Doede Keuning
Bart Bossink, Brian Tjemkes

Management

An Evidence-Based Approach

Third Edition

Noordhoff Uitgevers

Management
An Evidence-Based Approach

Management
An Evidence-Based Approach

Doede Keuning
Bart Bossink
Brian Tjemkes

Third edition

Noordhoff Uitgevers Groningen / Houten

Cover design: G2K Designers, Groningen
Cover illustration: Getty Images

If you have any comments or queries about this or any other publication, please contact: Noordhoff Uitgevers bv, Afdeling Hoger Onderwijs, Antwoordnummer 13, 9700 VB Groningen, e-mail: info@noordhoff.nl

0 1 2 3 4 5 / 14 13 12 11 10

ISBN (ebook) 978-90-01-85206-1
ISBN 978-90-01-70382-0
NUR 801

Preface

Every type of organization – whether profit-making or non-profit-making – requires some form of management if it is to operate effectively. As such, management is of importance to everyone who comes into contact with organizations, whether this be as employees, managers, suppliers or clients.

This book is intended as a comprehensive introduction to management. It acquaints the reader with all aspects of the subject, and by using examples and case studies from the world of business, enables the reader to relate the theory of management to everyday situations.

Every chapter starts with a *Management in action* case study and ends with a *Research-based exercise* and a *Management case study*. These extended case studies and exercises give the reader the opportunity to look at the evidence and practical application of the concepts discussed in the chapter.

Positioning this book

As an introduction to the discipline of management and the organization, this book takes the reader on a 'guided tour' through the various aspects of management, as depicted in the step-by-step process model in Fig A. It is important to stress two points with regard to this approach. Firstly, organizations and management are always concerned with people and their motivation (that is why we have positioned motivation at the top of Fig A). In every aspect of management (and in every step of the model) the motivation of the people concerned must be taken into account. Secondly, the person who acts as manager must not lose sight of what a manager actually is and does. In both a symbolic sense and in Fig A, the reader has to start the tour at the beginning.

Students in management and organization courses and programs of study at universities, colleges and MBA schools will find this book useful. It can also be used in higher level management courses.

The organization is examined in the context of its environment – that is, the outside world in which the organization operates and which influences the organization's performance. The challenges currently facing managers are discussed, as are those confronting the managers of the twenty-first century.

Structure of 'Management: an Evidence-Based Approach'

This book consists of five parts of two chapters each. It is arranged according to the process approach to management.

Part One 'Management and Society' deals with the role of managers and organizations in society, the history of management theory and the stages of development of individual organizations. In addition, the interrelationship between society and organizations is discussed.

Part Two 'Strategic Management and the Learning Organization' looks at the questions that every organization needs to address: what is our direction? Do we have to change? These are questions relating to mission and strategy formulation, decision making, creativity and learning.

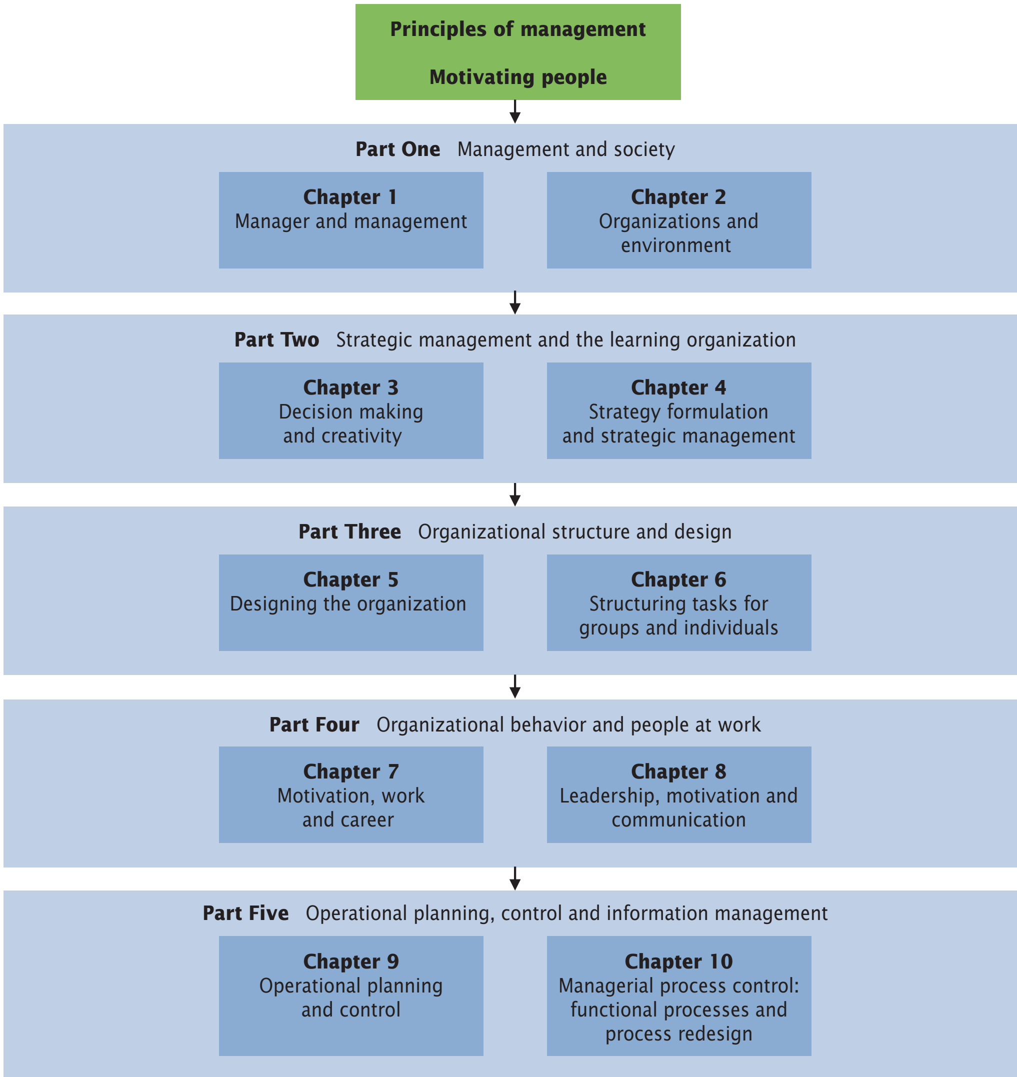

Figure A
The 'step-by-step' process model

In *Part Three*, 'Organizational Structure and Design', the structuring of organizations and the ways in which work can be divided are covered. The organizational structure that is chosen needs to fit the organization's strategic positioning. The formulation of tasks, departmentalization, organizing around processes and the ways in which employees work – for example, in group structures or autonomous teams – are all described.

Part Four 'Organizational Behavior and People at Work' deals with issues regarding people in the organization – employee motivation, manager motivation and manager leadership styles. Human resources management, fostering of talent, and the distribution and execution of power are described, as are the shared expectations of the members of the organization concerning work behavior – that is, the organizational culture.

Part Five 'Operational Planning, Control and Information management' explores the control of organizational processes. Planning and corrective action are discussed, and special attention is given to quality management, performance measurement and the possibilities and pitfalls of information technology in relation to management and organization. The management aspects of several functional processes, including logistics and human resources are covered. This part concludes with a look at the organization in relation to business process re-engineering (BPR) and e-business utilizing web 2.0 technologies in its daily operations.

Website www.management-evidencebasedapproach.noordhoff.nl

This edition is supported by a periodically updated website **www.management-evidencebasedapproach.noordhoff.nl**, which reinforces the book's practical orientation. The site demonstrates once more the practical implications of management theory and concepts in class discussions on case studies and topical issues in managerial practice.
An Instructor's Manual accompanies this book. It contains additional assistance for lecturers using this book with students and is directed at enhancing the learning process.

New in this edition

The text has been integrally reviewed and adapted to recent developments in management practice and theory. Some new sections concerning new insights and trends which are relevant for the leaders of tomorrow have been added. Current topics of management are described in new case studies and recently published research-based exercises.

Chapter 1

In this chapter an introduction is given to the nature of to-day's management (1.1.3) and the importance of expressive and inspiring leadership is underlined (in 1.4.2 and 1.5.3) in the context of high-performance organizations (1.8). In describing the essentials of today's management topics (in 1.1.3) attention is given to the 'hot' issue of branding, as well as to spending on R&D, the role of science and technology, globalization and the relationship between business and a sustainable society.

