to support the key brand attributes	Measure the employer brand effectiveness, using a specially constructed index in key areas such as recruitment, retention and motivation
Design collateral information to make the truth compelling		
Ensure that intermediaries have the same story and work on your behalf		
Do not allow any intervention to pass without reinforcing the message of the employment brand		
Ensure that your internal change efforts are in line with your emerging employment brand		

- Make the medium part of the message, using surprising and innovative media rather than the traditional presentations.
- Design material fit for purpose; this broadly refers to ease of use.
- Have fun, because humour goes a long way in carrying a campaign.

Table 6.4 contains other lists of practical advice from the consulting literature; they express similar sentiments to those set out by Mitchell.

This work has strong roots in the communications industry and is reminiscent of the 'strategy-as-compelling-narrative' approach that has become popular in the strategic management literature (Barry and Elmes, 1997). The following key questions are addressed:

- What is the compelling and novel story that we can tell people about working here?
- How do we tell the story to potential and existing employees in a way that convinces them of the reality of what we have to offer?

The main differences from earlier approaches are in the message of segmented employer value propositions and in the methods of communicating the message.

The corporate reputation approach

The corporate reputation literature itself has contributed directly to our understanding of how people, culture and organizational identity are linked to those corporate-level concepts discussed earlier. Three contributions are of particular interest and are reflected in our model.

The first of these is the work by Davies *et al.* (2003), who have sought to develop a unified and objective way of measuring the gaps between external image and internal identity. Their argument is that reputation is 'the collective term referring to all stakeholders' views of corporate reputation' (p. 62), including internal (organizational) identity and external image, which they define as the views of the company held by external stakeholders, especially customers. Their framework is set out in Figure 6.3, and highlights the potential for gaps between desired image, actual image and internal identity.

It is the way in which these gaps are measured, however, that is of most interest, because they use a single concept and set of measures to gauge differences, very unusual in this type of research. To get a 'clear line of sight' between internal and external perceptions of the organizations, they make use of the concept of stakeholder perceptions of

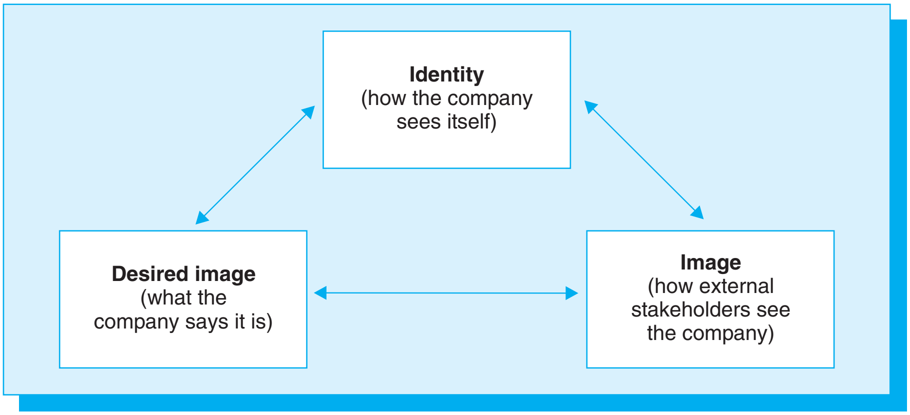

Figure 6.3 Gaps in reputation. (*Source*: based on Davies *et al*., 2003, p. 62.)

the *organization's personality*, a construct borrowed from the psychology literature to describe generic organizational personality types. Organizational personality is defined in terms of agreeableness, trustworthiness, enterprise, chicness, competence, masculinity, ruthlessness and informality. Questions have been derived to assess these personality dimensions, and internal and external stakeholders are provided with the same questions. By doing so, the extent of the gaps can be measured and used to realign the three components of reputation. This work has been extensively used in research and consulting, and is useful in helping us understand the various views of the organization held by different stakeholders using the same set of measures.

The second is the work of Hatch and Schultz (2001), which we have already discussed. These researchers have developed a tripartite framework, based this time on corporate image, corporate vision and organizational culture. By image they mean the outside world's or stakeholder's impression of the company, including customers, shareholders, the media and general public. Vision refers to what senior managers aspire to for the company, and culture refers to the organization's key values, behaviours and attitudes (p. 130). Hatch and Schultz have argued that, to build an effective corporate brand or corporate reputation, organizations must ensure that these three elements of an organization, which they call the *three strategic stars*, need to be aligned. According to these authors, misalignments occur when there are significant gaps in the following areas:

- The *vision–culture* gap results from senior managers moving the company in a direction that employees either do not understand or do not support. Sometimes this is a consequence of the pace of change, in which the vision is too stretching, whereas at other times it results from visions that sit uneasily with ethical or traditional values, such as the attempted rebranding of the UK Post Office as Consignia.

- The *image–culture* gap usually results from organizations not putting into practice their brand values, and leads to confusion among customers about the company's outside image. This gap is usually most apparent when employees' views of the company are quite different from those held by customers.
- The *image–vision* gap occurs when there is a mismatch between the external image of the organization and senior management's aspirations for it. The example used by Hatch and Schultz is the attempt by British Airways to globalize its image by removing the Union Jack from its tailfins. These actions led to a major public and press reaction, a cabin-crew strike, and key customers threatening to switch to different carriers.

Hatch and Schultz have developed a framework (or 'toolkit') that comprises a series of diagnostic questions to assess the extent of misalignment between these three strategic stars (see Figure 6.4). These questions do not break new ground in assessing culture, but they do point to the complex relationships between the external and internal

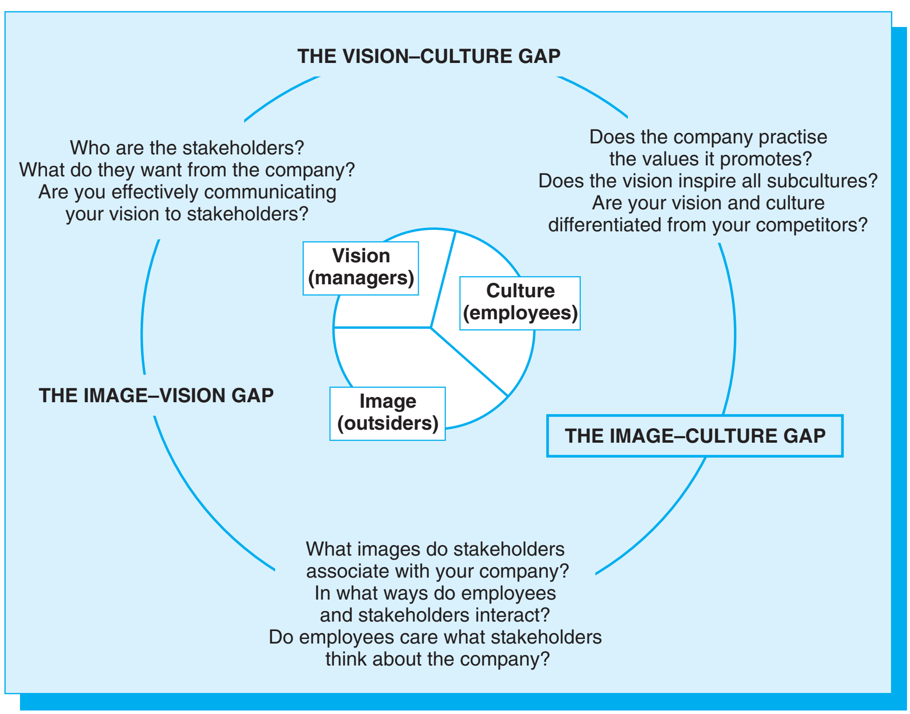

Figure 6.4 The corporate branding toolkit. (*Source*: adapted from Hatch and Schultz, 2001, p. 131.)

aspects of managing effective corporate branding, placing equal weight on these dimensions.

Finally, Fombrun and Van Riel (2003) have tackled the direct people management contribution to corporate reputation building by developing an *employee-expressiveness quotient* (EQ), which, in turn, is linked to strong identification with companies and to supportive employee behaviours (see Figure 6.5). They contend that companies have to express themselves to employees to build emotional appeal, comprising good feelings about the company, admiration, respect and trust in the company. Expression, in this context, refers to the corporate communications process in which companies are willing to 'put themselves out there, to convey who they are and what they stand for' (Fombrun and Van Riel, 2003, p. 95). Figure 6.5 shows the drivers of expression for employees and their relationship to the EQ. You can probably infer the implied proposition, which is: the greater the EQ, the greater the emotional appeal of the company to its workforce.

The EQ is close in tone and language to the notion of employer branding, both of which share an interest in telling credible, unique and compelling stories to employees as to why they should identify with the company. Fombrun and Van Riel also posit a two-way relationship

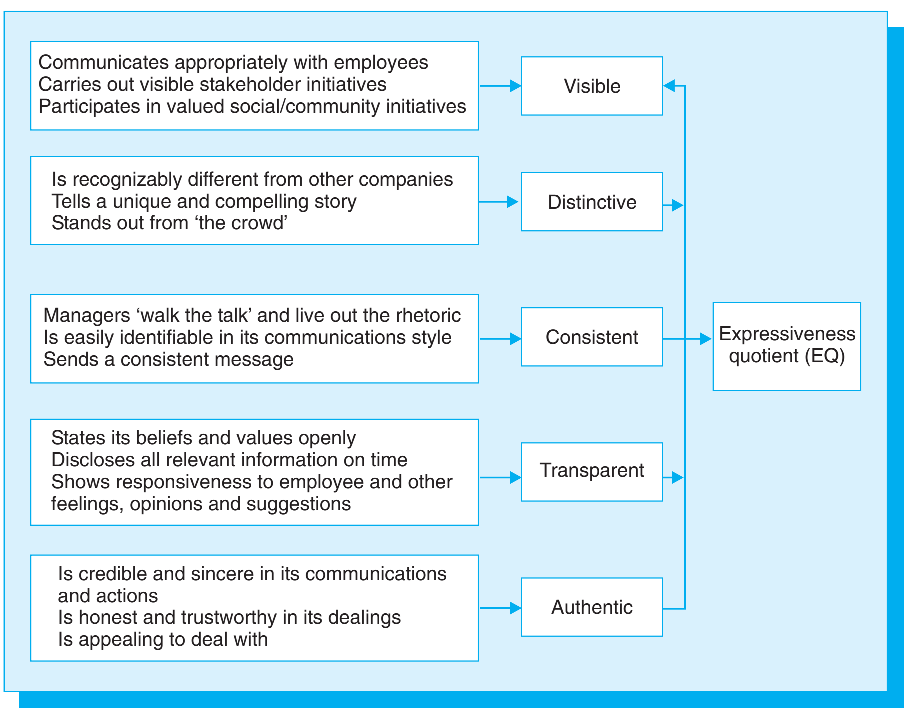

Figure 6.5 The expressiveness quotient. (*Source*: adapted from Fombrun and Van Riel, 2003, p. 96.)

between identification with the company and expressiveness: the greater the level of identification, the greater the expressiveness and resulting reputation. High levels of identification are likely to lead to employees engaging in supportive behaviours, such as managers 'walking the talk', senior executives constantly communicating results, and front-line, customer-facing staff communicating honestly with customers, behaviour that, in turn, will enhance the corporate reputation over time. Conversely, the better the reputation of the company, the more likely it is that employees will identify with the company and its mission, acting as 'ambassadors' for the company to potential recruits, to other less-committed employees and, of course, to customers.

This cause-and-effect model is set out more formally in Figure 6.6, which shows how reputation building, personalized communications, the quality of communications and the EQ (or emotional appeal) are linked through increased levels of organizational identification with behaviours that are supportive of corporate reputation. The model also highlights the questions used to assess the levels of organizational

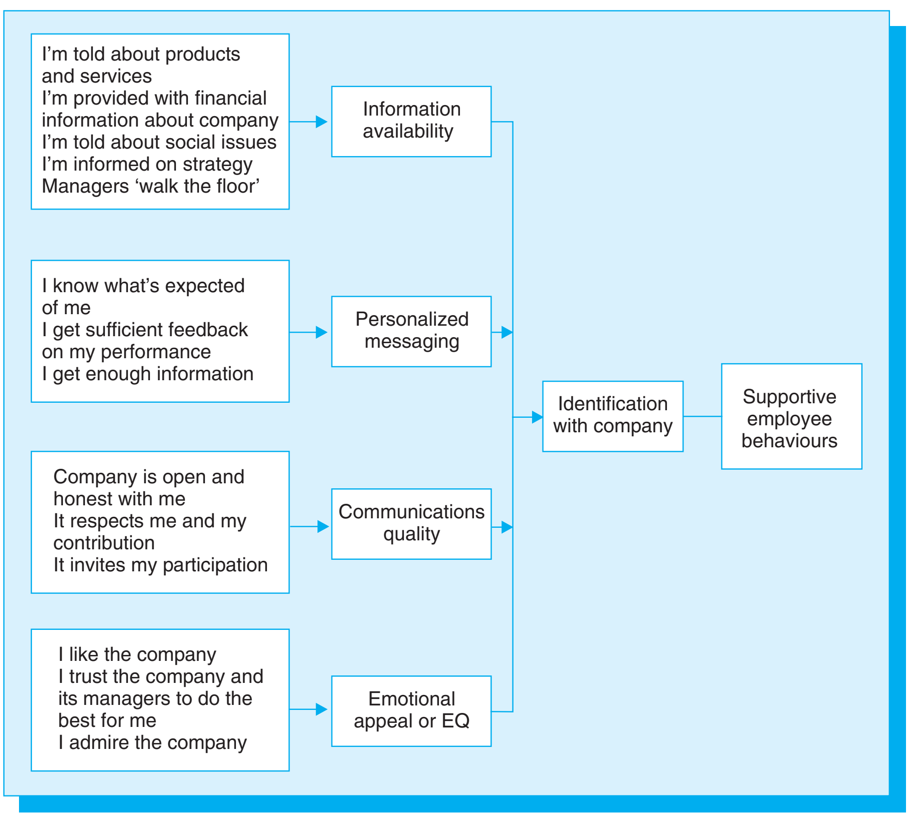

Figure 6.6 Measuring identification with the company and the links with employee behaviours. (*Source*: adapted from Fombrun and Van Riel, 2003, p. 100.)

identification. Interestingly, these mirror much of our discussion on psychological contracts and identification outlined in Chapter 3.

Modelling the relationship between people management, identity, brands and reputation

We are now almost in a position to develop our model, but first we have to decide on which of the corporate-level concepts discussed in this chapter are to be the *explained* variables and which are the most important *explainers*. As noted, a number of these compete for pre-eminence in corporate-level studies, and we need to be clear about our position on this issue.

My belief, based on the evidence and arguments as they stand, is that corporate reputation and corporate brand are the two most important variables that can impact directly on the market value of a firm and its capacity to compete in the future. As Dowling (2001) and others have argued, however, these concepts are linked: brands follow from the trust, confidence in an organizational reputation and the continued support for its products and services. These concepts, then, need to be explained by a combination of other, important corporate-level concepts and people management variables. The case made by Balmer and Greyser (2003) for identity as the superior lens is a strong one, but it is still too closely aligned with the notion of corporate identity, logos, symbols, and the output of the communications and graphic design industries. Corporate branding is also a powerful and practical concept in describing corporateness, but cannot stand alone, because as pointed out earlier, it is not a state to which all organizations aspire. Corporate reputation also has detractors: as Balmer and Greyser (2003) point out, it is no guarantee of organizational success or longevity, and it is still redolent of public relations 'spin'. However, the arguments of Fombrun, his colleagues and other writers in the emerging corporate reputation field make a compelling case for its close links to business success and failure and its broader application to public sector and voluntary sector organizations, which make up large parts of the national economies.

So our model is based on explaining the interrelated concepts of corporate branding and corporate reputation and their links with people management explainers. In turn, these work through organizational identity and the process of identification (see Figure 6.7).

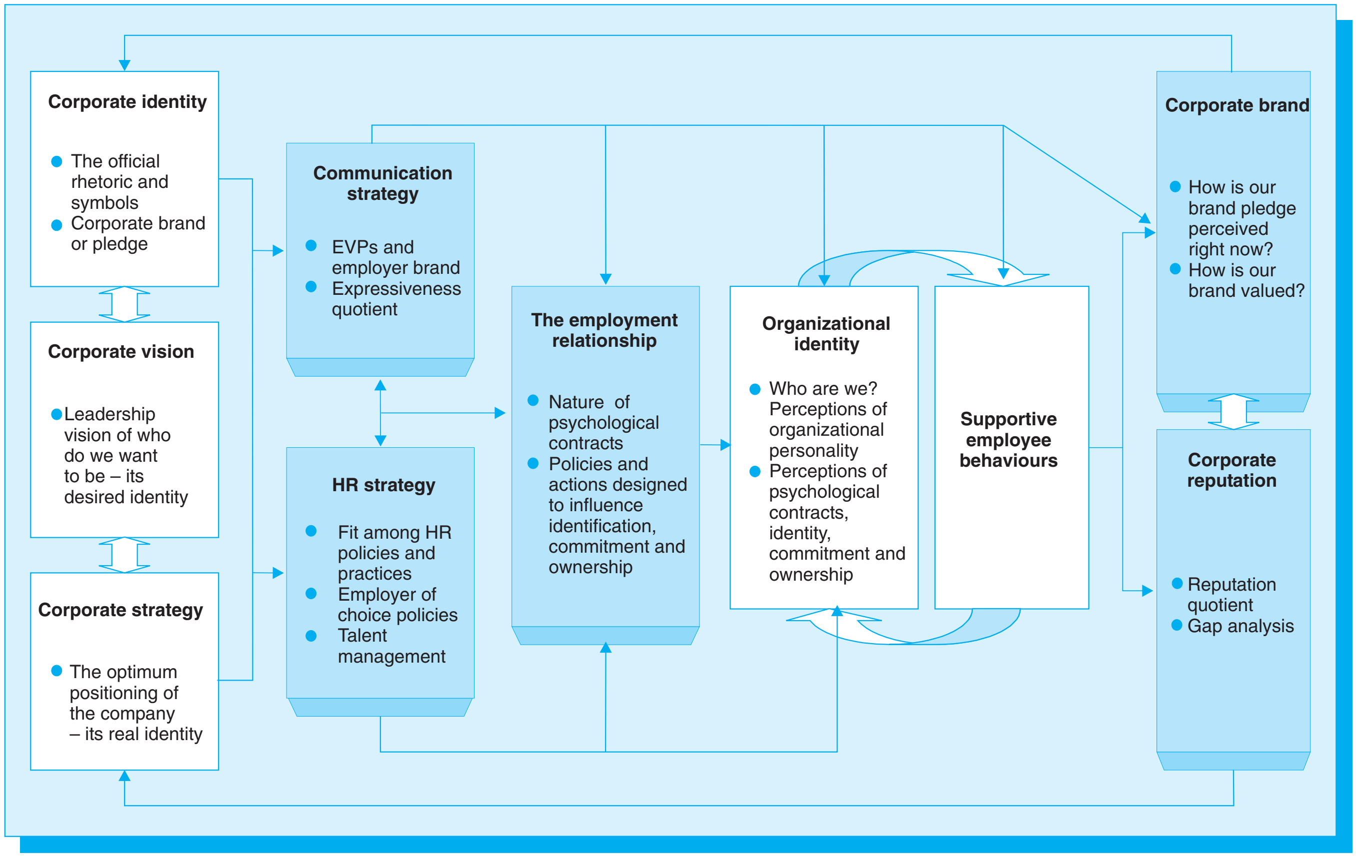

Figure 6.7 Modelling the relationship between people management, identity, corporate branding and reputation.

The core lessons of the model

The core lessons of the model for managers are threefold:

- Corporate reputation and evaluations of corporate brand strength (trust, confidence and support) are strongly influenced by a series of people management strategies, including the nature of HR strategies, formal and informal organizational communications, policies designed to influence psychological contracts, and the main processes connecting individuals to their organizations (the individual–organizational linkages). These processes focus on building identification, commitment and psychological ownership, as discussed in Chapter 3.
- These people management strategies and actions are, in turn, shaped by important corporate-level antecedents, including the corporate vision of leadership in the organization, the more analytical elements of corporate strategy and the expressed corporate identity.
- Finally, the people management strategies work through the reciprocal relationships between organizational identity and supportive employee behaviours to influence the corporate reputation and the corporate brand.

I believe that organizations can take a number of important steps in the area of people management to improve their corporate reputations and, if they so choose, their corporate brands. These are as follows.

Accurately measure what you are trying to achieve

- Organizations should design appropriate measures of corporate reputation and corporate brands, including quantitative measures, such as the reputation quotient and brand values, and more qualitative assessments of stakeholder perceptions of reputation and brands at regular intervals.
- Regular assessments should also be made of the organizational identity/identities and the kinds of behaviours associated with organizational identity. This process might include measures of the organization's personality or character, such as the one developed by Davies *et al.* (2003). It should also include assessments of psychological contracts and whether expectations are being met, and measures of identification with the

organization, commitment to it and feelings of psychological ownership in the organization. Finally, regular assessments should be made of the behaviours displayed by employees, using individual and group-level appraisals.

Understand the nature of the employment relationship and its potential to influence organizational identity

- Managers should understand the various types of psychological contract that exist in their organizations, including the balance between transactional, relational and ideological contracts (see Chapter 3). They should segment their employees by psychological contract type and design appropriate mixes of policies and communications to influence and meet employee expectations (see also Chapter 3).

Use appropriate communications strategies to influence the psychological contracts, identity and supportive employee behaviours

- This should begin with the development of a relevant employee value proposition (EVP) for the company as a whole and a specific or tailored EVP for each of the different segments of employees identified by psychological contract type. These EVPs should contain a novel, compelling and credible story of why people should work for the organization.
- It should also include a tailored employer-branding 'toolkit', which sets out the EVPs, the appropriate behaviours, values and the ethical standards required by the organization.
- Personalized, face-to-face messaging that involves senior managers engaging all levels of employees throughout the process of establishing an identity is usually required, supported by online communications and appropriate written materials.
- The key messages should be expressed in such a way as to engage the emotions of employees, by having managers become visible and 'walking the talk', making distinctive promises, stating beliefs and problems openly, being willing to listen, being timely in communications, and being credible and honest. Managers should consistently measure their 'expressiveness quotient', as outlined earlier in the chapter.

Develop an appropriate mix of HR strategies that will facilitate segmentation of psychological contracts and influence organizational identification, commitment and psychological ownership

- Employ appropriate talent management strategies, as discussed in Chapter 3, but avoid the dark side of the 'star system'. This should include the advice of Handfield-Jones in her approach to disciplined talent management: clear identification of different performance levels, written action plans for each group, making leaders responsible for developing their talent pool and thoughtful executive development. However, the focus on external recruitment should be viewed with caution, because there is strong evidence that the business of hiring 'stars' is very risky, often leads to companies underperforming and is detrimental to identification by existing employees (Groysberg *et al.*, 2004).
- Consider developing an 'employer of choice' strategy, but remember that there is no 'one-size-fits-all' approach that will work in every situation. This is especially the case when employees are segmented by psychological contracts, when expectations and what is important are likely to vary by group and over time.

An integrative case study

To bring some of these ideas together, and to help you understand the value of the model in Figure 6.7, let's look at a case that I researched recently.

Case 6.2: Agilent Technologies in Scotland

Agilent Technologies is a major international company, formed as a spin-off from Hewlett-Packard (HP) in 1999. Its headquarters are at HP's original 'garage' site in Palo Alto. Agilent operates in 40 countries throughout the world, with more than half of its revenue generated from outside the USA. The company has emerged from the original, non-computing product divisions of HP, and specializes in the design, development, production and marketing of communications and life sciences technology, which includes wireless communications, semiconductor products, test measurement and monitoring devices, and chemical analysis equipment. Agilent considers itself a knowledge-based enterprise, with high levels of skills required in research and development, production, marketing and management. It retains much of its HP heritage, and its corporate culture, values and ethics are strong features of the new company.

It is an organization that has attempted to live its global brand values of respect for individuals, even under very difficult market conditions. Following years of prosperity as a separate division of HP and early success as a new company, according to the HR staff the market for its products had 'virtually collapsed' after the downturn in the US economy in early 2001. This market downturn, the severity and length of which had never been experienced before when the company was part of HP, was 'uncharted territory' for all employees, and had placed its employer of choice policy under considerable strain.

In March 2001 the company began a severe exercise in cost-cutting, which included a temporary 10 per cent salary cut. Then, in August 2001, Ned Barnholt, the CEO, announced the first redundancies in the history of the company, either as part of HP or as the newly formed Agilent. A second round of redundancies in November resulted in a total of 8000 employees and 5000 temporary staff worldwide being laid off. Yet despite these difficult times for the company, Agilent still ranked No. 39 in the 2002 *Sunday Times* annual list of Best Companies to Work for in the UK. This list ranks companies on employees' responses to a survey of their employers, conducted by a third party. Agilent was also ranked third for work–life balance, with 82.8 per cent of those surveyed saying they were encouraged to balance work with personal life. Finally, and perhaps most significantly, Agilent in the USA, where most of the cuts were felt, was also ranked 31st in *Fortune* magazine's Best Companies to Work For in 2002.

In the light of this downsizing, how had the company managed to retain its high rankings? We undertook some case research with the HR team in the major UK facility of the company, based in South Queensferry near Edinburgh, Scotland, to find this out. The UK HR staff believed that these rankings were a product of consistency in the application of the company's values, and that they are reaping the rewards of a trust dividend created throughout its previous 60 years of operation. The first point made by the HR team was that making compulsory redundancies was the last option to be considered, with cost-cutting and voluntary pay reductions used to head off and curb the immediate need for downsizing. It was only when it became obvious that these other measures were not going to be sufficient that redundancies were considered, and these were handled with the utmost sensitivity. For example, 3000 managers in the corporation were sent to outplacement consultants to help their staff cope with the problems of redundancy. As a further example of the company's sensitivity to its brand values, it has also remained true to its employer of choice policy. As one HR manager explained:

> 'The company has stuck with its employer of choice policy. An example is graduate

hiring. A year or so ago we were recruiting 100 graduates a year and competing for top talent, along with a number of major firms in Scotland. We were competing in a very competitive market for software engineers, electrical engineers, etc. Now there is no graduate hiring at all. As a consequence we were extremely worried that our reputation as a company may have suffered a little so we have still been active in graduate fairs and the like, explaining why we haven't been taking people on, because we see the need to demonstrate our commitment to the market and we expect things to change. You cannot turn off and on like a tap; you need to be visible.'

The employer of choice policy extended well beyond the hiring stage, as its rankings in *Fortune* and the *Sunday Times* implied, with employment conditions rated among the best in Scotland. These included performance-contingent pay, flexible working hours, group-wide bonuses, pensions and life assurance, employee assistance programmes to help with stressful personal and domestic issues, well-above-average holidays, subsidized high-quality cafeterias, and excellent sports facilities. Agilent was also heavily committed to training and career development, with a well-funded employee education assistance programme providing support for training and education justified on the basis of business reasons. The HR managers also explained how HR had been involved in the corporate branding exercise, citing the tagline to the company name 'Agilent Technologies: Innovating in the HP way', which implied a major consideration of HR issues in the development of the brand name. They saw themselves as part of an integrated company, comprising a team of managers and employees living the Agilent brand values, which balanced business and employee needs. This was exemplified by the HR director, who saw no distinction between the external and internal role of branding:

'We are a values-driven company and cannot operate in any other way. The corporate values are extremely important to us, both inside and outside the company. For example, we have a Standards of Business Conduct Policy, in which we do business in a very different way from many other companies … We are a 60-year-old company with a history, the HP heritage, with policies that have stood us in good stead over that period. So we have a very high expectation of how people will behave externally and internally.'

When asked whether employees in the UK were 'living the brand' in 2002, they explained how recent employee survey results had surprised them.

Given all that has happened – 10 per cent and then 5 per cent pay cuts, bonuses not paid, redundancies for the first time ever – the (survey) results hardly changed. We were still good against our internal and external benchmarks. There has been a fall-off, but not nearly as much as we expected. What has happened recently has been a shock to the organization and a radical shift for many people but the value proposition has still been compelling to most of them.

They also pointed out how 98 per cent of people in the UK company had volunteered for the first round of pay cuts as a way of lessening the impact of redundancies. This figure, however, was slightly less for the second round of pay cuts, indicating that it was not seen as a sustainable solution by employees or the company.

Policy within the company was to continue to benchmark against the best companies to work for, wherever it operates. The HR managers reported that Agilent aimed to be in the top 20 *Fortune* and *Sunday Times* best companies, and to retain its excellent rankings in listings in countries such as India and Australia, where it ranked very highly.

By the summer of 2003, however, the market situation of Agilent had deteriorated even more, and all of its business units were required to make further cuts and redundancies. In a presentation made by the Scottish general manager of Agilent to a group of executives, he rather despondently recognized that Agilent had breached the traditional psychological contract with the UK employees, especially over the issue of the traditional 'guarantees' of job security. In addition, he saw no benefit in continuing with the benchmarking exercises and objectives of being among the best companies to work for. He intimated that his major task, and that of his HR team, was to realign the psychological contracts of employees with the 'new realities', but wasn't at all sure how this was going to be achieved.

Source: adapted from Martin and Beaumont, 2003.

1 What factors may have led to Agilent creating a reputation as a good company to work for, and why do you think they pursued this strategy?
2 How would you account for the positive rankings of Agilent as a good company to work for, even during the difficult circumstances of 2001–2?
3 What advice would you offer them concerning the realignment of psychological contracts with the 'new realities'?

Learning summary

In this chapter we have discussed the importance of corporateness as a new lens through which to view organizations. Many organizations in all sectors of the economy view corporate reputation and a strong corporate brand as an essential component of their corporate strategy, and have invested heavily in image and brand building. This is especially true of international companies that seek to operate in global markets, and *leverage the benefits of trust and confidence in their products and services* worldwide. However, it is not only large organizations that need to secure trust and confidence; small companies, public sector organizations and not-for-profit organizations are especially vulnerable to problems connected with trust and confidence. Investment in strong trust relations has been associated with superior organization performance in the long term, because trust and confidence in an organization and its corporate brand result in customers, employees and other stakeholders continuing *to support the company* by purchasing existing products and services, buying new ones (brand extension) and recommending other people to do the same. Perhaps of equal importance, especially in modern knowledge- and service-based economies, trust and confidence in the organization result in existing and potential employees providing essential support through increased motivation, commitment, identification and psychological ownership. Indeed, as some writers have argued, and which is a central theme of this chapter, creating employee trust and confidence in organization is the most *important, necessary prior condition* for building, maintaining and defending *reputations and brands.*

One of the key problems that has bedevilled the development of this field is the proliferation and confusion of terms: to follow the old management adage, if you can't define something accurately, you can't measure and manage it. As a result, I have spent some time defining corporateness as an umbrella concept and defining the interrelationships among corporate identity, organizational identity, corporate image, corporate strategy, corporate vision, corporate communications, and the key outcomes of strong corporate reputations and brands. The AC^2ID framework was used to illustrate these ideas and show you how it might be applied to the analysis of organizational problems.

Returning to the importance of people management in creating, sustaining and defending corporate reputations and brands, we have created a model to show how the complex relationships between HR strategies, communications strategy and the nature of employment relationships can impact on organizational identity and employee behaviours that, in turn, shape corporate brands and corporate reputations. This model has been built from extensive research in the field, and has been used by HR and marketing practitioners to analyse the process of building reputations and brands and to design appropriate people management policies. From the model we also drew some practical lessons concerning the measurement of reputations and brands, understanding the nature of the employment relationship, the use of appropriate communications strategies to influence employment relationships, and the use of different HR strategies to facilitate more refined segmentation of psychological contracts. We concluded the chapter by asking you to apply the model to a case study to illustrate its practical relevance.

Review questions

Multiple-choice questions

6.1 Which one of the following is *not* a key strategic driver of corporateness?

A Differentiating one's products in the marketplace from competitors.

B Problems created by a reputation for shoddy products and services.

C Problems created by corporate scandals and unethical governance.

D The desire to have a corporate logo known throughout the world.

6.2 Which one of the following is most likely to create long-term *reputational* capital?

i Excellent financial management.

ii Quality products.

iii The quality of employees in an organization.

A iii only.

B i and ii only.

C ii and iii only.

D All of the above.

6.3 To create a strong corporate brand in a global organization that has subsidiary companies in many regions throughout the world, which one of the following would be the most effective strategy?

A Develop strong international products or lines of business brands.

B Endorse the local company and products with the global brand.

C Play down the local company and its branding identity.

D Follow a policy of promoting local companies and their brands at the expense of the global corporate brand.

6.4 Corporate reputation differs from corporate branding because:

i It is as much about the past as the present.

ii It concerns itself with internal and external stakeholders.

iii It can be used as a benchmark against other organizations as a good employer to work for.

Which of the following is correct?

A i only.
B ii and iii only.
C None of these.
D i, ii and iii.

6.5 You have been given the task of measuring the extent of employee identification with a company by developing an attitude survey. Which of the following items would *not* be appropriate to ask?

A I know what's expected of me.
B The company provides me with excellent opportunities for career development.
C The company is open and honest with me.
D I trust the managers in this company to work in my best interests.

6.6 The marketing department has been given the task of developing a compelling employer brand to help develop employee loyalty. Which one of the following should be its starting point in this process?

A Understanding the key point in the recruitment process when an applicant becomes really interested in working for the company.
B Developing access to training and education for all employees.
C Finding ways to get the employee excited about the company.
D Evaluating the existing company culture.

6.7 The employees in an organization are disillusioned with the communications from the management team not being followed up by credible action. Which of the following is most likely to have happened?

A A vision–culture gap.
B An image–culture gap.
C An image–vision gap.
D A loss of corporate reputation.

True/false questions

6.8 A corporate brand is based on the internal perceptions about how the company is run. T or F?

6.9 Corporate image differs from corporate reputation predominantly in timescale. T or F?

6.10 The power of corporate branding lies in the ability to speak to a specific audience. T or F?

6.11 Positive corporate reputations make it more likely that employees will align their values with those of the organization. T or F?

6.12 The resource-based view of strategy contends that the external environment of an organization is difficult to understand and control, so managers should focus on developing strategy from the inside out, building on the quality of its people rather than market opportunities. T or F?

6.13 Employer branding is at heart an attempt to brainwash employees. T or F?

6.14 The EQ is the ability of the corporation to communicate its values to its customers. T or F?

6.15 Corporate identity has no real bearing on the employment relationship; it is directed mainly at establishing a strong corporate brand. T or F?

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CHAPTER 7

The knowledge context, organizations and managing people

Learning objectives

By the end of this chapter you should be able to:

- understand the nature of knowledge in society, its role in creating strategic advantage in knowledge-based enterprises and the role of people management;
- understand what knowledge is and its relationship to learning;
- describe the processes of knowledge management in organizations and use them to analyse an organization;
- understand how organizations create and share knowledge;
- understand the relationship between knowledge and learning, especially the importance of tacit knowledge;
- apply a knowledge management perspective to an organization;
- understand the notion of intellectual capital, and advise on how it might be measured in different types of organization;
- use measures of intellectual capital to evaluate an organization;
- understand how different forms of knowledge relate to organizations and processes and the issue of managing people;

- advise managers on the nature of 'knowledge workers' and the issues connected with managing knowledge workers;
- advise on an appropriate performance management system for knowledge workers.

Understanding the nature of knowledge, its strategic role and impact on organizations and people

Introduction

One of the received wisdoms in the strategic management literature is that organizations that are able to integrate disparate sources of *knowledge* across their boundaries will be those that survive and prosper. These disparate sources include not only formal, written or coded forms of knowledge but also the possession of some advantageous, intangible, knowledge-based assets (Sparrow *et al.*, 2004). Indeed, as we have seen in Chapter 4, some writers on innovation go further to claim that the primary reason for an organization's existence is its ability to transfer knowledge and learning more effectively and efficiently than through external market mechanisms (Gupta and Govindarajan, 2004). This is especially true of international organizations, many of which have previously relied on establishing subcontracting relationships, based purely on market relations and the price mechanism, to extend their operations beyond their domestic boundaries. However, these arguments may also be applied to smaller and medium-sized organizations that operate in mainly domestic markets in the developed world, as they increasingly find themselves in a knowledge-based economy, with intellectual rather than physical or financial capital being the source of their competitive advantage. Consider the following illustrations of two very different Scottish companies in the cases below.

Case 7.1: Standard Life Investments, knowledge transfer and business development overseas

Standard Life Investments is a global investment company that focuses on managing institutional investments for clients in a range of countries. It was a newly formed division of its parent company, the Standard Life Assurance Company, which was founded in 1825 and was the largest mutual assurance group in Europe in 2004. It has offices in Boston, Montreal, Seoul and Hong Kong, and has recently established a joint venture in India. The company is headquartered in Edinburgh, Scotland. It employs nearly 700 people and manages assets worth £76 billion. This represents a doubling in the number of employees and a 40 per cent growth in managed assets since 1998. The company has consistently won awards for its fund performance and levels of service to clients.