In 1.1.5 attention is given to the earliest management theories and recent developments in the modern school of management and organizational theory as an interdisciplinary field of study and practice.

Chapter 2

Relevant societal trends and developments are updated (in 2.3). These include transformation of the EU, eurozone aspirations and scepticism, technological innovations and scarce new resources, sustainability and responsible entrepreneurship. Worldwide geo-political shifts, increasing competition, strategic alliancies, mergers and reorganizations, outsourcing, nearshoring and off-shoring and changing consumer behavior are described in 2.4. This chapter also deals with risk management, corporate integrity, governance, ethical dilemmas and crisis and reputation management.

Chapter 3

ICT-driven multitasking and its effects on workefficiency is dealt with in section 3.4.4. The utilisation of virtual teams in the context of timeshifting and day-extension is illustrated (in 3.5.3).

Chapter 4

This edition deals more extensively (in 4.2.2) with rivalry and competition. As shown in Porter's model, revised in 2008, economic and technological developments are exerting pressure on prices and scarce new resources are influencing bargaining positions in markets and the innovation and development of substitute products. In 4.2.6 the concept of synergy is further illustrated and in 4.4.3 the success or failure of strategic alliances is discussed at the hand of evidence.

Chapter 5
5.2.2 deals in greater depth with the position of middle managers. Problems in project management are explained in 5.3.2.

Chapter 6
In the context of management's scope of control (in 6.8) and designing high-performance jobs, attention is given to the relevance of such concepts as the 'span of influence' and the 'span of support'. In 6.9.9 attention is given to work engagement and recent ideas on involving employees in change through direct voice systems and voicing new ideas. 6.9.10 incorporates a paragraph on recent ideas relating to the irrational aspects of change management.

Chapter 7
Chapter 7 has been brought up to date and includes a new section on work satisfaction in practice (in 7.4.5) and coaching and talent development (in 7.6.3). In 7.2. extra information is given on demotion and sustainable employability as practised in Scandinavian countries: the so-called Nordic model.

Chapter 8
8.1.4 enumerates the characteristics of inspiring leaders. 8.3.1 describes the shortcomings of ineffective leaders and identifies those behavioral aspects that employees associate with 'good' and 'bad' bosses.

Chapter 9
Recent insights in relation to the pitfalls of performance management are described in 9.9.2.

Chapter 10
Recent developments in relation to ICT are described in this chapter. They include (in 10.4.1) 'software as a service' and new topics for CIOs. Webshops and Web 2.0 technology is discussed in 10.4.7. The business advantages associated with Web 2.0 and its various applications is elaborated (in 10.5.7 and 10.7) in the context of the networked organization, social networks, co-creation and crowd-sourcing.

Glossary, bibliography and index have been updated with new terms and relevant recent books and articles.

A new book is always open to improvement; comments and suggestions are very welcome.

Amsterdam, June/July 2010

Doede Keuning
Bart Bossink
Brian Tjemkes

Contents

Principles of management

Motivating people

Part One Management and society

- **Chapter 1** Manager and management
- **Chapter 2** Organizations and environment

Part Two Strategic management and the learning organization

- **Chapter 3** Decision making and creativity
- **Chapter 4** Strategy formulation and strategic management

Part Three Organizational structure and design

- **Chapter 5** Designing the organization
- **Chapter 6** Structuring tasks for groups and individuals

Part Four Organizational behavior and people at work

- **Chapter 7** Motivation, work and career
- **Chapter 8** Leadership, motivation and communication

Part Five Operational planning, control and information management

- **Chapter 9** Operational planning and control
- **Chapter 10** Managerial process control: functional processes and process redesign

Part
1

Management and society

CHAPTER 1 Manager and management

CHAPTER 2 Organizations and the environment

We begin with a general introduction and examination of some of the basic concepts of management and the organization. In later chapters we deal with particular aspects of the managerial process itself. In today's world 'management' is an important social phenomenon. In chapters 1 and 2 we look at management and its place in society, and ask the following questions:

- **What are managers and organizations, and what is management all about? (Chapter 1)**
- **How does the organization relate to the environment in which it operates? (Chapter 2)**

CONTENTS

Management, a dynamic world

Chapter 1

Manager and management

LEARNING OUTCOMES

After studying this chapter, you should be able to do the following:

- **Describe the concepts of management and organization and explain why these are important**
- **Identify the levels of management within the organization and explain why each level requires different types of knowledge and skills**
- **List the core activities of the managerial process and show how they relate to each other**
- **Identify the characteristics of the modern manager**
- **Indicate the criteria, requirements and standards that are or should be met by effective and healthy organizations**
- **Distinguish between the concepts of effectiveness and efficiency and explain why these are important for reviewing an organization**
- **Give examples of instruments for assessing or evaluating management performance**

CASE

Management-in-action

2009 Global Champions: Seeing through the Haze

The world's best companies of 2009 were those with the savviest strategic planning, sharpest peripheral vision, and consistent flexibility

A.T. Kearney's 2009 Global Champions report proves the conventional wisdom wrong: with the right strategic planning, peripheral vision, and flexible execution, companies were able to generate positive returns even in the most challenging climate.

Looking over this year's Global Champions, it's tempting to see only the differences between the finalists. From Nintendo (consumer electronics) to Komatsu (KMTUF.PK) (heavy equipment) to MTN (MTNOF.PK) (telecommunications) to BHP Billiton (BHP) (mining), a broad range of industries and geographies are represented. However, beneath the surface lie two common threads. First, the companies on this list are emblematic of underlying trends in the global economy. Second, they have each demonstrated the ability to look through the kaleidoscope of changing global business conditions, *identify meaningful trends*, and *implement strategies* to capitalize on them.

The global financial crisis, to paraphrase General Electric's (GE) Jeff Immelt, has caused a fundamental 'reset' of the global economy. At A.T. Kearney, we believe the result is a faster pace of change in the underlying 'drivers' of global business conditions: globalization, demographics, consumer preferences, government regulation and activism, natural resource availability, and the environment. And all of this is turbocharged by the leveraging of technology.

Governments vs. Consumers

In the 'reset' world, demand is also polarized between two divergent consumers: governments focused on job creation through investments in infrastructure and consumers who have cut back on spending but are still willing to come out of their foxholes and buy products that appeal to their desire for a simpler, sustainable, more fulfilled lifestyle.

The Global Champions list contains companies involved in both the 'hard' infrastructure of roads, ports, and buildings (Komatsu, Hyundai (HYHZF), Fluor (FLR)) and 'soft' infrastructure such as telecommunications (America Movil (AMX) and MTN). On the consumer side, Global Champions Nintendo and Apple (AAPL) each sell products that are not necessities and might be expected to wither in a recession, but both companies have continued to thrive by offering lifestyle-enhancing products that consumers feel compelled to buy.

These companies understand the world around them and implement appropriate business plans. They also have the peripheral vision and agility to respond to changes in business conditions. That is, they understand that strategy is a sense of direction that we continuously fine-tune, to paraphrase the great management scientist Peter Drucker.

The success of this year's winner, Nintendo, also suggests that it helps to have a leader who articulates the strategy in a way that is easy to understand. At Nintendo, CEO Satoru Iwata advocates 'increasing the gaming population' and that's precisely what the company has done with its Nintendo DS and Wii products.

Broadening the Footprint

Sometimes *serendipity* sets the stage for foresight. Sasol (SSL), for example, was originally established to develop technologies to turn coal into synthetic oil to promote energy independence in apartheid-era South Africa. South Africa's reintegration into the global economy – a fundamental change in business conditions if ever there was one – offered Sasol new opportunities. Sasol responded by broadening its footprint to create a global company with operations in 30 countries. It also expanded its portfolio to include gas-to-liquid technologies to help meet rising energy demand. Today, Sasol is well-positioned in a world of continued resource scarcity. It is also ahead of the curve in terms of sustainability, voluntarily participating in the Carbon Disclosure Project and publishing sustainability reports since 2000.

Doosan Heavy Industries (DOHIF.PK) has shown both foresight and *agility* as it has bought new technologies and businesses, while maintaining a consistent corporate culture that emphasizes high performance. Doosan expanded from its traditional focus on power plants to include nuclear and desalinization facilities, successfully anticipating the growth potential of both industries. At the same time, Doosan integrated vertically through raw-materials investments, providing insurance from commodity price swings, and consulting and services offerings.

Proving that success comes in many ways, Inditex (IDEXY.PK) pioneered a highly flexible business system that allows it to rapidly deliver high-fashion merchandise at a reasonable price. The company conducts continuous trend analysis and keeps new styles moving into its Zara chain and other stores. At the production level, Inditex offers best-in-class time to market, guaranteeing that its stores will carry cutting-edge styles. Local store managers also are given significant flexibility in ordering to ensure that the unique needs of each location are met.

Of course, corporate success is the result of a variety of factors, both internal and external, and the strategies that work for one organization may not be appropriate for others. However, this year's rankings show that value-building companies have the foresight to identify significant trends that affect their businesses and the ability to capitalize on them.

Source: *BusinessWeek*, October 1, 2009 (Paul Laudicina and Norbert Jorek)

management *managers*

When people work together to achieve something, management of some kind is always involved. Until the middle of the nineteenth century management was never seen as a specific or defined task, let alone as a profession or discipline. In the past the possession of almost absolute power over people and other resources meant that 'managers' worked towards their own personal objectives and goals and could realize these as they wished. Major and frequent failures were allowed; experience was the only way to learn. Changing power structures, especially after the Industrial Revolution, set limits on the manager's power. It was no longer acceptable for capital and labor to be used at will or wasted. This was a new concept and it created a style of management in which the first societal goal was, and still is, the effective and efficient use of people and other resources.

profession of management

Social change and scientific development have launched us into a new era in which management is, so to speak, at the service of the community. Rational use of people and resources involves more than simple administration, direction and control. The main characteristic of the 'new' profession of management is the making of decisions that enable many diverse and externally oriented objectives to be reached while taking continuity and societal interest into account. Furthermore, management remains a people-oriented activity. To a large extent, it is based on the personality of the manager and the capabilities of employees. The diverse nature of modern management provides many people with the opportunity to participate in the process of management, each according to their own abilities, skills and knowledge.

1.1 Organization and management

In everyday life, we all come into contact with organizations in the form of companies and institutions. We use the products and services which are made available to us through organizations such as factories, schools, hospitals and travel companies – bread, dairy products, clothes, education, health care, public transport, and so on.

Organizations ... an integral part of our daily lives

society of organizations

We all work and live in a society of organizations. When we go to work, we are dealing with an organization – it might be an industrial firm or an institution in the service sector. Even our spare time and vacations are based around organizations: think of travel agencies, camp sites, hotels and restaurants, sports clubs and so on. In fact, we take organizations so much for granted in our daily lives that we rarely consider what organizations are, how they are designed or how they are managed or governed.

Organizations … a challenge

This all changes when we have to accomplish something with the cooperation of other people, when we want to start up a company, when something goes wrong in the company we work for, or when the daily supply of goods and services is disrupted. *Then* we start to notice how important good management and organization really are. *Then* we appreciate the issues that the manager and the organization need to address – namely the design, the functioning of processes and the management of the company or institution.

management and organization

Although we frequently conclude that 'they' should have done things differently or better, what happens if we are directly involved ourselves? We realize then that things are not as self-evident and straightforward as we considered them to be, and it becomes clear how important it is to have insights into the problems of management and organizations. We also realize how useful it is to be able to draw on techniques, tools and instruments that help us to set up and design an organization and to manage resources and people effectively.

CASE

Mini case study 1.1

Nokia tries to reinvent itself … can the world's largest handset-maker regain the initiative?

Ask Finns about their national character and chances are the word *sisu* will come up. It is an amalgam of steadfastness and diligence, but also courage, recklessness and fierce tenacity. 'It takes *sisu* to stand at the door when the bear is on the other side,' a folk saying goes.

There are plenty of bears these days at the doors of Nokia, the Finnish firm that is the world's biggest maker of mobile handsets. Although it is still the global leader in the fast-growing market for smartphones, its devices are losing ground to Apple's iPhone and to the BlackBerry, made by Research in Motion (RIM). On January 5th Google took a further step into the market with the launch of the Nexus One, a handset made by HTC of Taiwan that the Internet giant will sell directly to consumers, and which runs Android, Google's operating system for smartphones.

Especially in America, where Apple and RIM reign supreme in the smart-phone market, many already see Nokia as a has-been. Developers are rushing to write programs for the iPhone and for Android, but shun Symbian, Nokia's rival software platform. And Nokia's efforts in mobile services, mostly under its Ovi brand, have yet to make much headway.

Nokia has overcome many crises in the past. In 1995 poor logistics caused it to stumble. It responded by developing one of the world's most efficient supply chains, capable of churning out some 1.2m handsets a day. A decade later it failed to anticipate the demand for 'clamshell'-type handsets, but bounced back quickly to restore its market share in handsets to 40% and thus its industry dominance.

But this time the problems go deeper. In more than one way, Nokia has to become a different company, says Jay Galbraith, a management expert. Until now, it has excelled in making and distributing hardware. This has trained the organisation to focus on planning and logistics. Deadlines are often set 18 months in advance. Teams developing a new device also work in relative isolation and even competitively, to make each product more original. And although Nokia has always done a lot of market research and built phones for every conceivable type of customer, it sells most of its wares to telecom operators and designs its products to meet their demands.

With the rise of the smart-phone, however, software and services are becoming much more important. They require different skills. Development cycles are not counted in quarters and years, but in months or even weeks. New services do not have to be perfect, since they can be improved after their launch if consumers like them. Teams have to collaborate more closely, so that the same services and software can run on different handsets. Nokia also has to establish a direct relationship with its users like Apple's or Google's.

Last February Nokia's management kicked off what is internally known as a 'transformation project' to address all these concerns. 'We needed to move faster. We needed to improve our execution. And we needed a tighter coupling of devices and services,' explains Mary McDowell, Nokia's chief strategist. The firm has since introduced a simpler internal structure, cut its smart-phone portfolio by half, ditched weaker services and begun to increase Ovi's appeal to developers by allowing them to integrate Nokia's services into their own applications. While giving Symbian a makeover it is also pushing a new operating system, called Maemo, for the grandest, computer-like smartphones.

All this will no doubt help Nokia come up with better, if not magic, products. The firm may even reach its goal of 300m users by the end of 2011 because its efforts are not aimed just at rich countries, but at fast-growing emerging economies where Nokia is still king of the hill, such as India. There, services such as Nokia Money, a mobile-payment system, and Life Tools, which supplies farmers with prices and other information, fulfil real needs, says John Delaney of IDC, another market-research firm.

Yet it is an entirely different question whether Nokia will manage to dominate the mobile industry once more – not just by handset volumes, but by innovation and profits. The example of the computer industry, in which the centre of gravity began shifting from hardware firms to providers of software and services over two decades ago, is not terribly encouraging: of the industry's former giants, only IBM really made the shift successfully. Then again, Nokia has reinvented itself many times since its origin in 1865 as a paper mill. That, points out Dan Steinbock, the author of two books on the firm, is thanks not only to sisu, but also to a remarkable willingness to embrace change and diversity. Nokia will need those traits in the years ahead.

Source: *The Economist*, January 7, 2010

1.1.1 Managers: what kind of people are they?

manager

Is the word 'manager' simply a new word for a supervisor or a boss? Is 'management' simply a group of people who tell others what to do? The word 'manager' is certainly a relatively new addition to the English language. It comes from the Latin words manus, which means 'hand' and agere which means 'to set in motion, to carry along, to act.'

Defining management

A manager is someone who directs processes, someone who gets work done through other people by initiating and directing actions. As an executive, a manager makes ongoing decisions about what work has to be done, how it has to be done, and who has to do it. As a result, the manager has to be prepared to give explanations at any time. All levels of management – whether the managing director, supervisor, foreman or boss – are at the cross-roads between work group, team, department, company, parent group and the societal environment.

management meanings

In common usage the word 'management' can have three different meanings. In this book, which is intended as a review and discussion of practice as well as a means of preparing for that practice, all three meanings are used, so it is important to be familiar with them.

employees

1. The word 'management' refers to all the employees in an organization whose job it is to set in motion, prepare and control the actions of other people and resources, given the objectives – implicit or explicit – of the organization. This meaning is expressed in sentences such as: 'management had a meeting at 10 am.'

activities

2. The word 'management' refers to the process or activities (thinking as well as acting) which have to be performed in order to get something done. This meaning is expressed in sentences such as: 'Management of a world tour involves a vast amount of work.'

field of knowledge and discipline

3. 'Management' is a specific field of knowledge and discipline in which the everyday work and practices of 'managers' and 'organizations' are studied. This meaning can be found in sentences such as: 'I am doing an exam in management next week.'