The company provides skilled investment experts to manage the assets that a wide range of organizations, including its own parent company, have entrusted to Standard Life Investments. These investment experts are of two kinds. First, client fund managers are responsible for the full range of their clients' performance and servicing needs: in effect, they are customer relationship managers who provide a tailored portfolio-management service to key customers. Second, asset class managers focus on identifying investment opportunities and generate performance. These scarce, highly talented and experienced people, much of whose work is both esoteric and skilled, are attracted, motivated and rewarded by exceptional remuneration packages. These fund and asset managers are supported by a large back-office team of marketing, information systems and HR professionals.

The company employs an investment philosophy and process that involves asset allocation, stock selection, portfolio development, risk management and dealing. It is research intensive and is built on a 'focus on change' approach, which provides early and detailed information on key drivers that affect markets and on the dynamics likely to influence the investment environment, particularly the pricing of stock. Investment decisions are based on five guiding questions:

- What are the key market drivers?
- What's changing?
- What expectations are priced in?
- Why will the market change its mind about these expectations?
- What will trigger these changes?

These questions represent a common 'language' that is used to guide all decision-making in all regional offices and on all asset classes. The focus on change philosophy also recognizes that different factors drive markets at different times, and that prices are not inherently responsive to internal growth or momentum. Consequently, fund managers have an opportunity to outperform others during a cycle, but only if they are able to understand it better than fund managers in other companies. So, for example, through having deep knowledge of a macroeconomic analysis of China or of key competitors in the USA, they are better able to predict the price of telecoms stock in the UK. As their company documentation states: 'The more pieces of corroborating evidence we can amass, the greater the conviction we can take behind these investment positions' (internal company documents).

Investment knowledge is gained from top-down and bottom-up information and is expressed in a house view by the chief investment officer and his team of analysts, who provide strategic direction for Standard Life Investments. The success of the company also depends on its ability to learn from its offices in other parts of the world; in turn, they require having high-quality sources of knowledge on which to make their decisions. The company prides itself on global team-working and on its people management philosophies and practices, for which they have won awards. Standard Life has established a culture based on team autonomy and trust, and a strong employer brand that is used to attract and retain top talent (see Chapter 6).

Recently, it has sought to grow by mergers and acquisitions overseas. It has established a successful joint venture in India and, at the time of writing, is seeking to develop further in China on the basis of a joint venture. However, it will only do so with business partners that can exhibit similar business cultures and sound business processes, or at least ones that are complementary. Senior managers explained that India was a natural and desirable target for expansion because of a common language, laws and business practices. Conversely, however, their efforts to expand into the fast-growing Chinese market have left managers challenged by the slow pace and rather 'exotic nature of the negotiation process', learning the language, ambiguities in the regulatory environment and simply finding a partner willing to accept Standard Life Investments' business model.

The future for Standard Life Investments lies as an independent plc, because the parent company has taken a decision to propose demutualization to the board in 2006. Under its present form, the company is a type of partnership of members (policyholders) in which the parent company reinvests all profits for the benefit of the members. Standard Life has fought a long battle to resist demutualization but, given the pressures placed on it by some members and trends among most large insurance businesses in Europe, demutualization has become a preferred strategy. In addition to internal pressures and industry trends, the arguments for demutualization include increasing efficiency, gaining access to capital for expansion, increasing commercial flexibility, unlocking the value of ownership rights and benefits for staff, customers and future shareholders. Demutualization would first involve floating the company on the stock market and, second, changing the mindsets of managers to act in the interests of its new shareholders as well as its other stakeholders. It would also bring with it the potential for takeover or merger, especially if it underperformed. This environment has led the company to think very seriously about its knowledge management and human resource policies.

1. In what ways does Standard Life Investments rely on knowledge to operate its business? Are knowledge and learning core activities in its present and future success?
2. What problems do you foresee for Standard Life Investments in managing its current and future activities?

Case 7.2: Managing Sir Tom Farmer's knowledge at Tyres 'n' Wheels

Bob Wilson, a reporter for an Edinburgh newspaper, recounts this story. When his car's number plate rattled loose in the Hague about ten years ago, the nearest potential repair shop was a Kwik-Fit on the outskirts of town. 'Sorry,' said the foreman, 'we don't do that kind of job.' 'Pity,' I said, aware of geography's significance in this context, 'as I have to drive all the way back to Edinburgh.' The attitude changed immediately. Suddenly, the mention of Edinburgh meant there was no problem, and I felt a flash of pride that, back in Scotland, there was a godlike figure seeing me OK. It was a similar pride I had felt maybe 20 years earlier when having a Kwik-Fit tyre change in Antwerp, or five years later when ordering a new exhaust in Kent. The wildfire spread of this Scots-born chain truly lived up to its 'Kwik' title. So much so that when its founder, Sir Tom Farmer, sold it to Ford for £1.2 billion in August 2001, it had become the biggest automotive-repair business in the world, with over 2400 outlets.

Farmer started his first business, Tyre and Accessory Supplies, in a grocer's shop in Edinburgh. When he sold that company to the English-based Albany Tyre Service he was still only 29, and he and his wife, Anne, decided to take their two children to California 'to retire'. It didn't work, of course, and within months they were on their way home – with the germ of a US-influenced idea forming in his mind. The phrase 'Kwik-Fit' came to him when he was in bed recovering from flu. Soon, he had called together his old gang of fitters, and the rest, as they say, is history.

The question that might be asked of all entrepreneurs is: How could someone who started with only an idea have achieved so much? In the case of Tom Farmer, why has he started all over again, and can he repeat the success? At the age of 63, he has started a new venture called Farmer Autocare with definite echoes of Kwik-Fit, and within a few months has already set up nine Scottish branches. He stresses that his new venture is only one of many in which he is involved. He also stresses that while Tyres 'n' Wheels Farmer Autocare (to give it its full name) fits new tyres and carries out wheel alignments like the now-rival Kwik-Fit, it is based on a vastly different 'co-ownership' concept designed to encourage people to start their own branches of the business.

Farmer began life as a store boy, during which time he learned the value of the personal touch. If this kind of knowledge is an essential element in the success of this kind of business, Sir Tom is still the master of it. And his new business will no doubt embody these values.

You sense that he wouldn't worry too much if Farmer Autocare's growth pace were considerably slower that Kwik-Fit's was. 'I want the customers to leave our premises with a feeling that they have had a pleasant experience,' he says, and to that end the comfortably furnished stations are fully equipped with while-you-wait computer games, coffee machines, loos, and Internet and e-mail facilities. 'We could think of this as, say, a wine-bar approach as opposed to that of a pub,' he says. 'And we are not necessarily into slick phrases to attract customers. We used to bang on about customer satisfaction and even delight, but that doesn't mean anything today. Customer expectations are very high now and fancy words won't do it. Only delivery and good value for money will. If we can strike up a good human relationship, that's a bonus. But at the end of the day, if they're not happy, they'll go elsewhere.'

If slick slogans are out and Sir Tom has a new top team, the essential question now has to be: Can you get better than a Kwik-Fit fitter after all? The secret, according to Farmer, is in the new form of organizational structure, which is a form of co-ownership. Not to be confused with franchising, the co-ownership idea came after some of Sir Tom's colleagues asked if he would be interested in helping them set up on their own. He offers a training, advertising and merchandising support package with a £100 000 investment of share capital, while retaining the majority shareholding as each co-owner invests £25 000–45 000 to become director of a fully equipped centre leased from Farmer Autocare. 'We take care of all the time-consuming bits,' says Sir Tom, 'such as general admin, the paying of suppliers' bills, labour costs and expenses. He doesn't have to worry about anything but running the operation on the ground. When he opens the door on Monday, he knows how much it's going to cost him to operate the business that week.' But, Sir Tom stresses, for all his interest in helping entrepreneurs get off the ground, it is still a viable business for himself.

1 In what sense is Tyres 'n' Wheels a knowledge-based enterprise?

2 What problems can your foresee for the company?

One very useful way of thinking about these two cases and, indeed, the whole subject area of the knowledge context is to draw on a framework I have adapted from Choo and Bontis's (2002) model of strategic knowledge management (see Figure 7.1). This framework raises six sets of questions that need to be addressed by any organization which seeks to compete on the basis of knowledge:

1. Why is knowledge seen as a strategic asset in modern societies, and why should organizations become more interested in managing knowledge and their intellectual assets? In the late 1990s there was much talk of a 'new economy' and the role of knowledge and technology in promoting changes in society. How justified was this discourse?
2. What does a new knowledge-based organization, such as Standard Life Investments, look like? What are the essential features of such organizations? And can we learn about them from more traditional knowledge-based organizations, such as the universities and consulting firms? The terms 'knowledge-based enterprises' (KBEs) and 'knowledge-intensive enterprises' (KIEs) have entered the lexicon of management studies. What makes them different?
3. What are the processes by which KBEs *create*, *transfer* and *utilize knowledge* within and beyond their boundaries, and how effective are they? Organizations, such as those represented

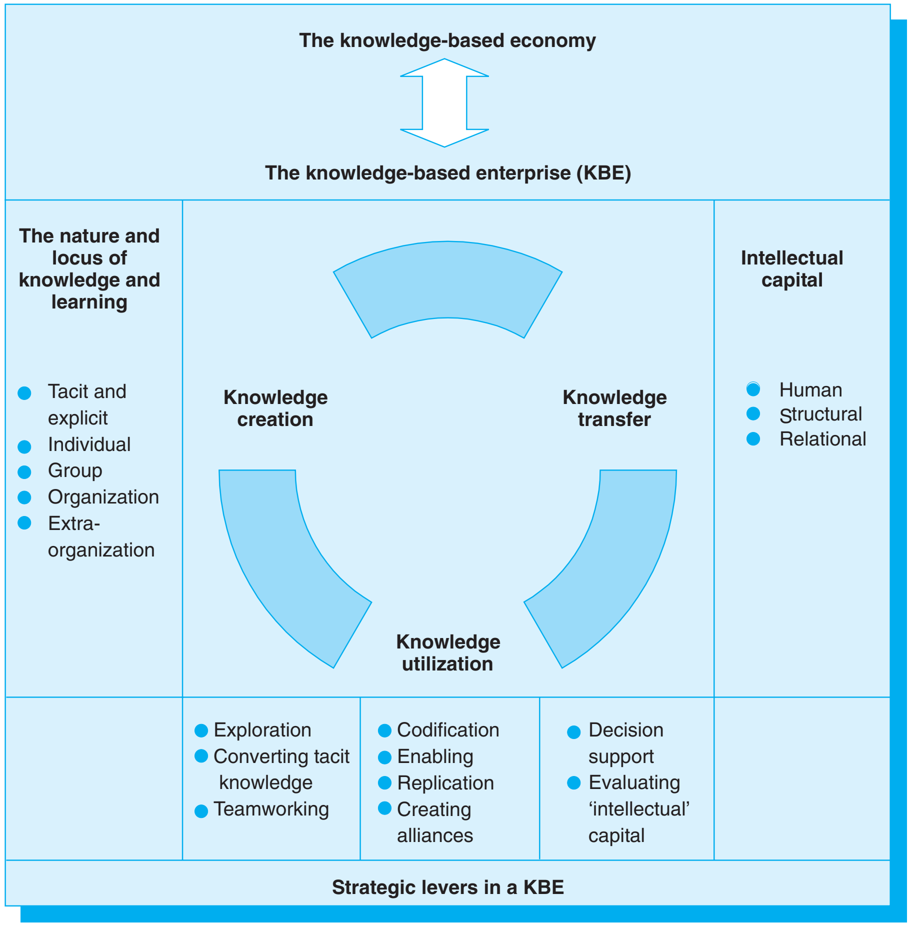

Figure 7.1
A framework for understanding knowledge in organizations. (*Source*: based on Choo and Bontis, 2002.)

in the above cases, generate value from what they know, which can be defined as their stock of *intellectual capital* at a point in time. This intellectual capital, however, depends on an organization's ability to manage the processes of knowledge creation, dissemination and exploitation. The key questions connected with these processes are: What are the best means for such organizations to convert *tacit knowledge* (which resides in employees' heads and organizational processes) into *explicit knowledge* (which is formal, usually written, codified knowledge)? How can they share such knowledge among their subunits and partners across national and international boundaries and time periods? How can they integrate and coordinate knowledge to develop goods and services?

4 How does a KBE facilitate and help *feed-forward* and *feed-back* knowledge creation and learning *between the different levels* in

an organization–individual, group, organization and extra-organizational networks? Arguably, only individuals can learn about work, but how they learn, and from whom and where they learn, are matters of some debate. Is learning for work best undertaken by individuals in a 'schooled' environment away from work, or is learning essentially a group process that is most effective when it is carried out in the context of work? Equally important is to ensure that the learning that takes place in individuals and small groups becomes part of the wider processes of organizational learning, and in certain cases, extra-organizational learning (e.g. suppliers, customers, government and other key stakeholders).

5 What is the *nature of the intellectual capital* generated by the processes of knowledge creation, transfer and utilization, and how can it be exploited? Intellectual capital is often described as comprising *human capital* (the learning, knowledge and skills residing in people, groups and in an organization's unique culture, which cannot be owned by the company in any strict sense), *structural capital* (the hardware, software, organizational structure, databases, trademarks and brands that support employees, and which are owned by the company) and *relational capital*, which is supported by structural capital (the relationships developed with key customers and suppliers, which the companies also own).

6 What *strategic levers* can be 'pulled' to improve the processes described above? These levers include: methods of promoting knowledge creation through groups, etc.; forming cross-functional work teams; establishing enabling conditions for knowledge creation through appropriate human resource management practices; replicating organizational routines across different parts of an organization, e.g. building in automatic environmental scanning; methods of codifying knowledge to make it explicit and capable of being stored; designing decision support systems; and measuring and evaluating an organization's intellectual assets.

We shall use this framework to organize our discussion of knowledge management by examining in turn the nature of the 'knowledge-based economy' KBEs, the nature of knowledge and learning, the processes of knowledge creation, transfer and utilization, the strategic levers that can be pulled to enhance knowledge management and the outcomes of KBEs, and the creation of intellectual capital.

The knowledge-based economy

The idea of a knowledge-based economy, which advances the notion that knowledge creation is the most important source of economic growth, has been around since the 1980s (Harris, 2001). Following the problems associated with the de-industrialization of many Western economies, in which the traditional mass-production industries of America and Europe declined in importance, there was the search for a new, more optimistic theory of economic development. As Western economies moved from being powerhouses of manufacturing to becoming largely service-driven economies, a major, and seemingly intractable, problem presented itself: how to increase productivity in an economy based largely on services so that living standards could continue to rise. Because living standards are highly sensitive to productivity increases, economists were quick to point out that productivity in services industries was notoriously difficult to increase, as there are natural limits to the levels (quantity and quality) of service that customers desire – for example, in eating out at restaurants, attending concert halls, undergoing education, having new tyres put on their cars, having their investments managed and in taking holidays. Increasing inputs in customer care, it was argued, would yield rapidly diminishing returns (and eventually negative ones, as people came to resent the intrusive, 'have-a-nice-day' syndrome). Thus, economies such as those in the West, which were rapidly changing to include high proportions of such workers in their employment structure, would eventually move towards a position of zero productivity growth, and thus zero rises in standards of living.

Following the emergence of the new computer-based and digital technologies in the USA in the 1980s, the entrepreneurial spirit to which these gave rise, and the resurgence of the American economy in the 1990s, a set of new theories of economic growth began to emerge (Evans and Wurster, 2000; see also Chapter 8 on the technological context for more details). For example, an influential OECD report published in 2001 entitled *The New Economy: Beyond the Hype* identified information and communication techniques (ICT), education levels and the proportion of knowledge-intensive employment as key factors in explaining differential growth rates among advanced industrialized countries. The core of these theories was that sustained economic wealth was most effectively created by focusing on knowledge and knowledge-based products – in effect in moving from a *hardware world* of bricks and mortar and manufactured goods to a *software-dominated world* of computer code, DNA-based biotechnology, educational and consulting services, and e-trading, all of which were reliant on new ICT for their 'transport infrastructure'. This knowledge-based version of economic growth was inherently optimistic, because it was not associated with a future based on diminishing returns or deteriorating productivity growth. Knowledge, it was argued, could be applied an infinite number of times with no decline in value, was relatively durable through time and space, and could be stored at very little cost using digital media. The uses to which knowledge could be put were also thought to be infinite, as innovation promised new ranges of products and services to new markets. Thus, for example, although people in the West might have natural limits to the levels of services they required, the emerging markets in Asia and Eastern Europe were thought to be infinitely susceptible to McDonald's franchises, digitized recordings of concert hall (or popular) music, online degrees and low-cost air travel, all of which are forms of knowledge-based products and services.

Thus, the new economics of knowledge focus on knowledge as a key factor in economic and technological growth (see the Global Competitiveness Report, 2005). And, rather obviously, as knowledge is essentially a human construction, the new economics of knowledge and the new knowledge economies depend to a large extent on the *quality and management of people*. There are at least five strands to this argument:

1 Knowledge is seen as an important economic factor input, in the same way as the traditional economic factors of production – land, labour and capital. Like capital, knowledge can accumulate over time and is seen to be an important engine of economic growth. For example, as we have seen, the growth rates of economies are often linked to spending by organizations and government on research and development (R&D), and world competitiveness is linked to technological growth, so the proportion of knowledge workers in an economy and their levels of knowledge are thought to be critical (OECD, 2001).
2 Knowledge, however, is a rather different type of concept from the term 'information' that is widely used in ICT. Information is defined in terms of the codifiable 'know why' and 'know what'. As we have seen, however, much knowledge is tacit and is embedded in people and contexts – so-called 'know-how' – so the economic returns to knowledge workers tend to be high because of their relative scarcity value. This is most obviously reflected in the pay of senior business figures and of certain scientists. For example, Harris (2001) pointed out that, of the richest people in the world in

1997, four worked in software, two in computer hardware and two in the media, and that many of the emerging biotechnology firms in the late 1990s had made 'superstar' scientists rich. Such people are said to earn *economic rent* – payment for relatively scarce knowledge and skills that are inelastic in supply. The same argument is also used to explain the high earnings of sport stars, investment managers and pop musicians. At a more general level, this notion of economic rent is also evident from the increasing returns in the form of real wages earned by university and college graduates in the USA and in most developed countries.

3 Most knowledge is not of the pure, 'research and development' type, associated with scientific breakthroughs, but is embodied in products such as software, digital media, databases, financial bonds, video games and online courses. Organizations in knowledge-based industries, such as those offering these products, have been traditionally characterized by high fixed development costs but low marginal production costs, and have had major problems in recovering these costs in price-sensitive markets. Consequently, there have been great pressures on these organizations to protect their intellectual property rights and to reduce their fixed costs by 'offshoring' some of the knowledge work to the newly emerging economies such as India in the fields of software writing and call centres (CIPD, 2004).

4 Knowledge is thought to *spill over* and to be *localized*. Thus, breakthrough ideas created by one firm are thought to spill over to other firms and industries in a local region more quickly than between regions. Consequently, we often witness clustering of firms in knowledge-intensive sectors such as financial services, software, mobile telephones, e-learning and biotechnology, where face-to-face interaction and the rapid transfer of employees between firms in a region are thought to be important in knowledge transfer. These locally clustered labour market factors are extremely important in developing career opportunities and in establishing attitudes to work (Cappelli, 1998).

5 Enormous emphasis has been placed on the emergence of *knowledge networks* that facilitate the kinds of interactions between people and ideas central to the previous point concerning clustering. The diffusion of tacit knowledge in particular is thought to be facilitated by such networks, access to such

networks becoming critical for knowledge workers and knowledge transfer. However, these networks are heavily dependent on integrating increasing numbers of members for their added value, within and between organizations, as they seek to learn from each other and share out the costs of innovation. To succeed, these networks have had to develop a new form of integration, based more on trust and less on market/price coordination or hierarchical/authority coordination (Adler and Kwon, 2002). This renewed emphasis on trust has enormous implications for the management of employment relations, and in recruiting, developing, motivating and retaining talented, trustworthy people. At the same time, such networks are thought to create lock-in effects, which mean that past decisions shape collective choices about new technologies and other forms of knowledge. Thus, being part of a network provides access to new ideas, but it can also create a form of 'psychic prison' that limits innovation and creativity (Morgan, 1997).

Taiwan is an excellent example of an economy that is linking its desire to develop a national economic development strategy based on the growth of KBEs to a corporate branding strategy. An article pointed out that three-quarters of the world's notebook computers, two-thirds of LCD panels and 80 per cent of personal digital assistants were made in Taiwan in 2000, but few people had heard of a Taiwanese brand (*The Economist*, 15 January 2005); by 2005, Taiwanese manufacturers had transferred nearly all production to China. Companies such as BenQ and Acer design and make many ICT products for other companies. These companies began as original equipment manufacturers (OEMs), producing to the designs of other companies, but gradually took over substantial parts of the design processes themselves to become original design manufacturers (ODMs). However, BenQ was the first company to try to build a world-class brand in its own right when it was spun off from Acer; it had 40 per cent of its business as 'own brand' by 2005. Acer has also established a brand name and is one of the largest computer brands in Europe, especially for monitors and laptops.

BenQ spends much more of its revenue on R&D than most ODMs, around 3 per cent of revenue against the typical spend of 1 per cent. This puts the company in the same league as many of the world's major advanced technology companies in countries such as the USA and Japan. BenQ's strategy is consistent with the Taiwanese government's policy, launched in 2002, of building local brands based on leading-edge technology, known as Challenge 2008. This policy has called for total R&D spend in Taiwanese companies to increase from 2 to 3 per cent to compete with the most advanced technologically based knowledge-based economies. Interestingly, the article noted how mainland Chinese companies are attempting to replicate the same strategy.

Knowledge-based enterprises

A definition and example

At the core of the arguments for the new, knowledge-based economy are so-called *knowledge-based enterprises* (KBEs). Perhaps more accurately, KBEs can be thought of as knowledge-intensive enterprises, as all organizations rely to some extent on knowledge – and always have. This notion of knowledge intensity indicates the relative nature of the reliance on knowledge in organizations. KBEs are also differentiated from other forms of organization by their ability to bring together the knowledge of specialists more effectively than through contractual relations, the spot market and price mechanisms (Grant, 2004). In other words, they are seen as 'knowledge-integrating institutions'. To explore the nature of KBEs and what makes them different, it is worth examining one of the oldest forms of knowledge-intensive institutions, with which all of you are familiar. I'm referring here to universities, and we need look no further than university business schools, which are among the newest (and often most resented) departments in higher education, to reveal some of the problems and tensions that KBEs face (Fuller, 2002).

Box 7.1: Universities as the archetypical KBE and the case of the business schools

Contrary to the normal professional bureaucracy (see Chapter 4 on the organizational context) found in most universities, it would certainly be possible to operate a 'virtual' business school with a very small core staff of administrators and rely on entering into market-based, pay-for-performance, contract relations with academics from around the world to write and teach students. Such virtual schools can be more effective and efficient in operating a 'delivery model of education' and more flexible in responding to signals from the educational markets they serve. However, most university business schools have not followed that route, preferring to retain the 'brick' schools that reflect the traditional university model, staffed by traditionally employed experts on full-time contracts. This traditional brick or campus-based form of organization has remained the dominant one, despite the fashion for retrenching to core competences.

Arguably, this apparent conservatism is because university business schools see their core competences as more than delivering teaching, which, in its most basic form, can be seen as an individual relationship between teacher and student. There are major threats to the traditional business schools, however, from the new 'corporate universities' and consulting companies on the one hand and from the university–corporate collaborations, which are moving rapidly into developing sophisticated business models for delivering high-quality online learning on a global basis, on the other.

This example also illustrates the following three key features of KBEs (Staples *et al.*, 2001):

- their need to access core, advanced and innovative knowledge;
- their need to build communities of knowledge workers;
- their need and capacity to absorb new knowledge and transform it into useful products and services.

Core, advanced and innovative knowledge

It is often argued that all organizations need core knowledge merely to compete in an industry (on the basis of the existing 'rules of the game'). So, for example, all university business schools need to have access to certain core knowledge to teach MBA courses. However, certain schools invest heavily in advanced knowledge, often through unique, research-based content over which they have established some intellectual property rights, or through improved methods of learning. They do so to differentiate themselves from other schools (by attempting to change the existing rules of the game). However, business schools seeking to dominate the industry on a regional or global basis will need to draw on truly innovative knowledge to change the basis of competition (continuing with the games metaphor, to change the game itself). It is this innovative aspect of KBEs that makes them important to modern economies and provides them with a potentially powerful source of long-term strategic advantage. Much of the recent focus on innovation has been on the evolving power of ICT and the Internet in KBEs. In the context of university business schools, ICT and the Internet are seen as critical to extend their outreach into other countries, but to do so in such a way that those on the periphery of a business school's main campus are socially connected to each other and to the centre (Seely Brown, 2002).

The communal nature of KBEs

The second way of looking at a KBE, also illustrated by the example of a business school, is to emphasize its needs for community and a sense of shared identity. It is argued that KBEs tend to rely on a strong sense of shared identity to reduce communication costs and minimize the degree of bureaucracy required for regulation purposes, an argument that reflects the importance of trust as a coordinating mechanism in the previous section on knowledge-based economies. However, the shared identity of KBEs also contributes to the propensity for organizations to learn by creating communities of practice that support individual learning and knowledge sharing (Wenger, 1998). We shall define and discuss such communities of practice later in this chapter, but the essential points are that communities are forms of social networks that create the social capital of an organization, and that they do so more effectively than through a purely market relationship. Such social capital, in the form of a set of unique relations between people (sometimes called its *cultural capital*), is leveraged to produce an organization's intellectual capital, and it is this aspect of organizations that provides them with a distinct and non-reproducible source of differentiated, competitive advantage. Thus, university business schools have traditionally seen themselves in the roles of facilitating and building knowledge production in research communities, in encouraging learners to participate in learning communities and in developing long-standing social networks that, by definition, require academics, students, practitioners and alumni to work together and to share their ideas (Seely Brown, 2002).

The absorptive capacity of KBEs

A KBE both uses knowledge as a key input to its core business and produces knowledge as a key output for customers. Returning to our example of the business school, competitive advantage is more likely to accrue to those schools that have a well-developed capacity for absorbing leading-edge knowledge from industry and from other academic networks, such as alumni. Such a capacity is known as *absorptive capacity*. This refers to an organization's ability to *acquire*, *assimilate*, *transform* and *exploit* new knowledge (Zahra and George, 2002; Martin *et al.*, 2003) (see Figure 7.2). Thus, any KBE, including our business school exemplar, that seeks to create new knowledge

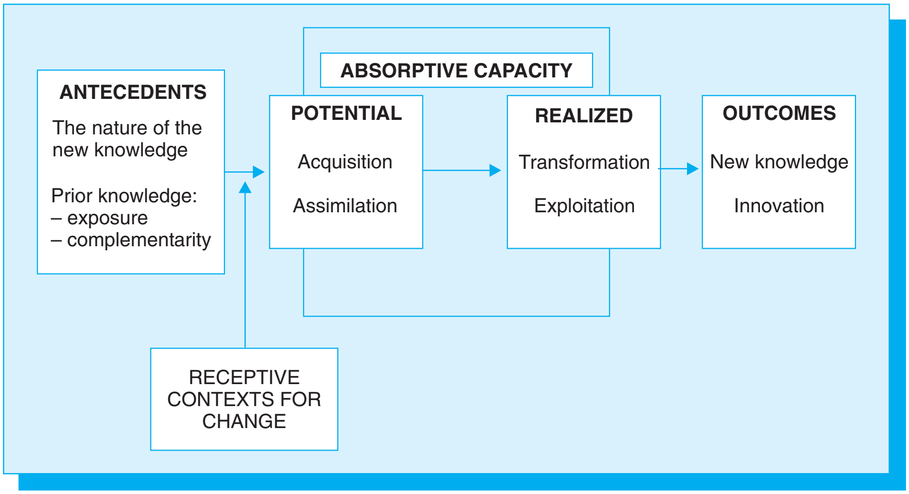

Figure 7.2 A KBE's absorptive capacity for new knowledge. (*Source*: based on Zahra and George, 2003; Martin *et al.*, 2003.)

and create innovative products, services or processes needs a high *potential* for:

- identifying and acquiring new knowledge with greater speed, intensity and focus than others;
- assimilating this new knowledge into the KBE's current routines and processes more effectively than others.

They also have to realize their potential by:

- transforming this knowledge by developing it and fusing it with existing knowledge to provide some novel ideas, products or processes;
- exploiting this newly transformed knowledge by leveraging existing learning competencies or developing completely new competencies.

The extent to which a KBE has the potential absorptive capacity for new knowledge is, however, dependent on key *antecedents*, including: (1) the nature of the knowledge it possesses; (2) whether it has had any previous exposure or past experience with related knowledge; and (3) whether this new knowledge complements its existing body of knowledge. It is also likely to be influenced by the existence of receptive contexts for change, such as a crisis in the organization, new legislation that supports the need for new knowledge, or new leadership and/or a new strategic direction.

Exercise 7.1: The future of university business schools and Standard Life Investments

1. Continuing with our example of university business schools, what practical measures could an established school implement to increase its absorptive capacity? What constraints can you envisage in increasing absorptive capacity in this context?
2. In the case of Standard Life Investments at the beginning of the chapter, to what extent is its absorptive capacity one of the key factors for success in its business? What problems do you foresee in the company exploiting its absorptive capacity in its overseas ventures?
3. What receptive contexts for change might influence the absorptive capacities of the university business school and Standard Life Investments?

Knowledge creation, transfer and utilization

Knowledge creation and learning

To deepen our understanding of the knowledge context, we need to address the nature of knowledge and learning, namely what knowledge is (and is not), what the different forms of knowledge are, how knowledge relates to learning, and the relationships between different forms of knowledge and organizational structures. Usually, the first distinction made in texts on the subject is between information and knowledge, in which information is treated as the organization of basic 'factual' data. Information becomes knowledge only when people apply their minds to change it in some way. In effect, knowledge is a human creation and is inherently subjective, whereas data and information are seen in a more objective and basic sense. It is this human and subjective quality of knowledge that makes it different from other factor inputs into organizations and, as we have seen, makes it a unique source of competitive advantage. There are at least three perspectives we can take on the nature of knowledge creation and learning:

1. To see knowledge as the *outcome of learning*. As individuals (and groups), we learn to acquire knowledge and also use knowledge to learn about something important to us. For example, in learning about the nature of knowledge in this book, hopefully you gain new knowledge to use in your workplaces.

2 To view knowledge as something *conscious and actionable* – people need to know what they know, know why they need to know and act upon it, for, as some commentators believe, it is only through conscious reflection and action that we truly understand. This perspective on knowledge and learning has become important in the field of training and development, and is embodied in the principles of action learning, which are based on the idea that you only really know about something – for example, the organization in which you work – when you have to change it. So, some learning theorists argue that understanding of theory and concepts to analyse a situation only takes us so far in learning; the real problems and deep learning come at the implementation stage, and then only if we consciously reflect on what worked (or didn't work) and why.

3 To see knowledge as a *dynamic, social construction* – that is, knowledge is continuously created, sustained and changed by people, usually working in conjunction with others. This dynamic characteristic of knowledge places more importance on knowing than on knowledge itself. For example, it is often argued that knowing and teaching facts is less important than learning how to learn, as the useful lifespan of knowledge in modern societies is often short; therefore, we need to learn the skills of knowing to be able to operate in an increasingly unknowable world and in learning 'how to be' (Seely Brown, 2002).

Explicit and tacit knowledge and learning

Another major issue that taxes most people in the field of knowledge management and learning is how you convert tacit knowledge into explicit knowledge. For example, if we think about the Tyre 'n' Wheels case, one of the biggest problems facing the company is how to convert the entrepreneur's tacit knowledge gained in one situation and transfer it to the new co-owners. His support package is explicit knowledge in the form of training, merchandising and help with administrative practices, but, arguably, the most important learning he can provide is his 'know-how', which is personal to him. In the case of Standard Life Investments, one of its biggest problems is converting the largely tacit knowledge of its 'star' fund managers into explicit knowledge. It needs to do this so that it can transfer its expertise to its overseas offices and joint ventures, and retain these fund managers so that their expertise doesn't 'walk out of the door'. Let's look at an illustration of tacit knowledge to help understand its nature and shed light on the problems involved in managing it.

Case 7.3: John Seely Brown on learning and bricolage

This material is quoted verbatim from a presentation made by John Seely Brown, one of the leading authorities on learning and knowledge management (http://www.creatingthe21stcentury.org/JSB.html, accessed 17 July 2004).

'There was also a second defining moment, a kind of event for me. I was initially trained in theoretical mathematics and hard-core computer science. The event that actually transformed me was something that showed me that there was a lot that a theoretical mathematician understood about how the world really works.

This had happened before, before I was working in Xerox. It's actually ironic that we are in this particular building. I had been doing a lot of work on troubleshooting for the Navy, and also how to build really hard-core computer science systems, these job-performance aids, for actually figuring how to really get people to be much more effective at troubleshooting. So I joined Xerox some time ago, and after a while, Xerox discovered my background in having worked for the Department of Defense (DoD), and the Navy in particular, and really rethinking troubleshooting.

So they said, "John, you really have to, kind of, help us." Most days, those machines broke down. No comment. (Laughter.)

So I said, "You know, it would be really helpful if I could actually meet some expert troubleshooters."

They said, "Fine, we've got a great expert troubleshooter, actually in Leesburg, Virginia, about 20 miles from here. Why don't you go meet him?"

So I said, "Well, great, I'll go and meet him."

And they called in advance, and said that this guy is coming.

Well the first mistake that happened, I walked into the office, wearing a suit. This was not good.

He was a real kind of guy who fixes real machines. So he was not happy. He was saying to himself, "Now here's a suit, and it's going to be a total loss. And he's an academic, even more of a loss. Clearly, he has his head up in the sky somewhere. How can I get rid of him?"

And he kind of looks at me, and he says, "John, this letter says that you are an expert troubleshooter. I'm going to give you a little problem. Here is the problem. This is a relatively high speed copier. And this copier has an intermittent copy quality fault. Now those of you who have done any troubleshooting know that an intermittent fault is nasty. You know, if it's always broken, it doesn't take too much to figure it out. But if it's intermittent, it's tough."

So he says, "This is The Official Xerox Procedure for fixing an intermittent quality problem. It has five steps. So you take this brilliantly conceived computer-generated test pattern. And you put it on the platen. That's where you put the normal paper. We have a fancy term for everything. You dial in, '5000 copies'. And you push the START button". And then he said, "What do you do next?"

I said, "You get some coffee." So I scored one point. I can compute 50 pages into 5000. You know, a total loss.

He said, "Yes, that's what you do. You go get some coffee. A few minutes. Maybe half an hour. Then you come back and the next step is that you take this pile of 5000 copies, ten reams of paper by the way, and you kind of plough through this pile until you find an example of something bad, and then you save that. And you plough through the pile some more until you get something and then you save that. And that's how you do this."

And then he said, "You, John, would surely have a better idea than that, how to fix this machine, right? So why don't you tell me how you would go about doing this. Because clearly you are cleverer than this rote procedure."

And I hummed and hawed and I tried to put off answering, and was trying to get him to say something, an old trick in the Navy. (Laughter.) So for about ten minutes, I danced around, and then he got really impatient, and he said, "Blah, blah, dammit, tell me how you do it?"

And I said, "I can't. I mean, I would use something similar."

And he said, "I thought so!"

So I said, "Paul, how would you do it?"

And he looks at me and he says, "It is obvious what you do!" Probably some of you have already figured it out. He said as he walked across the room and he found the waste basket next to the copier. He takes the waste basket, picks it up and walks over to a table like this, dumps it on the table, quickly files through the paper, and about 30 seconds later, comes up with brilliant sets of copy quality problems.

And he said, "You know, John, what do you do if you discover a copy quality problem? You know, you don't classify it as a copy quality problem. You classify it as a damn bad copy and you throw it away. So why don't you let the world do a little bit of the work for you. Why don't you work with the world, and see that there's a natural way to have the world collect this information for you. Just step back and read the world a little bit."

Now maybe you can see where I'm heading with you. "Read the world a little bit" is almost a kind of judo, or a better term from the French, *bricolage*. And so he said, "This waste basket was ready at hand. It was already there. It was already full of this stuff. Learn to work with the world, and you're going to find your life a lot simpler."

And I walked out and I thought to myself, "This guy is a genius." I also realized that it was very hard to build computer systems that could do this.'

1 Would it be possible to take the knowledge of the expert troubleshooter in this illustration and turn it into explicit knowledge?

Explicit knowledge is what most of us in education have long since regarded as the most important form of knowledge and, in Western societies at least, it has been credited with material and scientific progress. Explicit knowledge can be formally stated and is relatively easy to codify, document, transfer, share and communicate. Typically, the learning of explicit knowledge is undertaken through books, manuals, computer-coded content and through educational or training institutions – so-called 'schooled' or 'delivery-based' learning.