This book is intended as a basic introduction to the study of management (definition 3) in which management is considered both as a group of employees in an organization (definition 1) and as a process made up of discrete but interrelated activities (definition 2).

Characteristics of managers

It is the responsibility of managers to accomplish tasks and goals through other people, often without being able to exert a direct or substantial influence over what those people do and how they do it.

Dependency on others

In principle, a manager is dependent on the dedication and contributions of other people. This applies as much to top managers as it does to all other managers within the organization. Often this dependency relates to colleagues with whom lines of authority have been clearly established. However, it can also involve reliance on employees from other parts of the company or with departments or divisions with which there are no clear lines of authority. Managers then need to develop work methods through which they can gain the cooperation of all those from whom a contribution is required in order to reach the specified goals and objectives.

clear/no clear lines of authority

Responsibility for the working climate

As the leader of a company, department or division, a manager is responsible for creating a good working climate. The manager has to stimulate cooperation. There has to be a certain degree of harmony between the work that has to be done and the needs of individuals and groups. A manager also has joint responsibility for the staffing of his or her department, division or working unit, for education and training, for assessment and promotion and for motivating employees.

harmony
needs of individuals

Receiving and transmitting information

A manager has to be well informed at all times about what is going on both outside and within the organizational unit. If problems are to be spotted and dealt with in time, information is required. The organizational unit must receive sufficient and timely information in order to be able to react to events effectively.

sufficient and timely information

Decision making

All managers will face unexpected situations even though they may strive for and prefer planned action. Problems are sometimes ignored for a long time and this may eventually result in an acute crisis – for example, a conflict between departments or divisions, or between employees in work groups, or a sudden disruption to the supply of essential resources. Managers have to find solutions and make decisions regarding these problems. The first priority is to implement immediate short-term measures so that work can be resumed as soon as possible. They then have to search for more fundamental adjustments or changes in aspects of the organization such as structure and policies in order to prevent the same problems from happening again.

decisions

Time management

Managers need to possess good time-management skills. The need for joint consultation and participation in various work situations makes it important for the manager to learn the art and skills of effective meetings and communication. Setting priorities and delegating to others whenever possible are very important. Prioritizing is a key skill for everyone who wants to work effectively.

meetings
delegating

Field knowledge and focus on results

Managers need to have knowledge of the specific field in which they work and should be result-oriented, for themselves as well as for the company as a whole.

CASE

Mini case study 1.2

Kidnapped … bosses are taken hostage in France

SERGE FOUCHER, the head of Sony in France, was taken hostage on March 12th by factory workers seeking better severance terms. They shut him in a meeting room and barricaded the plant with huge tree trunks. Released the next day, Mr Foucher seemed to take things in his stride. 'I am happy to be free and to see the light of day again,' he said.

Business people in France are not amused. They note that the authorities did not ask the police to free Mr Foucher. Instead, the local deputy prefect accompanied him into further talks with the workers, who got what they wanted: a better redundancy deal. It all confirms France's general lack of sympathy for business, complains one executive.

Taking executives hostage is a well-established tactic in France, which has a history of confrontational labour relations. But it seems to be becoming more common. In January 2008 the British boss of an ice-cream factory was held hostage overnight after announcing plans to fire over half of its workers (on that occasion, the police did intervene). In February 2008 the head of a car-parts factory was seized after workers realised that he was planning to move the operation to Slovakia. Ten days later, workers at a tyre factory owned by Michelin locked in two senior executives in protest at plans to shut the plant.

Workers in other countries take bosses captive on occasion, but France is the only nation where it happens often. Might the practice spread? 'Because of the state of the world economy, it would not surprise me if bosses were held hostage by workers more frequently,' says David Partner, a kidnap and ransom expert at Miller Insurance, an insurance broker affiliated with Lloyd's of London.

Sit-ins are already becoming more common. In America, says Gary Chaison, professor of industrial relations at Clark University in Massachusetts, workers are likely to become more militant, because of a sense of injustice over pay.

Source: *The Economist*, March 21, 2009

1.1.2 Organizations and organizing

People work together in companies or institutions, with technical, information and financial resources all being used in order to reach specific goals.

goal-realizing unit

An organization is a cooperative goal-realizing unit in which participants consciously enter into a mutual relationship and work together in order to attain common goals. These goals can often be best realized by means of a joint effort rather than by individuals acting alone. Thus, an organization is the 'instrument' used to make products or provide services which meet the needs of society and individual people.

An organization does not come into being by chance. Organizations are always the result of conscious decision making and actions. This is what we call organizing. Organizing as an activity is the creating of effective relationships between available people, resources and actions in order to attain certain goals.

A good organization … effective and efficient

A good organization is one in which people work purposefully, are goal-oriented and try to make efficient use of available resources. In organizations where people work at cross-purposes, strive for different goals, or use up more resources and time than is really necessary, actions and behavior are described as ineffective (that is, failing to attain multiple goals) and inefficient (that is, wasting skills and resources). Specified goals are not reached, or, when they are reached, more resources have been used and more time taken than would have been necessary in an organization where work is carried out effectively and efficiently.

In the latter type of organization goals are reached according to plan, on time, and at the lowest possible cost, and the people who work in such an organization experience high levels of job satisfaction. They like their work and derive intrinsic satisfaction from it. In this sense, good organizing and a good organization constitute the most important conditions for success.

Organizations … in all shapes and sizes

Organizations come in all sorts of shapes and sizes: profit and non-profit organizations and institutions; industrial companies and service industries; private and government-controlled firms; large, medium-sized and small companies; national and multinational companies; charities and voluntary organizations; unions, political organizations and so on. Whatever grouping we choose, all organizations have certain common features:

- people who
- work together and cooperate
- in order to reach a specific set of goals.

Why do they do this? For the simple reason that an organization is a powerful instrument which performs actions that can never be matched by an individual working alone and through which it is possible to accomplish goals which could not be reached otherwise.

definition

As with the word 'management', the word 'organization' can be defined in three different ways:

institutional

1 It can be used in the institutional sense – for example, when we want to identify a company or association, such as Philips, IKEA, Marks & Spencer, Volvo, The Red Cross.

instrumental

2 It can have an instrumental meaning, referring to the internal arrangements, especially the structure, of a company or institution. An example of this use is: 'We are going to improve the organization of the company as it does not currently contribute to the realization of our goals.' 'Organization' in this sense refers to elements such task division, coordination, decision-making processes and planning and policy procedures.

functional

3 It can be used in a functional sense, by which we mean the process of carrying out a set of activities. For example: 'The organization of the party was very poor.'

1.1.3 The nature of today's management

History demonstrates that management was involved whenever people wanted to accomplish something by means of joint effort. Think, for example, of the building of the pyramids in Egypt, the Coliseum in Rome or the Great Wall of China. When we consider how the stones were cut and transported over great distances in order for them to be used in such impressive construction projects, it is clear that leading and masterminding these projects must have demanded excellent management skills. No wonder that in the ancient documents of philosophers like Plato and Xenophon, we find passages which are devoted to management. For example, in one of his debates on management, Socrates says:

… if a man knows what he wants and can get it, he will be a good controller, whether he controls a chorus, an estate, a city or an army. Don't look down on businessmen … for the management of private concerns differs only in point of number from that of public affairs … neither can be carried on without men … and the men employed in private and public transactions are the same … and those who understand how to employ them are successful directors … and those who do not, fail in both …

Taken from Socrates' debates as recorded by Xenophon in Memorabilia (III.IV. 6-12) *and* Oeconomicus.

Based as they are on experience, these statements are still valid today. The same applies to a number of management principles which were already in use in ancient Rome and which will be covered later in this book – for example, *unity of direction, hierarchy, chain of command and unity of command, centralization/decentralization, line relationships* and *staff relationships* (see chapters 5 and 6).

elements of modern management

Developments over the last 200 years have given us the following important elements of modern management:

- the interrelationship between business and society
- business growth and internationalization: globalization
- changes in power/authority relationships

- the role of science and technology
- marketing philosophy

The interrelationship between business and society

The time when a business enjoyed an almost totally autonomous position in society is long gone. Never before has there been so much influence exerted by society on what happens within a business and other forms of labor organization. The extent of this influence is apparent from contemporary ideas about the objectives and goals of a company and the way in which people think these should be realized. In their roles as societal stakeholders, people now make demands with regard to:

- optimal satisfaction of the needs, wishes and requirements of the consumer
- the spending of profits
- the provision of appropriate employment, that is, employment which suits the qualitative and quantitative supply and demand in a particular region
- the promotion of the well-being of every employee through the creation of a favorable working environment, as well as a contribution to a sustainable society and to the upkeep of that environment
- the guarantee of reasonable compensation to suppliers of capital and employees for their contributions to the company

Other demands on organizations include governmental policies on health, safety and welfare, regulations concerning the environment, regulations with regard to minimum wages and the social security system, not to mention the efforts of consumer associations and trade unions. In addition, there are government policies relating to the realization of economic markets like the European Union (EU) and regulations concerning wages, pricing policy and so on.

shareholder value

In recent times, which have seen the creation and highlighting of shareholder value, every action undertaken by the management of companies quoted on the stock market has been undertaken with shareholder interests in mind. Other stakeholders have felt that shareholder interests have been too strongly represented. Since 2000, there has been talk of 'the end of shareholder value' (Kennedy, 2000) as well as a strong demand for responsible and sustainable societal entrepreneurship (see Section 2.4.3).

Business growth and internationalization: globalization

In recent times many organizations have transformed themselves by increasing the size of their business (either through internal growth or through acquisitions and mergers) and by arranging their operations on an increasingly international basis.
After the Second World War, a large number of countries and continents became increasingly interdependent in the economic, social and strategic sphere. Within Europe, supranational collaboration was created (the EU) and, after the disappearance of the so-called Iron Curtain in the late 1980s, all kinds of relationships became possible between the former Eastern bloc countries and the West. Growth is increasing in many countries in Eastern Europe, as it is in Turkey too. Japan and South-East Asia have become new economic superpowers with China also undergoing very strong growth. ICT-driven India is emerging strongly. Because of their relative poverty, Africa, parts of Asia and South America (with the exception of Brazil) have played a lesser role in international trade.
Enormous technological developments have encouraged international cooperation. Many small, national companies have not been able to afford the enormous investments that these developments involve and so they have merged. Internationalization and increase in business size mean that new problems have arisen in the cultural-technical sphere, and these have had a big influence on present-day entrepreneurs and managers.

mega-mergers

In the meantime, in another world-wide wave of mergers, we are experiencing the occurrence of mega-mergers. At the same time, a fundamental reorganization of organizations that operate world-wide is occurring. (See Section 2.4.)
It would not be surprising if in the years to come, large-scale mergers were announced in the

fields of pharmacy, bio-pharmacy, chemistry, aviation, telecommunications and the banking and insurance businesses. These could well take the form of so-called hostile takeovers. As demonstrated by the takeover struggle between Vodaphone and Mannesmann, accelerating globalization is even affecting the German 'Rhineland model,' a model which has aimed to prevent foreign takeovers of business. Only five GSM companies are predicted to survive in Europe. In the automobile branch, the wave of mergers and/or takeovers continues, while on the other hand, there have also been some remarkable split-ups: for example, Ford and Volvo, General Motors and Saab (see also 2.4). Chemical giant Hoechst has amalgamated with the French Rhône-Poulanc. Pfizer bought Pharmacia for US $60 billion and is now the biggest pharmaceutical concern. Analysts have seen this takeover as the start of a new merger and acquisition era.

hostile takeovers

globalization

While an EU directive on cross-border takeovers has aimed to provide guidelines for improving entrepreneurial efficiency and thus prevent protective directives from blocking hostile takeovers, there have been a number of cases in which proposed mergers have faced being thwarted (by the European Commission, for example). In what has been seen as a government protectionist measure, China rejected Coco-Cola's bid to take over the juice producer Huiyuan (for $2.3 billion) in 2009, arguing that Coca-Cola, already a market leader in China, would become too powerful and negatively affect the market for soft drinks and juices. Had it gone ahead it would have been the biggest takeover of a Chinese business by a foreign company.

EU directive on cross-border takeovers

It would appear that most of the mergers end in a fiasco for the shareholders. Another price that has had to be paid is loss of jobs and high unemployment. The main focus of global restructuring has been the streamlining of organizations and the reduction of costs (see also Section 2.4). Reorganizations have led to the cutting of millions of jobs worldwide since 2000. In the US alone, from the beginning of 2000 until the summer of 2003, 3.2 million jobs were cut in order to increase profits (Donald Kalff, 2006).

The results of this cutting back of jobs have, however, been somewhat disappointing (partly because of reorganization fatigue resulting from subsequent restructuring and rationalization rounds) and it is becoming increasingly difficult to indicate what the savings are. Mass dismissal still remains one of the main tools that managers (especially the more American-orientated ones) have.

reorganization fatigue

Mass dismissal

In 2009, large multinationals in the industrialized countries again announced the imminent cutting of many thousands of direct jobs as a result of reorganizations and turnarounds. The major job cutters were at that time General Motors (13,000), Philips (12,000), Arcelor Mittal (10,000), Nissan (20,000), Japan Airlines (15,700), British Telecom (15,000), Opel (in Europe, 8,300), 'Alcatel'-Lucent (7,000), but also such companies as Nike (1,750), Dell (in the Netherlands, 500) and Campina (about 600). The reorganization that Shell announced in 2009 is expected to affect nearly a quarter of its 102,000 employees. Dutch industries are expected to lose an estimated 100,000 jobs, and in the UK, 60,000 jobs will go in the financial services sector alone. However, recent reports would suggest that companies are expecting to shed jobs less dramatically in the post-2010 period. Asian businesses are most optimistic in this regard.

reorganization

turnaround

The cuts are partly due to the financial crisis. Recent job cuts in Europe were also caused by outsourcing and/or offshoring of corporate activities, as the cases of IBM and Siemens illustrate. IBM cut 10,000 to 13,000 jobs in Europe and the US and took on 14,000 IT employees in India. Siemens shifted 10,000 jobs worldwide to low-wage countries, including some eastern European EU countries Accenture's main business centre is in India (with nearly 50,000 employees), as is that of Cap Gemini (20,000). The French and Dutch-owned company Atos has 13% of its employees in low-wage countries and Logica intends to shift more of its work to India. Up to now, Ordina has operated solely via partnerships in India. Companies such as Unilever, Philips, ING and many others are making their own contributions and usually for the same reasons, and it is predicted that the end is not yet in sight.

terror of globalization

These events gave rise in 2000 to the term the 'terror of globalization' (Viviane Forrester, 2000).

Changes in power/authority relationships

authority and power

It is important to make a distinction between authority and power. Authority is the legal or official right to exert a certain influence. Power is the capacity to influence the behavior of others and to get others to act in a certain manner, possibly even forcibly. The number of people who exert influence or authority over others without having the legal authority to do so has greatly increased in recent times. Within a company, the formal authority is still with the shareholders, but in reality a number of people can pull the strings.

acceptance of authority

Prestige is paramount. Acceptance of authority through personal prestige is crucial to effective implementation. Having prestige means that employees are spontaneously willing to cooperate and accept the exerted authority without objection (and without the necessity to invoke legitimate means of punishment anchored in the formal entitlement).

To clarify this, it might be better to speak of 'positional authority' (formal competence) and '*personal prestige*' as the basis of power instead of authority. People have power when they possess or have at their disposal the resources and characteristics with which they can motivate others to do things that they otherwise would not do, or with which they can at least influence the behavior of others. The exercise of power means someone using his or her authority and prestige, and thereby influencing (for example, by means of communication) the behavior and ideas of others.

willingness of others to listen

All this means that the influence which managers can exert partly depends on the willingness of others to listen. When managers have little or no prestige at their disposal, then the simple fact that they have a degree of authority will not be enough to determine the way work is carried out within the organization. The relatively high level of education and development of the average employee means that the exercise of power is increasing less likely to be based simply on the possession of resources of production and formal authority.