Precisely because explicit knowledge is accessible, KBEs have focused on this form of knowledge to develop their core competences. For example, most university departments, until relatively recently, have focused on developing content in the form of teaching 'packages' rather than research (Fuller, 2002). Accessibility has also underlain the growth of the knowledge-management industry, which has sought to develop a wide range of technology-based knowledge management tools to make use of the explicit properties of knowledge, and to sell these onto KBEs. These software tools include coordinated databases, groupware systems, intranets and internets. However, codified explicit knowledge is synonymous with information and has to rely on people to understand and apply it subjectively. Thus, according to Polanyi (1966), who is credited with inventing the distinction between the two forms of knowledge, a wholly explicit knowledge is unthinkable.

So, in an important sense, all knowledge is either tacit or rooted in tacit knowledge. By tacit, we mean the often subconsciously understood or applied ideas and skills that we have but that are difficult to articulate in any formal sense. Tacit knowledge is learned from direct action and experience and shared through informal means such as conversations and storytelling. Polanyi argued that tacit knowledge was personal, context specific and therefore difficult to put into words. It could also be compared with acquiring skills such as riding a bike or playing soccer. Though we can read manuals to perform such activities, these do not explain the reality of performing such skills in context. For example, riding a bike on the roads is very different from riding a bike off-road. Similarly, playing five-a-side soccer in a gym with friends is a very different game from playing professionally in front of thousands of people. Thus, tacit knowledge is not generally revealed to us through texts, but is based on intangible thoughts and therefore comprises assets embedded in personal beliefs, experiences and values.

The idea that all knowledge is more or less tacit implies that we can distinguish between different types of tacit knowledge, perhaps in the form of a spectrum (see Figure 7.3). At one end, we can have semi-conscious and unconscious knowledge held in people's heads and bodies, that is unlikely to be codified; at the other end, we can have a pure form of explicit knowledge that can be codified and made available to anyone. For example, experienced selection interviewers often talk about 'gut instincts' when making decisions, rather than relying on objective information about candidates. However, ask an interviewer who relies on instinct or intuition to articulate why they know that this candidate is right for the job and it is very unlikely they will be able to explain fully. Indeed, as some studies have shown, forcing people

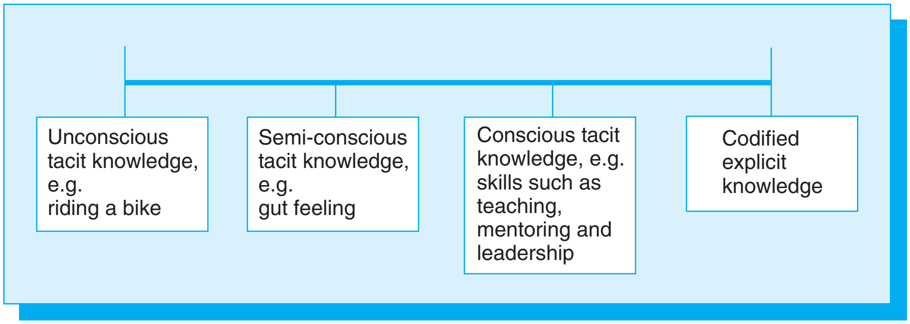

Figure 7.3 A spectrum of tacit knowledge.

(such as interviewers) to explain what they thought they knew about the process of learning (in this case learning about a candidate) may lead to a deterioration in performance (in this case in making wise decisions about candidates) (Leonard and Sensiper, 2002).

Tacit knowledge is also a property of groups as well as individuals. For example, some writers analyse organizational structure and stability through the notion of organizational routines, collective ways of working or embedded forms of tacit knowledge that no one person could articulate. However, these routines more or less 'automatically' nudge people into behaving in certain ways. This idea is very similar to the concept of culture, which we shall study in Chapter 9.

In discussing the process of innovation, one of the key outcomes of KBEs, Leonard and Sensiper (2002) outlined three types of group-level, tacit knowledge that need to be managed. These types form a hierarchy of abstraction, as represented in Figure 7.4.

- *Overlapping specific tacit knowledge* refers to the build-up of shared knowledge at the interfaces between specific domains. For example, in a case I researched on NCR, the world's largest producer of automatic teller machines for the financial services industry, a multifunctional design teamworking on a new form of automatic teller machine for a major UK bank spent time with its clients and customers trying to understand from first-hand observation what their problems were. On returning to work, the different functions represented in the design team had different tacit understandings of the bank and its customers' problems and issues, but the visit provided enough overlapping, common knowledge to create a shared understanding of the issues involved.

  Quite often 'apprenticeships' are used, especially in industries where the technologies are new, to build shared specific tacit knowledge, because the sciences involved are immature and rarely completely codified. In this context, apprenticeship

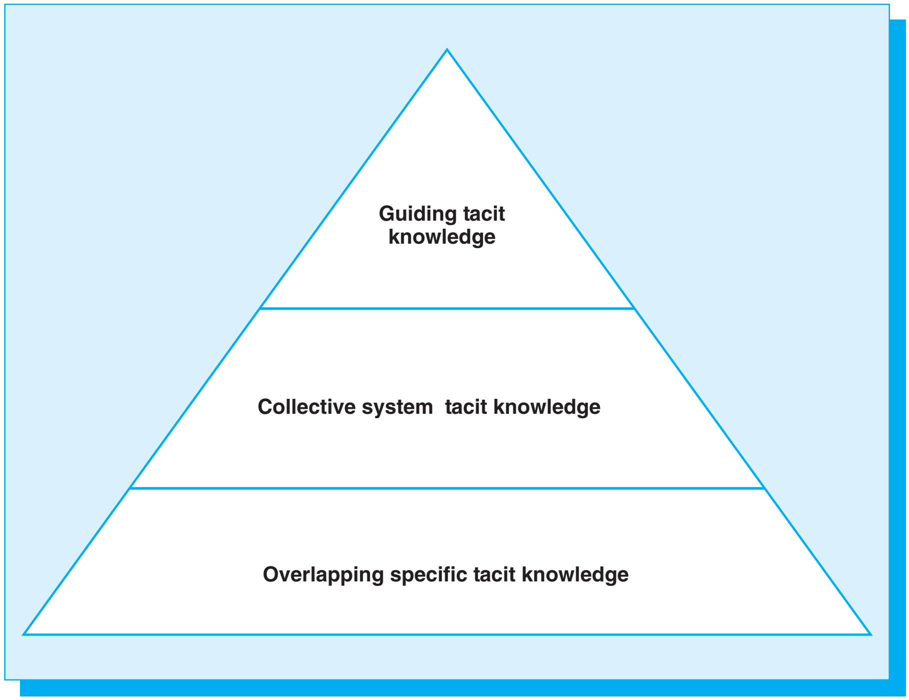

Figure 7.4 A hierarchy of group-level, tacit knowledge. (*Source*: based on Leonard and Sensiper, 2002.)

means working directly with people who are highly experienced so that the 'apprentices' can learn from them.

- *Collective system tacit knowledge* is community-based, tacit knowledge developed through the interactions between members of groups as they attempt to address common problems. Such knowledge resides largely in people's heads and is transmitted through stories and tales. We shall discuss this very powerful source of tacit knowledge when examining communities of practice. A good example, however, might be the shared understandings and ways of working of a top-class sports team. Even though their on-field and even training performances may be made public to anyone who wants to take the time to watch, it is almost impossible to imitate, because the knowledge and skills are largely tacit and diffused throughout the team. A similar argument is often used in the context of top business teams that are often only too ready to invite others to watch and learn from them, knowing full well that deep learning is available only to those people willing to engage in a significant period of apprenticeship in the organization and actively participate in the team.
- *Guiding tacit knowledge* is the tacit knowledge about the overall direction of the organization that goes beyond the explicit value

statements frequently adopted by organizations. As innovations of products, processes or organizations break new ground, there is often little guidance for exercising judgement available to groups in the form of explicitly stated rules, or even mission and values frameworks. Thus, innovative groups need to develop tacit visions of the organization's unstated mission, often in a highly abstract way, so that they can function effectively. Good examples of guiding tacit knowledge are likely to be found in industries in which ethical decision-making is mission critical, such as biotechnology, or when organizations internationalize to parts of the world with quite different standards of ethical conduct. At a more prosaic level, organizations have attempted to manage this process of guiding tacit knowledge by introducing vision statements and logos. One good example is Nike, with its 'swish' logo and its strap line referring to speed and to 'innovate and inspire' (see http://www.nike.com/nikebiz/nikebiz.jhtml?page=2, accessed 30 December 2004).

Images of knowledge and organization

With our greater understanding of tacit and explicit knowledge, we can progress towards a more refined set of perspectives on knowledge, knowledge work and organizations. In this regard, Blackler (2002) has outlined six images of, or perspectives on, knowledge and learning that help increase our understanding of KBEs. These are embrained, embodied, encultured, embedded and encoded images, all of which connote properties of people or of a system; the sixth image is 'knowing'. It is worth spending some time discussing this, often cited, work.

- *Embrained knowledge* is the kind of knowledge that relies on conceptual and cognitive skills, often referred to as knowing about something. This kind of knowledge is usually abstract and involves higher levels of reasoning and understanding to make connections and explain what is going on around us. It is often the kind of knowledge associated with the world of theory and of 'schooled learning'.
- *Embodied knowledge* is knowledge usually acquired in action, e.g. by undertaking a project or apprenticeship, and is partly explicit and partly tacit. Sometimes it is described as 'know-how' and is contrasted with embrained knowledge. Embodied knowledge is not just gained through working on something, but depends on face-to-face interaction and discussion, emotional

and sensory information, physical cues, etc. It is also knowledge rooted in specific contexts, such as when a mechanic learns how to repair specific makes of automobile but using only particular kinds of tool. As such, it is often not readily transferable to other situations, e.g. other types of automobile.

- *Encultured knowledge* refers to the process by which we arrive at shared understandings of our group, organizational, or even national, cultures. Learning about cultures is usually linked to the socialization (or indoctrination) processes and to acculturation, i.e. how we come to adapt and take on cultural norms, or the 'way we do things around here'. Learning about cultures is heavily dependent on sharing a common language and on negotiated meanings – for example, people coming to accept common metaphors about what an organization means to them. Thus, some people find it easy to work with the idea that their organization is like a soccer team, characterized by team players of different abilities playing on the same side to score into the opponent's goal. Other groups may use another kind of sporting metaphor to describe their version of teamworking, such as the relay race, or even American football, which differs from soccer in its approach to organization and winning.
- *Embedded knowledge* is knowledge located in organizational routines or capabilities or, at the societal level, in the social and institutional arrangements of a particular country or region. It has strong connections with our previous discussions in Chapters 1 and 2 on managerial work and the international context of people management in Chapter 5. Embedded knowledge can be found in systems of relations between, for example, technologies, the roles people perform, the formal procedures of the organization and the emergent routines. Thus, an organization's distinctive capabilities (or competences) are deeply embedded in how these factors come together or are consciously and unconsciously coordinated to produce skilled performance. Think about the example of what makes a great orchestra or soccer team. The distinction is often made between the expert knowledge or skills of the players and coaches or conductors and the 'architectural' or relational knowledge they require (or the coaches and conductors require) to work together to produce first-class performances. This refers not only to the way they work together (e.g. teamworking), but also to the tools they use (quality of

equipment, arenas, etc.), the explicit codes of conduct (e.g. whether certain behaviours are demanded or prohibited), and the habits and ways of working (e.g. practising and dietary regimes, who works best with whom, etc.). Thus, embedded knowledge is systemic and requires an understanding of how all these factors interact to produce skilled performance. This notion may help explain why in soccer the talent transfer system doesn't always lead to immediate results for football teams or organizations that seek to buy in talent. It also helps explain why you cannot uproot the best players or the best practices from one context and transplant them into another context with the immediate expectation that they will take root and flourish in the expected or predicted fashion. Our example of the problems of talent management in financial services in Chapter 3 illustrates this point well.

- *Encoded knowledge* is close to what we have previously defined as information, which is more easily transmitted by signs and symbols. Written texts, drawing on abstract forms of language or pictorial language, have been the usual repositories of encoded knowledge, but it is increasingly to computer code and digital signals that we look for transmitting such knowledge, hence the coining of the term 'information and communications technologies'. However, we should not assume that such knowledge is neutral, because it has to be abstracted from the context in which it was produced, and can be highly selective in the impression it conveys. So-called 'factual reporting' on newscasts during wars, in which the horrors of wars are told from the perspective of one side, or against a particular backdrop, illustrate this feature of the context-boundedness of information. Nor can we assume that encoded knowledge will be equally acceptable to people in different cultures. For example, I have been involved in research studies that have looked at the adoption and diffusion of online learning in Europe; they showed that people in different countries found the method of delivery to be more or less culturally alien to them. Thus, the acceptability of e-learning was quite different between Germany and the UK, found to be an important factor in influencing the absorptive capacity for e-learning in German educational and corporate organizations (Martin *et al.*, 2003). We have also found the same problems occurring in the roll-out of e-HR programmes in major multinational companies in some of our most recent research (Martin *et al.*, 2006).

- *Knowing*. Blackler (2002) argued that it may be more important to concentrate on the verb 'knowing' than on the subject/object of knowledge, because organizations are always in the process of becoming something other than they are. Another way of saying the same thing is that the process of change in organizations is normal, whereas equilibrium is temporary. We shall consider this view of organizations in more detail later on in the book when we look at change and learning organizations. At this point, however, it is necessary to explore the image of knowing in more detail, because it has been an extremely influential perspective in the knowledge management literature and in practice.

Knowing as an image of organization

There are at least two sets of ideas, built on theories of knowing and learning, that can help us shed light on how organizations innovate and change, the topic of Chapter 9. The first of these focuses on the relationship between tacit and explicit knowledge discussed earlier, and is based on a set of ideas concerning knowledge conversion in innovative Japanese organizations. The second has its roots in encultured knowledge, and refers to the communities of practice developed in the USA.

Knowledge conversion and learning

One of the landmark studies in knowledge management came about as a result of the participation of Ikujiro Nonaka, with his colleagues Hirotaka Takeuchi and Kenichi Imai, at a Harvard Business School colloquium (Nonaka and Takeuchi, 1995). Following this colloquium, they agreed to do a joint project to study the innovation processes at several Japanese companies. Drawing especially on Polanyi's work, they conceptualized knowledge in terms of tacit and explicit knowledge, and argued that the dynamic interaction between the two led to organizational knowledge creation and innovation. This interaction between the two types of knowledge leads to four modes of *knowledge conversion*, which they labelled (1) socialization, (2) externalization, (3) combination and (4) internalization (see Table 7.1).

Table 7.1
Four modes of knowledge conversion

	To tacit knowledge	To explicit knowledge
From tacit knowledge	Socialization	Externalization
From explicit knowledge	Internalization	Combination

Source: based on Nonaka and Takeuchi, 1995.

Socialization, involving tacit to tacit conversion, is conducted by individuals, sometimes without language. For example, apprentices often learn from their masters in this way. The key is learning from experience and from experienced people by sharing such knowledge. Combination, which involves learning through combining different bodies of explicit knowledge, can be found in meetings, telephone conversations and computer program exchanges. These media create new knowledge by sorting, re-categorizing or re-analysing these different bodies of knowledge. Internalization, which involves learning from explicit knowledge to create tacit knowledge in individuals, is similar to traditional notions of learning. Externalization, which involves learning from tacit knowledge to create explicit knowledge, is much less well understood and, as we have pointed out, is much more difficult to achieve.

Nonaka (2002) described the process of knowledge creation as a double spiral movement between (a) tacit and explicit knowledge and (b) individual, group, divisional and corporate levels in organizations (see Figure 7.5). Thus, although each of these four modes of knowledge conversion can create new knowledge in its own right, it requires the dynamic interaction of all four to produce real innovation over sustained periods of time. It also requires organizations to manage the process in the form of a continuous cycle. These management activities include (1) team-building to facilitate sharing of tacit experiences, (2) meaningful dialogue to allow members to externalize their tacit knowledge in the form of metaphors and concepts, (3) coordination and integration of teams into the wider organization, and (4) the documentation of the knowledge that is produced.

According to Nonaka, the basis for all organizational knowledge is an individual's tacit knowledge, built up through experience. Experience, however, can be a poor teacher unless it is of a particular quality. There are two factors that influence the overall quality of a person's experience. The first of these is the *variety of experiences* an individual has, especially of the non-routine type. We have all heard the criticism that many older people may have many years of experience, but it is often the same, routine

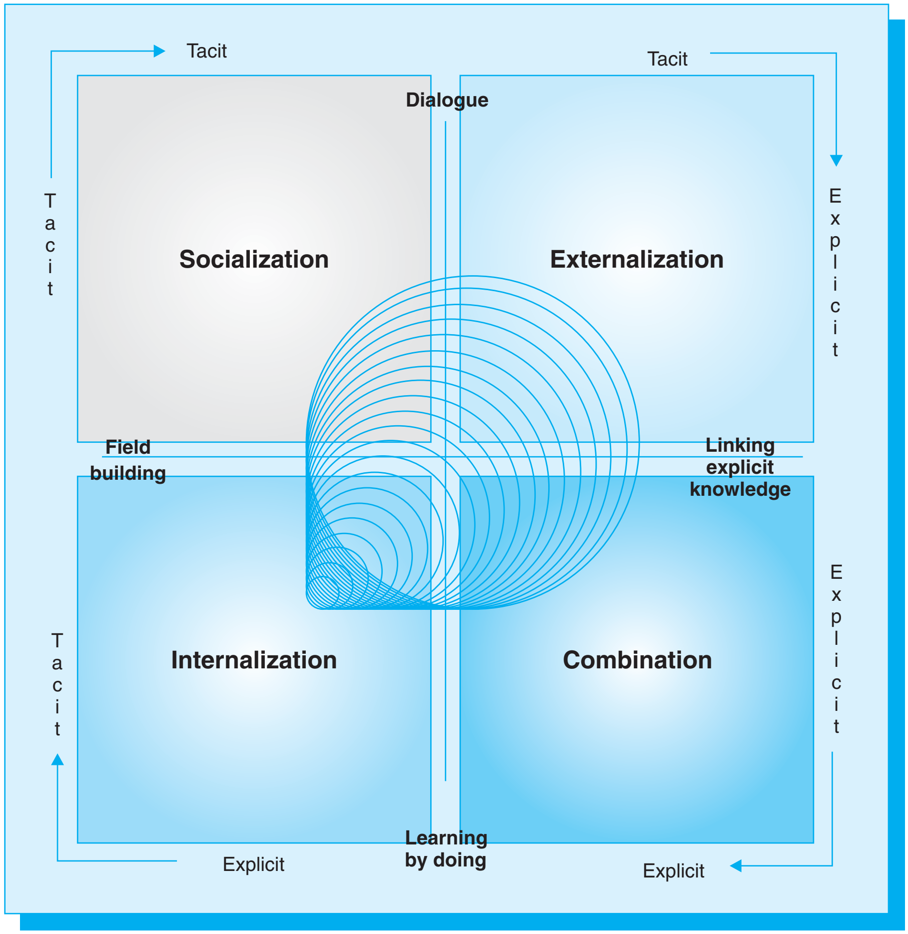

Figure 7.5 The spiral of organizational knowledge creation. (*Source*: based on Nonaka and Takeuchi, 1995.)

experience repeated year after year. The second factor is the *knowledge of experience*. Because he comes from an Asian culture, Nonaka draws on the Asian notion of the 'oneness of body and mind', in which people learn not only with the brain but through bodily recognition or realization. Though difficult to translate into Western terms, this appears to mean that deep learning can take place only through lived experience and not merely through concepts. He has illustrated this idea by explaining how Japanese managers learn on the job through interactions with customers, shopfloor employees and reflective action rather than through courses. Such learning, however, is counterbalanced with combination methods of knowledge conversion in which people share their different bodies of explicit knowledge in meetings and seminars.

To create organizational knowledge, however, the process has to move beyond individual learning, which remains personal unless it is amplified through interacting with the group and the organization levels. Nonaka uses the concept of a *field* (of play) where people can come together as a self-organizing team to work out their conflicts and collaborate in the knowledge creation process. He further argues that, to be effective, a team needs to be self-organizing, an idea that we shall explore more fully in a later chapter, but which connotes ideas of mutual self-interest, voluntarism and lack of hierarchy. Such teams also need to be diverse in background to bring to the 'party' the basic ideas from the different functions and specialists who have something to add, sufficient variety to ensure that no function dominates, and just enough redundancy of information so that more than the basic ideas are brought to bear on the problems at hand.

Communities of practice

The term *communities of practice* is associated with the work of Lave and Wenger (1991), Wenger (1998), and Seely Brown and Duguid (2000). In a similar vein to Nonaka, who drew on these writers for some of his ideas, this approach sees learning as an act of membership of a group, but in this case they use the term 'community' rather than 'team'. Most of the writing on communities of practice seeks to understand the structure of naturally occurring, work-based communities, how learning occurs in them, and how to put that learning into practice.

Etienne Wenger (1998) put the case for community-based learning as follows:

> 'Communities of practice are everywhere. We all belong to a number of them – at work, at school, at home, in our hobbies. Some have a name, some don't. We are core members of some and we belong to others more peripherally. You may be a member of a band, or you may just come to rehearsals to hang around with the group. You may lead a group of consultants who specialize in telecommunication strategies, or you may just stay in touch to keep informed about developments in the field. Or you may have just joined a community and are still trying to find your place in it. Whatever form our participation takes, most of us are familiar with the experience of belonging to a community of practice.'
> (http://www.co-i-l.com/coil/knowledge-garden/cop/lss.shtml)

Members of a community are informally bound by what they *do* together, whether this is engaging in discussions around the water cooler or lunch tables, or solving important management problems through informal professional networks. In other words, action and experience are central to such communities. They are also bound by what they have *learned* together through their shared engagement in these activities. In these two senses, a community of practice is different from an interest group or from a geographical community, as neither implies shared learning by doing.

A community of practice can be defined in terms of three dimensions (Wenger, 1998):

- what it is about – the continuously evolving and negotiated understanding of the joint aims of the community;
- its mode of operation – how members mutually engage with each other to form a distinctive social entity;
- what it produces – the *shared repertoire* of resources, which include routines, group attitudes, artefacts, language and styles of operating, about which, as members develop over time, they learn.

To expand on these ideas, communities of practice are based on the following assumptions:

1. *Learning is a social, rather than individual, process.* The argument is that people organize their learning around the communities to which they belong. Thus, for example, business schools are at their most powerful as learning environments for students whose outside social communities connect with the school in some important ways.
2. *Knowledge and learning are integrated in the life of communities that share values, beliefs, languages and community routines.* Thus, real knowledge is integrated in doing or action in the social relations and networks, and in the expertise of these communities.
3. *The processes of learning and membership in a community of practice are intertwined.* Since learning is bound up with membership of the community, as we learn more, our identity and our relationship to the community change through continued participation. Thus, we go from being a peripheral 'apprentice' knowing very little to a fully engaged and committed master or mistress of practice, able to teach and mentor others.
4. *Knowledge is inseparable from practice.* It is argued that it is not possible to know without doing. Through action, we learn new skills and we change our ideas by reflecting on our practice.
5. *Empowering people to contribute to a community creates the greatest potential for learning.* By creating a set of circumstances that allows people to engage in meaningful action with real consequences

> for both participants and the community, one can create the most powerful learning environment. Again, this is an argument for action learning in which participants work on 'live' problems with real consequences and are allowed to make and learn from mistakes. Such an idea is associated with the notion of a 'no-blame' culture where organizations are encouraged to let employees learn from mistakes and 'false starts'.

Drawing on the concept of communities of practice, Seely Brown and Duguid (1991), who worked at the Institute for Research on Learning at the Xerox Corporation, saw learning as the bridge between working and innovating. They led a cross-disciplinary approach to learning research, involving cognitive scientists, organizational anthropologists and traditional educators, and have become leading figures in organizational learning. They have argued that communities of practice, through their constant adaptation to changes in membership and changing environmental circumstances, are significant sources of innovation and learning in organizations. They proposed that, to foster working, learning and innovating, organizations needed to re-conceive themselves as *communities of communities*. By building on and legitimizing the naturally occurring communities at work, which often cut across the officially sanctioned work teams and formal practices in the organization, organizations could derive lasting benefits. They continued with the construction metaphor in suggesting ways in which such independent communities could be linked together to form an organizational architecture that preserved the autonomy of these communities but built interconnections and bridges between them. More recently, Seely Brown (2002) has seen technology, the Internet and intranets as a way of creating such an architecture, because many organizations operate without the physical proximity and stable relationship needed for more traditional communities of practice.

Let's look at a famous example of learning at work that illustrates different kinds of knowledge and learning and includes the idea of communities of practice.

Case 7.4: Mending photocopiers

In a well-known piece of research, Orr, an early anthropological collaborator of Seely Brown, provided various examples of how photocopier technicians diverged from established practice. For example, on one service call a 'rep' (technician) confronted a machine that produced copious raw information in the form of error codes and obligingly crashed when tested. But the error codes and the nature of the crashes did not tally. Such a case immediately fell outside the official instructional training and documentation provided by the organization, which ties errors to error codes. Unfortunately, the problem also fell outside the rep's experience. He called his technical specialist, whose job combined 'troubleshooting consultant, supervisor and occasional instructor'. The specialist was equally baffled. Yet, though the canonical approach (the officially sanctioned procedures of the organization) to repair was exhausted, with their combined range of unofficial practices the rep and technical specialist still had options to pursue.

One option – indeed, the only option left by official practice now that its strategies for repair had been quickly exhausted – was to abandon the repair and to replace the machine. This was deemed to be a loss of face and not good for the reputation of the company or for themselves. Such loss of face or faith was not just about embarrassment. The rep's ability to engage the future support of customers and colleagues would be jeopardized, because there was strong social pressure from a variety of sources to solve problems without exchanging machines. In addition to maintaining machines, the job of the rep was to enhance the social standing of the company. As Orr suggested, 'A large part of service work might better be described as repair and maintenance of the social setting.'

Solving the problem without removing the machine required constructing a coherent account of the malfunction out of the incoherence of the data and documentation. To do this, the rep and the specialist embarked on a long storytelling procedure. The machine, with its erratic behaviour, mixed with information from the user and memories from the technicians, provided essential ingredients that the two aimed to account for in a composite story. The process of forming a story was, centrally, one of diagnosis. This process, it should be noted, began as well as ended in a common understanding of the machine, one that was unavailable from the official sources.

While they explored the machine or waited for it to crash, the rep and specialist (with contributions from Orr himself) recalled and discussed other occasions on which they had encountered some of the present symptoms. Each story presented an exchangeable account, which could be examined and reflected upon to provoke old memories and new insights. Yet more tests and more stories were thus generated.

Orr continued his account. The rep and his boss were faced with a failing machine displaying diagnostic information that had previously proved worthless and in which no one had any particular confidence. They did not know where they were going to find the information they needed to understand and solve this problem. In their search for inspiration, they told stories. The storytelling process continued throughout the morning, over lunch and, back in front of the machine, throughout the afternoon, forming a long but purposeful progression towards a finally coherent account. The process lasted five hours, during which a dozen anecdotes were told during the troubleshooting, taking a variety of forms and serving a variety of purposes.

Ultimately, these stories generated sufficient interplay among memories, tests, the machine's responses and the ensuing insights to lead to diagnosis and repair. The final diagnosis developed from what Orr described as two different versions of the same story, in which the two characters talked about personal encounters with the same problem, but their two versions were significantly different. Through storytelling, these separate experiences converged, leading to a shared diagnosis of certain previously encountered but unresolved symptoms. The two characters had constructed a common interpretation of until now uninterpretable data and individual experience. The rep and specialist were now in a position to modify previous stories and build a more insightful one. They both increased their own understanding and added to their community's collective knowledge. Such stories were passed around and became part of the repertoire available to all reps. Orr reported hearing a concise, assimilated version of this particular false error code passed among reps over a game of cribbage in the lunch room three months later. Thus, the story, once in the possession of the community, was used – and further modified – in similar diagnostic sessions.

Source: adapted from Seely Brown and Duguid, 1991.

1 What kind of knowledge do the rep and his boss draw upon to mend the photocopier and how much does it depend on a community of practice?

The relationship between different images of knowledge, organizational structures and managing people

Knowledge and organizations

How do these different versions of knowledge and learning relate to organizational structures and people-management problems? Blackler (2002) has drawn on four of these perspectives on knowledge to produce a typology of organizations that helps us understand these relationships (Figure 7.6). Using two dimensions central to knowledge production, his ideas are revealing. The first dimension relates to whether knowledge is seen as the product of individuals or of groups. The second is whether the organization deals with essentially familiar or routine problems (manufacturing repeatable solutions to known problems), or is tasked with providing innovative solutions to new problems.

Many organizations in industrialized countries are moving away (or being exhorted to move away) from being reliant on routine knowledge, given the opportunities provided by access to information and

Emphasis on groups for knowledge creation

Routine organizations

- Knowledge embedded in technologies, rules and procedures
- Technology-driven, bureaucratic structure and low skills levels, e.g. traditional manufacturing
- Major issues
  1. Computer-integrated manufacturing and enterprise resource planning systems
  2. Using such knowledge to create organizational competencies and strategic advantage

Community-based organizations

- Emphasis on encultured knowledge and shared understandings
- Organizations are exemplars of communities and collaboration, with empowerment and expertise widespread, e.g. adhocracies, networked organizations
- Major issues
  1. Increasing knowledge-creation dialogue in communities of practice
  2. Using technology to support communities of practice

Focus on existing problems

Expert-dependent organizations

- Knowledge embodied largely in key individuals
- Performance of expert professionals is critical. Organizations are professional bureaucracies, based on expert power, with education and training central, e.g. teaching hospitals.
- Major issues
  1. Nature and development of experts
  2. Capturing expert skills with ICT

Analyst-dependent organizations

- Knowledge embrained largely in key individuals
- Entrepreneurial problem-solving, in which status derives from creative achievements and science. Tend to be driven by commitment to causes, missions, etc., e.g. software consultancies, biotech firms
- Major issues
  1. Developing embrained knowledge and strong identification with organization with talented individuals
  2. Using technology to develop expert systems and performance support

Emphasis on key individuals

Figure 7.6 A typology of organizations based on knowledge. (*Source*: based on Blackler, 2002.)

communications technologies and the power of the Internet to enhance communications and performance support. However, Blackler also makes the important point that these are only typologies, and it would be a mistake to think of these different types of knowledge as independent of one another. Many organizations reveal certain aspects of these four images at the same time. For example, different departments or divisions in the same company may see their knowledge management and HR problems through one of these images and use this dominant image to frame solutions to their perceived problems. Alternatively, organizations may strive to move between these images over time, using them as a form of blueprint and as a set of organizational development techniques.

Exercise 7.2: Standard Life Investments

Re-read the case of Standard Life Investments and its progress to demutualization. Which of these four images of organization does Standard Life Investments most resemble and what problems does this imply for the future?

Managing knowledge workers

These different types of organization raise a number of issues concerning the management of knowledge workers, including the management of expertise, developing expertise, and encouraging and facilitating knowledge workers to share their expertise with others. As I have already suggested, knowledge work and knowledge workers are nothing new, a notion reflected in the image of the *routine organization*. What is relatively new is the role they are seen to play in value creation, which we shall touch on in the next section on intellectual capital, and the emerging view that the practices developed for managing workers in a world dominated by routine organizations are not appropriate for managing workers in KBEs.

Traditional economic approaches to management in these organizations are based on the so-called *agency model*, consisting of a 'principal' employer, an 'agent' employee and the relationship between them. The motivations of these actors can be stated quite simply in economic terms: an agent is not motivated to expend effort but is motivated by getting paid; the principal dislikes paying the agent, but likes the valuable work that the agent does. In this scenario, the objectives of principal and agent are set in opposition to one another. The agent wants as much pay as possible for as little work or effort as possible, whereas the principal wants to get as much work as possible from the agent while paying as little as possible. Devising an appropriate contract for wages in return for work – the employment contract – is complicated by the fact that the principal is rarely around to see how much effort the agent is expending but can only observe the result or output of the agent's work. This wage–work bargain and output control is also subject to a set of more or less random factors over which the principal has little or no control, including the agent's tacit knowledge and skills, and factors connected with clients and customers, which also depend on random factors. However, the primary conclusion of agency theory is to link pay to performance, to provide employees with appropriate incentives.

As we have already discussed, this model runs into problems with knowledge work for reasons connected with supervision and the management of change and innovation:

1 There are the problems of observing knowledge work and even understanding what is going on. For example, hospital managers, unless they have medical training, have major problems in making reasoned judgements on what goes on in an operating theatre or on the results of the operation.
2 Agency models that focus on output incentives may be inappropriate for knowledge workers, who are likely to be driven by the nature of the work itself and a desire to be known as an expert. Many workers in the public services, for example, would fall into this category. Agency models are not particularly helpful in leveraging such desires, and may even be counter-productive.
3 Agency models are frequently unidimensional in their measures of productivity. Usually, this is seen as a simple relationship between inputs, such as how hard someone works, and, often crude, measures of outputs such as sales or customer satisfaction ratings. However, knowledge work is much less capable of being measured by single, short-term criteria; it is often related less to how hard someone works and more to how smart someone works. As a consequence, agency-based incentive schemes can sometimes distort effort allocations of knowledge workers by forcing them to apply effort in measurable, but not necessarily meaningful, directions.
4 Work in routine organizations, which is often characterized by production environments, usually requires major initial investments in technologies and processes, such as when designing and building a new automobile. As a consequence, planning and linear thinking tend to dominate, because getting something right first time will avoid the problems of retooling and scrap. However, in organizations that focus on tackling novel problems, linear planning and making 'big decisions' can be counter-productive by locking organizations into a set strategy. This approach to strategy through planning is often inconsistent with innovation and change, which require knowledge workers to 'act their way into thinking' and to evolve emergent strategies for change. Thus, forcing knowledge workers into a planning and measurement straitjacket, one on which agency models are based, can be extremely counter-productive in innovative environments.

The images of organization depicted in Figure 7.6 pose a range of different problems for KBEs, especially in the management of knowledge workers. The growing literature in this area, however, suggests two main principles for the future of management in a knowledge context (Austin, 2002):

- The first suggests a move away from traditional incentives and an emphasis on developing collaboration, trust and professionalism, based on employer of choice policies, developing strong internal employer brands and changed psychological contracts (see Chapter 6 on the corporate context). The management of employee engagement or commitment and the management of external and internal corporate reputations or brands to attract, retain and motivate knowledge workers is likely to become an even more important issue than it currently is (Martin *et al.*, 2005; Sparrow *et al.*, 2004).
- The second emphasizes emergent strategizing and planning and iterative work structures, rather than linear planning and structured forms of organization. Knowledge creation and diffusion often iterate daily, and are based on alternative periods of unstructured work in communities of practice or small groups and in situations where managers have to exercise more strict control.

The nature of intellectual capital

In the introduction to this chapter and in Figure 7.1, I referred to the nature of intellectual capital as an outcome of the knowledge management process in organizations. The term is increasingly being used to refer to the knowledge assets of organizations (Bontis, 2001). In this section we explore what is meant by intellectual capital in more detail, the components of intellectual capital, some of the problems involved in measuring intangible assets, and the methods currently used to value intellectual capital. This is an important discussion, because there is pressure on organizations to value human capital and to include it on the balance sheet.

Approaches to intellectual capital management

The term 'intellectual capital' began to enter the field of management in the late 1960s and has become part of the standard terminology of knowledge management, with endorsement by highly respected scholars, consulting organizations and companies. A survey of 2350 European, Asian and US companies conducted by Arthur Andersen in 1998 found that 368 of these recognized the term and were attempting to include a measure of intellectual capital in their performance assessments (Bontis, 2001). The majority of these companies already used two or more measures to track non-financial assets, believed that the measurement of intellectual capital would increase, believed that knowledge management would improve organizational performance, and believed that what they learned from the process of measuring was as important as the measures themselves. More recently, a survey of international firms conducted for the CIPD found that 45 per cent of their sample of large international organizations saw knowledge management as a key driver of their overall strategy, a reasonable expectation of which is that they had or would develop measures for assessing the outcomes of knowledge management and the centres of excellence that many of these organizations were in the process of establishing (Sparrow *et al.*, 2004).

There have been several generic attempts to show how knowledge assets and intellectual capital relate to business performance. Perhaps the best known of these is the well-known *balanced scorecard*, which we examined in Chapter 6 (Kaplan and Norton, 1996). Their approach set out cause-and-effect relationships between strategic success and four areas of measurement that relate directly to knowledge management: financial measures; customer measures; internal process measures (e.g. cycle times, levels of waste); and learning and growth measures. A second generic approach is the *knowledge assets map*, which was designed to help companies identify and measure their knowledge-based assets and their contribution to the firm (CIMA/Cranfield, 2004). This approach identifies a hierarchy of knowledge assets (see Figure 7.7).

The nature and examples of these assets to which this hierarchy refers are illustrated in Table 7.2. It should be noted that these measures are illustrative and have to be related to the context of the organization.

Defining and measuring intellectual capital

Edvinsson, the architect of the well-known Skandia framework, has suggested that intellectual capital comprises the hidden factors of human and structural capital (Edvinsson and Malone, 1997). *Human capital* is the combined current stock of knowledge, skills, innovativeness and abilities of an organization's individual employees. In addition, human capital includes the organization's values, culture and philosophy. The

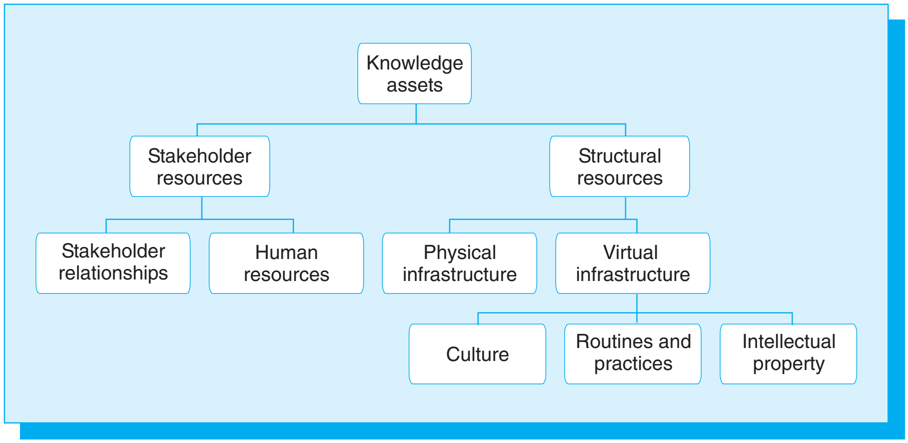

Figure 7.7
The hierarchy of knowledge assets.

Table 7.2
Knowledge asset indicators

Stakeholder relationships	All forms of relationship established by the company, including numbers of partnering agreements; number/quality of licensing agreements; market share; public opinion surveys, partnership satisfaction index, customer retention, brand loyalty, customer complaints
Human resources	All knowledge provided by employees in form of competencies, commitment, motivation and tacit knowledge. Measures include: • Demographic indicators: number of employees, ages, etc.; length of service, % full-time employees; diversity measures, including number of woman managers, ethnic minorities, foreign nationals • Competence indicators: employees with degree qualifications and above; average years service with company; competence levels • Attitude indicators: employee satisfaction; commitment or engagement levels, stress levels, new ideas generated by staff, etc. • HR practice indicators: training expenses per employee; time in training, recruitment indicators; rankings in best places to work for league tables
Physical infrastructure	All infrastructural assets, including structure and ICT assets, including scalability/capacity measures; number of computers per employee; server response times; use of knowledge-sharing facilities
Culture	Corporate culture/reputation/internal branding, e.g. number of internal disputes, engagement surveys, organizational personality surveys and strength of psychological commitment, external measures of best places to work for
Routines and practices	Covers internal practices and virtual networks, including process quality, number of codified processes, intranet use; usage of e-learning platforms
Intellectual property	Sum of patents, copyrights, brands and processes owned by the company, e.g. revenues from patents, number of patents, value of copyrights, brand recognition surveys

Source: adapted from CIMA/Cranfield, 2004.

distinguishing feature of human capital is that it cannot be owned by the company, and 'walks out of the door' most evenings. *Structural capital* is the hardware, software, organizational structure, patents, databases of customers, logos, etc. that supports employees. These more tangible assets, which are left behind when employees leave or go home at night, are capable of being owned by the company and are tradable. Structural capital also generates a third form of capital, which Edvinsson originally described as *customer capital*. This class of asset has been widened to incorporate not just customers but all stakeholders and is increasingly known as *relational capital*:

> '… all the resources linked to the external relationships of the firm – with customers, suppliers or partners in research and development. It comprises that part of human and structural capital involved with the company's relations with stakeholders (investors, creditors, customers and suppliers), plus the perceptions that they hold about the company. Examples of this are image, customer loyalty, customer satisfaction, links with suppliers, commercial power, negotiating capacity … and environmental activities.'
>
> (CIMA/Cranfield, 2004)

Often, when an organization is being sold to a new owner, it is the relational capital that is being purchased, along with the human and structural capital. The key point about this framework is that intellectual capital is set alongside financial capital (see Figure 7.8), and can account for the difference between a company's traditional balance sheet assets and investors' valuations of companies.

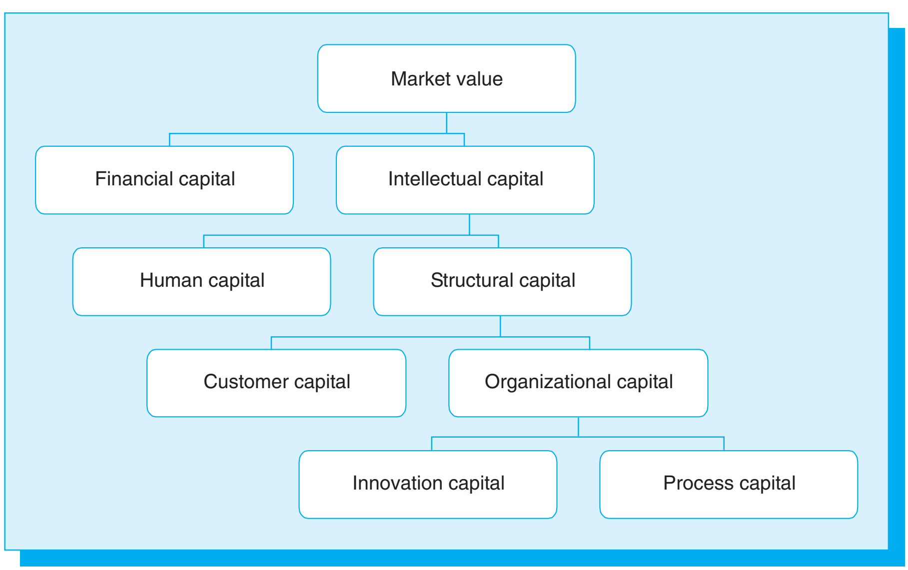

Figure 7.8 Skandia's value scheme. (*Source*: adapted from Bontis, 2001.)

Learning summary

In this chapter I have described and evaluated one of the major contexts of modern organizations and its implications for managing people. Knowledge and learning are important in all organizations, but are a major source of strategic advantage for many organizations in the so-called new economy. I began by raising six questions that all organizations need to address, based on the framework of knowledge management in Figure 7.1. The key 'takeaways' from these questions and framework are as follows:

- The knowledge-based economy and the new economics of knowledge are heavily dependent on the quality of so-called knowledge workers and on finding more appropriate ways of managing knowledge workers.
- Knowledge is seen as the key factor input into the generation of wealth and organizational success, is the source of high economic returns for people whose knowledge is scarce, is thought to be localized in certain regions, leading to an important local labour market for knowledge, and depends for its successful transfer on knowledge networks.
- Knowledge-based enterprises (KBEs) are knowledge-integrating organizations that rely on access to and the creation of advanced and innovative knowledge for sustained strategic success. They also tend to be based more on communal relations and trust than on markets and price mechanisms for their effective operation. Finally, they need to have high levels of absorptive capacity to create new knowledge.
- Knowledge is different from information because it is essentially a human creation, which makes it much more difficult to manage.
- Knowledge is usually depicted in terms of the split between its tacit and explicit forms; it is the tacit nature of knowledge that makes it difficult to manage. However, it is more useful to think of knowledge as a spectrum, ranging between unconscious tacit knowledge, through semi-conscious tacit knowledge to explicit knowledge, because all knowledge has tacit roots.
- Tacit knowledge is also to be found in groups as well as individuals, and learning is often undertaken in groups. Indeed, group-based learning is often seen as superior to individual learning in the field of innovation.

- We can think of different images of organizations, based on the type of knowledge they most use. Tacit and explicit knowledge can be related to individual and group-based knowledge to produce four different images of organization, raising different problems for managing people.
- Agency models of management, which rely heavily on traditional structures and financial incentives, are relevant mainly to organizations that use knowledge in a routine way. Other images of organizations require different solutions to managing knowledge workers. These solutions are to be found in new forms of trust, commitment and development models, and in more flexible and less directive forms of organization.
- Developing and converting tacit knowledge to explicit knowledge is *the* key managerial problem in KBEs. Developing tacit knowledge by increasing the variety and quality of experience among knowledge workers is critical in increasing the knowledge stock of a KBE.
- Creating and harnessing naturally occurring communities of practice are the principal means by which tacit knowledge can be increased and transferred in organizations. Communities of practice are based on community theories of learning and assume that learning and practice are intertwined. Empowering people to create such communities unleashes organizational potential for learning and knowledge creation.
- Intellectual capital has to be placed on the same level as financial capital in organizations, and has to be measured and managed. New methods of valuing intellectual capital may change the focus of many organizations and their reporting systems towards knowledge management.

Review questions

Multiple-choice questions

7.1 Which one of the following is the key factor underlying the growth of KBEs in modern economies?

A An understanding of explicit knowledge.

B The need for firms to create, transfer and exploit knowledge.

C The need to create lasting alliances for competitive success.

D To provide financial rewards for knowledge workers.

7.2 What are the three main processes that best characterize a KBE?

A Knowledge creation, knowledge transfer and knowledge utilization.

B Converting tacit to explicit knowledge, codification and knowledge utilization.

C Exploration, measurement and dispensation of intellectual capital, developing communities of practice.

D Knowledge creation, knowledge integration and management of knowledge workers.

7.3 A knowledge-based economy is best defined as which one of the following?

A The clustering of KBEs with tacit knowledge.

B The economic capital produced from KBEs.

C Its capability to increase living standards while maintaining high productivity.

D An emphasis on specialized, ingrained knowledge as an economic asset.

7.4 A KBE's strong communal nature reflects which one of the following?

A The ability to create innovative knowledge.

B A need to minimize bureaucracy.

C A need to assimilate rapid membership into knowledge networks.

D A shared sense of identity and reduced communication costs.

7.5 A top business team inducting a new manager into its practices, routines and values is most likely to rely on which one of the following combinations of knowledge?

A Unconscious and semi-unconscious tacit knowledge.

B Semi-unconscious and codified tacit knowledge.

C Conscious and unconscious tacit knowledge.

D Codified explicit and unconscious tacit knowledge.

7.6 Embodied knowledge is not easily transferable because:

A It is rooted in specific contexts.

B It is based on specific data.

C It relies on a combination of social and cultural interaction.

D It lacks the signs and symbols necessary for its interpretation.

7.7 Which one of the following is most helpful in translating individual experience into organizational knowledge?
A Documentation of the knowledge produced.
B Increasing the variety of the experiences.
C The promotion of self-organizing teams.
D Formal dialogue between the individuals and managers.

7.8 Which one of the following combinations of factors best defines an analyst-dependent organization?
A Embrained knowledge acquisition and technology-dependent specialist systems.
B Embodied knowledge and performance-led experts.
C Encultured knowledge and networks of expertise.
D Embedded knowledge and structure-driven planning.

True or false questions

7.9 High development costs in KBEs mean that intellectual property rights are now more closely guarded. T or F?

7.10 KBEs rely on their ability to acquire knowledge specialists. T or F?

7.11 Advanced and core knowledge cannot be accessed without innovative knowledge. T or F?

7.12 Deep learning cannot be taught. T or F?

7.13 Tacit knowledge can be passed on through everyday conversations and storytelling. T or F?

7.14 All experience is useful for increasing tacit knowledge. T or F?

7.15 Relational capital consists of the resources linked to all relationships within an organization. T or F?

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CHAPTER 8

The technological context, organizations and managing people

Learning objectives

By the end of this chapter you should be able to:

- understand the nature of technological change and its relationship to people management;
- understand the trends in technological developments and use these trends to analyse your strategic environment;
- apply the notion of a technological system to your own workplace or one with which you are familiar to analyse its essential components;
- distinguish between how technologies are used to empower people at work and to disempower them;
- apply the concepts from the chapter to design a system of work and work roles that minimize the negative influences of new technologies on people.

Understanding the nature of technological change and its relationship with managing people

Introduction

In this chapter I have brought together a wide range of literature and research from different disciplines to help you *understand* the importance of technological change to the management of people and be able to *use* these ideas to improve your thinking and performance as a manager. It is clear that the relationship between changing technologies, organizations and people is an extremely important one, as it has been at the heart of nearly all management thinking and a good deal of economic policy in various countries for many years. It is also clear that this is an ever-moving target because, in one key sense, there is nothing new about changing technologies; they are always with us and always presenting managers with new problems as well as new opportunities. These ever-present dynamics have never been more obvious than during recent times. The rate of recent technological progress, the ubiquity of information and communications technologies (ICT) at most workplaces, and the emerging cluster of related technologies to which ICT has helped give birth – biotechnology, nanotechnology, new material science and robotics – promises to transform most economies and businesses (Evans and Wurster, 2000). If we focus on these new technologies, much of the recent work by academics and practitioners is on ICT as a *general-purpose technology* and its relationship with economic growth, productivity, and the future problems and opportunities at work created by new business models. This interest has been generated by comparisons between the so-called 'new economy' and the old economy, as many countries seek to play 'catch-up' with the long-standing perceived American advantage in technologically led productivity. We shall return to a definition and discussion of the new economy later in this chapter. But for the moment let's think about it as synonymous with the knowledge-based economy and the new knowledge-based enterprises discussed in the previous chapter.

There has been a considerable debate, however, over the extent to which a new economy actually exists, even in the USA, where the ideas first saw daylight. This was especially so following the bursting of the dot-com bubble in 2000, when the American securities market for technology stocks collapsed. But, if we accept the idea that there is something quite different about economies such as the USA and their recent productivity levels, can other countries outside the USA hope to match these and create an economic and industrial structure based on new types of business model to which new technologies have given rise? The evidence on this question is mixed. Certain countries in northern Europe, such as Finland and Sweden, and smaller countries such as Singapore have been successful in creating technologically advanced economies and organizations. Many companies in these countries have followed a '*high-road*' *competitive strategy* (see Box 8.1).

Box 8.1: High and low 'roads' to economic growth

A *high-road strategy* to economic growth is based on having a high proportion of either significant ICT-producing industries, such as chip manufacturers, or significant ICT-using industries, such as financial services and education, to create high added-value products and services based on high levels of education and skills. Such a relationship between technology, products and services, and skills is thought to create a self-reinforcing equilibrium. Silicon Valley in America and the area around Helsinki are good examples of such clusters of companies.

A *low-road strategy* is associated with minimal effective use of ICT in organizations, coupled with a self-reinforcing concentration on products with low skill requirements, and competition based on low costs and prices. Such a strategy is thought to produce a negative dynamic, because it generates a workforce unable to operate effectively in a high skills/advanced technology environment. Nor does the strategy provide any incentive for employees to acquire and be paid for advanced technology-based skills.

Source: based on Finegold and Soskice, 1988; Taylor, 2004.

However, one of the key messages from research has shown that most companies still follow a '*low-road*' *strategy*, even in countries as technologically advanced as Britain (Taylor, 2004). The dominance of a low-road strategy amongst companies in a national economy is often used to explain why they lag behind the USA, with Britain being the example *par excellence* of technology-lag productivity. If this is the case among developed European countries, what price the success of the developing world, particularly if they lose their current comparative advantages in low labour costs due to high growth rates? Thus, nearly every country in the world has a policy on how to take advantage of the new technologies to create successful firms and generate economic progress. India is a good example of such a country in the developing world, with its significant cluster of ICT-based companies in Bangalore; Taiwan is another with its strategy of building branded goods on the back of high levels of research and development into new computing technologies.

It follows that taking advantage of technological change is usually seen as the *necessary* condition for economic and business success for all countries in the long run, but, as we shall see, technological investment in firms by itself is not the *sufficient* condition. Most writers agree that it is the *interrelationships* among technology, institutions, organizations and people that seem to matter in delivering the promises made for new technologies. In this chapter we shall explore these interrelationships and the implications for managers by addressing three sets of related questions:

1. To what extent are organizations in the new economy different in their requirements for people and for the experience of people working within them? To what extent are they different in making use of technology, particularly investment in ICT, to produce innovations and productivity growth? And how can we best manage the relationship between investment in ICT and the exploitation of knowledge as discussed in the previous chapter?
2. To what extent do we have a choice in shaping such technological change to become a progressive and empowering force for the people working in the new economy? Can we design jobs and organizations so that adopting new technologies will lead to liberating employees from routine and boring jobs and enhance their ability to use knowledge for their own good and for the good of the firm? Or will the choices we make result in dominating employees, perhaps leading to a widespread deskilling for the majority of people?
3. What can managers do to prepare themselves to make appropriate choices in the technology–people management relationship?

Defining technologies and new technologies: a combination of 'hardware and software'

A technological system

Often, one of the most puzzling aspects for managers and management students, especially those coming from a non-technical background, is to understand what is meant by technology. Defining technology in a general sense helps us understand not only what we mean by new and old technologies, but also their distinctive nature.

The problem is that various writers and traditions in the literature have different conceptions of where technology begins and ends, so to speak. This is especially so in relation to the 'hardware' of material objects, such as networked computers and computer code, and the software of organizations, including structures, systems and processes. In the field of business and management studies, technology is traditionally seen as the means by which a desirable outcome or goal is achieved, such as the development of a new product (e.g. automobiles) or service (e.g. online delivery of your course), or the development of a new process (the e-enablement of HR). From this perspective, technology can be defined by the three elements in Case 8.1.

Case 8.1: Defining technology

- The physical objects or artefacts – products, tools and equipment – that are used to create these outcomes (e.g. moving assembly lines to produce automobiles, networked computers to create an e-enabled solution to HR, or virtual learning environments to facilitate e-learning).
- The activities or processes that constitute the method of production (e.g. the design of flowline production methods to produce automobiles, software programming to network computers for a talent management system, or online discussions and online assessments).
- The knowledge needed to develop and apply the physical objects and processes to produce a particular output (e.g. the know-how to design and assemble an automobile, the knowledge of HR activities in the workplace, or the knowledge of a field of study to be learned and knowledge of how people learn online).

Source: based on Hatch, 1997.

1 Think about your own work organization or one with which you are familiar. Use the above definition and the three elements to define the technology of the organization or department.

This view of technology is based on an open-systems perspective, which sees the organization as a technological process converting inputs from the environment into outputs. It allows us to relate organizational technologies to resource requirements and to the objects of technology such as automobiles, the e-enablement of HR or elaborated knowledge structures in the heads of employees.

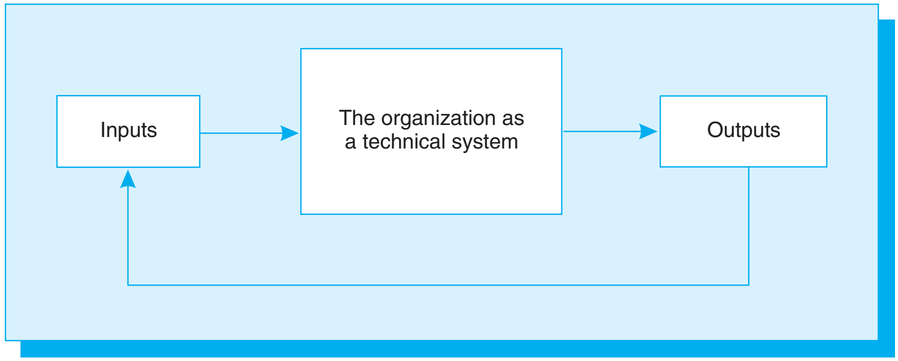

Figure 8.1 A basic open-systems model of organizations.

We usually distinguish between an organization's core technology, which is the technology it uses to produce its key products or services (e.g. flowline technologies in manufacturing), and technologies that indirectly maintain the production process (such as the e-enablement of HR or some forms of e-learning), or technologies used to adapt organizations to their environment (such as planning and market research). I shall use this broader definition of technology throughout this chapter, because it steers us away from a purely technicist perspective, which has restricted discussions in this important field of study to discussions of ICT hardware and systems. It also helps explore the interfaces between the various components of a given technical system and its relationship with the management of people.

Exercise 8.1

Use Figure 8.1 to map out a basic systems view of your organization or department, or one with which you are familiar.

1 What are the key inputs and outputs?
2 What are the key features of the technical system? Here you may wish to refer to the review question in Case 8.1.

Stages in technological development and new technologies

One of the key questions raised earlier in this chapter was the distinction between old and new technologies and their different impact on organizations and people management. A conventional way of thinking about this is to refer to the stages of technological development described in Box 8.2. Stages 3 and 4 broadly correspond to what we mean by the new technologies, all of which, to a greater or lesser degree, are based on computers and computing power for their emergence and impact. Stage 3, which is based on computing and information systems, became important in the 1980s with the development of the microchip. However, it was not until the late 1990s and the widespread adoption of the Internet that we saw new business models emerging, in the form of e-commerce and m-businesses (businesses based on mobile telephone technologies). Well-known international examples are Amazon, Dell and eBay, which have transformed the bookselling, computing and auction industries respectively; we shall take a closer look at these three companies later in this chapter.

At the time of writing, stage 4 is only beginning to emerge, and it will take time to work out what the implications of these new technologies will be for people management. For example, a British report in 2004 on nanotechnology set out the potentially positive impact on medical sciences and on the work of medical practitioners, nurses and so on, but it is also likely there may be some side-effects that could be potentially harmful to employee health and safety.

Box 8.2: Stages in technological development

- Stage 1. Use of machines driven by steam power to replace labour in the transformation of raw materials into products.
- Stage 2. Use of electrically powered machines to move materials between machines and to power moving assembly lines and flow production.
- Stage 3. Use of electronics-based ICT to coordinate and control transfer of information and tasks.
- Stage 4. Use of several related technologies, all of which reinforce each other and are based on the microchip, cheap and massive computing power and the Internet. These include biotechnology to analyse and synthesize the genetic basis of plants, animals and humans, nanotechnology, robotics and advanced forms of materials.

Source: based on Coyle and Quah, 2004, p. 9; Morris *et al.*, 2002, p. 136.

Clearly, as I highlighted in the introduction, different forms of technology and technological change have been at the heart of people management problems and the work of human resource professionals for many years. There is also a long and distinguished history of research and writing linking technology and technological change in the broadest sense of these terms to economics, organizational studies, psychology, and personnel and industrial relations management. For example, the work of notable figures in economics and management, such as Adam Smith, Karl Marx and Frederick Taylor, was concerned with the role of technology. In more recent times, however, the role of ICT in transforming societies, transforming economic progress and in how we work in such societies has resulted in a renewed interest in the relationship between these new technologies and the management of people.

As I also flagged in the introduction, there is a degree of scepticism over the competitive advantages of investment in ICT for organizations, a point to which we shall return later in this chapter. Most informed opinion, however, points to at least the potential for ICT and other new technologies to have a major impact in transforming economies, organizations and the ways in which people work. Frances Cairncross (2003), a distinguished writer on technology and management, has set out five reasons explaining the underlying arguments for the transformative potential of ICT:

1. ICT has driven down the costs of information flows and speeded up the transmission of information, which, in an increasingly knowledge-based economy, is a critical success factor. In addition, low costs increase the adoption and diffusion of information. As technology gathers pace, advanced economies are combining technology with knowledge to create a new basis for competition and competitive advantage, drawing on knowledge management and e-learning technologies.
2. The lowering of costs and ubiquity of information have assisted companies in developing new international markets and in internal coordination and learning in multinational companies.
3. ICT has led to new applications and business models. It is not just a technology but is also a marketplace, a method of manufacturing and a means of communication. We are also witnessing a new agenda made possible by these technologies in promising new ways of organizing work, including e-democracy, e-business and e-commerce.
4. ICT has the potential to make all kinds of work more productive, because it increases access to information and makes markets more efficient.
5. ICT speeds up the adoption of new techniques and innovation by connecting people and organizations, often across time zones and distance. For example, we have a developing

concern in the notion of community and how Internet technologies may link up people across time and space in new virtual or electronic communities.

Evans and Wurster (2000) have been a little more succinct in claiming that the new economics of information have transformed business strategy by changing the traditional trade-off in information between reach and richness. Reach is easily understood, being the number of people exchanging information; richness is more complicated, referring to bandwidth, the customization of information, connectivity, and the reliability, security and value of near-instant information. Their claim is that this traditional trade-off, a basic law of economics, has been 'blown to bits', leading to simultaneous greater reach and richness, and thus the deconstruction of traditional industries such as retail banking and automobile retailing.

In addition to these more general reasons, research into the concerns of senior HR managers in international companies has singled out technology as the most important transforming force, especially in the 'e-enablement' of HR and its impact on the creation and transfer of knowledge among firms (Sparrow *et al.*, 2004). As we have discussed in previous chapters, this area is one of the key strategic drivers of global companies. One good example from our research is BT, the British global telecommunications company, that has turned its e-enabled HR function into a source of revenue by selling its solutions to other organizations and supporting the solutions-based business of BT more generally (Martin *et al.*, 2006).

This brief discussion of the new technologies leads us to ask the following important set of questions: Are there common issues confronting old and new technologies and their relationship with work and people management? If so, what can we learn from the introduction about older technologies? Or are the new technologies, based on the Internet and perhaps even newer ones such as biological sciences, nanotechnology, robotics and materials, raising new questions? In the next part of this chapter I shall attempt to shed some light on these questions by a brief examination of two lines of enquiry concerning the relationship between technology and people management:

- the new economics of knowledge and technology, and the rise of knowledge-based enterprises, which we have already discussed in previous chapters;
- the organizationally based, micro-level research into technology, knowledge work and knowledge workers.

Following this examination, I have developed a framework to help us understand the key issues concerning technology and the 'human condition'. This framework will then be used to organize and analyse the discussion and evidence concerning the new technologies and people management, and suggest some pointers for organizations that wish to improve their performance in the area of technology investment.

Developing a framework for exploring the relationship between technology and human resource management

The new economy: combining technology, knowledge and organizational change

We addressed the new economy literature in the last chapter on knowledge work in the shape of the relationship between the knowledge-based economy and knowledge-based enterprises (KBEs). That discussion, however, did not really examine the critical role of technology, particularly ICT, which we shall now explore in a little more detail.

The story of the new economy began with the emergence of the new computer-based and digital technologies in the USA during the 1980s, the entrepreneurial spirit to which these gave rise and the resurgence of the American economy in the 1990s. Following these developments, a set of new theories of economic growth, which economists have labelled the *new economy*, emerged in the USA. Just what the new economy might look like – and by definition, what the old economy was – has been a matter of some debate, however.

On the one hand, some writers have equated it with ICT and its sectoral consequences. For example, an OECD report in 2004 examined the impact of ICT on the *ICT-producing industry* itself, including manufacturers of semiconductors, computer equipment and peripherals, telephony and software companies. It also examined the *ICT-using industries* – intensive ICT users such as retailing, financial services and consulting. The general conclusions of the report were that the ICT-producing sector had been characterized by very high rates of productivity growth and economic performance in the countries where significant clusters of such companies are found, such as Korea, Finland, Ireland, Sweden, Japan and the USA. With regard to the ICT-using sector, the picture was still positive in being associated with productivity growth, particularly labour productivity, but had a different international distribution. For example, the contribution of ICT-using industries in Sweden and Finland to economic growth was modest; in contrast, it was large for countries such as the UK, Australia, Canada and the USA. In part this was explained by the importance of intensive ICT-using industries to an economy, such as retailing and wholesaling, and financial services (e.g. securities). In contrast, Sweden and Finland have not been traditionally noted for these intensive ICT-using industries.

On the other hand, other writers have taken a broader perspective on the new economy, more akin to the knowledge-based economy discussed in the last chapter. Indeed, some commentators have gone further to equate the new economy with a form of post-industrial society, in which not only knowledge work but also services have replaced manufacturing as the dominant sectors in the economy. Diana Coyle has used the metaphor of *weightlessness* to characterize an economy in which creating value relies less on physical mass and more on intangibles, such as building intellectual capital through knowledge and creativity and performing 'emotional labour' (continuously being pleasant to unpleasant customers, smiling, etc.) in delivering high-quality customer services.

Table 8.1 provides a stylized summary of this weightless version of the new, post-industrial economy and its differences from the old industrial economy.

Table 8.2 provides some evidence on the changing occupational structure of Britain, which shows the growth in managerial and professional services and sales and personal services and the decline of manufacturing occupations such as craftspeople and manual operatives. Similar trends can be found in most developed countries (Wolf, 2002). These figures do not mean that we are all becoming computer programmers or biotechnology entrepreneurs in Britain, but that there has been a significant increase in these knowledge-based occupations, which require high levels of education and skills acquisition. Correspondingly, there is also a significant increase in service occupations such as care assistants in homes for the elderly and hospitals; these are relatively low-skilled occupations and low users of ICT.

Indeed, ICT may well replace many of the functions carried out by such occupations, with the advent of ubiquitous computing (see Box 8.3).

So, whether an economy can be described as weightless or not, all versions of the new economy give a prominent role to ICT, especially in its contribution at the level of the firm. Again, the 2004 OECD study summarized the evidence well:

- Enterprise-level studies showed that ICT use typically had a positive but variable effect on company performance, demonstrating the fact that investment in ICT was not enough by itself to guarantee success.

Table 8.1
The old and new economies compared

Issues	Old economy	New economy
Economy-wide characteristics		
	Industrial	***Weightless, post-industrial***
Markets	Stable	Dynamic
Scope of competition	National	Global
Organizational form	Hierarchical, bureaucratic	Networked
Structure	Manufacturing core	Services core
Source of value	Raw materials, manufactured goods, financial capital	Knowledge and skills, human and social capital, emotional labour
Business		
	Fordist	***KBEs***
Organization of production Key drivers of growth	Mass production/Fordism	Flexible Innovation/knowledge and skills
Key technological driver	Mechanization and electrical power	Digitization and related technologies
Source of competitive advantage	Lowering costs through economies of scale	Innovation, quality and speed through whole supply chain
Importance of research/innovation	Low–moderate	High
Relations with other firms	Go it alone, competitive	Alliances and collaboration, outsourcing
Workplace relations	Adversarial	Collaboration and partnership
Nature of employment	Stable	Marked by insecurity, risk and opportunity
Consumers		
Tastes	Stable	Rapidly changing
Skills	Job specific	Broad, transferable skills and adaptability
Educational needs	Craft skill or degree: one-off requirement	Lifelong learning
Government		
Business–government relations	Impose regulations	Encourage growth opportunities
Regulation	Command and control	Market tools, flexibility and devolved government
Government services	Nanny state	Enabling state

Source: adapted from Coyle and Quah, 2004.

Table 8.2
Changes in the occupational structure of employment in the UK, 1984–98: figures represent the pecentage of full employment

	1984	1998
Managerial and professional services	29.1	36.6
Clerical and secretarial	16.1	15.0
Craft and related	18.8	12.2
Sales and personal services	14.3	18.8
Manual operatives	11.6	9.4
Other	11.2	8.0

Source: adapted from Wolff, 2002.

Box 8.3: Ubiquitous computing

An alternative vision of ICT promises to transform work. The notion of ubiquitous or pervasive computing is based on cheap and low-powered computers with convenient displays embedded into our everyday environments, including homes, work, hospitals, offices and public places. These devices are wired or wireless networked and supported by applications software. The ubiquitous nature of computing will pervade common places and be embedded in clothing or the fabric of buildings. The computers can deal with many inputs, including voice data, acoustics, images, motion and gestures, light, heat, moisture and pressure.

Examples of the applications of ubiquitous computing have been demonstrated at the Xerox PARC laboratory. As soon as people enter the work environment, they are immediately authenticated, thereby triggering a range of resources available to them, including visual displays, computing devices and knowledge resources. These resources can be easily manipulated to create rapid analysis and synthesis of new knowledge in a range of visual and textual forms, much faster than using conventional means.

This notion of ubiquitous computing is also being used in environments such as care homes for the elderly in Wisconsin, USA, in which diagnostic computers are embedded into the clothing of old people to provide constant monitoring of the location and, in a limited sense, state of health. Residents carry dual-channel radio frequency locator tags, which serve as their apartment keys and emit periodic infrared pulses to the sensors in each room. Beds have embedded weight sensors. Each apartment has motion and health vital sensors plus a networked computer with touch interface screen, enabling communication through e-mail, video-conferencing and voice communication. These systems and sensors feed personalized databases to monitor personal health, activity levels, interactions with medical attention and status of medication. Managers use the information to monitor staff performance, and residents use the information to monitor themselves. Residents in such environments claim greater control and autonomy, feeling that if they become disoriented or wander, require help or medicine, assistance will be at hand immediately.

- These studies also showed that some ICT technologies had a bigger impact than others on productivity and performance, with *communications networking* being especially important in industries such as financial services.
- They also showed that there were important sectoral differences in the impact of ICT on performance at the level of the enterprise, with firms in the service sectors of retailing and financial services making large gains from ICT investment.
- Significantly, ICT effectiveness was found to be complementary to *human capital investment*; this helps explain the first set of findings. For example, studies in different countries showed that the use of ICT was linked to higher levels of skills, and that they became even more productive as they became more experienced in using these technologies. Yet others found that firms that adopted advanced technologies also increased their expenditure on education and training, while reducing their demand for less skilled people.
- Finally, ICT effectiveness was complemented by investment in successful *organizational change*, also helping to explain the first set of findings. For example, studies found close relationships between ICT investment and performance, but usually only when combined with complementary changes in new strategies, business processes, and/or new ways of organizing and working. These organizational changes included teamworking, flattening out of hierarchies, employee involvement schemes and improved communications.

Thus, this new economics, based on the knowledge-based economy and on new knowledge-based enterprises (see Table 8.1), has two important implications for the relationship between technology, organizations and the management of people. The first of these implications focuses on knowledge, education and skills as one of the key factors in productivity and performance, and a general-purpose *enabling technology* such as ICT as both the key *input* and key *output* of knowledge creation (Brynjolfsson and Hitt, 2000). For example, if we map out a basic, open-systems model, the development and diffusion of genetic profiling, a new form of knowledge, is dependent on ICT, but also advanced biotechnological know-how and complementary organizational inputs are synonymous with a KBE. In turn, it is hoped that these inputs, transformed by the KBE, will lead to improvements in the quality and reductions in the costs of key healthcare technology such as cancer treatment and heart disease. These improvements arise not only from the development of new treatments, but also in improving the intangible aspects of existing treatments such as convenience, timeliness, quality and choice available to patients. In addition, increased productivity through improved quality and reduced costs also arises through the development of new forms of organization and know-how to be able to take advantage of these discoveries (see Figure 8.2).

The second implication, and perhaps more important from the perspective of human resource management practitioners, is that the new economics of knowledge and technology, both of which are essentially human constructions, depend to a large extent on the management of intangible assets. Most notably, these include the *quality and management of people and their tacit knowledge, and how they are organized.* This has been the explicit message of well-known researchers in the field such as Brynjolfsson and Hitt (2000), who have argued that a significant component of the value of ICT investment is its ability to enable complementary organizational investments, such as new business processes and new forms of working, to become effective (see the case of MacroMed below).

This point has also been explicitly acknowledged in a number of key reports in the UK, USA and elsewhere. One major research programme in the UK, the Economic and Social Science Research Council's 'Future of Work' programme, has made much of the links between skills and the high road to growth, the importance of employee empowerment in improving productivity, and the role played by

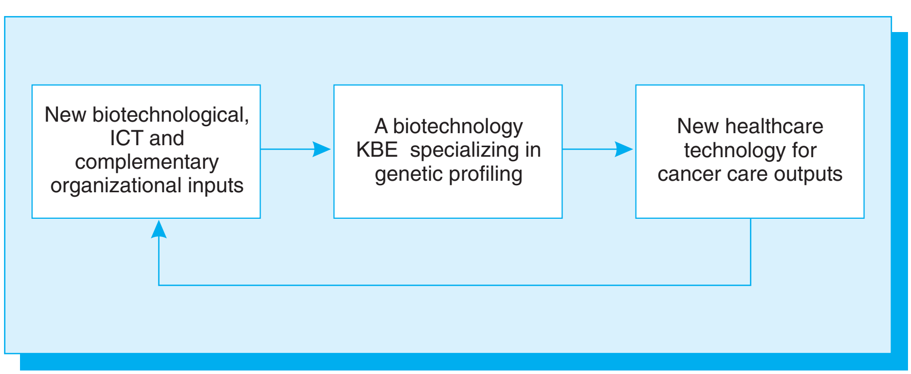

Figure 8.2 A basic open-systems model of knowledge-based enterprise in the biotech industry.

integrated and comprehensive human resource management systems in improving business operations (Taylor, 2004).

Case 8.2: MacroMed

MacroMed is a large, US-based medical products manufacturer. To provide greater customization and variety, it embarked on a major investment in computer-integrated manufacturing. This investment coincided with a number of other changes in people management, including eliminating payment by results, giving workers authority for scheduling machines, decentralizing decision-making, more frequent and richer interactions with customers and suppliers, increased communications and teamworking, and changes in skill levels and organizational culture.

However, the new system fell way below expectations for greater flexibility and responsiveness to customer demands. Investigations into the causes of the problem showed that employees still retained many old ways of doing things, not to be deliberately obstructive, but because that was the way they had always done their jobs. Somewhat ironically the new machines were so flexible that workers could operate them and work in the same old ways, but without securing the improvements promised by the new computer-controlled technology.