PRIVATE EQUITY FIRMS EYE STAKE IN SPRINGER

Leading private equity groups are competing to inject about €400 ($530m) of equity into Springer Science and Business Media, the German academic publisher, which is looking to sell a stake of as much as 49 per cent.
Blackstone, CVC Capital Partners and TPG are all considering submitting first-rounds bids, due by next month.
Other groups mulling over a bid are Kohlberg Kravis Roberts, Hellman & Friedman, Carlyle, EQT and Providence Equity Partners.

Springer, owned by UK private equity groups Candover and Cinven with Derk Haank as chief executive, is the world's second-largest publisher of scientific and medical books. The attraction for the many private equity groups is the potential, eventually, to merge Springer with Informa, the London-listed business-to-business publishing group.

Informa last year rejected a £1.9bn ($2.8bn) takeover bid from a private equity consortium made up of Providence, Carlyle and Blackstone. One private equity executive considering a bid for the company said the deal was expected to value Springer at about nine-times last year's EBITDA of €275m. 'It's a good company, very well run, but with too much debt,' said the executive.

Springer was created in 2003 by Cinven and Candover through a merger of BertelsmannSpringer and KAP, a Dutch publishing group that was formerly owned by Wolters Kluwer.

Source: *Financial Times*, April 27, 2009

Real influence has to be supported by ability and competence, and has to be experienced as being useful and fair in relation to the task.
Closing down a company is often a contentious matter since employers are likely to prioritize the social security needs of their employees as least as much as the rate of return. Nevertheless, the position of shareholders seems to have been reinforced, with 'shareholder value' being increasingly prioritized. In this era of corporate governance, the question has to be raised of whether too much influence by shareholders, particularly speculative ones such as private equity and hedge funds, is leading to premature and short-sighted company decisions.

shareholder value
corporate governance
short-sighted company decisions

Although European leaders do not value the shareholders' approach very highly, Dutch managers and directors, along with those in other European countries, act in very much the same way where reorganizations and their own remuneration are concerned, and sometimes even display irresponsible behavior through vanity or greed at the top.

greed at the top

The role of science and technology

operations research
cybernetics
information technology
management tools

Areas of management science such as operations research, cybernetics and information technology have gradually developed into management tools. These areas of study are so sophisticated and powerful that some believe that one day making decisions will be one of the jobs of a computer. Others refute this on the basis that the human brain is too complex to be completely simulated with the aid of digital technology. After all, it will be people who pose the problems, interpret the information and set priorities. In future management the emphasis will be on the accurate timing of decisions crucial to the survival of the organization. Central to this will be the creativity which makes this possible and which stimulates new developments.
The so-called millennium problem (the prediction that at the turn of the century, computers would undergo disruptions to their data and programs) again showed the extent to which we are becoming (and feel ourselves to be becoming) dependent on technology and science in our lives and our work.
However, after we have overcome the serious problems posed by our technologies, the accent in management will revert to the making of decisions crucial to the continuity of the organization and to making these decisions at the right time. Creativity is the crux of management, since it enables or even provokes new developments.

fracture lines
unbundling
rebundling
call centers
Internet

Under pressure exerted by laws aimed at deregulation, worldwide competition and technological development, it is expected that traditional industries, and within them, their various branches, will be subdivided along the fracture lines of customer relations management, product innovation and the management of infrastructure. The role of ICT in this is unequivocal. We have taken over from the US the terms 'unbundling' and 'rebundling'. (See Section 2.4.7.) ICT-related technologies such as call centers and the Internet are causing changes to traditional distribution channels. (See Section 10.4.7.)

genetics
life science industry

During the coming decades, progression in genetics, DNA research, neuro-sciences and other bio-related sciences will have far-reaching effects. In the so-called life science industry, these influences are already being felt. Farmers, the medical profession, computer companies, pharmaceutical companies, the chemical industry and organic food companies are noticing the effects.

EUROPE PUTS STRESS ON R&D SPENDING

While the growth in R&D investment slowed across the world in 2008, European companies continued to plough money into research at a significantly higher rate than their US and Japanese counterparts, and at a rate that exceeded the lacklustre pace of underlying economic growth.
R&D spending in Europe has been weaker than in competing economies such as the US and Japan for much of the past decade, and the relative progress in 2008 will not have reversed this. The non-EU spend is dominated by trends in the US, Japan and, to a much lesser extent, countries such as Switzerland and South Korea.

In some emerging economies it has been growing quite strongly. In China, for example, privately financed R&D rose from about 0.7 per cent of GDP in 2003 to about 1 per cent in 2006 and 2007. In individual companies the EU's showing was also weaker. It managed only two places in the world's top 10 R&D spenders – Volkswagen, which shelled out €5.93bn ($8.87bn, £5.27bn) and Nokia with €5.32bn.

By contrast, the US held five places – namely, Microsoft (€6.48bn), General Motors (€5.76bn), Pfizer (€5.72bn), Johnson & Johnson (€5.45bn) and Ford (€5.25bn). The top spot went to Toyota Motor, which spent €7.61bn. Also in the top 10 were Swiss pharmaceutical groups Roche with €5.88bn and Novartis with €5.19bn.

The EU scoreboard is based on the top 2,000 corporate spenders on R&D, which in turn account for about four-fifths of worldwide business enterprise expenditure on research.

Source: *Financial Times*, November 17, 2009

The expectations are that biogenetics, agronomics and nanotechnology will create a revolution and bring about an industrial transformation. The possibilities (as well as the challenges) are endless. In an era of green and sustainable business, the genetic manipulation of organisms, seeds, animals, and even human beings has naturally raised opposition, and not only from farmers (see Bove & Dufour, 2002).

sustainable business
genetic manipulation

The development of a marketing philosophy

The development of a marketing philosophy has helped management to realize that the actual goal of the organization lies outside the organization itself, namely in the market. The customers or clients who buy products or services will eventually decide if an organization is to reach its goals and survive.

customer-focused marketing
B2C
B2B
brand values

Since 2000, which marked the start of the most recent marketing era, there has been a sharper focus on the individual customer. Customer-focused marketing, made feasible with e-markets and online ordering systems, is directed both to the individual customer (B2C) and to business-to-business relationships (B2B). The approach being taken is similar: brand and customer orientation is reinforced by the groups that target them. The most recent marketing and advertising approaches direct attention mainly to brands and the creation of so-called brand values, so much so that it has been argued that annual company reports should give a financial value to the brand in question.
The assumption is that at a time when the world is striving to achieve a free market and there is increasing competition for cross-border market share, only the strongest and best-managed brands will survive. Coca-Cola, for example is more capable of creating brand value than Pepsi and consequently has for years been the stronger brand. The same holds for McDonald's as compared to Burger King. The marketing philosophies and strategies of Unilever, Shell, Philips, Heineken, Wal-Mart, H&M, Zara, Nike, Calvin Klein, IKEA and many other companies are now guided by brand and brand value. Well-known brands obviously exert an attraction that can be felt by consumers from Tokyo to Oxford and Heidelberg and now mean that these consumers – transformed into world citizens – eat and drink in the same way, listen to the same music and dress uniformly.

THE WORLD'S MOST VALUABLE BRANDS 2010: THE TOP 20

Rank	Brand	Brand value	% Brand value change 2010 vs 2009
1	Google	114,260	+14
2	IBM	86,383	+30
3	Apple	83,153	+32
4	Microsoft	76,344	0
5	Coca-Cola	67,983	+1
6	McDonald's	66,005	–1
7	Marlboro	57,047	+15
8	China Mobile	52,616	–14
9	GE	45,054	–25
10	Vodafone	44,404	–17
11	ICBC	43,927	+15
12	HP	39,717	+48
13	Walmart	39,421	–4
14	BlackBerry	30,708	+12
15	Amazon	27,459	+29
16	UPS	26,492	–5
17	Tesco	25,741	+12
18	Visa	24,883	+52
19	Oracle	24,817	+16
20	Verizon Wireless	24,675	+39

Source: *Financial Times*, april 28, 2010 (Millward Brown Optimor/BrandZ)

Americanization
demarketing
culture jammers
anti-advertisements

Counter forces have been aroused, however. Marketing has been equated with globalization and Americanization, and 'culture jammers,' demarketing campaigns and anti-advertisements have been the result. Culture jammers resist the top-down dictates of advertising and television, and have even held mocking anti-campaigns (the 'buy nothing today!' campaign of 20 November 2002) and placed anti-advertisements (look at adbusters.org).