Management decided after some time to set up operations on a new, 'greenfield' site, with a set of handpicked, younger employees who had not been part of the old culture of work practices. The improvements in productivity were sufficiently dramatic to make the management team paint the windows of the new factory black so that competitors could not look in.

Source: based on Brynjolfsson and Hitt, 2000.

1 Can you explain the causes of the dramatic improvements in productivity?

2 Was management justified in worrying about competitors 'seeing into the new factory'?

As we noted earlier, following the collapse of the Dow Jones Industrial Average on 14 April 2000, much scepticism arose over the idea of a new economy. There was a spectacular fall in the global technology market and in the Internet 'bubble', with many new economy firms going to the wall. These events provoked a major backlash and widespread criticism among economists and business academics that the new economy was 'stillborn', especially in countries such as the UK and much of Europe where, according to some economists, it was hardly conceived in the first place (Temple, 2002; Coyle and Quah, 2004). Indeed, much of the evidence from the ESRC Future of Work programme, referred to earlier, pointed to the vast majority of UK firms having adopted the low-road strategy to growth, despite the investment in and adoption of ICT (Taylor, 2004).

Thus, a key question arises: Is there really anything new or special about new economy knowledge work and knowledge workers? To answer this, we need to examine some of the older work on the relationship between technological change, organizations and people management.

The old orthodoxy: technology, knowledge work and knowledge workers in the old economy

Is there anything new about new technologies? In an important sense, the answer to the question is 'no': 'New' technologies and various forms of knowledge work have always combined to create a form of 'new economy', represented by stages 1 and 2 in Box 8.2. Indeed, the history of management studies can be portrayed in terms of the evolving relationship between technological change, knowledge work and the management of knowledge workers (see Chapter 7). This concern dates back to Taylor and his disciples, whose work was characterized by an attempt to relocate the knowledge of craft workers – skilled machine-tool men who fashioned the major parts of early motor cars by brain and by hand – into procedures manuals and machines, a subject discussed in Chapter 1 of this book. These developments culminated in the era of Fordism, often stylized as the application of technology to Taylorism to create the dominant mode of production in the last century. Another answer is to draw on the message of the ESRC Future of Work programme, which has pointed out, much like the above argument, that most of the new British economy, for example, is not new in the sense of not being based on a majority of people employed in the intensive ICT-producing and -using sectors. Thus, although the use of ICT at work advanced during the 1990s, it did not do so among large sections of manual, unskilled and personal service workers, even though they were familiar users of computers at home. The evidence previously presented in Table 8.2 also supports this argument.

Before embarking on a review of more contemporary work, it is necessary to revisit some of the earlier, 'classical' studies to see what we can learn and use in our understanding of new technologies and the kinds of problem managers are likely to confront. Three competing perspectives on the effects of technology on work help us here

(McLoughlin and Clark, 1994), each of which sees technology in a different light:

- technological determinism;
- labour process;
- strategic choice perspectives.

Technological determinism

In any history of management and organizational studies, the 1950s marked something of a watershed. From that time, technology became the favoured variable for explaining how people behaved at work, rather than the nature of the human relations climate, which had characterized most of the writing between the 1920s and 1940s (Rose, 1975). This relationship between technology and people was sometimes treated as a direct one, in so far as the nature of the technology itself was thought to have an immediate effect on work behaviour. For example, producing motor vehicles using craft-based technology had a very different impact on skills and levels of job satisfaction from production methods associated with assembly line, mass production technology. More often than not, however, it was taken to mean the complementary relationships noted earlier between the technological 'hardware' – plant and machines – and a form of organizational 'software'. Such changes shaped work behaviour in particular ways:

- The first was the system of rules that governed management and employee relations in the industry or workplace where unions were recognized. For example, technology shaped the kinds of people who were employed, and collective bargaining agreements between managers and unions would often dictate which trades or occupations were allowed to use or supervise particular machines in industries such as engineering, construction, motor vehicle manufacture and printing.
- The second was the particular form of production systems and work processes, i.e. the methods of production and knowledge required to develop and use the technology determined the work behaviour.

Four such works serve as good illustrations of these links between technological hardware, organizational forms and human behaviour, which are still very relevant today. The first is Woodward's (1965) studies of the effects of organizational structure on the performance of 100 manufacturing firms operating in the south-east of the UK. Initially, she could make little sense of her findings, which seemed to show that the form of organization (as measured by factors such as spans of control, levels of management, or centralization) had little relationship with performance. Only when these structural characteristics were related to the different types of technology she identified (unit and small batch production, mass production, and the types of continuous production found in chemicals, etc.) did they make any sense. That is, the highest levels of performance found in her sample of firms were correlated with either mass production technologies being combined with mechanistic organizations, or unit/small batch technologies and continuous process technologies being combined with organic organizations.

The second piece of research is by Leonard Sayles (1958), who noted that particular types of workplace were marked by high rates of grievance activity that were wholly unrelated to variations in managerial policies or style. At that time, this was a counterintuitive finding, because the dominant explanation of industrial conflict focused on human relations and management style as key variables in explaining the quality of employee relations in organizations. His research showed that different types of groups, which he labelled apathetic, erratic, strategic and conservative, were products of different types of technological system found in the 30 companies in his study. In short, it was different types of technology, not managers, that caused high and low levels of grievance.

The third is the well-known study by Robert Blauner (1964), who claimed that the most important single factor that determined an industry's character was its technology. Blauner attempted to show a direct relationship between worker *alienation*, which was made up of objective conditions and feeling states, and different forms of technology. He classified alienation in terms of powerlessness (the lack of control over conditions of work), meaningless (the work and its products have no meaning for employees), isolation (referring to the lack of community in certain types of plants) and self-estrangement (roughly comparable to current notions of employee identification with the work and organization). Blauner related scores on these different forms of alienation to four types of technological system, comprising craft production, machine tending, mass production and process production. We return to this issue of alienation in a later section of this chapter.

The fourth work is by Charles Perrow (1986), a well-known American organizational theorist. Perrow's major contributions were in recognizing that the same organization may have a number of different core technologies, and in producing a typology of the relationship between technology and organization that is still highly influential. He proposed that different units and subunits of an organization can be compared along two dimensions relating to its core tasks:

- *Task variability* was defined in terms of the number of exceptions from standardized procedures evident in the application of a given technology. For example, moving assembly lines are portrayed as dictating how workers perform their tasks, whereas design engineers have considerable latitude in how they arrive at solutions.
- *Task analysability* was defined in terms of the extent to which there were well-known analytical methods for dealing with any exceptions to standard procedures. For example, lower-level administrators are always able to refer problems to higher-level managers, a well-documented procedure for dealing with problems, whereas scientists in leading-edge computing or biotechnological research often lack the procedures or training to deal with exceptions to the rule. In effect, they have to invent them.

Combining Perrow's two dimensions resulted in four different forms of organizational technology:

1. *Routine technologies* are characterized by low task variability and high task analysability, exemplified by assembly-line work and lower-level clerical work. Many modern call or service centres fall into this category.
2. *Craft technology* is described by low scores on both dimensions. For example, workers on a building site face few exceptions to standard operating procedures laid out by architects' plans and building regulations, but when they do, they often have to invent ways of dealing with a lack of materials or mistakes made by the architect. In effect, they have to craft a solution based on their tacit knowledge and experience of such work.
3. *Engineering technologies* are characterized by high scores on both dimensions. For example, though software engineers are likely to face many exceptions to standard practices in creating new programs, the increasing body of knowledge in this field and their specialized education and training provide them with known and codified methods of solving such problems. The work of many human resource management departments falls into this category.
4. *Non-routine technologies* are high on task variability and low on task analysability. Such technologies of organization are to be

found in advanced research work, high-level consultancy and managerial work, and in entrepreneurial science.

The critical point about Perrow's work, which has much modern-day application to new technologies and knowledge workers, is the distinction between *routine* technologies, which allow for few exceptions to known procedures and provide well-documented ways for dealing with any exceptions that arise, and *non-routine* technologies, which permit many exceptions and rely on high levels of worker discretion and levels of tacit knowledge to deal with these exceptions. This is a point that informed our discussion of knowledge management in the previous chapter, and to which we shall return later in this chapter.

Labour process theory

Much of the above work was prescriptive, and treated technology as a progressive and optimistic force in the economy, or at least neutral when applied to work and workers, i.e. in itself neither good nor bad. Accompanying these studies throughout the last century, however, were those of a more critical and pessimistic bent. From the perspective of the authors of these studies, technology was seen to have a 'dark side': it was rarely seen as neutral in its political impact on work and workers, nor was it viewed as a necessarily progressive force in society. In these senses, many of these critical studies were influenced by Marx's dialectical method of social theory, which turned on the idea that every theory of technological progress created its own antithesis. This dialectical theory of technological change has been illustrated by the widespread opposition in some countries to the recent introduction of biotechnology and genetics, particularly in relation to GM food technology and to genetic engineering.

They were also influenced by Marx's class conflict theory of societies and organizations. Nowhere was this more apparent than in the writings of the labour process school, whose inspiration was Harry Braverman's (1974) criticism of Taylorism and the organization of manual and knowledge work during the twentieth century. Braverman's deskilling thesis claimed that the development of capitalism as an economic system had given rise to a mode of production and work organization that was being systematically fragmented and deskilled in the pursuit of rational efficiency. The logic of deskilling was to replace expensive and powerful craft (and knowledge) workers with more easily trained and less expensive unskilled labour and, eventually, machines (read 'computers' in the modern parlance). Such deskilling led to a reduction in employee bargaining power, and thus to maximizing profits. It also had the effect, reflecting Blauner and others, of alienating employees from their work and from the products of their labour. For example, studies showed that workers on an assembly line rarely felt committed to their work or organization, nor did they feel that they had contributed to the overall product or feel any sense of ownership for mistakes or successes.

Such literature portrayed Taylor as the arch-enemy of workers and was heavily critical of Fordist systems of production. During the early 1980s, when the labour process school was probably most prominent in academic terms, it influenced the more practical concerns of trade unions in some countries. Many of these adopted a defensive posture in opposing the introductions of microprocessor-based technologies during the early 1980s, especially if it were to be used to deskill the labour process and lead to even greater unemployment than existed at the time. This resistance to technological change is an underlying cause of many industrial disputes, and can often help explain why some countries and some organizations are able to adapt to technological change more effectively, and why others are less able or willing to adapt.

In the 1990s the focus of this work turned to the effects of computing technology on work and work behaviour, with a series of articles and books produced by critical theorists writing from a labour process perspective and, increasingly, producing 'gloomy analyses of emerging factory regimes in which workers lose even the awareness of their own exploitation' (McKinlay and Taylor, 1997, p. 3). This kind of thinking has infused the recent HRM literature on call centres as the 'factories of the future' and the new ESRC-sponsored Future of Work studies, which have criticized the low-road/low-skills equilibrium followed by many organizations. It has also been critical of the routinization of workers in information technology and software writing. Thus, a report on the 'information society' (Nathan *et al.*, 2003) found that many employees were unwilling to give up knowledge, or resented the use of ICT when used to blur the lines between work and leisure – for example, by being always 'on call'. However, most of the more sophisticated studies of deskilling have noted the limits to degradation of this type of knowledge work. For example, in a study of software firms, it was found that commercial pressures, which have been seen as the engine of deskilling in software production, can also lead to software developers using their own initiative to create viable software (often in conjunction with users with whom they were not supposed to have formal contact) (Beirne *et al.*, 1998). The central message of this literature, however, is not the limitations of technological forms of control, but that the logic of capitalism as an economic system ineluctably leads to a degraded form of knowledge work, regardless of how individual firms might behave. In that sense, managers have very little control over how they use technology, because it is the logic of profits that dictates how technology and work are related.

Strategic choice perspectives

If gloom was the flavour of much of the writing on technology during the twentieth century, the strategic choice perspective has represented something of a balance between the optimism and political neutrality of the technological determinist school and the 'dismal science' predictions of the labour process school. Strategic choice implies that introducing new technologies does not need to result in deskilling or in any form of predetermined work organization. Instead, different groups of employees and managers will have different objectives for any form of technology, based on their values and perceptions of their power, and the eventual outcomes of any technological innovation will depend on negotiations between these groups (Child, 1972). Perhaps the original inspiration for such work was the socio-technical systems approach of the Tavistock Institute of Human Relations in the UK (Trist *et al.*, 1963), which set out the choices of social organization available for any given form of technological system. This work focused on the importance of meshing technology with the needs, characteristics and attitudes of workers in order to optimize outcomes. People were organized into groups or autonomous work teams, completed whole tasks with minimal external supervision, and experienced variety, support and recognition in achieving the goals that were set. The work of the Tavistock group had a major influence on subsequent attempts to operationalize socio-technical systems during the 1980s in Sweden and Germany, most notably at Volvo and Saab. For example, during the 1980s both of these organizations undertook major experiments that eliminated assembly-line technology and introduced autonomous, multi-skilled workgroups, which built the major parts of a motor vehicle. These experiments were seen as a partial return to the traditions of craft-based manufacture, enhanced by the use of modern manufacturing technologies.

Modern expressions of what might be called a socio-technical approach to organizational studies and HRM are to be found in the 'lean production' literature that had such a major impact on vehicle manufacture during the 1990s, which we referred to in Chapter 4. This work was provoked by a major series of studies, culminating in the book

The Machine That Changed the World (Womack *et al.*, 1990). The book set out the findings on world motor vehicle manufacture and the choices facing vehicle manufacturers in developing organizations and work teams. One of the key messages of the book and associated studies was that managers had a technological and organizational choice over how to produce motor vehicles, and that Japanese organizations seemed to have reached an optimal compromise between the tightly coupled design based on standardization and economies of scale of Fordism on the one hand, and the more loosely coupled design based on innovativeness and quality on the other, by using teams and employee involvement strategies (see also Chapter 4). These studies have had enormous influence on current ways of organizing work in many different industries, especially in the USA and Europe, and provide the stereotypical model of modern manufacturing (Roberts, 2004). Lean production ideas are also being applied to the public sector in an administrative setting. While writing this text, I was asked to bid for a research project that focused on how lean thinking could be used to create more efficient government in Scotland, an indication of how transferable some ideas are thought to be from very different sectors of the economy.

Case 8.3: Lean production and the Toyota system

Assembly-line technology and social organization have dominated manufacturing methods for nearly all of the last century, especially in the motor vehicle industry and among component suppliers for motor vehicles. Such systems of manufacture have allowed companies to reap enormous benefits from economies of scale by producing vehicles and components for inventory. However, they have been associated with unwanted stocks, poor quality and high levels of employee dissatisfaction due to the mechanical pacing of jobs and lack of autonomy on behalf of workers. In the 1980s companies such as Volvo and Saab attempted to do away with assembly lines and introduced state-of-the-art factories built around the concept of autonomous workgroups of multi-skilled people who would build a major part of a car by themselves. These experiments generated a lot of interest, which has recently been rekindled in Sweden by Volvo.

Lean production as a method of manufacturing is an alternative to traditional mass production and the more craft-based, autonomous workgroups. It is an assembly-line manufacturing methodology developed originally for Toyota and the manufacture of automobiles. It is also known as the Toyota Production System. The goal of lean production is described as ‘to get the right things to the right place at the right time, the first time, while minimizing waste and being open to change’. Engineer Ohno, who is credited with developing the principles of lean production, discovered that, in addition to eliminating waste, his methodology led to improved product flow and better quality.

Instead of devoting resources to the planning required for future manufacturing under mass production, Toyota focused on reducing system response times so that the production system was capable of immediately changing and adapting to market demands. In effect, their automobiles became made-to-order. The principles of lean production enabled the company to deliver on demand, minimize inventory, maximize the use of multi-skilled employees, flatten the management structure and focus resources where they were needed.

During the 1980s the set of practices summarized in the ten rules of lean production were adopted by many manufacturing plants in the USA and Europe. The management style was tried out with varying degrees of success by service organizations, logistics organizations and supply chains. Since the demise of many dot-coms, there has been a renewed interest in the principles of lean production, particularly as the philosophy encourages the reduction of inventory. Dell Computers and Boeing Aircraft have embraced the philosophy of lean production with great success.

The 17 rules of lean production can be summarized as follows:

1. Set up cross-functional design and development teams.
2. Develop a *kaizen* philosophy of continuous improvement.
3. Flexible machines, low set-up costs.
4. Broad product lines.
5. Targeted markets.
6. Eliminate waste.
7. Minimize inventory.
8. Maximize flow.
9. Pull production from customer demand – make to order rather than for stock.
10. Meet customer requirements.
11. Do it right the first time.
12. Empower workers through quality circles and improvement groups.
13. Develop highly skilled and cross-trained workers.
14. Design for rapid changeover.
15. Partner with suppliers.
16. Create a culture of continuous improvement, involving workers on the shopfloor.
17. Build long-term, trusting relationships with key suppliers.

Note that these features are complementary to one another, and adopting only some of them will not produce the gains that Toyota experienced. This has been one of the reasons why many firms in the West have not been able to achieve Toyota's quality and productivity levels.

1 How do you think that workers would respond to lean production techniques?

Is there something different about new technologies?

The general message of the literature reviewed in this chapter is that technology has a major influence on work behaviour and the management of people. But do new technologies produce qualitatively different problems from the older technologies? Karl Weick (1990) has attempted to answer this question by identifying some of the properties of new technologies that differentiate them from earlier and less sophisticated forms. He proposed a three-way distinction, in which he portrayed new technologies (particularly ICT) as consisting of three 'events' – stochastic, continuous and abstract:

- The *stochastic* nature of new technologies means that they perform in non-determinant ways, owing to the complicated interactions of their components. In that sense they are complex, unpredictable systems that are hard to control, even by a management that has deliberately introduced them to do exactly that. Weick claims that new technologies are unique in that the events to which they give rise cannot be foreseen, and the outcomes of their introduction are more or less random – the 'increasingly unknowable world'. Thus, we can neither learn about them nor learn from them, a difficult proposition to grasp from the perspective of managers.
- The *continuous* nature of new technologies refers to the process by which technological systems constantly change as new problems are discovered and solved. For example, attacks by computer viruses cause not only constant software adaptation, but also changes in the underlying nature of the software itself. As a consequence, users are increasingly unlikely to be able to learn about the system because of the endless stream of operating rules, which are themselves constantly changing.
- The *abstract* nature of new technologies refers to the propensity for knowledge and labour to be embedded in machines and computer code. Computer operators and software engineers, for example, cannot see what they are doing and must rely on mental models and metaphors to understand what is going on in their work. Because they are working with symbols rather than actual processes, their models leave them open to misunderstandings and multiple or misinterpretations. Thus, if a new problem comes along or there is a misunderstanding – for example, a computer virus – great confusion and stress result. The publicity and expense associated with the Y2K problem at the turn of the century provides a dramatic example of this problem. One can only speculate about the effects of problems occurring in biotechnological work and genetic codes.

The main points of Weick's work are twofold: first, that new technologies are more complex and non-routine than previous technologies; second, not only can such new technologies change organizational forms, but also the resultant new organizations may, in turn, lead to changes in the underlying technologies in a continuous and unforeseen way.

A second argument used to distinguish older and new technologies and their influence on work is provided by Malone (2004), a well-known researcher on technology and organizations. He has suggested that, over the next few decades, organizations will undergo a major – in some cases radical – transformation. The dot-com boom and the e-business craze of the late 1990s were but early symptoms of this coming transition. Indeed, Malone thinks that we are experiencing a period of *punctuated equilibrium*, where the more stable hierarchical systems of organization are being disrupted, and decentralized models are being invented through trial and error. The trend line is moving inexorably towards decentralization. Malone's argument, based on years of research with colleagues at MIT, is that we are in the early stages of a huge increase in individual freedom in business, one that has the potential to make as big a change to business as the change to democracy was to government. The basis for this change is found in the new information technologies, which have radically reduced the costs of allowing large numbers of people to make intelligent decisions for themselves. However, he does point out that just because this new freedom is possible, it does not mean that it will necessarily happen. Much of the future shape of work will ultimately depend on what people value and want.

Malone has pointed to four emerging trends:

1. More loosely coordinated hierarchies, such as the network of volunteer programmers who work on Linux open-source software, new encyclopaedias and independent retailers such as eBay, will develop. This move towards open sourcing is also supported by others, most notably Steve Weber (2004), who has argued that open sourcing could have a deeper impact on work processes because of the potential for *distributed innovation*, where people choose to focus their work on problems they are particularly well suited to solve or technology they are particularly eager to improve. This approach, like lean production, can be applied to a wide variety of knowledge work.
2. More outright democracies, such as the Mondragon Cooperative Corporation in northern Spain, will emerge. This is a well-known workers' cooperative, where employees actually vote for a governing council that chooses the chief executive officer.

3 There will be greater reliance on external market solutions, which today take the form of outsourcing and partnering. Despite all the recent UK and US complaints and worries about offshoring services such as call centres and software writing, Malone suggested we can expect much more of it in the future. One prime candidate for outsourcing is the HR function in many organizations; in a growing number of companies HR has become a virtual organization, managing a network of contractors, consultants and partner companies, all of whom provide services that were once undertaken in-house (Martin *et al.*, 2006).

4 Perhaps most interestingly, more internal markets will arise. Malone described a current project with Intel where they envisage setting up an internal market involving plant managers and salespeople. The salespeople would communicate what their customers need and the various plants would competitively bid on delivery. As Malone suggested, this would create a system that takes into account much more information and could adapt much more quickly to changed circumstances.

The overwhelming sense from Malone's book is that the changes coming to the world of work will be mostly positive. People will have many more opportunities to get what they want out of their work lives – be it money, fellowship, meaning or fun. Meanwhile, what a company stands for will become more of a factor in its success; its brand image and values will be what attract both employees and customers (see Chapter 6). Malone's view of the future can easily be challenged as too optimistic. But Malone is not so much predicting positive outcomes as pointing to the promising outcomes that can occur if organizations adopt particular strategies.

A framework for explaining the relationship between new technology and managing people

This review of some of the newer and older studies in which technology, organization and people management are linked raises two sets of important questions that can help us develop a framework (see Figure 8.3) for thinking about new technology and managing people:

1 To what extent are the new *non-routine, knowledge-intensive organizations* different from old-style *knowledge-routinized organizations*? To what extent are the new non-routine, knowledge-intensive

organizations different in making use of technology, particularly investment in ICT, to produce innovations and productivity growth? And is there, as much of the literature suggests, a direct relationship between investment in ICT and the exploitation of knowledge in organizations?

2 To what extent is there a choice for managers between using ICT as a *dominating and centralizing force*, perhaps leading to a deskilling of employees, or as a potentially *liberating and empowering force*, enhancing the role of employees and HR managers and in re-skilling work? This dualism between control and freedom has been an important feature in the organizational writing on technology, and posits a role for managers as strategic enablers of business directions and visions rather than as passive recipients or 'handmaidens' of technological investment and general economic trends.

The answers to these sets of questions lie along two continua that, when related orthogonally, create four scenarios or images of organization. These images can then be used as prisms to view the relationship between new technologies, organizations and people management. Each of these images reflects a dominant view of organization within a firm, or characterizes certain departments or divisions within a firm. The critical point is that, although one image may be a way of seeing technology and people management, it is also a way of not seeing.

One of the best uses to which these images can be put is to generate four sets of questions managers might ask of the relationship between new technologies and the management of people, the answers to which are of enormous practical value:

1 To what extent might these new technologies facilitate advances in intelligent relationships between organizations, groups and individuals that are based on dialogue and participation rather than through existing patterns of control and domination?

2 How might these new technologies allow organizations, groups and individuals to make things happen (i.e. create new business models to make and sell innovative products and services) rather than have things happen to them, in the context of organizational and societal goals? How might these technologies facilitate employee productivity? How might organizations use technology to follow a high-road route to international competitiveness?

3 In what ways can these new technologies create new forms of community and new forms of organization, bringing together

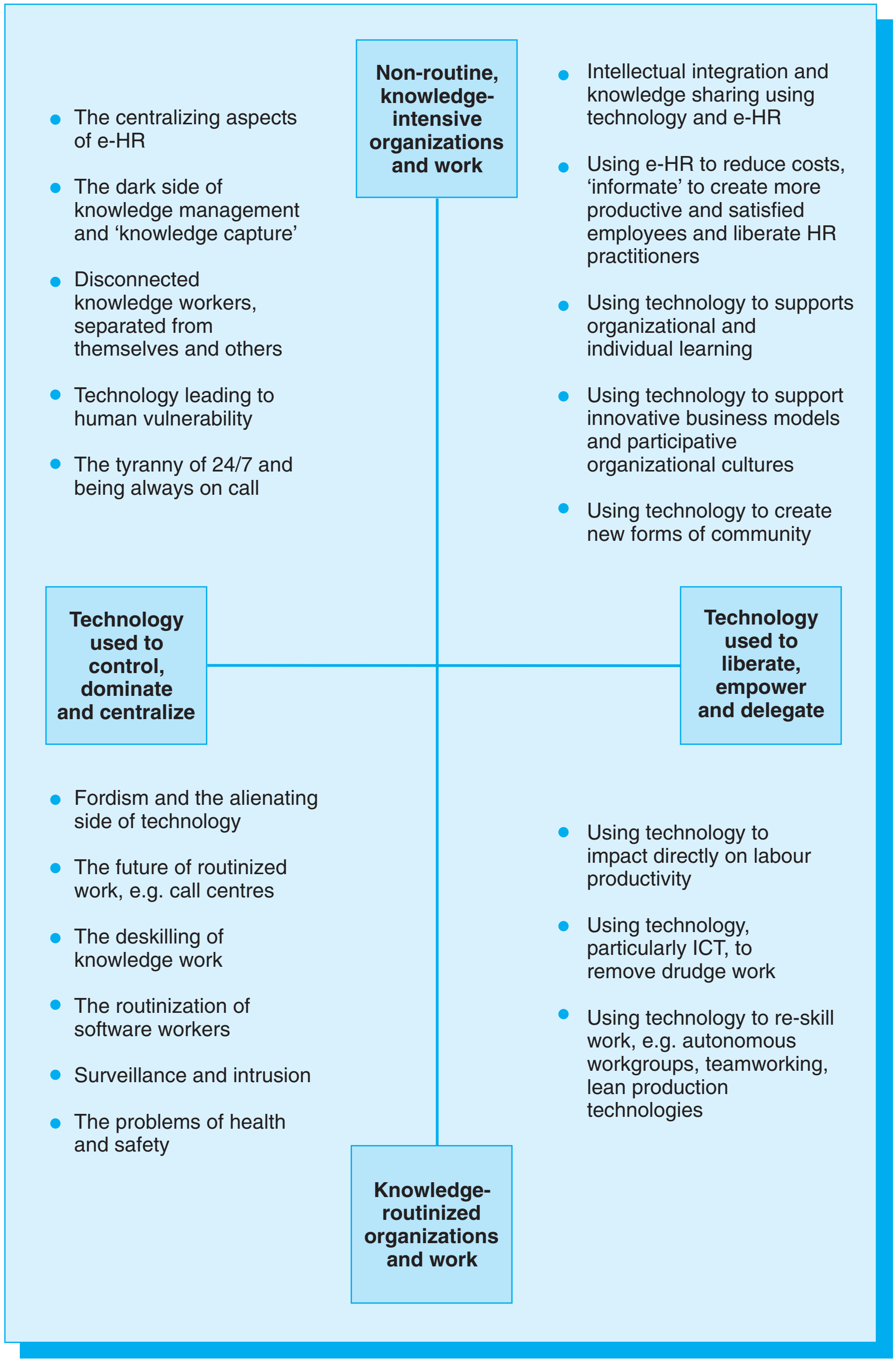

Figure 8.3 Mapping out the relationships between new technology and managing people.

organizations, groups and individuals that up until now have been separated by time, space and culture? Or will they lead to new forms of social disintegration by alienating people who once worked together?

4 In what ways can new technology create new ways of limiting the damage caused by economic pressures on organizations, groups and individuals (i.e. deskilling and work intensification), or will these new technologies lead to even greater damage (e.g. stress and intrusion problems, health and safety problems, increased human vulnerability and the '24/7–always on' problems)?

Inevitably, the framework and certain of these questions imply an ideal to be achieved of progress through technology, with a movement in the general direction of greater freedom for most employees in knowledge-based organizations. We need to suspend judgement, however, because much of the evidence on the new economy, as I have suggested, is running behind the rhetoric. That said, as Malone (2004) has argued, the new factors to be considered are the costs of communication and the value of remote information, both of which are being rapidly changed by new ICT. It is perhaps these factors more than any others that provide the potential for new business models, new forms of organization and people management (see Figure 8.4).

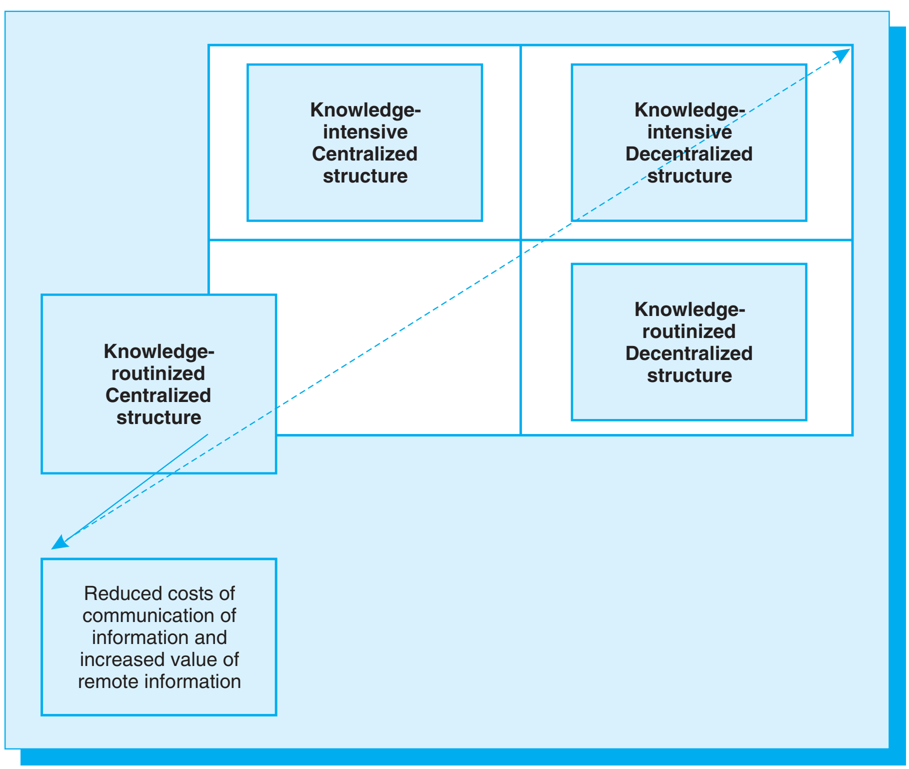

Figure 8.4 Progress in organizations: the future of work?

Exercise 8.2 Applying the future of work model (Figure 8.4)

Think about your own organization or department, or one with which you are familiar.

1 Which of the four quadrants does it most resemble?

2 What technological changes do you foresee that may change the nature of the organization?

New technologies and managing people

In this section we will use the frameworks in Figures 8.3 and 8.4 to explore some of the ideas and practices associated with new technologies and managing people. Although some of the work on the new economy and the role of KBEs in society may be overblown, we shall focus on these non-routine, knowledge-based organizations to explore both the positive and negative views of technology and people. Since we have dealt with knowledge management and communities of practice in the previous chapter, however, it is necessary to make only passing reference to them in our current discussion. So, first of all, let's deal with the quadrant that focuses on the use of technology to liberate and empower employees, i.e. what I have called the knowledge-intensive decentralized structure in Figure 8.4.

Empowering knowledge-intensive organizations through new technologies

As we have seen, much of the recent discussion on new technology has focused on improving the social needs of people at work and on securing gains in work performance through productivity, the creation of intellectual capital (see below) and/or innovation. Five sets of parallel discussions are relevant in these kinds of organizations:

- intellectual integration and knowledge sharing using technology and the e-enablement of HR;
- using e-HR to reduce costs, 'informate' to create more productive and satisfied employees and liberate HR practitioners;
- using technology to support organizational and individual learning;
- using technology to support innovative business models and participative organizational cultures, e.g. digital businesses, open sourcing;

- using technology to create new forms of community.

We will deal with these issues in the next five sections of this chapter.

Intellectual integration and knowledge sharing using new technologies and e-HR

As we discussed in the previous chapter, knowledge management is one of the key issues facing organizations in the new economy. KBEs have been at the heart of our analysis, and in that chapter we used the framework from Choo and Bontis (2002) to help us understand knowledge management within these organizations. To remind ourselves of the essential features of a KBE, they can be seen from the following systems perspectives:

1. They are actively seeking and absorbing tacit and explicit knowledge from key individuals, groups and organizations that are part of their internal and external environments.
2. They use this knowledge to *create new knowledge, transfer and diffuse it and utilize this new knowledge* to generate *intellectual capital*. Intellectual capital is often described as comprising *human capital* (the learning, knowledge and skills residing in people, in groups and in an organization's unique culture, which cannot be owned by the company in any strict sense), *structural capital* (the hardware, software, organizational structure, databases, trademarks and brands that support employees and are owned by the company) and *relational capital*, that is supported by structural capital (the relationships developed with key customers and suppliers which the companies also own).

There are key questions connected with these processes:

1. Which of the available means are best for organizations seeking to convert *tacit knowledge* (which resides in employees' heads and organizational processes) into *explicit knowledge* (which is formal, usually written, codified knowledge)?
2. In what ways can these organizations share such knowledge among their subunits and partners across national and international boundaries and time periods, and how can they integrate and coordinate knowledge to develop goods and services?

To do this a KBE has to facilitate and *feed-forward* and *feed-back* knowledge creation and learning *among the different levels* in an organization – individual, group, organization and extra-organizational networks.

The *strategic levers* that can be 'pulled' to generate intellectual capital include:

- methods of promoting knowledge creation through groups, etc., forming cross-functional work teams;
- establishing enabling conditions for knowledge creation through appropriate human resource management practices;
- replicating organizational routines across different parts of an organization, e.g. building in automatic environmental scanning;
- methods of codifying knowledge to make it explicit and capable of being stored;
- designing decision support systems and measuring and evaluating organizations' intellectual assets.

ICT has often been seen as a key enabling force in the design and operation of these strategic levers, and at one stage in the development of knowledge management theory and practice threatened to take it over (Scarborough *et al.*, 1999). The question, however, of whether an ICT solution to knowledge management is relevant needs to be addressed because a number of specialists have criticized the dominance of technology solutions to knowledge management problems in organizations. In this connection, Evans (2003) provides some useful advice. She argues that, if ICT is deemed to be useful, it is necessary to look at the adaptation of existing systems before considering the purchase of new bespoke or packaged solutions. This decision rests on a number of factors:

- One is the functionality required for the organization. Often, packaged solutions provide many 'nice but not necessary' functions that most organizations are unlikely to require, or which add little to value. This additional functionality has to be paid for, and often takes the form of a solution looking for a problem!
- Whether a one-size-fits-all solution will do, or whether different types of user will benefit from tailored systems. Generic technological solutions to knowledge management problems may be cheaper but may not fit the requirements of particular companies.
- The experience of the organization in introducing new systems, and the levels of skills and competences amongst employees, must be taken into account. Lack of experience and low levels of ICT competence have been among the main

reasons why technology-based knowledge management systems have failed in organizations.

- The existence of common ICT platforms, the existing technological infrastructure, and the ability and orientation of ICT professionals often limit the choices over new knowledge management software.
- The culture of organizations with regard to ICT is an important issue for acceptance and for how people use ICT because technology-based solutions are likely to work best in organizations that provide a receptive context for change.
- Privacy and security issues associated with technology databases for knowledge management are also of prime importance.

The e-enablement of HR

Research has shown that one of the main drivers of change in HR in global companies is operational integration through standardized technology (Gueutal and Stone, 2005; Sparrow *et al.*, 2004). Underlying this drive is the e-enablement of HR service delivery and the move towards self-service models of HR. A Towers Perrin survey in 2002 and also in 2004 showed that companies continued to web-enable their delivery of human resource services at a rapid rate. Thus, the e-enablement of HR became a 'hot topic' among HR professionals in the early part of this decade for three reasons (Snell *et al.*, 2001). The first is the increasing cost of administering human resources during the 1990s, with more and more time required by human resource staff to enforce policy and undertake essentially routine, but important, administrative tasks. The second has been the increasing expectations and low levels of reported satisfaction of employees with HR services. As employees and customers secured widespread access to ICT-enabled services in areas such as personal banking, shopping and other information, expectations increased of what they were receiving at work regarding personal information. Thus, the rapid rise and interest in the e-enablement of HR has developed as a means of reducing costs and meeting employee expectations. Coincidentally, it has also been seen as a way of freeing up scarce time for HR practitioners to allow them to focus on more strategic, value-added activities, which is the third reason for introducing the ICT into HRM. This transformative reason would allow HR practitioners to use ICT to deliver high added-value services, such as talent management, knowledge management and e-learning, which we discuss in this section.