Definition

What is a brand?
'A brand is a name, term, sign, symbol or design, or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.'

Philip Kotler

branding

Designing and branding makes the difference. Older people buy a Nokia, youngsters choose a Samsung. The 'age-groups' are differentiated at about the age of 20, it is said. Nokia is 'not cool', and Samsung has no business-exposure. Positioning, profile, core value, key messages and identity are the notions associated with a 'brand'.

WHAT IS BRANDING?

Branding is the foundation of marketing and is inseparable from business strategy. It is therefore more than putting a label on a fancy product. Nowadays, a corporation, law firm, country, university, museum, hospital, celebrity, and even you in your career can be considered as a brand.

As such, a brand is a combination of attributes, communicated through a name, or a symbol, that influences a thought-process in the mind of an audience and creates value. As branding is deeply anchored in psycho-sociology, it takes into account both tangible and intangible attributes, e.g., functional and emotional benefits. Therefore, those attributes compose the beliefs that the brand's audience recalls when they think about the brand in its context.

Coca-Cola, for example, has become a cliché of brand management. Before branding or even management emerged as disciplines, the Atlanta-based company was already spending over US$11,000 on a mass advertising campaign as early as 1892. Its trademark was officially filed in the US that year and has consistently been displayed with the same script to this day. Over time, it also associated its brand with a bright red color, the hour-glass shaped bottle (1915) and the ribbon logo (1970). Together these aspects contribute to differentiating Coke from rivals such as Pepsi-Cola, which has applied competitive pressure since 1898.

Source: www.brandchannel.com

world-wide brands
local brands
private labels

Branding is a 'hot' issue, though even the biggest companies such as Proctor & Gamble and Unilever make mistakes in this respect. Unilever reduced its brands from 1,400 to 400 'world-wide brands', this aiming at market leadership, but the move was resisted by their consumers … (and) local brands were reintroduced. Proctor & Gamble made a wrong bet by launching high-end products and price rises during a recession, while at the same time doing battle with private labels. A sharp drop in P & Gs market share was the result … Unilever dropped prices (in 2009) to resist the competition of cheaper private labels. Private labels are doing well in the meantime.

While Albert Heijn is the trendsetter in the Netherlands, the brand names are fighting back: Unilever, for example, is making organic soup, Verkade 'fair trade' chocolate and so on. Genuine top brands are expected to be different to the generic brands and to that end the major manufacturers are lifting their innovation budgets. However, real success stories are increasingly rare. Even when generic brands create 'fighter brands' aimed at regaining lost ground, experience has shown that such a strategy rarely works. *Cannibalism* is often the result: the new brand takes over some of the generic brand's own territory instead of that of the competing brand. Fighter brands can also lead to loss of reputation and financial loss. Marketing, brand and the globalization of companies are clearly interrelated: critics of international business have been pointing this out for years. For Coca-Cola, the slogan 'think globally, think regionally, but act locally' is a call to decentralize and give greater autonomy to national branches in order to better predict the local needs of customers and consequently a better match between Coca-Cola and the local culture of the country in which the product is bought.

THINK REGIONALLY, ACT LOCALLY ...

McKinsey's experience suggests that even the most sophisticated multinationals must change significantly to realize Asia's growth potential. The region is as diverse as it is vast. Its markets come in a bewildering assortment of sizes and development stages, and its customers hail from a multitude of ethnic and cultural backgrounds. Their tastes and preferences evolve constantly. The speed and scale of change in Asian consumer markets can surprise even experienced executives. To meet the challenge, global companies will have to organize themselves regionally to coordinate strategy and use resources in the most efficient way while at the same time targeting the tastes of consumers on a very local level.

Adapting quickly to capture growth from direct-to-consumer channels will also probably become more important in Asia, as it already is elsewhere. In some urban clusters, for categories such as consumer electronics and apparel, online sales growth is beginning to overtake traditional channels. In Japan, sales in direct channels have exceeded those in department stores so far this year. Sales at TaoBao, China's largest online retailer, have soared to more than $14 billion annually since it was launched, in 2003. Lancôme reports that its partnership with Baidu, China's largest search engine, helped lift online sales in China by 30 percent. And AmWay has become one of China's largest consumer packaged-goods companies by selling its products door-to-door through a network of 300,000 sales representatives. As Asia's economies evolve and mature, today's frenetic, hypercompetitive, fragmented marketplace will inevitably give way to a more settled one, with fewer players enjoying larger market shares and better margins. The penetration of modern retail formats will increase. But the journey will be long and filled with twists and turns.

As the winners learn to make decisions quickly to meet the demand for speed, scale, localization, and low costs, they will test and adopt new and more entrepreneurial management practices. These companies will probably share four characteristics. Their fast, adaptive business models will leverage scale and innovation throughout Asia, and regional organizational structures and operating practices will reflect this shift. But resources will be focused locally, on the development of category, format, and brand strategies targeting the explosive growth opportunities of sharply defined urban clusters, not countries. Products tailored and priced to meet cluster-level tastes and needs will be supported by faster, lower-cost supply chains.

'In China, consumer technology and infrastructure are blending together to create a once-in-a-lifetime opportunity for companies that understand the market.'

Ed Chan, *President and CEO, Wal-Mart China*

Finally, brand marketing skills will be used to market and sell across a variety of channels. For global consumer businesses, the struggle for Asia has now been joined - cluster by cluster, city by city.

Source: *McKinsey Quarterly* 2009, Number 4

1.1.4 The first management theories

The first management theories formulated were about scientific management, human relations theory and management as a process theory. They will be dealt with individually in this section.

The rise of 'scientific management'

During the Industrial Revolution in the USA, management started to be based on scientific principles and experimentation – so-called scientific management, as developed by F.W. Taylor. The problems addressed included the following:

- Raising productivity
- Organizational problems in production
- Production management, cost analyses, payment systems (e.g. Taylor's 'differential piecework' plan)
- Time studies, motion studies, method studies.

efficiency

With the development of industry, efficiency became a central issue. Opportunities to raise productivity levels were being sought. Inefficient working methods (those which took up too many resources and too much time) were being replaced by objective and scientifically based norms which indicated the level of performance expected of the laborer. In this period, it was mostly engineers who laid the foundations of scientific management. Names like Taylor, the Gilbreths, Emerson and Gantt are inextricably linked with this area. F.W. Taylor (1856-1915), the 'father of scientific management', was determined to find an answer to the question of how productivity could be raised. He focused his first research on what constituted a 'fair day's work' – that is, a 'feasible, normal labor performance' for a first-class worker. He did this by using new techniques such as time, motion and method studies.

Taylor
father of scientific management

For example ...

... one of Taylor's later and best known experiments – the so-called Bethlehem experiment – concerned the loading of pig iron into train wagons. His first observations showed that about 47 tons of pig iron could be loaded instead of the 12.5 tons that had previously been the average daily capacity of a worker. To prove this, Taylor experimented with working times, rest times, weight per unit of time, working methods, tools, and so on. To establish what a 'fair day's work' was, Taylor selected a so-called Pennsylvania Dutchman (i.e. 'Deutchman'), a very strong, diligent and thrifty man who had to carry out in detail what he was told to do. As compensation he was promised a higher wage per unit of performance. The man was able to perform to suit the requirements, and many other laborers then followed suit and appeared to achieve the same level of performance.

In applying his methods, Taylor met a degree of hostility which can be explained to a great extent by the belief at that time that higher productivity would lead to unemployment. By a 'systematic soldiering' and a reduction in performance, the employees tried to protect themselves against 'arbitrary management' in the form of 'cutting the rates'.

systematic soldiering
cutting the rates

To improve the organization's production function, Taylor proposed a division of work between management and the workmen – the establishment of the concept of management. In addition, the processes of planning and work preparation were separated and an operations function was introduced for the first time. Finally, Taylor introduced the manager who had a specialized task as part of a more complicated, wider set of tasks – that is, a 'narrow' task specialization and 'functional foremanship'.

task specialization
functional foremanship

With the introduction of the differential piecework wage plan, Taylor appealed to the human need for higher wages. He supported this view by paying extra to those with enhanced performance levels, with percentages increasing the nearer workers got to top performance. As such, he made it clear that the worker, as well as the entrepreneur, could profit from higher productivity.