Box 8.4: The e-enablement of HR and its development in organizations

The e-enablement of HR began with providing read-only, standard information, such as handbooks and notices, and personal information, such as payslips and employee data. Gradually, it has moved to a more interactive option, in which managers and employees can amend or initiate HR processes online, including holidays, employment, and training information and expenses (Watson Wyatt, 2002). Both the Towers Perrin and Watson Wyatt surveys found that the e-enablement of HR was a high priority for participating companies, with 30 per cent of UK companies ranking it as their number one e-business initiative. This prioritization was supported by forecasts of HR spending; it was the only HR area in which more than half of the companies in the Towers Perrin survey planned to increase spending during 2003.

It is evident that the technologies employed are also changing to much greater use of corporate intranets and, increasingly, the delivery of HR services around HR portals linked to call centres, interactive voice response and HR information systems. The reasons underlying the move to portals are that they are able to be linked to existing enterprise resource planning (ERP) systems, and they can provide 24/7 immediate access. This movement is also linked to the outsourcing of HR services more generally. However, it is clear that most companies are using a hybrid of in-house and outsourcing for their e-HR solutions. Outsourcing is most widely used when the tasks that are e-enabled are not core to the organization's business, when sophisticated technology is required, and when the organization does not have the necessary IT and change management expertise.

The 'hard' and 'soft' benefits of the e-enablement of HR have been clearly outlined in a number of publications and surveys. They include the following:

- reducing service delivery costs and correction costs;
- eliminating costs associated with printing and distributing information;
- improving productivity by providing universal access to information and services on a 24/7 basis;
- reducing data entry and search costs through employee and manager self-service;
- enabling more cost-effective decisions by improved access to and analysis of HR information;
- allowing instant processing of information, thereby reducing operation times;

- increasing employee satisfaction by improving the quality of and access to HR services and information;
- providing for greater employee participation in how they are managed, with interactive services such as career development, learning and performance support systems;
- freeing up HR staff to take part in added-value and strategic activities;
- signifying a change in culture towards self-reliance and self-development.

The extent to which the e-enablement of HR has resulted in these tangible and intangible outcomes, however, is open to question. Some surveys have reported quite dramatic reductions of up to 60 per cent in transaction costs, the length of time taken to deal with queries, reductions in enquiries directly to HR and service centres, and reductions in headcount associated with HR administration. In addition, a Singaporean study reported increases of up to 50 per cent in employee satisfaction with HR and impressive returns on investment, showing payback times of 22 months (Singapore Ministry of Manpower, 2003). However, other surveys have found that although 80 and 66 per cent respectively of executives in their survey saw e-HR as having the potential to reduce HR operating costs significantly and in freeing up HR staff to assume critical bottom-line responsibilities, only 40 and 38 per cent respectively thought that costs had been brought down and HR staff had actually been freed up. This report concluded that:

> 'This gap (between what has been promised by e-HR and what has been delivered) underscores an important fact about technology that more and more employers are now coming to understand: implementation is only the beginning of the process. The web is just the means to an end, and that end – widespread acceptance of self-service as the "way" to manage HR, for both employers and managers – takes planning, time and dedication. It represents a significant internal change for most organizations, and has to be supported with education, communication, the right tools and processes, and frequent and consistent reinforcement.'
>
> (Towers Perrin, 2002, p. 2)

Recent research in the USA (Gueutal and Stone, 2005) and the UK (CIPD, 2005), including our own referred to earlier, has been more supportive of the potential of e-HR in lowering costs, increasing service delivery and transforming the nature of the HR function. One example is shown in Box 8.5.

Box 8.5: Talent management and technology

Since their emergence onto the market in the mid 1990s, web-based talent management systems (TMSs) have changed the way employers and job seekers find each other and interact before, during and after the recruitment and selection process. Allan Schweyer (2004) claims that nearly every American organization uses one or more electronic means for recruiting, and that the use of such technologies will become much more widespread in areas such as candidate and applicant management, career development, retention tools that include incentive and performance management software, and analytical devices for HR planning, especially among international companies.

TMSs have developed from the early job boards, including Monster.com and Career Mosaic, which became the first to popularize candidate profiling so that employers could receive standard and structured profiles rather than résumés. Corporate career sites were next to develop, good examples being Dell's or NCR's (which you might want to look up on the web), and these were linked to job boards automatically by technologies such as Junglee and eQuest. Following on from this, companies such as Alexus and Icarian developed web-based applicant tracking systems that manage applications and candidates. Nowadays, we have major ERP systems such as SAP and PeopleSoft being linked to TMSs to provide a complete e-enabled HR system.

Two recent developments have included:

- 'Deep web mining' from companies such as AIRS and infoGIST, which enable recruiters to search across the Internet for candidates who may or may nor be actively seeking another job.
- Career networks, e.g. CareerBuilder, which are constructed from dozens of specialist job boards to assist employers target their requirements to a much wider audience. These have been linked to online background and assessment checking systems.

Using technology to support individual and organizational learning

By the end of the 1990s e-learning, defined as the application of ICT to learning, was predicted to become one of the fastest growing, knowledge-based industries in the developed world and the single most important transforming influence on education and corporate training and development (Bell *et al.*, 2004; Sloman, 2001). The key market drivers underlying this projected transformation were thought to be as follows:

1 Following our previous discussion on KBEs, the role of organizational knowledge and intellectual capital in the competitive

strategy of organizations, and the needs of organizations to learn more rapidly than competitors.

2 The failure of corporate training departments to demonstrate ‘bang for bucks’ using traditional methods of delivery, and the promise of e-learning to achieve major corporate savings in delivering fast and flexible training.
3 The increased availability of the Internet as a general-purpose technology and the increased ‘network readiness’ of many developed and developing economies, and the combined developments in ICT and approaches to learning that could take advantage of these infrastructural developments.
4 In the Western university sector in particular, a cash crisis and the need to deliver mass higher education more cheaply, coupled with a number of innovative examples of universities and businesses in the higher education sector that had clearly demonstrated radical improvements in the effectiveness and efficiency of learning.
5 The need for international organizations to deliver training and facilitate collaboration worldwide, using standard protocols and platforms.
6 Demands by employees for convenient and accessible access to ‘anywhere, anytime’ information and training.

E-learning can be defined as the use of computer network technology, primarily over an intranet or through the Internet, to deliver information and instruction to individuals, or to facilitate interactive learning. Some companies and industry experts include knowledge management and virtual collaboration in their definition of e-learning, describing e-learning broadly as including any system that ‘generates and disseminates information and is designed to improve performance’ (Rosenberg, 2001, p. 11).

To meet the demands of employees and to reduce the problems of people having to come together at a specific location or specific time, most e-learning is *asynchronous*. Asynchronous e-learning refers to e-learning that is ‘pre-recorded’ or available to employees at any time of the day, potentially from any location (Rosenberg, 2001). Less common is *synchronous* e-learning, or e-learning that is ‘live’ and requires all learners to be in front of their computers at the same time. Although these kinds of training seem quite distinct from each other and from instructor-led training, the distinction between them is often blurred, because many companies use a mix of delivery options for their classes. *Blended classes* or ‘blended learning’ uses some combination of technology and classroom-based learning, and is becoming a very popular form of training. An example of asynchronous corporate e-learning to support interviewing can be found in Case 8.4.

Case 8.4: Award-winning e-learning at Dow Chemicals

One example of asynchronous training is provided by Dow Chemical's Interviewing Training course for employees who are going to be conducting selection interviews. In order to keep learners engaged, many different interactive approaches (e.g. hyperlinks and buttons) are used, so that the learner has to interact with the course. Interaction and comprehension are also encouraged by different kinds of testing, including multiple choice and 'drag and drop'. For example, one exercise asks the learner to match actions, such as 'compare the candidate's qualifications to the job requirements', to different interviewer roles, such as 'data evaluator'. In order to answer the question, learners drag the action from the right of the screen to match the role on the left of the screen. The system then gives them immediate feedback about whether they answered correctly. The entire class takes about two hours, but learners can stop, save what they have done and come back later to finish. Learners can also take a post-test at any time and, if they pass, they have completed the class. For this and other e-learning classes, Dow Chemical won ASTD's Excellence in Practice Award for Electronic Learning Technologies.

1 How similar is this to your own course material and the way in which it is delivered?

2 How might technology be used in the future to improve the delivery of your course?

Much of the debate over e-learning concerns not so much the costs but the quality, especially when compared with normal classroom-based learning. The research has addressed four key questions especially relevant for practitioners:

1. Can adults learn from classes or instruction conducted through technology?
2. Is technology-based learning equally effective for everyone?
3. Is technology-based learning equally effective for all types of knowledge and learning?
4. How does technology-based learning compare with face-to-face, classroom learning?

First, research suggests that people can and do learn from technology-delivered instruction, sometimes more effectively than in a traditional face-to-face environment (Martin *et al.*, 2003). US studies have shown that employees taking an intranet-delivered course improved their knowledge substantially from pre- to post-test. Concerning the second question, studies have suggested that people who regard themselves as having lower levels of computer self-efficacy usually learn less well from e-learning. Conversely, employees in industries where computer use is the norm tend be more capable and comfortable using computers to learn. It is possible that, in circumstances where employees have some minimal familiarity with computers, there are other more powerful factors determining learning outcomes, such as the motivation of the learners, the quality of the course design, and the support made available in the organization. Rather surprisingly, studies have also shown that learning style and gender do not substantially determine whether e-learning is effective.

The third question is whether e-learning is equally useful for all types of learning. The general conclusion from studies is that e-learning might work better in some situations than others. For example, research has shown that computer-based delivery is most effective in short courses (one to four weeks as compared with five or more) with less technical content (social science and reading as compared with science and maths). However, these findings were based primarily on studies in academic settings with technology that is now at least 12 years old, so they should be interpreted with caution. More recent work in the USA (Welsh *et al.*, 2003) has shown that e-learning may be most useful when the training emphasizes cognitive learning outcomes, particularly less complex knowledge and intellectual skill. In one of their cases, they found that basic and intermediate skill level classes work well, as did classes that were more conceptual in nature. However, there was concern that more advanced classes or those that required soft skills (e.g. conducting a feedback session) would not be as effective with e-learning. These perceptions are widespread, and may be connected with the limitations of the technology to handle the requirements of advanced simulations or interaction.

Finally, how do the learning outcomes compare between classes conducted through technology and those conducted in a classroom? The available studies on this issue have shown that technology-delivered instruction is, on average, slightly more effective than classroom training for certain types of training and education. However, because some studies have not found any difference, and because of methodological difficulties contrasting different training sessions, we are led to conclude that technology-delivered training *can* be more effective than classroom training rather than concluding that it *is*, on average, better.

Most of the evidence on e-learning has pointed to four trends that may cause it to become even more attractive to organizations than it currently is, and it will be interesting to see how these develop. The study by Welsh *et al.* referred to in the previous paragraph forecast the likely growth of:

- synchronous learning, especially as corporate intranets improved;
- blended learning, using combinations of synchronous, asynchronous and classroom-based learning (technology-based learning would become the norm, but face-to-face learning would also remain important);
- improved technology and access through wireless technologies, m-learning (mobile learning, using cell/mobile phones and personal digital assistants) using cellphones and PDAs, and intranet portals to access more content;
- integrated information provision, performance support and peer collaboration, with the fusion of the e-enablement of HR, knowledge management tools and over-the-net groupware solutions (a point to which we shall return in a later section).

Using technology to support innovative business models and participative organizational cultures

Most reports on the relationship between technology and managing people have highlighted the potential for new business models and for greater innovation through participation, as discussed in Chapter 4. These benefits flow either directly from ICT and other technologies, or are an indirect result of introducing such technologies. They include:

- the changing character of work;
- the business model and architecture;
- the economic model and customer relationship management.

The changing character of work

Perhaps this area has received more attention than any other in the literature on new technologies, much of which has focused on developments of networked enterprises made possible by ICT and greater use of alliances, joint ventures and outsourcing. It is worth referring again to Malone's (2004) work, in which he has argued that the new factors to be considered in organizational design are the costs of communication and the value of remote information, both of which are being rapidly changed by new forms of ICT. As costs of communication rapidly decline, and as the value and use of remote information, hitherto unavailable to practitioners, increases, new ways of organizing become available. These new ways of organizing work will be based on the principle of *decentralization*, which he defines in terms of the participation of people in making decisions that matter to them. He describes a decentralization continuum (see Figure 8.5) that comprises three forms of decentralized organization:

- *Loose hierarchies*, in which decision-making is highly decentralized throughout the organization. Examples here include management consultants and professional partnerships, firms such as the US-based AES Corporation, which have different guiding principles and missions from traditional organizations, and open-source organizations such as Linux, which is an excellent example of a major piece of software that was written by a loosely coordinated hierarchy of thousands of volunteer programmers. Another such example of open sourcing is the Wikipedia, a new form of encyclopaedia put together by contributions from many people for free and gaining many adherents on the web.
- *Democracies*, which are organizations in which key decisions are made by a form of voting and/or representative democracy, or by continuous polling of employees on key decisions. The examples he cites include the well-known Mondragon workers' cooperative in northern Spain, which has used democratic principles for many years as a form of governance and operational decision-making. He also cites organizations in which

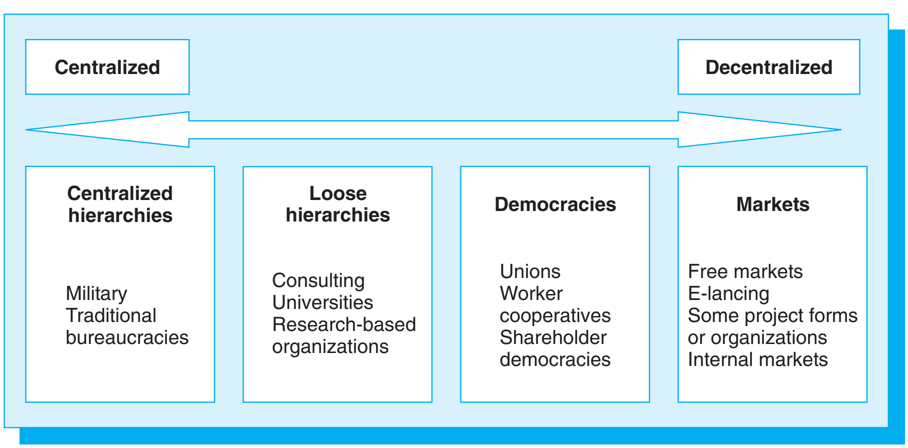

Figure 8.5 The range of decentralization. (*Source*: adapted from Malone, 2004, p. 6.)

employees elect (and depose) managers, a common occurrence in areas such as professional practice and universities.
- *Markets*, which are the most extreme form of decentralization. Markets operate largely on the principles of mutual agreement. Such agreements are freely entered into, subject only to financial constraints, legal regulation, the abilities of the parties involved and the general rules of market operation in a country. Outsourcing is one widely used example, which he foresees increasing. However, he also foresees the growth of flexible webs of companies, currently common in the film industry, and in the concept of *e-lancing*, electronically connected freelancers who band together on a temporary basis to complete a project. He has also noted the growth in internal markets in which employees and managers 'buy and sell' products and their services to each other, often in the form of internal labour markets.

His argument is that such new organizational forms, made possible by ICT, require managers to develop new mental models that rely much more on 'power for' than 'power over'. The principles of coordination, rather than control, and cultivation are at the heart of what managers will need to address, which are consistent with centralized (when necessary) and decentralized (more usual) management styles.

New business models

New business models refer to the digital businesses – e-business and m-business – that have sprung up to take advantage of the Internet. Business models are business speak for the strategic intent of a business and the core principles which guide how the business will achieve these intentions. Hoogervorst *et al.* (2002) identify three core features of these new business models, all of which have implications for managing people:

- the importance of customers to the new business model, including meeting changing expectations, understanding how technology can influence these expectations and leveraging organizational competences to meet them;
- the importance of customer information in driving the business, which includes having integrated and always-on connections and communications with customers and the marketplace;
- the importance of managing fulfilment of customers' expectations and forging fulfilling, strong relationships with customers and trading partners.

Success based on making and selling commodity products is limited to only a few major companies, however, and new business models frequently need to be based on preserving margins and differentiating their services from competitors through building high-quality and close relationships with customers and suppliers (Cairncross, 2003), or by changing the reach and richness trade-off, referred to earlier (Evans and Wurster, 2000). ICT provides the ability for many firms to do both by providing a much more cost-effective basis to understand customers, trade on the basis of self-service and develop brand loyalty through customer retention. In short, the new digital business model may become one of *mass customization* and treating every individual as a market.

The new business architectures, which are the principles underlying the organization and execution of the business models – the principles of design (Goold and Campbell, 2002) – refer less to decentralization, discussed in the previous section, and more to integrated service models and customer relationship management (see Chapter 4). These writers discuss principles of design for structure networks that can meet the needs of the new digital business models. In effect, these principles suggest a more end-to-end view of the organization as a value chain rather than decentralized departments, distribution channels or business units. The implications for skills arising from such business models and architectures are all too obvious, with a premium being placed on customer-facing competences, using ICT to deal with customers, and analytical skills connected with understanding customers and markets (Hoogervorst *et al.*, 2002).

New economic business models

New economic business models are based on principles of customer satisfaction, retention and developing strong e-brands to generate trust and lifetime perceptions of customer value. The concept of employer branding to attract, retain, motivate and commit employees with a strong customer-facing orientation and skills set has become a dominant theme in HR practice and in an emerging literature on corporate reputation management (Martin *et al.*, 2005), as discussed in Chapter 6. Again, designing technology that has strong customer-facing potential and developing employees to use such technologies (and face-to-face contact) to collect, store, distribute and share information, as well as analyse it, are seen as core competences. Retail banking is a good example of an industry being changed by ICT through the development of Internet banking.

Using technology to create new forms of community at work

Yet other major advantages of new technologies are the implications of creating new forms of *learning communities* to produce and share knowledge, to enable more effective HR practices and to develop new networked organizations. Three such related developments are frequently thought to be facilitated by new ICT:

- communities of practice;
- virtual teams;
- social software to create social capital.

We have discussed communities of practice quite extensively in the previous chapter on knowledge management, so let's focus on the second and third developments.

Virtual teams

Virtual teams are not so new, having been around since the 1980s, following the early developments in networked computers and e-mail to support cooperative work. More recently, this work has evolved into the study of full-blown virtual teams, which are seen as part of broader developments in flexible work patterns, including remote working, teleworking and telecommuting (Felstead *et al.*, 2005). Virtual teams have been defined as groups of geographically and/or organizationally dispersed co-workers assembled using a combination of ICT to accomplish organizational tasks. Thus, according to Bal and Teo (2001), they are different from virtual communities of practice, which are also a form of ICT-supported networking, in being characterized by the goal orientation of team members and the mutual accountability for team results. One good example from my experience is how sales managers at Agilent Technologies in Scotland (which we looked at in an earlier chapter) work with social software to manage their sales colleagues all over the world, without meeting them face-to-face more than a few times a year. The advantages of virtual teams are usually portrayed as improved productivity, quality and service delivery, greater flexibility in scheduling, reduced operating costs, and decreasing stress for employees connected with higher levels of autonomy and contact with office politics. However, the success of these teams has been found to be constrained by limited online interaction among members, difficulties in creating and maintaining identities, lack of understanding of individual contributions, the desire for face-to-face communication, time zone problems, technological incompatibility, and the different attitudes of national cultures to using technology for working (Kirkman *et al.*, 2002).

Social software

The idea of using Internet-based software, such as 'weblogs', group diaries and group discussion systems, to create new forms of social capital through new forms of community and organization has become the subject of many conferences and investigations by practitioners. Online communities of practice and virtual teams are two good examples of how to progress towards and benefit from 'non-local' communities. Critics have poured scorn over the idea that such communities will replace existing organizations and ways of working, and yet many traditional organizations have changed to take on these non-local characteristics. So, although formal organizations continue to dominate in their tangible and visible sense, informal, technology-based, social networks have grown alongside the traditional organizational architecture. University researchers and researchers in biotechnology companies, for example, are making much more extensive use of social software to share ideas and even to hold virtual conferences. The UK-based iSociety's studies on social software have pointed to the need for organizations to manage the formal and informal aspects of organizations so that they are aligned with one another (Work Foundation, 2004).

New technology, control and domination in knowledge-intensive organizations

Earlier in the chapter we discussed some of the more negative aspects of technology and people management. Our framework in Figure 8.3 highlighted the problems associated with introducing new technologies into knowledge-intensive organizations. As many of us who use e-mail and mobile telephones to do their work will attest, however, the 'storyline' of new technologies has not been all good. New research on technology, particularly ICT, has pointed to its *dialectical nature*. Dialectical theories of organizational change point out that every solution is accompanied by a new set of problems. For example, although the advent of mass production technologies in motor vehicle manufacture liberated many ordinary Americans by providing them with the opportunity to own a low-cost motor car and to travel in a way that they had not done before, it did so at the cost of destroying many craft-based jobs and subjecting many of these same ordinary Americans to the tyranny and mind-sapping numbness of working on an assembly line. 'Hanging one's brains on the factory gates' before entering assembly-line production plants is a theme of much research into such technologies during the last century. But to what extent can a similar story be told nowadays? The answer seems to be more than you might think, especially given the optimism over the new economy and KBEs. Probably more has been written about the 'dark side' of knowledge management and its effects on employees than any other aspect of this subject. In this section I will review some of this work, and highlight the potential problems of new technology for people management.

A good starting point is work conducted for the UK CIPD (Scarborough *et al.*, 1999). This research showed that the early attempts at knowledge management adopted a strictly technicist view, which promoted the use of technology and systems at the expense of people. The main focus of their investigations was in showing how technological approaches to knowledge capture, one of the principal claims made by technology vendors, failed to deliver effective solutions because of a lack of understanding of the people factors and because of political resistance on the part of employees to sharing their knowledge. It became quickly evident that knowledge management technology, which involved the centralization and 'collectivization' of knowledge, would be resisted or subverted because it deprived employees of their intellectual property. This CIPD report called for a rethink of organizational policy and practice on knowledge management systems by (a) putting people management issues at the centre of discussions on knowledge management rather than technologists, and (b) integrating knowledge management with HR policies and practices. This wresting of control away from technologists and technology vendors has been a theme that has dominated much of the discussion on knowledge management and new technologies more generally.

The theme of alienation among knowledge workers is also evident from studies of virtual organizations and e-businesses. For example, problems of dissatisfaction seem to accompany the lack of basic social and infrastructural support that is a common feature of conventional organizations (Carter, 2000). Some writers have also pointed to the negative side of the supposed benefits of new social software. Thus, although virtual meetings and education can remove the problems of time and space from social interactions, some employees feel alienated from their essential human nature and from the product or service they are producing. For example, employees of e-businesses complain about lacking the face-to-face communities of conventional organizations. Similarly, remote tutors who rarely, if ever, meet students or trainees in a conventional interpersonal relationship have expressed negative feelings about the service they provide. Such problems, which are mostly connected with lack of quality of social interaction, are reflected in recent reports concerning the problems of recruiting and retaining people in e-businesses (PricewaterhouseCoopers, 2000).

A related issue concerns the predictions of increased freedom and autonomy associated with new technology. For example, British researchers have found that, despite the claims made that employees would experience greater discretion and autonomy as a result of the introduction of new technology, the opposite has been the case (Felstead *et al.*, 2001, 2005). In their study of perceptions of task discretion among workers between 1992 and 2001, they found that in 2001 only 40 per cent of employees thought they had a great deal of discretion over how they did their jobs, though this perception increased the more skilled the job was and the longer it took for an employee to learn to do the job. Perceptions of greater discretion were highest concerning self-control over quality standards and over work effort. However, comparisons of perceived discretion between 2001 and a similar study carried out in 1998 showed a sharp fall, especially over work effort. With respect to control over work quality, the decline was most marked over the period 1992–98.

An emerging theme in the research on new technologies is their relationship with human vulnerability. At the core of this work is the question of how much as individuals we have come to rely on technology not just for its material benefits, but for our psychological worth. In this connection, Sherry Turkle at Massachusetts Institute of Technology in the USA has posed the general question: What does technology do *to us*, rather than *for us*?

Box 8.6: Turkle and Coutu (2003) and human vulnerability – an illustration

The focus of this work has been with the ways in which technology influences our self-identity and self-worth, and has included examinations of the role of technology in occupations such as schoolteaching and children's nannies. It was argued that technologies are not only experienced by people as tools, but develop into carriers of meaning. This is why so many of us personalize our technology, e.g. desktops on computer screens, e-mail and personal digital assistants (PDAs). In effect, we use technology to create identities for ourselves, just as children make different uses of dolls and toys to project their identities. The dark side of this meaning-making aspect of technology, however, is 'computer addiction', in which technology seems to take over our lives in much the same way that poker machines have done for many addicted gamblers. To date, little research has been carried out on this invasive feature of technology, and one can only speculate on its significance. However, Turkle has argued that we may react too much to this negative aspect of technology by, for example, over-controlling the use of the Internet. Cyberspace, she argues, can be seen as a place where people act out unresolved conflicts, play and relay personal difficulties with each other, often more effectively than in a face-to-face situation.

Finally, the domination dimension of ICT has been discussed in the literature, especially concerning the effects of ICT in enabling people to work longer hours and to intensify work. UK research on the information society concluded that there was little to suggest that ICT had much direct impact on increased working hours; these have risen in the UK during the last decade (Nathan *et al.*, 2003). However, drawing on evidence from Green (2002), they suggest that work intensity has increased and that more people are using ICT to work from home. E-mail overload is often thought to be a cause of such problems, along with the use of mobile telephony. For example, research has shown that e-mail was being used for functions that went beyond communications, including task management and personal archiving, which had resulted in problems of coping with the cluttered inboxes that users experienced and the problems of users keeping on top of e-mail.

New technology, control and domination in knowledge-routine organizations

New technology affects not only knowledge workers but also workers in more traditional industries. Again, much of the evidence is rather disturbing and poses some major questions for managers in all countries. As I have already mentioned in this chapter, the UK is well known for its labour productivity problems by comparison with other advanced industrialized countries. At the same time, UK organizations have invested quite heavily in new technologies, particularly ICT. So it may be worth looking at the UK as a case study of how technology and people interact, and how technology has affected the working lives of ordinary workers.

Case 8.5: The ESRC Future of Work findings and new technology in the UK

Throughout this chapter, I have referred to the findings of the UK-based ESRC Future of Work studies, which have provided probably the most detailed data on the effects of ICT on what we have called knowledge-routine organizations. These studies have produced a vast amount of evidence on the issues below.

- The alienating nature of technology in new forms of industries such as call centres and service centres, which are sometimes seen as modern assembly-line operations or 'factories of the future'.
- The deskilling of manual work in which technology has been used to replace the traditional skills of craft workers. Good examples here include house-building, much of which is now prefabricated using computer-controlled design and machine tools. Consequently, traditional building workers sometimes complain of being little more than fitters or assemblers.
- The routinization of software work in which programmers are often little more than assemblers of pre-written code.
- Surveillance and intrusion at work through technological monitoring devices. Again, call centre workers often complain of such controls at work, especially when they are forced to abandon their customer orientation/helping roles in favour of a sales-driven role.
- The problems of health and safety generated by new technologies, including repetitive strain injury, eyesight problems and backache.

Any reader seeking to implement technological change would be well advised to consult these studies, details of which can be found online at http://www.leeds.ac.uk/esrcfutureofwork/. Robert Taylor's (2004) general message on these studies is that the most commonly held assumptions about work in Britain need to be seriously questioned. Contrary to much of the mythology of the new economy literature and the public pronouncements of governments on flexible labour markets, much of the UK workforce remains distinctly old economy and inflexible. The headline findings of these studies were:

- Class-based occupational differences remain fundamental to our understanding of work, with the UK remaining a divided society in many respects and even becoming more divided.
- Work was much less satisfying for the majority of employees than it was in 1993.
- The most dramatic declines in job satisfaction during the 1990s resulted from the pressures of long hours and increased work intensity.
- Employees expressed a reduction in organizational commitment during the 1990s, despite the rhetoric of high-commitment strategies.
- Workplaces and employment were a lot more stable than were thought to be the case, with job tenure actually increasing and with expectations of careers and promotion within them.

This rather dispiriting picture of work in a modern economy such as Britain has been accompanied by large investments in ICT into organizations; these investments have shaped the work of employees at all levels. However, the influences of new technology have been uneven. Two-thirds of men and women in the survey said that new technologies had become essential for their jobs, with an even higher proportion for managers and higher professionals. For example, nearly 80 per cent of this latter group claimed regular use of the Internet and more use e-mail at work. These figures dropped significantly for technicians and supervisors, skilled manual, semi-skilled and routine, non-manual workers. Nevertheless, it is interesting to note that as many as 40 per cent of unskilled workers had access to a PC at home in 2000, a figure that would be expected to grow considerably.

Though the evidence suggests that employers are becoming more demanding in the needs for employees at some levels to require advanced or more complex ICT skills, other groups are much less likely to be called upon to use more than routine computing skills. These figures also indicate the low-road strategy of many UK firms, which seems to be characterized by a mismatch between computing skills acquired by employees at home and what they are required to use at work. Thus, as Coyle and Quah (2004) have pointed out, the UK labour force resembles an 'hourglass', with two major segments of employment – the knowledge-intensive occupations and knowledge-routinized ones. The problem for economies like the UK lies in the size of these respective segments and in the increasing divide between them. As one academic has concluded about the Future of Work studies:

> 'What is significant about this collection is that … the future of work for many seems more likely to be stressful and intensified than empowered and self-actualizing, and it would appear that ICT is more likely to be used to magnify these trends than to minimize them.'
>
> (Baldry, 2002, p. 153)

1 Suppose you were an HR manager for a manufacturing company that had little experience of using ICT for other than routine administrative tasks. Senior management has decided to introduce a new computer-controlled production system which will require workers on the shopfloor to develop computer skills and use them to operate new machines. What general advice would you give them, based on this research?

Learning summary

In this chapter I have attempted to show how new technologies and the changing technological context can impact on organizations, groups and individuals. New technologies, especially ICT, have had an enormous impact on the work of many individuals in a variety of industries. From the perspective of managers, investment in new technologies often delivers less than it promised, because it is poorly implemented or misaligned with the necessary organizational and human factor changes. From the perspective of ordinary employees, sometimes the introduction of new technologies has been perceived as positive by empowering or liberating these people; sometimes it has been perceived as negative, by increasing perceptions of lack of control, and removing decisions and tasks that once were an essential and desired part of jobs. Managers need to understand the complexities associated with the introduction of new technologies, especially the impact on productivity and people, before embarking on major programmes of technical change. Understanding the concepts, examples and cases in this chapter should help them do so.

Review questions

Multiple-choice questions

8.1 A *high-road strategy* to growth has a high proportion of which one of the following?

A A stable labour supply.
B Competitive markets based on low costs and prices.
C ICT-using industries.
D ICT-using industries and/or ICT-producing industries.

8.2 Technology is best defined as:

i Tools and equipment used to produce a desirable outcome.
ii The methods of producing goods and services.
iii The knowledge and skills needed to apply tools and equipment.

Which of the following is correct?

A i only.
B iii only.
C i, ii and iii.
D i and ii only.

8.3 Which one of the following is characteristic of the '*weightless* new economy'?

A High-level R&D.
B Competitive business relations.

C Government-controlled regulations.
D Stable markets.

8.4 The work of a manager of international investments in a large financial institution is most likely to be described in terms of which one of the following types?
A Low task variability and high task analysability.
B Low task variability and low task analysability.
C High task variability and high task analysability.
D High task variability and low task analysability.

8.5 The term *kaizen* in lean production means which one of the following?
A Continuous improvement.
B Quality at the source.
C Pull production.
D Employee involvement.

8.6 According to Weick, which of the following are the three defining features of new technologies?
A Being expensive, difficult to learn and variable.
B Being predictive, adaptive and symbolic.
C Being unpredictable, variable and intangible.
D Being expensive, changing and lacking standardization.

8.7 Organizations in the future are more likely to exhibit which of the following charactersitics?
A Centralized hierarchies.
B Decentralization and outsourcing.
C Mass exploitation of workers using ICT.
D Strategic branding of mass-produced products and services.

8.8 You have been asked to evaluate the strengths and weaknesses of using e-learning to teach managers in your organization. Which one of the following arguments does *not* accord with research in this field?
A Employees always learn best from face-to-face instruction.
B Employees who don't regard themselves as computer literate are likely to be less effective using e-learning as a medium of management development.
C It is impossible to develop social and interpersonal skills using e-learning.
D Asynchronous learning can be superior to synchronous learning in developing group performance.

True/false questions

8.9 Technological change is the most important single element in economic growth. T or F?

8.10 The 'new economy' is characterized by a high proportion of ICT producers and users. T or F?

8.11 Organizations investing in ICT to improve productivity need to match that investment with increased spending on education and training. T or F?

8.12 Organizations employing routine technologies have little chance of developing high levels of employee job satisfaction. T or F?

8.13 The e-enablement of HR has led to major improvements in cost reduction in HR departments. T or F?

8.14 Synchronous learning is the most suitable means of e-learning because people can meet at the same time, even if these meetings are 'remote'. T or F?

8.15 One of the features of modern economies is that the introduction of ICT has led to an increase in commitment levels among employees because of the increased levels of skills they need to do their jobs. T or F?

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CHAPTER 9

Managing organizational change

Learning objectives

By the end of this chapter you should be able to:

- understand the issues facing managers in attempting wholesale organizational change;
- apply the ISM model to an organizational change situation;
- apply the strategic change process model to the process of managing organizational change;
- understand the different views on organizational culture change and work with these different views in analysing organizational culture;
- apply the Goffee and Jones culture change framework to organizational culture change problems;
- advise senior managers on workable principles of organizational change, and on how they might evaluate the success of change initiatives.

Introduction

We have nearly come to the end of the book, which I hope you have enjoyed and, in the process, learned to become a more effective manager. We began by examining the nature of management and managers and their roles in a changing world. Following this, we looked at the key contexts of change in contemporary business: the individual–organizational context, the organizational context, the international context, the global branding and corporate reputation context, the knowledge context, and the technological context. In our model of management we identified three levels at which managers operate: the individual level, the team level and the organizational level. We examined the issues of managing at these different levels in some detail. It just remains, as the title of the book suggests, to examine the change process itself, because it is often in this implementation phase that many good ideas fall down, or remain only good ideas. So, what can managers do to ensure that the changes they introduce, whether they are changes in strategies, systems, products or processes, become effectively embedded in their organizations?

To begin a discussion on this question, let's look at a research project that I worked on during the late 1990s. I have chosen this case because it is set in some of the contexts discussed in the book – technology, corporate reputation, internationalization and knowledge management. It also highlights some of the problems of managing individual–organizational linkages. Along with colleagues, I was also able to research the case in depth over a long period of time and know the outcomes of the change initiatives; its findings may help you understand how the processes and outcomes of change initiatives are embedded in particular contexts and time frames. This message will be an important one in this chapter because, as I have already argued, there is no one best way, only a series of promising practices that have always to be related to contexts. We shall look at this idea in more depth at the end of the chapter. After reading the case, I would like you to work through the three change frameworks discussed in the two subsequent sections. These will provide a set of practical tools with which to understand this and other major change problems you may meet in your working lives.

Case 9.1: AT&T and NCR – attempting to develop a global brand through the Common Bond

The history and context of the change programme

This case study plant began life as a subsidiary of NCR, a mid-western-based US multinational enterprise (MNE) that underwent significant changed fortunes during the period 1945–1979. During this period, when the UK plant was used largely as a second-source manufacturing facility to US plants, employment rose dramatically to 6300 employees in 1970 and fell to 820 people in 1980 following a decline in traditional markets. At that time, there were strong rumours that the plant was scheduled for closure.

However, by the time of the launch of the cultural change programme in the mid 1990s, the fortunes of the Scottish subsidiary had turned around dramatically, associated with what came to be known locally as the 'Fortress Dundee' policy, in which local management sought and fought for 'independence through local success'. By 1985, it had acquired a significant design and development facility and had become NCR's headquarters for the newly created Self-Service and Financial Systems Division, which designed and developed automatic teller machines (ATMs) for the banking industry. In short, it had turned the tables on its US sister plants and had become something of a star in the US parent company's portfolio of assets. The Scottish subsidiary consistently outperformed sister NCR plants in the USA and Canada as measured by rate of return on assets, which grew from 54 per cent in 1984 to a yearly average of over 100 per cent from 1987 to 1992. In 2004 it was still the world's leading designer and producer of ATMs, employing some 1700 assembly workers, managers, design and development engineers (including the largest private sector development community in Scotland), and has won the 'Best Factory in Britain' award on two occasions.

This brief history of the changing fortunes of the Scottish subsidiary shows how it has become increasingly independent of NCR corporate headquarters for resources. Furthermore, there was a history of opposition or reluctant compliance by the Scottish subsidiary to previous headquarters' initiatives on HRM practices. Much of this reluctance stemmed from headquarters' unsympathetic attitudes towards trade unions, which frequently posed problems for the local management of the highly unionized Scottish plant. This uneasy relationship between corporate and local subsidiary management has played itself out in various ways over time. In particular, there was local subsidiary criticism and reluctance to adopt certain heavily American HRM practices (e.g. the content and terminology of employee attitude questionnaires), and there was corporate-level coolness towards certain home-grown initiatives in the Scottish subsidiary intended to forge a closer working relationship with its union representatives.

AT&T's takeover and its culture change programme

Events in the marketplace in the early 1990s had a major impact on the Dundee company's fortunes. AT&T acquired the NCR Corporation in 1991 following a hostile takeover bid. Initially, the headquarters management of AT&T followed a strategy of controlling only the financial direction of NCR and not its product–market strategy, allowing the Scottish plant to function as a semi-independent unit, largely because its product range fell outside top management's main interests. However, after an agreed period of two years of little or no strategic intervention, AT&T's corporate management team sought to engineer a radical change throughout the corporation using a global branding strategy in which the name of NCR would be exorcized from its history and replaced by AT&T – Global Information Solutions (AT&T (GIS)). This radical change was also viewed as necessary by headquarters because of the large financial losses incurred by virtually every business unit in NCR – that is, apart from the Scottish subsidiary, its only *profitable* arm.

AT&T's president brought in Jerre Stead, a new US-based president for AT&T (GIS), largely because of his high-profile track record in turning around an ailing electrical contracting company and another AT&T unit. Strongly influenced by some US academic-consultant 'gurus', the new president sought to re-engineer AT&T (GIS) through a major attempt at 'rebranding', organizational identity/culture change programme. This rebranding process was marked by: (1) disposing of many of the NCR management team in the USA; (2) developing a much more strategic and 'hands-on' approach to strategy and tactics, rather than the purely financial control focus of the previous NCR management team in Dayton; and (3) introducing a cultural change programme that placed employees and customers at the heart of the new corporation's policies. The programme involved two central elements. The first was christened the 'Common Bond': this included a best-practice, ethical mission statement, a new values framework, and a set of working principles designed to 'empower employees and customers'. The ethical and empowering features of this programme are worth emphasizing at this stage, because it has been argued that the 'mutuality model' of HRM (based on treating people with respect) was more likely to lead employees to view the effort positively and to accept company actions that might have negative consequences for a minority of employees. Second, the programme involved a further flattening of organizational structures and an attempt to empower the local managers and workforce by, among other techniques, relabelling managers and supervisors as 'coaches' and workers as 'associates'. The list below provides further details of the cultural change programme.

Key elements of the cultural change programme

'Opportunities, vision and values'

1. 'Common Bond' values:
   - respect for individuals;
   - dedication to helping customers;
   - highest standards of integrity;
   - innovation;
   - teamwork.
2. Accompanying education/communication sessions:
   - opportunity and change: create an awareness of the forces of change and how each associate, by understanding the dynamics of change, could take advantage of the opportunities that arose;
   - vision and direction forum: to ensure that all associates would understand, through interactive discussions, the major issues affecting the company.
3. Supporting actions:
   - further attempts to flatten the organizational hierarchy;
   - coach and associate labels assigned;

- casual dress policy introduced;
- introduction of diversity and harassment policies;
- employee feedback sessions implemented based on repeated surveys;
- establishment of a 24 hours a day hotline to the US president and Common Bond champion;
- introduction of a new company magazine.

It is important to emphasize five key characteristics of the rebranding and culture change programme:

1 The programme was very much a personalized one that was driven by the new US president of AT&T (GIS) Jerre Stead – and the external US academic consultant who worked closely with him. Although a small number of UK managers were incorporated into the design of the programme, none of these was from the Scottish subsidiary.
2 The programme was viewed by local management in the Scottish subsidiary as a US-originated and oriented programme. This was because: (a) it was driven by the two US nationals from headquarters; (b) the language and content of the programme were very American in nature; and (c) its track record of success was based on two US organizations formerly managed by the new appointee.
3 This sense of US parentage was markedly enhanced by an absence of prior consultation and discussion with local management in the Scottish subsidiary, apart from some HRM staff. Quite simply, the views of the prominent and well-respected local CEO, Jim Adamson, and many of his staff had not been sought on the appropriateness of the change initiative in the Scottish context.
4 The president and lead consultant had set themselves very ambitious deadlines for launching the change programme. The stipulated timetable was couched in months rather than years.
5 The president of AT&T (GIS), Jerre Stead, who championed the cultural change programme, remained with the organization for only 18 months. Following his departure, his successor failed to continue to endorse the programme.

1 How do you think the Scottish management team and the workforce would have reacted to the programme?

Models of organizational change

To help you understand the problems raised by this attempt at a wholesale, organization-wide rebranding and identity reconstruction, and to predict the response of employees, you will need a more in-depth understanding of the organizational and cultural change processes. In these next two sections I have brought together two generic models used to analyse and guide the process of strategic change in complex organizations, followed by one that deals specifically with culture change. First, let's look at the two change models:

- the ISM model;
- the strategic change process model.

The intervention strategy model

The intervention strategy model (ISM), developed by Robbie Paton and Jim MacCalman (2006), is based on the idea of an open systems approach, which we have met earlier in this course when discussing technology and people management. Open systems approaches view organizations as a series of interlinked and interdependent elements and components of systems and subsystems. However, in defining a system, we have to be aware of the motives and values of those providing the definition and their purposes in providing it, for what might be defined as a system in one case may be little more than a component of a much wider system. An example that Paton and MacClaman use is a motor vehicle, which is made up from a series of elements, such as a gearshift to facilitate driver/gearbox interaction; components, such as a fuel pump, the job of which is to provide petrol to the combustion chamber; subsystems, such as the gearbox, which is there to engage and influence the driving force of the vehicle; or the engine, which is designed to provide the driving force. Then there is the driver, who manages and controls the technical system. Note that, from the perspective of a car designer, the vehicle itself can be viewed as the complete system to transport people and their luggage/goods. However, from the perspective of transport engineers, the car is only a small part of a wider transport system, comprising roads, rail, waterways, air routes, etc. From the perspective of the car designer, this wider transport system is its external environment. Note also that this kind of system is a socio-technical system, comprising a technological subsystem and a human subsystem, the two having to be designed to operate in balance.

Open systems have certain key properties that it is important to understand in an organizational context. The first of these is *system autonomy*, which refers to the process of mapping out the boundaries of the system and its environment (see the comments on 'problem definition' later in this section). As suggested in the previous paragraph, these boundaries depend on the purposes of the exercise and the person or persons conducting it. The main point when mapping out organizational systems is to ensure that all non-essential relationships are excluded and all essential ones are included. As Paton and MacCalman point out, a *change environment* has to include all of the systems and subsystems directly and indirectly affected.

The second key property is *systems behaviour*, which refers to three factors:

- the physical processes of the system itself;
- the communication processes used to handle and transfer information within and between systems;
- the monitoring processes that maintain the system's stability.

For example, in a manufacturing plant, we can identify: (a) the physical processes, e.g. the speed and nature of a moving assembly line in motor vehicle manufacture; (b) the communications systems, which plan and provide the assembly-line manufacturing system with the correct materials and amount of labour; and (c) the monitoring systems of production control and quality control, which ensure that what is being produced is on time, at the right cost and of the right quality.

By examining these linkages, one can determine the extent to which the systems are interdependent and likely to behave in relation to one another. A systems analysis of any change programme then should begin with a detailed understanding of these linkages and the change environment or context in which they operate.

The ISM itself is a set of basic investigative techniques built around the notion of open systems and their key properties. It is linked to three stages of system intervention:

Stage 1: Problem definition

1 Clarifying the objectives of the change
2 Capturing data and performance indicators
3 Diagnosing the systems' properties

Stage 2: The evaluation and design phase

4 Analysing the system
5 Determining options or solutions
6 Evaluating options or solutions

Stage 3: The implementation phase

7 Implementing the chosen option or solution
8 Appraisal and monitoring.

Problem definition

In stage 1, the objectives of the change and the general problem environment have to be made clear. This is followed by a thorough analysis and evaluation of the system and its environment. One major problem sometimes encountered at this stage concerns our ability to map out the environment in relation to the organizational systems (Hatch, 1997). Many senior organizational analysts and managers, when asked to discuss their environment, tend to place themselves at the centre of their world and construct (or literally enact) a picture of their environment as revolving around them or radiating from their system. For example, if I asked you to draw a picture of your organization and its environment, it is likely that you would construct something like Figure 9.1. However, the danger of thinking in this way is that the system and its managers become self-referential and egocentric: all analysis and action is made and taken in relation to the organizational system itself, without stepping outside the 'centre circle'.

Unless your organization or system is literally in the centre circle, say the dominant market player or the headquarters of a highly centralized company, perhaps a more accurate construction of the environment for most organizations would be to place themselves more towards the periphery, while major new competitors, suppliers, customers or even overseas subsidiaries are at the centre, and the organization and/or its senior managers are at the periphery (see Figure 9.2).

Perhaps the main player in the industry, B, might be a close competitor, while C might be head office or a key subsidiary division.

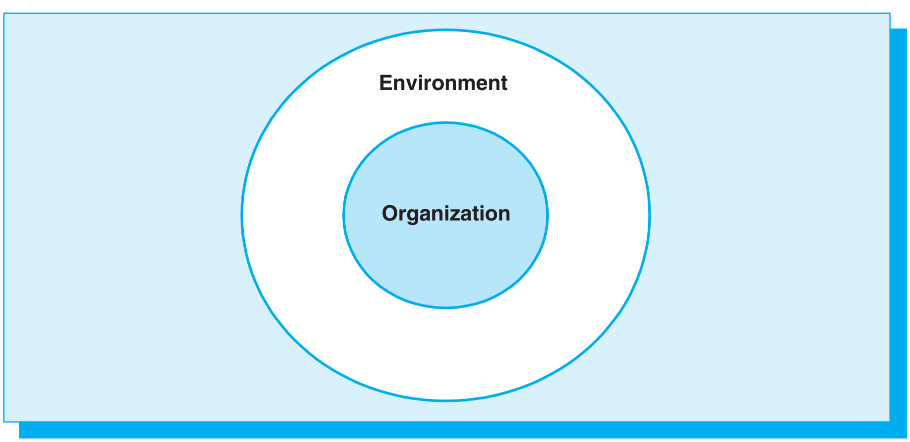

Figure 9.1 The egocentric perspective on organizational–environmental relations.

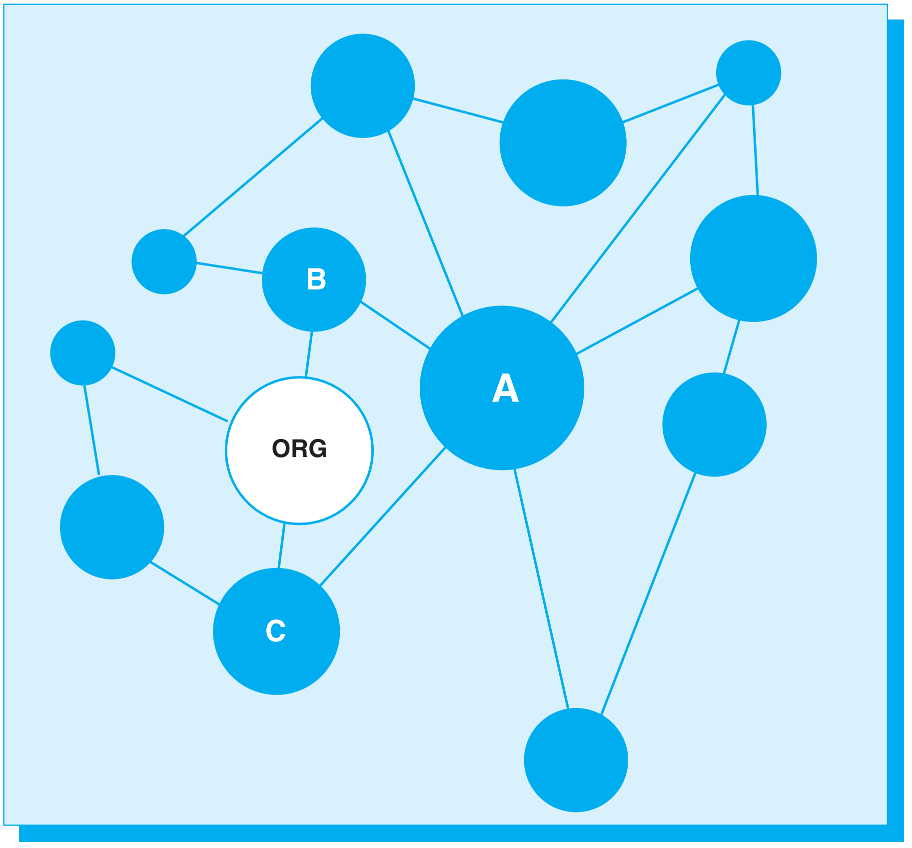

Figure 9.2 A more realistic perspective on organizational–environmental relations. (*Source*: adapted from Hatch, 1997.)

Exercise 9.1

Could Jerre Stead and his advisers have interpreted the organization–environment relationship in a different way, one that might have helped them avoid some of the problems they encountered? If so, what might this interpretation look like?

The evaluation and design phase

During the evaluation and design phase, organizational change specialists have to use the data they collect to analyse the problems in context and to arrive at a set of possible solutions. These solutions should then be evaluated. One of the most useful techniques for undertaking evaluation is scenario writing or planning. Although forecasting the future has a notoriously poor reputation (Graham, 1999), organizational change specialists can and need to ask sensible questions about their possible future(s) so that they can anticipate problems and produce possible solutions. Creating strategic scenarios or scenario planning has become an accepted method of engaging with the future by asking such questions and using a more discursive approach than traditional forecasting techniques. Scenario planning has been used effectively in diverse situations, such as Shell Oil's attempt to deal with oil price rises during the 1990s, to stimulate debate on the future of South Africa and, more recently, to identify potential 'white spaces' between the old and new economies and old and new industries. For example, we have been involved in a large-scale scenario planning exercise for the Scottish e-learning industry that has helped local companies develop more adaptive and relevant strategies (Bell *et al.*, 2004).

Most of the expertise in this field lies not so much in the academic domain as in the large consulting companies. Thus, it is worth quoting Global Business Network (GBN) at length on strategic scenarios, because they are acknowledged to be one of the leading consultancy organizations in this field. This consulting company grew out of the well-known Royal Dutch/Shell scenario planning group, whose work in the 1990s promoted the use of this approach.

> 'Scenarios are tools for ordering one's perceptions about alternative future environments in which today's decisions might be played out. In practice, scenarios resemble a set of stories, written or spoken, built around carefully constructed plots. Stories are an old way of organizing knowledge; when used as strategic tools, they confront denial by encouraging, in fact requiring, the willing suspension of disbelief. Stories can express multiple perspectives on complex events; scenarios give meaning to these events.
>
> Scenarios are powerful planning tools precisely because the future is unpredictable. Unlike traditional forecasting or market research, scenarios present alternative images instead of extrapolating current trends from the present. Scenarios also embrace qualitative perspectives and the potential for sharp discontinuities that econometric models exclude. Consequently, creating scenarios requires decision-makers to question their broadest assumptions about the way the world works so they can foresee decisions that might be missed or denied.
>
> Within an organization, scenarios provide a common vocabulary and an effective basis for communicating complex – sometimes paradoxical – conditions and options. Good scenarios are plausible and surprising, they have the power to break old stereotypes, and their creators assume ownership and put them to work. Using scenarios is rehearsing the future. By recognizing the warning signs

and the drama that is unfolding, one can avoid surprises, adapt and act effectively. Decisions which have been pre-tested against a range of what fate may offer are more likely to stand the test of time, produce robust and resilient strategies, and create distinct competitive advantage. Ultimately, the result of scenario planning is not a more accurate picture of tomorrow but better thinking and an ongoing strategic conversation about the future.'

(http://www.gbn.org/AboutScenariosDisplayServlet.srv)

Exercise 9.2

1 'Give every small boy a hammer and every problem becomes a nail.' Does this comment seem to apply to Jerre Stead and his advisers?
2 Apart from the change strategy they chose, what alternative scenarios could Stead and his team have envisaged at the time of the design of the programme?

The implementation phase

Assuming that you have followed the advice provided in the two previous phases and you have arrived at a sensible change strategy, this is no guarantee of success. In fact, many writers in the field of strategy suggest that it is during this third, implementation phase that most trouble occurs and most change programmes fail (Whittington and Mayer, 2002). Getting the balance right between *thinking* and *doing* (or strategy and action) is a very difficult problem in itself, often with too much emphasis given to the former and not enough to the latter.

Let's go back to the idea, introduced in the previous pages, concerning organizations enacting their environments through their definitions of the situation and through their behaviour. Enactment refers to how organizations make decisions about what features of their world to focus on, how they collectively define these features, and how they account for and shape these features. For example, we might ask: What aspects of the external change environment did Jerre Stead and his advisers choose to focus on? Could they have defined the external environment in a different way, perhaps using scenario planning techniques discussed above, which would have allowed them to construct other, more realistic scenarios? By way of illustration, had they been less US- and head office-centric, could they have created a more accurate picture of the organization and its problems, one that would have allowed them to see the potential for the problems they would create in Scotland, their key subsidiary location? The central point of this message is that managers are active agents, not merely passive recipients of abstract and external market forces. Good managers understand how to enact their environment in order to control it through more intuitive and creative interpretations, re-definitions and action (Weick, 2001).

Weick argues that managers are often better advised to 'act their way into thinking', by taking smaller, incremental steps and learning from them, rather than 'think their way into acting' through top-down, transformational planning strategies such as those depicted in the AT&T case. The dangers of a top-down, planning-then-action approach are twofold. The first danger is that by making big changes there is little chance for learning to occur because you don't really know which of the many components of the change had the most effect. The second danger, and more likely consequence, is that by constructing a plan that is complex you are likely to fall into the trap of 'paralysis by analysis'. Many organizations that spend most of their time analysing and planning often end up like 'rabbits caught in the lights of a car', taking no action at all, either because they don't leave enough time or because they can't decide what to do. In this scenario, planning and strategy-making become the 'endgame', not the means to achieve success.

Think about this example, which is a story told by Karl Weick to illustrate this point and a further, important one. A group of Italian soldiers are out on a winter exercise in the Alps and get lost. They are on the verge of dying in extreme weather conditions when one of them finds a map that points to a direction to go in. They end up safe, but when they get back home they find that the map was of the Dolomites, a completely different mountain range, and not the Alps. The moral of this tale is twofold. First, a map is not the territory; it is extremely important to understand that planning is no substitute for doing, and no representation can capture the nuances of life on the ground. Second, it may be that the real function of the map is to get you moving or acting your way into thinking: 'fire, ready, aim' as Tom Peters, the management guru, has put it. Perhaps too much of a belief in the strategic planning model of management, and all students and managers should take note, is a dangerous thing because you can confuse simple theories (or maps), such as the ubiquitous two by two models found in strategy, with reality itself (the territory). Or even worse, as some generals in battle have found out from spectacular and costly failures, their plans may even become objectified as the territory, sometimes labelled the 'fallacy of misplaced concreteness' – in which they fight out their battles from headquarters without ever setting foot on the ground. This 'arm's length, officer class' managerialism is one of the dangers associated with having business analyst/planners remote from the day-to-day operations of a business.

The strategic change process model

The second model, the strategic change process model, is one that I developed with my colleague, Phil Beaumont, based on extensive research into the problems of change and change agents at different levels in a range of multinational organizations (Martin and Beaumont, 2001; Martin *et al.*, 2003). The model (see Figure 9.3) complements the ISM framework in explaining the implementation stage in more detail. It focuses on the complex set of events, activities, language practices, emotions and reactions that help explain:

- what would be needed for successful change to occur in organizations;
- why most change initiatives are rarely successful in embedding change in organizations.

Much of the value of this model lies in seeing strategy as a convincing narrative or storyline that managers and employees construct, 'buy into' and use to give a sense of mission and purpose to their organizational lives. The notion of discourse and change conversations plays a major part in this model.

Box 9.1: Definition – the view of strategy as narrative

Rather than seeing strategy as a set of plans with an objective reality, strategy is sometimes better conceived as a story managers tell to provide guidance and purpose to their organizations. The best strategic stories or strategic discourses are *novel*, *credible* and *compelling* for others to follow. By discourse, we mean a set of communicative practices that are closely linked to specific purposes of powerful groups. Discursive practices in management include strategic conversations that managers use to promote change. Four types of strategic conversation have been identified that good managers use in promoting their change initiatives:

- Initiating conversations that are used to get the change process under way, which include assertions, directives, promises, etc. that engage employees and outline what is needed.

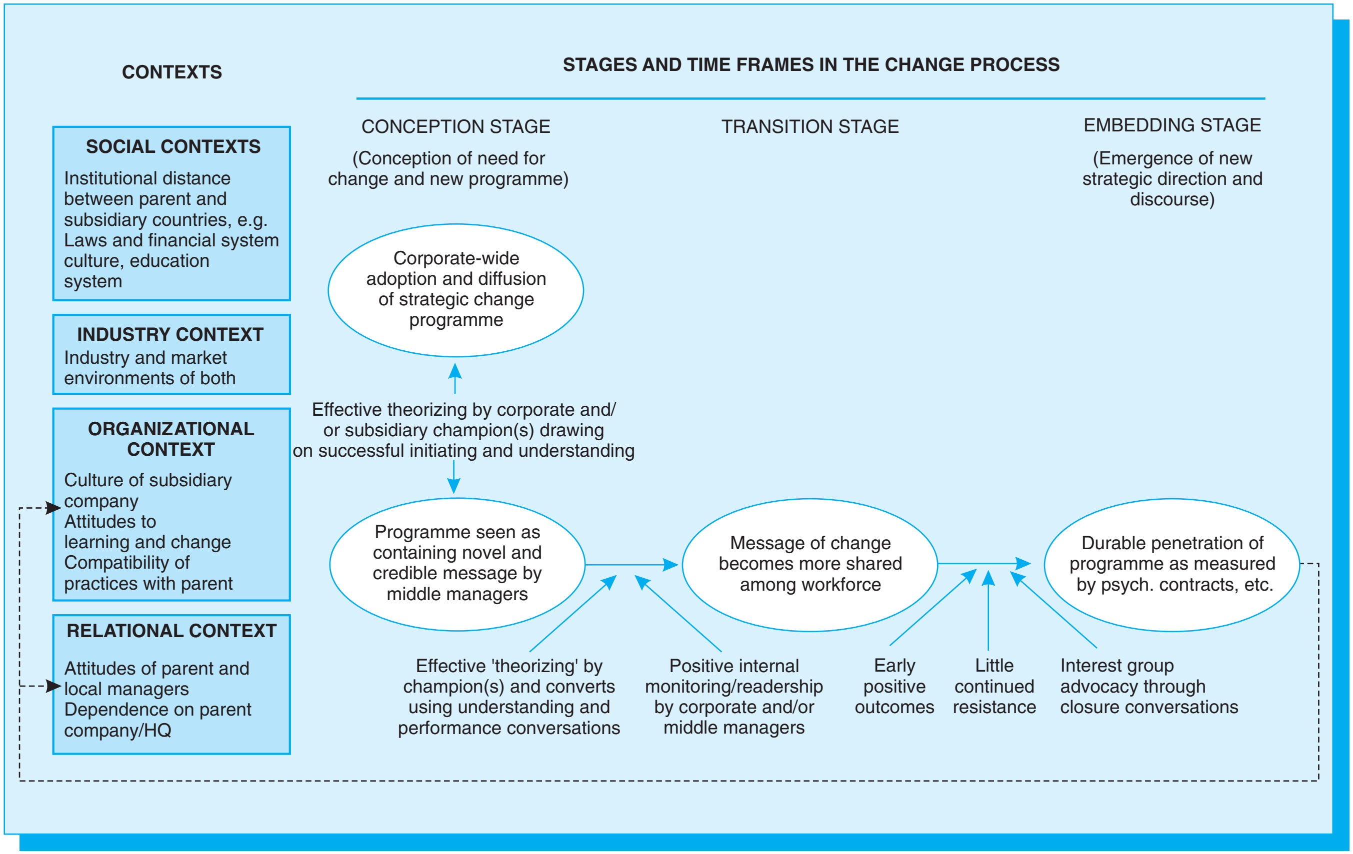

Figure 9.3 The strategic change model. (*Source*: based on Martin and Beaumont, 2001.)

- Understanding conversations to test the reality of the change propositions and to generate involvement. These conversations focus on claims, evidence, theories of cause and effect (if we do this, we shall achieve …) to help employees understand what is needed and what will result for the organization and for them.
- Performance conversations to generate action, which focus on conversations, promises and directives that are intended to produce results.
- Closure conversations, which are assertions and declarations used to signify the successful (or unsuccessful) completion and 'celebration' of the change process.

Source: Ford and Ford, 1995.

Although the model was originally developed to explain the process of strategic change in multinational organizations, such as the one in our AT&T and NCR case study, it can easily be adapted to analyse all forms of complex organization such as those discussed in Chapter 4. To incorporate the particular problems of managing across international boundaries (see Chapter 5), we have included the social context. This refers to the differences in cultures and institutions between a parent company's home country and those of the countries of subsidiary units, such as the Scottish plant in our case study.

The key features and stages of the model are as follows:

1 *Receptive contexts for change*. These contexts are especially important for successful change to become embedded in complex organizations. We can identify four such levels of context: the social, the industry organizational context, the inner organizational context and the relational context. The social context we have already described as having an important influence on the process of strategic change. However, the nature of the industry in a particular locality or country and its environment is also potentially important, as we saw in Chapter 4 in the case of Innovative Electronics with the different market circumstances between the US parent and the European subsidiary. The inner organizational context, which in a multinational environment refers to the differences in organizational cultures, attitudes to learning and compatibility of practices between the parent and subsidiaries, can have a great bearing on the effectiveness of change initiatives. These intra-organizational differences are potentially relevant in explaining the success or failure of corporate-wide initiatives such as branding. Finally, the attitudes of local managers and their relative power in relation to the parent company or

head office will shape the reception of change programmes, again as we also saw in the case of Innovative in Chapter 4.

It is also important to note that the process aspects of the model (the various stages, patterns of events and language practices) are embedded in these changing contexts over time. This is particularly true of major culture and HR changes. Such was the situation in the study we undertook in the UK North Sea oil industry (discussed in Chapter 3), in which legislative change in the UK during 1999 left the subsidiaries of multinational drilling companies operating in the UK open to claims for union recognition for the first time since the 1970s. Despite strong initial resistance from the US headquarters of a number of the firms in the industry, a successful and arguably more sophisticated and stable form of employee relations has evolved, based on union recognition and collective bargaining. In that study we argued that the positive early engagement and experience with the union had created the receptive context for further changes towards union recognition and in dissipating the anti-union stance and policies of these US-based headquarters of the drilling companies. Without this positive atmosphere created by the unions, further progress would have been impossible.

2 *The conception stage*. This is the stage during which new strategies and new strategic discourses are developed. Note that the process model allows for two-way development of the strategic changes, in which the ideas are just as likely to come from middle managers, HR specialists and internal/external change consultants. High-level corporate support, adoption and sponsorship of the change discourse and programmes are a necessary, but not sufficient, condition for further progress towards successful change.

3 *The transition stage*. For the key messages of change to progress to the transition stage, credible and novel culture changes and HRM strategies (occurring in, and through, effective communications) have to be read positively by all levels of management, including main board, subsidiary and middle-level operational managers. In a study we conducted on ABB, it was evident that the managers in certain subsidiaries of one of the company's major divisions became highly skilled at denying the need for change, using many examples of why such changes in culture were unnecessary and difficult to implement in their specific circumstances. Chris Argyris

(1993) has labelled this process of using skilled communication to deny problems *skilled incompetence*. This is one of the principal reasons for organizational resistance to change, because managers, often for the first time in years, are asked to question the very assumptions on which they have always operated. Goss *et al.* (1993) have argued that one of the main reasons for the failure of many programmes of change is because employees are subject to a constant stream of unfinished managerial fads and fashions. These employees become adept at ignoring these programmes of change, most of which have little impact and regularly fail to become embedded in the organization. However, these incomplete programmes, based on fads and fashions in management, result in increased levels of cynicism towards future change initiatives (Pate *et al.*, 2000).

4 *The embedding stage*. For the message of change to continue to progress towards the embedding stage, where a new strategic discourse of change has taken root, the communication of early positive outcomes, supported by evidence of its benefits, is necessary to overcome continued resistance or, often more likely, the kind of benign neglect by employees that often accompanies change programmes. The notion of 'early wins' is one of the most important and enduring in the change literature; it suggests that small-scale experiments and initiatives rather than wholesale, top-down programmes are the best way forward. One of the few near-certainties in business is that 'big change invokes big opposition', so it is critical to identify the groups that you 'trial out'. We also refer to measures of the extent to which the messages of change are embedded in an organization. Excellent examples of such measures are the state of psychological contracts and the extent of commitment, identification and psychological ownership of the changes (see Chapters 3 and 6).

5 *The feedback stage*. This stage is critical for continuous change in the organization, during which the outcomes of strategic innovations are fed back into the organizational contexts – particularly new employee attitudes and behaviours, the capacity of employees to unlearn, change and innovate, and positive attitudes towards the ways in which changes were implemented. This positive feedback loop is likely to set the tone for the reception of future change initiatives. In a study we conducted of a Scottish-based textile company (Martin *et al.*, 1998b), we

noted how previously negative experiences with change programmes had led employees to develop strong feelings of cynicism towards senior managers and their efforts to introduce continuous changes in work practices. Such cynicism made future change initiatives almost impossible to implement.

The strategic change process model and eight guidelines for evaluating and managing strategic change in organizations

We have developed eight guidelines for evaluating and managing successful strategic change, which correspond to the four stages discussed above.

The conception stage

1 Without a convincing discourse (or language) of change, effectively conceived and put into practice by corporate or mid-level management champions, corporate-wide adoption and the diffusion of major change initiatives are unlikely to progress beyond the conception stage. A novel, credible and compelling story has to be told and 'fleshed out' with some detail. However, the senior managers don't always need to do the fleshing out; much of the advice in this area suggests that broad guidelines, missions and values are set out but there has to be something left for middle managers and employees to contribute to, especially at the level of operational detail.

2 The strategic discourse and stories generated by the leaders of change should draw on the strategic change conversations in Box 9.1, including:

- realistic *initiating conversations*, whish set out the reasons for the change;
- *understanding conversations*, including those that are directed at enhancing the credibility and novelty of the assertions, the declarations and promises made at the early stages, the rationale and evidence used to support these assertions;
- the *likely actions and benefits* that will result from the proposed changes, especially those that address the 'what's in it for me' question.

3 The messages of change, as set out by the leaders of change, have to be perceived and read positively by lower-level managers

as containing a credible, compelling and novel message to secure their acceptance of the change programme. This means that listening and seeking active feedback at an early stage of any proposed changes should be sought by senior managers.

The transition stage

4 In the absence of a credible and novel message, other corporate and middle managers not yet involved in the change process are unlikely to have the incentive to read the story in a positive light, and may look for reasons for the changes to be discontinued, resisted or ignored. Often, middle managers and employees become skilled in denying the needs for change, such as the veracity of benchmarks or best practices drawn from other companies against which their performance is measured.

5 For the new language of change and its manifestations to become more widely shared by employees at all levels in the organization, the champions of change, aided by their middle management converts, have to continue to draw on new understanding conversations and promises or directives that will engage or compel the majority of employees to accept strategic change. Many change programmes are aimed at securing the cooperation of a limited number of managers or groups in the organization, a strategy that only serves to reduce its impact in the future.

6 For change to progress towards the embedding stage there has to be evidence of, and publicity for, early victories for managers, and evidence and publicity for positive outcomes for the majority of employees.

7 The champions or leaders of change have to continue to embed change in the organization by drawing on *closure conversations* intended to signify the success of these intermediate positive outcomes. US texts and consultants tend to talk about celebrating success, and frequently have institutionalized events to demonstrate success, e.g. through passing-out or awards ceremonies or 'employee of the month' schemes.

The embedding stage and the emergence of a new discourse

8 The extent to which strategic change is embedded in the organization can be measured by the degree of *penetration* and *durability* of changes in the outcomes of employee psychological contracts, including the effects on employee attitudes, commitment and satisfaction, and their levels of identification

with the organization's goals. This work lies at the heart of the new language of employer branding and corporate reputation management that we met earlier and which seeks to align external image with internal employee identity.

Exercise 9.3

Using the ideas from the strategic change process model, particularly the guidelines for evaluating and managing strategic change in organizations, how would you analyse the problems in the AT&T case?

Changing organizational cultures

You should have sensed by now that much of organizational change and people management is concerned, one way or another, with the subject of culture. We have met the notion of culture in previous chapters on the international context, the corporate context and managing organizations. Although I have preferred to use more precise terms such as organizational identity in our examination of individual–organizational linkages and corporate reputation management, culture and culture change is a topic that has remained 'centre stage' in business and management studies since the 1980s. Indeed, according to some notable authors, creating and sustaining strong corporate cultures has been seen as the single most important factor in designing and managing successful organizations (Kotter and Heskett, 1992). Although this faith in culture as the key to unlocking organizational success may have been misplaced, the interest in culture management shows no real signs of abating. In this section of the chapter I want to examine the notion of culture to determine whether it has any useful and practical value to managers. In other words, can we talk sensibly about organizational culture and can we manage organizational cultures?

Organizational culture: different meanings and key questions

If you wish to change something, you need to be able to access it. In other words, you have to define it and understand what you are trying to change. Organizational culture has caused some controversy among academics and consultants because it can be defined and understood in quite different ways, all of which have distinctive, practical implications. There are at least four such views:

- the unitary view and mono-cultures;
- the anthropological view and subcultures;
- the conflict view and 'brandwashing';
- the fragmented view and paradoxes.

The unitary view

The unitary view of organizations rests on the assumption that companies are, under normal circumstances, best characterized by common interests and consensus between different stakeholders. For example, it is assumed that employees and managers are broadly in agreement about the aims of the business and the rights of managers to be able to set the direction of the organization and the work of employees, usually without interference from bodies such as trade unions. When conflict does arise, it is seen as a consequence of poor management or disruptive employees who don't fully understand the nature of the business. From this perspective, an organization is assumed to have a single, dominant culture that can be measured and controlled in the same way as you would measure and control employee performance or other key variables. For example, in our discussion on corporate reputation, we used the term 'organizational personality' to describe something that an organization possesses, just like people possess individual personalities. And, as we discussed in Chapter 4 on the international context, culture as a variable is seen as a set of shared meanings, embracing both the formal and informal aspects of organizations. The key point is that culture, once understood, is treated as a highly manageable feature of organizations. This seemed to be the perspective of Jerre Stead, the CEO of AT&T (GIS) in the case study. Such unitary assumptions and analysis may have a degree of validity in certain contexts, but in others they are likely to be misplaced and misleading. Ask yourself the questions in the AT&T case: (1) How realistic were the assumptions made by Stead regarding the potential to create a unified culture in the company? (2) Were leadership and communications all that was necessary to overcome barriers to change? Perhaps he could have taken a different view, distinguishing between:

- the *corporate culture*, which is essentially what managers want the organization to be like, similar to the concept of corporate identity in Chapter 6 and more amenable to control; and

- the *organizational culture and subcultures*, which are more akin to the notions of organizational identity in Chapter 6, and which are less amenable to control, for a variety of reasons.

We examine this distinction in the next few paragraphs.

The anthropological view

This is a quite different perspective on culture; it has much less to do with managerial control than with understanding organizations. Culture, rather than being treated as something an organization possesses, is seen as the very *essence* of the organization. In other words, culture is something an organization *is* rather than *has*. This view of organizational culture has some fundamental implications, the most important of which is that an organizational culture cannot be owned and managed in the strict sense of these terms. For an organizational culture to develop and evolve, it has to be created, shared and 'lived' by the majority of employees, not just managers. Often, however, we find that organizations are better characterized as loose groupings of subcultures, perhaps overlaid with a managerial culture. Therefore, we can talk about the cultures of different professional and occupational groups in an organization, such as those in sales, production, and research and development laboratories. We also talk of the culture of white-collar and blue-collar employees. Thus, it is argued, managers have no greater access to the culture of organizations than other employees, and although they can shape culture over time through branding and vision and values programmes, they cannot alter it radically, especially in a short time frame. Perhaps these were points of which Jerre Stead should have been more aware.

Moreover, it is difficult for people who are part of the culture, including managers, who create and recreate it every day through their enactment of reality, to step outside themselves and then change it. One of the most important features of culture is that often we cannot see it, especially if we are steeped in an organization's history and way of thinking. In this situation, we require outsiders (researchers or consultants), literally, to 'help us see ourselves as others see us'.

The conflict view

A third view, widely held among critical organizational theorists and many union officials, sees culture management as a form of organizational domination and social engineering, in which managers attempt to manipulate organizations for their own aims through the selection and development process. This approach questions the ethics of culture change programmes and rebranding exercises, seeing them as little more than exercises in brainwashing or 'brandwashing'. Naomi Klein's (2001) book *No Logo* and the recent book by Joel Balkin (2004), *The Corporation*, are good examples of this conflict view on large corporations, arguing that their attempts to brandwash people into accepting the views of business are detrimental to their long-term interests and the interests of society as a whole. The case study on AT&T raises some of the issues connected with ethics and the domination perspective, which we shall look at in the review questions at the end of this section. This conflict view is one that is held by the labour process school, which we discussed in the last chapter on technology, and provides one of the intellectual justifications for global opposition groups such as international trades unions. A recent example of this phenomenon is the Union Network International, which organizes 900 unions from 150 countries. This federation recently established a campaign to organize workers in Wal-Mart in the USA and overseas, claiming it is leading a 'race to the bottom' for wages (*The Economist*, 27 August, p. 55).

The fragmented view

A final view is associated with the school of thinking called postmodernism. It is not necessary to go into the ideas of postmodernism in any depth for our purposes, but one of its key contributions to management thinking is to question the notion of a single and permanent reality. For example, Joanna Martin's (2002) account of culture highlights the fragmentary, contradictory and paradoxical aspects of organizational culture, especially the gaps that exist between official managerial rhetoric and the behaviour of the self-same managers who devised the rhetoric. Thus, we often find organizations espousing an official discourse of 'resourceful humans', while treating them as 'human resources' to be cut and controlled like any other resource. We can also observe people at all levels in an organization making contradictory comments and taking contradictory actions. One famous example of this was a study in the 1960s, when workers at a car plant in the south-east of England were asked to state their degree of agreement with the statement: 'A firm is like a football team with workers and managers on the same side and kicking into the same goal for most of the time.' Seventy-five per cent of the workers agreed with the statement, but three months later they were seen to be marching through the factory, singing the well-known communist anthem, 'The Red Flag', and threatening to hang the industrial relations manager (Goldthorpe *et al.*, 1968).

Therefore, we have to ask ourselves: do most employees hold a coherent worldview of their organizations as a unified culture? Obviously, as managers we need to look for generalizations about organizational life, especially about cultures, otherwise we couldn't manage effectively. However, this should not blind us to the potential for differences of interests and values among groups in organizations, sometimes quite fundamental ones. To return to a point made in earlier chapters, what we see depends on where we stand (the position we view from).

The fragmented view sees organization cultures as consistent and inconsistent, contradictory and confused, all at the same time. Managers, consultants and academics of this persuasion argue that there is no such thing as strong and endurable corporate or subgroup culture, and that culture is better described as a jungle, in a permanent state of flux and transformation. Understanding this view of organizations prevents us from placing too much faith in culture management techniques and programmes of culture change: as organizations are always in a state of becoming something else, 'the only constant is change'.

The answers to the questions posed at the beginning of this section about organizational cultures, and whether or not they can be managed, depend very much on your definition and perspective of culture. Mintzberg *et al.* (1998) have synthesized a number of these views by linking organizational culture to the strategy-making, organizational design and change processes in organizations. They argue that strategy can be seen as a perspective, rather than as a planning process.

1. Strategy formation and organizational design form a cultural *process of social interaction*, based on beliefs and shared understandings of members.
2. Individuals acquire these beliefs through acculturation or socialization, which is largely tacit and non-verbal, but this sometimes involves a degree of indoctrination through training and induction programmes.
3. Thus, the members of an organization can only partly describe the beliefs that underpin their culture.
4. As a result, strategy takes the form of a *perspective* or a worldview, rooted in collective intentions and reflected in patterns of activity embedded in resources or capabilities.
5. Culture does not encourage change, but allows shifts in position.

They further argue that the linkages between culture and strategic and organizational change are as follows:

- Culture influences decision-making style by influencing the style of analysis and what gets analysed, because we all have different *perceptual filters*.
- Culture can act as a restraint on strategic change because of shared commitments to consistent action and deep-seated beliefs and tacit assumptions.
- Paradoxically, *culture can promote change* by emphasizing innovation, education and flexibility.
- So, culturally dominant values can be a key *source of competitive advantage*.
- However, cultures can clash and be the *source of failure* in alliances, mergers, supply chain relationships, etc.

Exercise 9.4

Of the four perspectives outlined in the previous section, which one helps you best understand the AT&T case? Explain your reasoning.

The culture matrix

Bearing in mind the preceding 'health warnings', and the concerns expressed about the concept of unitary cultures, managers need to have a set of sophisticated techniques to identify and manage their organizational cultures. For example, in the AT&T case, Jerre Stead and his colleagues might have benefited from constructing alternative scenarios of what the organization might have looked like. More importantly, they would clearly have benefited from an understanding of the nature of the different subcultures in the various subsidiaries of AT&T (GIS).

One of the best researched and most useful of these culture management techniques is found in the typologies developed by Rob Goffee and Gareth Jones (1998), who have written about the *character of the corporation* and the *double S* model (see Figure 9.4). Drawing on a wide range of previous research into leadership and organizational behaviour, they have identified two dimensions along which organizations can be plotted. These dimensions may be familiar to you.

1 *Sociability* refers to the degree of 'friendliness' among members of a community. Sociability comes from mutual esteem

and concern for one's colleagues, and is reflected in the quality of interpersonal relations among them. High levels of sociability are found in organizations where people take an interest in the well-being and work of colleagues. Low levels of sociability are found in organizations where the main focus is on the task or work to be done.

2 *Solidarity* refers to relationships based on mutual (self) interest and thinking alike, regardless of the degree of sociability in the organization. High levels of solidarity are found in organizations in which people are bound together by common goals, such as trades unions, voluntary organizations and armies, regardless of whether or not employees like each other. Low levels of solidarity are found in organizations in which employees pursue their own interests first and foremost.

Unlike other work in this field, Goffee and Jones suggested that these two dimensions have their negative as well as their positive sides. So, for example, high levels of sociability can have a 'negative backside' in situations where people cover up for each other to hide poor performance. Similarly, low levels of solidarity can have their positive 'frontside', in so far as pursuing one's self-interest can be the best way to benefit an organization. To an extent, paying people on the basis of their individual performance is based on this feature of organizational life and nature of motivation among certain occupations.

Combining these two dimensions, they identify and describe four cultural types, each with a positive frontside and a negative backside.

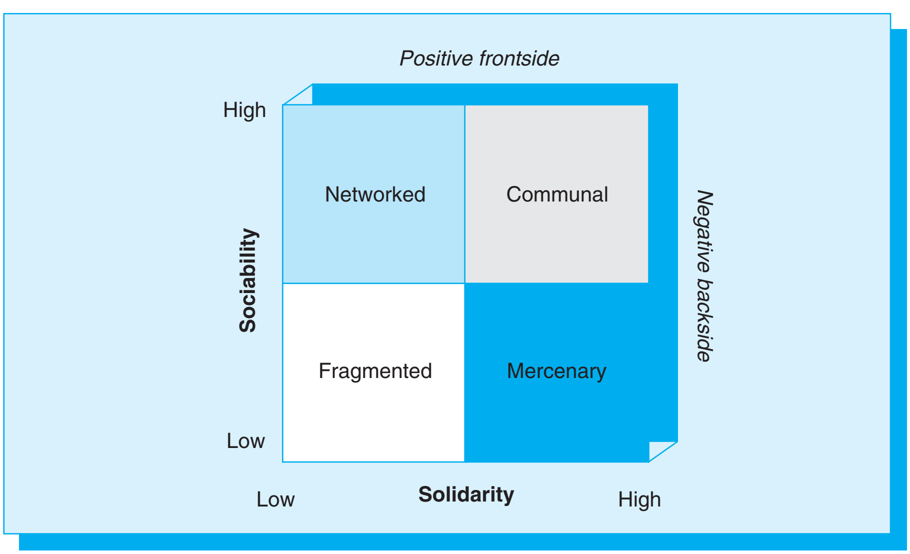

Figure 9.4 The culture matrix. (*Source*: based on Goffee and Jones, 1998.)

Although none of these cultural types, in and of themselves, is bad, all of them can be damaging if not managed properly.

1 The *networked culture* or '*between friends*'. An organization high on sociability but low on solidarity is referred to as a networked culture. Especially as organizations grow, smaller but more tightly knit organizational entities with a high level of sociability may develop, sometimes at the expense of solidarity. For knowledge-intensive companies with long development cycles and with a strong need for knowledge sharing, a networked culture can be a major asset. The same holds true for many companies in marketplaces in which relationships with customers and service are more important than offering them the lowest prices. A typical characteristic of networked companies is great pride in their products and services. Sometimes, however, the focus on the well-being of the organization and its employees has a negative side to it, such as carrying poor performers and 'face-saving' behaviour. Networked cultures have the following characteristics:
   - open physical spaces, including social areas;
   - decorations, such as photos and other group symbols;
   - separated marked spaces to show territory (especially in negative forms);
   - much talk, including informal meetings round the 'water cooler';
   - lots of intensive conversations, use of e-mail, phones, etc.;
   - attention to communicating in the 'right' way;
   - socializing during work hours, which can be long;
   - people identifying with one another.

2 The *mercenary culture*, or '*getting to work on Sunday*'. Where sociability is low but solidarity is high, Goffee and Jones have labelled this the 'mercenary' culture. In this culture, focus is ruthlessly targeted on key performance metrics and the 'bottom line'. The organization's products and services may be reduced to simple means for realizing the company's financial targets. From the employees' perspective, achieving personal rewards, usually financial ones, sometimes overrides pride in products or services. There are no family-like ties protecting poor-performing colleagues. Although this culture in its extreme form may seem unattractive, arguably it could be seen as a necessary antidote to a networked company, that has not experienced the kind of market dynamics in which the lowest prices rule. Employees of well-run mercenary companies know

their competitors, are eager to beat them, and are energized by the mission statement of their company. Mercenary cultures have the following characteristics:

- functional office spaces, which provide basic accommodation and little more;
- displays of awards and recognitions for achievement;
- communications and talk short and to-the-point;
- meetings frequently confrontational;
- long and unsocial hours when needed, which is often;
- people identify with competing and winning.

3 The *fragmented culture*, or '*all together alone*'. In situations where both sociability and solidarity are low, we find fragmented cultures. Typical examples are research organizations such as universities and some consulting firms, especially law, accounting and consulting engineering firms. We might also find some examples in departments of larger companies that employ highly paid specialists, such as investment analysts or economists in the financial services industry. In these cultures the individuals often see themselves as more important than the groups they are part of and the company they work for, and have an outward orientation to their professional standing and professional careers. Fragmented cultures are characterized by:

- private offices, or people who work mainly from home;
- little talk or communications (with little opportunity for casual chat either);
- communication and talk focused on specific topics and kept brief;
- most communication directed to people outside the organization;
- people identify with individualism and value their autonomy.

4 The *communal culture*, or '*we are family*'. Goffee and Jones label the culture in the top right-hand quadrant as 'communal'. A typical example of a company high on solidarity as well as sociability is a business start-up. The founders are often very focused on their mission and employees are hand-picked for the organization, creating a family-like atmosphere. Such an organizational culture can be extremely powerful, but it can also have a dark side if the organization becomes self-sufficient and too demanding of its members, like some religious sects. Being high on both solidarity and sociability has an inherent tension built into it, and as communal organizations

grow they are likely to drop on one, or perhaps even both, dimensions. Communal cultures are characterized by:

- open-plan spaces to facilitate the family atmosphere;
- highly visible corporate symbols and logos;
- focus on face-to-face communications;
- moral persuasion, rather than direction, which often leads to guilt or shame being a motivating force;
- people living to work and working to live, with work–life balance as irrelevant;
- high levels of identification with organizational values.

Features of the different cultural types

I have already mentioned that none of these cultures is inherently good or bad. They can all have their functional and dysfunctional sides. A further key finding of Goffee and Jones's work is that organizations may have a dominant culture but most companies exhibit several subcultures at the same time. For example, many universities, especially in the USA and UK, which have a strong element of performance measurement, are characterized by dominant fragmented culture. Yet some departments may reflect a communal culture, a networked culture or even, in the case of some business schools, a mercenary culture, which mirrors the culture of their key clients.

Their research also pointed to the potential for a form of 'life cycle' that resembles an S-shaped transition through the four cultures. For example, a company may be formed as entrepreneurial and prospecting (communal). As it gains success and grows, it may become too 'fat' and too comfortable (networked). This may lead to a lowering of performance, necessitating a turn-around to get the company back in shape (mercenary). However, in the process of changing the culture from high–low to low–high on sociability and solidarity respectively, the management loses out on both counts and the organization ends up fragmented, with all employees working as independent contractors. This life cycle is not necessarily typical, but it illustrates some of the negative sides to the different cultures and the challenges in managing them. Indeed, this is one of the key strengths in the Goffee and Jones model in assessing how best to deal with organizational change. It is also useful to have an understanding of what needs to be compensated for, as each of the cultures has its drawbacks. Furthermore, if a culture is not sustainable, e.g. in a growing communal company or in a networked company that is haemorrhaging cash, it can be helpful to know some of the pitfalls to avoid.

Lessons for successful organizational change

We have reviewed some of the key ideas on organizational change and, especially, culture change. I hope by now that you are aware of the difficulties involved, but have a better understanding of how to go about implementing change in organizations, and how not to do it! As we have discussed, some writers and managers believe that organizations and their cultures can be socially engineered using a set of tools and techniques drawn from organizational development research; indeed, they place great faith in their ability to bring about major changes in performance from such programmes of change. Others, however, are more sceptical and believe that cultures cannot be managed in the sense that they can be controlled through managerial actions alone. Nor can they be easily changed from the outside, especially by using consultants who can rarely hope to gain the in-depth understanding necessary to help shape cultural change.

My position on this issue is somewhere between the two: that organizational cultures can be shaped by managers and by consultants, but usually only with a sensitive and in-depth, 'insider' understanding of the issues involved, with the commitment of the majority of employees to change, and through sustained and sensitive effort by managers and change agents over many years.

Factors facilitating change

In a study we made of change in a Scottish city government organization (Martin *et al.*, 1998a), we provided a list of useful ideas (but not principles) about change. These ideas seem to resonate with our experience of research and consulting in this field over a long period of time. To these we have added some ideas or 'tips' from the work of writers/researchers whose ideas seem to make most sense to us. These are set out in Table 9.1.

Evaluating culture change

One final point that we have skirted over, but which is crucial to organizational change, is the question: How do you know when the hoped-for changes and/or new culture have taken root in an organization?

Table 9.1
Factors facilitating successful organizational change

1	Know where you are starting from. Usually, a receptive context for culture change together with the managerial ability to create a positive climate for culture change is necessary. One useful maxim that seems to apply is that 'often big change produces big opposition' in threatening the social identities of key players and their investment in the status quo.
2	Establish a sense of urgency by creating the necessary levels of tension (or mechanisms of discomfort) in the organization for culture change, and by assembling and facilitating a powerful group of people who act as champions to lead the change.
3	Create a vision (though it may, and perhaps should, be imprecise) and/or values framework which should help direct the culture change effort.
4	Use all possible means to communicate the vision/values deep into the organization (see the use of discourse and strategy as convincing stories) and ensure that managers 'walk the talk' to demonstrate the importance of the new culture and the kinds of behaviour associated with it.
5	Empower others to act by removing structural blockages to the new culture (e.g. organizational and architectural), and encourage innovation and group learning activities.
6	Encourage and use 'deviants' and 'heretics' to critically evaluate existing practices by 'speaking up to power' and to bring in fresh ideas.
7	Plan for and create short-term wins to encourage long-term persistence with the culture change initiatives.
8	Reinforce changes in culture with changes in structure and in the reward systems to reflect the kinds of behaviour that are appropriate.
9	Be aware of the ethical issues, personal choices and questions that most people have to face when being asked to commit themselves to culture change. These include: what can people reasonably be expected to do in the name of the organization, what kind of vision and values are people likely to buy into (how do they define the key stakeholders), how closely should the organization touch on peoples' private lives, and what values do they place on different kinds of justice?
10	Finally, be patient and persistent, as major changes in culture and structure may take many years to bring about.

Sources: Pettigrew, 1990; Kotter, 1995; Schoenberger, 1997; Goffee and Jones, 1998; Paton and MacCalman, 2005; Hatch, 1997.

We have dealt with this briefly in our strategic change model, but Paul Bate (1996) has addressed this issue in depth and has identified five criteria for evaluating change. These are worth thinking about when considering the extent to which changes have penetrated the organization. They are also useful in showing just how difficult and long term a task changing a company's culture might be. He suggests that, for a change programme to be successful, it must be able to:

- express a core idea that engages people's feelings by creating a credible, novel and compelling message;
- create a universal set of shared values that employees at all levels can buy into;
- penetrate deep into the organization, beyond the corporate, managerial culture and into the 'bowels of the organization';
- adjust to changing circumstances over time by being sufficiently flexible to cope with unforeseen challenges and opportunities;
- endure the test of time and the almost natural tendency of managers to introduce further changes.

Jerre Stead and those of a similar persuasion, please take note.

Case 9.2: Living with a purist

The Kirk Russell Studio is a highly successful private architectural and interior design practice based in continental Europe, owned by its American founder, Kirk Russell. Its company logo, which dominates all company collateral, is 'Obsession with world-class design is our credo'.

The company was started in 1987 by Russell, who stated that he wasn't interested in beginning a run-of-the-mill architectural practice, tendering for basic contracts. Instead, he sought to develop a 'School of Excellence' for innovative young architects and interior designers, where they could hone and practise their talents on high-profile design work. He made the comment that he wasn't interested in offering these people jobs, but 'a unique experience' that they would always carry with them. And because Russell had a good reputation in the industry in Europe, his purist claims were taken seriously in most quarters.

Russell's approach to potential staff members was a little unorthodox. Instead of offering high salaries and bonuses, he stressed the difficulties of working in a 'School of Excellence'. 'You won't make as much money as you could do elsewhere, and you won't get a high-class office overlooking the Lido,' he used to state in his opening interviews with recruits, 'but you will get the most satisfying and high-profile experience around. However, the quid pro quo is that I demand a purist obsession with design quality and I know, because you are good, that you will produce it.'

Using this approach to talent management, Russell was able to put together a first-class team of architects, designers and technicians in a short space of time. This image of the School of Excellence was one he also used as a sales pitch to potential clients. 'If you want architects who are merely cost engineers, go elsewhere; if you want the best quality and buildings that will be monuments to their owners, you have come to the best practice in the country.'

By 1990 the company had carved itself out a highly profitable and high-profile niche in the European market and had won a number of major contracts in Italy, Spain and the UK. The staff became captivated by Russell's vision of the School of Excellence as time passed, many of them working very long hours way beyond contract. Most of them knew they weren't making the kind of money they might make in London, New York or other big-city practices, but valued the intangible rewards more. They were working on some of the most high-profile projects in Italy and Spain, which provided them with the kinds of satisfaction and career development that couldn't be gained elsewhere – at least, that was what they told colleagues in other practices when they were out socializing with them or met them on the conference circuit. Some of their colleagues resented having their work degraded during these conversations, and did not take kindly to their work and careers being called into question; the implication was always that they were 'in it for the money and not the higher-order values of architectural work'. There was also the issue of taste and judging quality. 'Who says your work is so great? Is designing a school that has to meet cost and quality standards not just as valuable as designing a high-profile office or government building?' became a common question and source of increasing friction between members of the 'Russell School' and outsiders during heated arguments in the bars.

By the mid 1990s, the Russell School of Excellence, as it was now known informally, had become one of the most respected practices in Europe, and was often invited to submit projects in design competitions for major building projects throughout the continent. Employees became even more committed to the cause, with almost no one leaving and many more joining as the practice expanded. From the perspective of those working in the practice, leisure time and work time became indistinguishable, and they boasted about the family-type culture. Russell himself led by example and was seen as an inspirational leader, with frequent motivational talks around the theme of 'no compromise with quality' and 'designing buildings or great architectural significance'. He was also a man who 'walked the talk', always in the practice, reviewing the work of others and coaching the newer and often the even more experienced members of the teams. Long hours for everyone were the natural consequence, with excellence and the search for more high-profile projects the bywords.

In 1998 a defining moment occurred, however, when one of the, by now, senior and most respected architects was forced to make a choice between family and career. He decided to leave, not feeling able to give the commitment necessary to the company, and his departure was handled smoothly, with a party thrown in. However, in trying to replace this key member of staff, real difficulties were encountered. Russell had decided that every staff member should have a say in who was to be recruited into the 'family', rationalizing his decision on the basis of team-fit and the fact that staff would spend more time with the company's family than with their natural ones. Naturally, staff were enthusiastic that they were involved and that the new person should embrace the School's mission. However, all interviewees fell short in one way or another. One could not commit the time, another wasn't seen as a team player and yet another was rejected because she didn't have the right 'attitude'. After several months the key position remained unfilled.

During this time, Russell had to concentrate on running the business side of the School, and began to neglect his coaching and development functions. Everyone saw this happening, but thought it was only temporary until the new person was recruited. However, Russell himself began wondering in his private moments if they would ever be able to recapture the spirit of the School of Excellence, especially as the practice was doing well financially, with healthy profits and new projects coming in.

In 1999 another key member left the practice to set up on his own. On returning a few months later, he found Russell on the drawing board filling in for him. While staff still talked about the concern for obsessive quality, and felt that it was only a short time before the Academy got back on track, the visitor detected a degree of doubt about the statements made. Employees seemed much less confident than before, but weren't going to make it obvious to someone who was now an outsider.

The vacancy for the senior position was never re-advertised. In 2002, while most of the original staff were still with the organization and it was still turning in respectable profits, it wasn't appearing in the trade press quite so much, nor securing such high-profile projects.

Source: this material is based on two real-life cases, including 'Perfection or bust', by Gareth Morgan (1989).

1. How would you describe the culture of the Kirk Russell Studio?
2. What advice could be given to Russell to help make his company more effective?

Learning summary

In this chapter we have looked at the process of changing organizations in the light of the different contexts of change. We addressed the key questions of what makes for successful change in an organization, and the practical steps that managers can take. The following points should be noted:

- The ISM model is a series of interlinked and interdependent elements of systems and subsystems which depends on the perspective of the developer. The model asks: What are you doing? How could you do it better? How do you effectively implement changes?

- Evaluation and design involve analysing the system, devising and evaluating viable solutions, and scenario planning.
- The implementation phase requires a balance between thinking and doing. Change agents must provide a convincing narrative for change through discourse and language – the *why* factor. Good narratives must be novel, credible and compelling.
- Organizational culture is one of the defining factors in understanding change. Strategy can be seen as a perspective, requiring social interaction.
- Organization culture can be analysed according to the extent to which it exhibits sociability and solidarity. Too much or too little of either can be a problem and can mean a shift to the other extreme.
- Cultures can be shaped, not controlled, by managers, but they need an in-depth understanding of the organization's specific needs and context.

Review questions

Multiple-choice questions

9.1 Which one of the following is a necessary condition for the correct application of the first stage of the ISM model?

A Creating stories that realistically reflect viable future issues.
B The ability to see your organization as others see it.
C The ability to take criticism.
D Employing a management consultant.

9.2 Which of the following statements reflects the purpose of scenario planning?

i It is a means of predicting what will happen in the future.
ii It is a tool for allowing discussion of complex situations.

A i only.
B ii only.
C Neither i nor ii.
D Both i and ii.

9.3 Which one of the following could ensure that change agents don't fall into the trap of 'paralysis by analysis'?

A Understanding the active role of managers at the implementation stage.

B Devising a strategy that makes their company less egocentric.

C Implementing a strategy of small 'quick wins'.

D Creating stories that depict realistic solutions of the future outcomes.

9.4 A multinational organization is undergoing a major restructuring of its business units. Which one of the following tasks should middle managers be focused on?

A Creating an environment of ownership in the new direction of change.

B Reassessing errors in previous times of organizational change.

C Creating a new performance culture.

D 'Closure conversations' declaring positive outcomes.

9.5 When looking to co-opt middle managers to help lead a change programme, which one of the following competences would be most beneficial?

A The ability to criticize.

B Flexibility and adaptation.

C The ability to apply knowledge.

D High performance levels.

9.6 Consultants advising your organization on a new corporate branding strategy claim to hold a more anthropological view of culture. Their advice is likely to take the form of which one of the following?

A What works in one area of the organization might not necessarily work in another.

B Any branding strategy is likely to be perceived by the union representatives as a means of exploiting workers' freedom.

C The branding strategy ultimately depends on effective communication and role modelling.

D There are likely to be major differences between management and employees on this one, so don't bother even communicating with them.

9.7 Which of the following is the most effective strategy for communicating a new vision?

A Sending out monthly newsletters and speeches.

B Dialoguing with influential managers.

C Role-modelling the new policy.
D Sending out a memo detailing the new policy.

9.8 Which one of the following is likely to lead to the breakdown of a communal culture?
A Overemphasis on symbols and branding.
B Employers having too high expectations of their employees.
C The emphasis on productivity declining as work–life balance becomes more of an issue.
D Profit being more important than employees' well-being.

True/false questions

9.9 Organizational change is most noticeable at the corporate level. T or F?

9.10 The open systems model requires managers to be able to work with multiple perspectives at the same time. T or F?

9.11 Suspension of belief is part of the process of scenario planning. T or F?

9.12 Change programmes are most likely to fail because they are poorly conceived. T or F?

9.13 Management is most likely to be able to communicate the need for change when the organization is facing a crisis. T or F?

9.14 Opposition to change is destructive, and managers should take every step to avoid conflict. T or F?

9.15 Effective change is most likely to occur if organizations include people on the team who are sceptical about the need for the change. T or F?

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Appendix 1: Answers to review questions

Chapter 1

Multiple-choice questions

1.1	B	**1.3**	A	**1.5**	A	**1.7**	C
1.2	D	**1.4**	B	**1.6**	A		

True/false questions

1.8 **True**. Managers are often distrustful of theory because of the academic jargon used by academics, because academics don't often have direct experience of managing, and because many theories are too general and don't fit in with their particular problems of situations.

1.9 **False**. This is a better description of a universalist perspective. Relativism is based on the premise that there are no universal truths and that context is all important.

1.10 **False**. Many academics and most managers are pragmatists and usually find some point to match their desire to find and apply 'best practice' with the demands of local context. The idea of 'think global but act local' reflects this middle ground.

1.11 **True**. A group of managers operating with an organic mindset are more likely to engage in understanding the external environment of their business and adapt their strategies and practice accordingly.

1.12 **True**. Although they have their critics, American management ideas and practices dominate the production and application of ideas, consulting and management education in most of the world's developed countries.

1.13 **False**. Japanese models of management are better described as middle-up and -down, with middle managers being allowed a say in strategy. Though Japanese workers do have some say in quality and production decisions during a brief period of consultation in quality circles, etc., for the most part they are managed in much the same autocratic way as workers in the USA and UK. Many European workers have more say through formal union representation and the consultative structures.

1.14 **True**. Pascale points out that a formula that has worked in one set of competitive circumstances will bring about eventual failure because it traps management into believing that they have found the one and only answer!

1.15 **False**. Although not popular with management academics and some business people, the mechanical mindset is still a dominant one in organizing and managing in many businesses, especially where the external environment doesn't change much. Variations on Taylorism and Fordism continue to dominate much of manufacturing industry, especially in developing countries.

Chapter 2

Multiple-choice questions

2.1	C	**2.3**	B	**2.5**	B	**2.7**	B
2.2	A	**2.4**	B	**2.6**	A		

True/false questions

2.8 **False**. Detailed lists, in and of themselves, don't provide the full picture of what is required of managers at different levels and in different functions. What is necessary is to explain how the various roles, levels and competences interact to explain good management in an organization.

2.9 **False**. No one comes to a job without preconceived ideas, based on their values and, even, limited experience of managing or being managed. Sometimes that can be counterproductive, because the experience gained may have come from a 'classroom' and can promote overconfidence in the new manager. Though inexperienced managers may be slightly easier to mould, this is likely to be counterbalanced by the lack of what a more experienced person can bring to the job.

2.10 **False**. It is possible to learn the skills of self-awareness and good judgement.

2.11 **False**. It is not always necessary to lead by direct action, though it certainly helps to be able to do so. Well-rounded managers need to be able to work through other people and at the informational level.

2.12 **True**. Estimates, though crude and subject to cultural, institutional and industry-wide differences, suggest that most communication in management is of the informal, non-verbal type.

2.13 **True**. The aim of decision science was to create a rational-based strategy for decision-making using computers as forecasting tools.

2.14 **False**. Weick believes that the appropriate degree of confidence depends on the situation. If you begin from a position of already being confident, then acting your way into being more confident takes you further away from wisdom and 'the achievement of ignorance'.

Chapter 3

Multiple-choice questions

3.1	A	**3.4**	B	**3.7**	A
3.2	B	**3.5**	D	**3.8**	B
3.3	D	**3.6**	B	**3.9**	B

True/false questions

3.10 **True**. Rather than just a transactional or relational contract, an ideological contract aims to give the employee 'a higher call'.

3.11 **False**. Talented people usually require more than cognitive skills, IQ and knowledge; they are also likely to require leadership, social skills, functional skills and, perhaps, entrepreneurial skills.

3.12 **False**. According to some research, it is likely to result in the opposite. Recruiting stars can lead to narcissistic behaviour, overconfidence and a lack of knowledge sharing.

3.13 **False**. Someone with a pure challenge career anchor would be more likely to move jobs to seek variation and stop becoming bored.

3.14 **False**. They are more likely to be done when employees with scarce talents are able to drive a hard bargain and negotiate different treatment from others.

3.15 **True**. Some people display high levels of work involvement and satisfaction but low work drive, which means they are not compelled to work by some inner pressure.

3.16 **False**. Kets de Vries suggest that the opposite view is more accurate: more than ever, different cultures and countries (and even different sectors in a country) can have quite different views on what makes a good leader.

3.17 **False**. Goleman calls this pace-setting leadership, which is often done poorly. It usually works well only with highly motivated and competent teams.

Chapter 4

Multiple-choice questions

4.1	D	**4.3**	A	**4.5**	A	**4.7**	A
4.2	A	**4.4**	B	**4.6**	A		

True/false questions

4.8 **False**. Galbraith argues that the factors of buyer power, variety, complexity, speed, ICT and change work together to create a complex influence on organizational design.

4.9 **True**. Galbraith believes that motivation and information influence behaviour and performance.

4.10 **False**. Not necessarily. Miles and Snow believe that organizations, structures, systems and processes have to reflect the nature of the environment.

4.11 **False**. By their nature, complex structures are more likely to share responsibilities and accountability. They are less likely to be directly responsible for one factor.

4.12 **False**. Whether or not the marketing function mission is critical depends on the overall strategy of the organization. They could be the main source of competitive advantage in innovative organizations.

4.13 **True**. Like cellular structures in humans and plants, networked organizations are becoming a common form of structure, especially amongst knowledge-intensive industries that benefit from sharing mutual know-how.

4.14 **True**. Organizational design needs to reflect the specialist cultures of key departments, which may be influenced by professional orientations and ambitions. A hospital is a good example.

4.15 **False**. Because of their autonomy and aims, SBUs are more likely to develop competition to fight for limited resources.

Chapter 5

Multiple-choice questions

5.1	A	**5.3**	D	**5.5**	B	**5.7**	C
5.2	C	**5.4**	A	**5.6**	D	**5.8**	A

True/false questions

5.9 **False**. Domestic businesses need to understand the role of international management in order to learn from different management styles and have a better understanding of their potential competitors.

5.10 **True**. The liability of foreignness involves any extra costs that arise from doing business abroad, and overseas expatriation of managers is often one of the major costs.

5.11 **True**. The understanding that people have about space and the desire to control nature often help mould the underlying values of a society. American cultural values and attitudes towards leadership are a good example.

5.12 **False**. Hofstede's work did not really tackle this issue. Trompenaars and Hampden-Turner distinguished between diffuse and specific cultures to explain how managers carry over work roles into non-work roles.

5.13 **False**. Corporatism is usually associated with European countries, which believe in a strong relationship between the state, labour and major business institutions to exercise governance.

5.14 **False**. The 'morning after' period has been defined by a period of confusion and hostility towards the host country.

5.15 **False**. Though managers must be able to see and act locally, they also need to be able to think and act globally to ensure that corporate values are upheld.

Chapter 6

Multiple-choice questions

6.1	D	**6.3**	B	**6.5**	B	**6.7**	A
6.2	A	**6.4**	C	**6.6**	D		

True/false questions

6.8 **False**. Although this is an element of corporate branding – the internal perspective – branding is also about the controlled image that the company wants to present, the perceived image to key stakeholders and the strategic vision of the company.

6.9 **True**. Corporate image is considered to be based on the current perception of the company, whereas corporate reputation includes not only the current perception, but also its past conduct.

6.10 **True**. The corporate brand allows marketing departments to focus on a particular type of audience that it knows, recognizes and responds to, the brand.

6.11 **True**. The positive reputation of a company as a whole – such as fairness to employees and customers, honesty and high quality – are more likely to promote these values within individuals.

6.12 **True**. The resource-based view of strategy sees an organization's human resources as one of the few assets that cannot be copied or substituted by other assets, principally because of the intangible nature of employee knowledge and expertise.

6.13 **False**. Although critics of employer branding sometimes talk of 'brandwashing', especially when done crudely, it is a complex process intended to align the external and internal brand and values of the company with the expectations and values of its employees, and has by its nature to show honesty and integrity to the employees.

6.14 **False**. Expressiveness quotient (EQ) is the ability of the company to express values such as visibility, distinctiveness and consistency to its employees; those may be the same values it wishes to express to its customers, but they don't have to be.

6.15 **False**. Corporate identity works through communications to influence employee expectations and psychological contracts.

Chapter 7

Multiple-choice questions

7.1	B	**7.3**	D	**7.5**	B	**7.7**	C
7.2	A	**7.4**	D	**7.6**	A	**7.8**	A

True/false questions

7.9 **True**. It is more difficult to see straightforward economic returns in KBEs; therefore, knowledge workers must defend their less definable assets more rigorously and closely.

7.10 **True**. A KBE relies on its ability to draw together and assimilate knowledge from various sources.

7.11 **False**. Innovative knowledge comes from the development of core and advanced knowledge, although core and advanced knowledge can subsequently be changed by innovative knowledge.

7.12 **True**. In the way it has been explained in this chapter, knowledge can truly be understood only through real-life application. Methods can be taught but a deep understanding can come only through action – 'doing' and 'changing' in a real situation.

7.13 **True**. Often, 'know-how' is passed on at informal levels in informal relationships.

7.14 **False**. All experience does not increase tacit knowledge. The variety and embodiment of experience are the important factors.

7.15 **True**. Relational capital is not just the relationships themselves but all the resources linked to them, including the perceptions that external and internal stakeholders have of the business.

Chapter 8

Multiple-choice questions

8.1	D	**8.3**	A	**8.5**	A	**8.7**	B
8.2	C	**8.4**	D	**8.6**	C	**8.8**	A

True/false questions

8.9 **False**. Although it is an important factor, research indicates that interrelationships between technology and people are equally significant.

8.10 **False**. Not all analysts agree that the 'new economy' is based on ICT; knowledge-based work is also a determining factor.

8.11 **True**. A broad link has been made between organizations with high levels of advanced ICT and corresponding increases in investment in relevant education and training, though the education and training has to be related to the technology.

8.12 **False**. Routine technologies can be associated with high levels of employee satisfaction if they are used to re-skill work, remove boredom or improve the chances of workers becoming more productive.

8.13 **False**. The evidence suggests it has the potential to do so, but that this potential hasn't always been realized.

8.14 **False**. Asynchronous learning that doesn't require people to get together at a particular time has been one of the reasons for the growth of e-learning.

8.15 **False**. The evidence from the UK suggests the opposite, that commitment levels have reduced as ICT spending has increased. ICT hasn't always led to the increased needs for skills, and is often associated with work overload.

Chapter 9

Multiple-choice questions

9.1	B	**9.3**	C	**9.5**	B	**9.7**	C
9.2	B	**9.4**	A	**9.6**	A	**9.8**	B

True/false questions

9.9 **False**. Change is visible at all levels, including individual and team levels.

9.10 **True**. Open systems require you to be able to see from the perspectives of all stakeholders to construct a realistic picture of how the organization relates to its environment.

9.11 **True**. In order to create realistic stories, there must be at least some suspension of belief to allow people to confront difficult issues.

9.12 **False**. Change initiatives can fail in any of the phases, but most change failure occurs during implementation.

9.13 **True**. Often, change is hindered when employees cannot see value in the change. Receptive contexts such as a potential crisis are associated with greater acceptance of the messages of change.

9.14 **False**. Healthy conflict and opposition can lead to more successful change if both parties agree to channel it properly. Playing down or ignoring conflict can often make matters much worse.

9.15 **True**. Encouraging people to participate in change programmes who will speak up to 'power' and who are sometimes critical of what senior managers say and do is likely to cause the promoters of change to anticipate likely opposition and thoroughly evaluate their reasons for introducing the changes.

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