In terms of a 'motivational theory', Taylor considered only one stimulus to be dominant and relevant – namely, the money stimulus (via a form of piecework wage). According to the workings of this stimulus, a maximum performance would be reached. This solution to the motivational problem, as advocated by Taylor and his followers, was to prove too simplistic.

money stimulus
motivational problem

The rise of human relations theory

human relations theory
Mayo

The founder of human relations theory was the psychologist Mayo (1880-1949). This theory was based on research in the Hawthorne factories of the Western Electric Company during the years from 1924 to 1932. (Mayo was in charge from 1927 onwards.)

working conditions

In the research at the Western Electric Company, studies were made of the effects of changes in working conditions on productivity. Without exception, production appeared to rise after a change in the working conditions, regardless of the nature of that change. In the last phase of the study, when employees returned to the original working conditions – that is, shorter rest breaks, no refreshment and longer working times – the highest performance to that date was registered. It became clear that the rise in productivity could only be explained by a changed attitude to the working situation, including the following factors:

- The workers were consulted on the nature and the design of the experiments.
- A new style of management was introduced.
- A higher degree of personal freedom was experienced.
- There was personal recognition of the performances delivered.
- Workers had control over their own work.
- Workers got the feeling of being an elite, as they were considered interesting enough to warrant study.
- Loyalty developed, workers helped each other and there was an element of social contact.

style of management
informal social group

From the experiments at Western Electric Company, Mayo concluded that the morale of the workers could be affected by the style of management. Furthermore, Mayo was convinced that satisfaction in the workplace was strictly dependent on the informal social group pattern. In other words, Mayo came to the conclusion that a great number of socio-psychological factors influence the functioning of an organization and as a result managers needed to acquire social skills in order to be able to make positive use of human relationships in production groups. Technological knowledge and technical skills alone, considered the major factors by Taylor and others, were insufficient if the process of management was to attain optimal production results. As a result, the importance of a socially oriented style of leadership and management was placed at the forefront of management theory.

Later theories of motivation

Theories of management and motivation based on the notions of scientific management and the human relations theory, were further developed in the years after 1950. This will be covered in more detail in chapters 7 and 8.

The rise of management process theory

Fayol
founder of management theory

Henri Fayol (1841-1925) was described in Chapter 1 as the founder of management theory. Fayol was of the opinion that management skills could be learned. The problem was that in his time, there was no theoretical model available that could be seen as the basis for management education. The contribution of Fayol from 1916 onwards filled the gap and can be seen as the first systematic analysis of the elements of management behavior in governing a business. As indicated in section 1.5 Fayol broke down the managerial function into five essential parts:

1. Policy making and planning (prévoir)
2. Organizing (organiser)
3. Giving instructions and support during implementation (commander)
4. Coordinating (coordonner)
5. Control and if necessary adjustment (contrôler)

Characteristics of the first management theories

The first management theories had the following features in common:

- They were derived from what happened in practice on a day-to-day basis. Current daily activities were scientifically analyzed and then systematized; normative actions were not subject to the same level of discussion.

- They arose out of a situation in which it was assumed that the employer enjoyed a great deal of autonomy, being rarely affected by the world outside the organization. (In those days the employer pretty well ran the show.)
- They were directed at finding the best solution and a method which could be applied to every situation and which seemed to lead to a preferred and uniform way of management.

1.1.5 The modern schools of management and organizational theory

In addition to the first three founding schools of management theory, described in Section 1.1.4, a further nine areas of development in management and organizational theory can be identified. These are:

- Structure theory
- Revisionism
- Decision-making theory
- Communication and information theory
- Systems theory
- Strategy theory
- Environment theory
- Theory of the growth and development of organizations
- Contingency theory.

The contributions of these schools of thought are described in the course of this book, as we follow the development of management and organizational theory (without necessarily making direct and repeated reference to each of them). A brief description of each of the nine schools follows, with an indication of where a more detailed discussion can be found.

Structure theory

organizational structure
organization as an 'instrument'

Structure theorists focus attention on the rules and principles of designing – that is, building up and extending – the organizational structure. In addition, they often provide further insights, by way of empirical research, into the internal functioning of the organization as an 'instrument'. Obviously, sociological considerations will play an important role in this approach. Although organizational structure was covered in the preceding schools of thought, the subject was given far greater emphasis from 1945 onwards. (See chapters 5 and 6 on effective organization structure for more detail.)

Revisionism

Bennis
revisionism
Argyris
democracy
humanization

Bennis (1961) once characterized the scientific management movement as a way of thinking through the theme of 'organizations without people,' while the human relations movement concerned the theme of 'people without organization'. Similarly, revisionism can be described as an approach whereby the theme of 'people and the organization' becomes the focus of problem formulation. In the 1950s, earlier elements of organizational theory were being reviewed, expanded and enriched. For example, Argyris (1964) referred to an 'individual integrated into the organization.' This integration can be given a concrete form by means of task enlargement, task enrichment and task rotation (see Section 6.2), as well as by developing a new, more appropriate style of leadership (see Chapter 8). In the contributions of the Revisionism school, internal democracy and the humanization of work are placed at the forefront. This direction of thought is especially relevant to the handling of problems of organizational design and leadership style.

Decision-making theory

Decision making becomes a problem if the view is held that the individuals concerned have limited cognitive abilities and are also affected by subjective or emotional (i.e. irrational) factors. Individual decision makers cannot know all the possible alternatives for action, while

objective rationality
Simon
subjective rationality

subjective and irrational influences play a role in the consideration of alternatives. Since the late 1940s, the postulate of complete objective rationality that characterized the homo economicus as a decision maker has been changed by Simon (1947) into bounded rationality or subjective rationality. The notion of 'one omniscient decision maker' at the top of the hierarchy in an organization is also no longer considered valid. The focus is now on the total process of decision making instead of decision making as a decision imposed from above. The decision-making process has now been broken down into its constituent parts in a complex organization and is conceived of as a process that consists of a series of steps (see Chapter 3).

Communication and information theory

feedback principle

This area of management theory concentrates on the key role of communication and information systems. Such systems have many similarities with cybernetics. Communication is a process of which feedback is considered to be an integral part. A system of 'two-way traffic' is emphasized. The feedback principle is also an essential ingredient in the managing of other processes, including the setting of targets and operational norms, regulation, adjustments and corrective actions – in short, planning and control. Communication can take various forms – oral, written, electronic, horizontal, vertical, and lateral – within each particular structure or system. (Communication structures and the effectiveness of communication and decision making are covered in chapters 3, 7, 8, 9 and 10.)

Systems theory

open systems
business process

The influence of systems theory on management and organizations is said to have developed around 1950 (although systems theory was applied to biology as far back as 1932). The theory is based on the general concept of a system which can be applied in all sorts of scientific fields. In organization and management theory, the system model views organizations as 'open' systems – that is, systems which are in interaction with their surrounding environment (for example, the acquisition of energy, information and other resources and the provision of goods and services). This approach calls for renewed attention to be focused on the relationships between the organization's constituent parts and for the control of processes in the context of the whole organization. Business process redesign (BPR) – sometimes referred to as process re-engineering or business network redesign (see Chapter 10) – can be seen as a 1990s revival of these concepts from the 1950s in the era of information technology.

Strategy theory

survival
organization and environment

The central issue in strategy theory is striving for the survival, self-preservation or continuity of the organization in an ever-changing and complex environment. This school focuses further attention on the relationship between the organization and the surrounding environment with which it is interacting on a continuous basis. This relationship was first given prominence in the early 1960s during a period of dramatic change in the nature of the technological, societal and market environment. The relationship between organization and environment has been investigated further in the intervening years (see Chapter 4).

Environment theory

network of organizations

From 1965 onwards, the external environment of the organization was seen as an independent entity, laying down the rules of engagement for the organization, in stark contrast to earlier views which had seen the organization as autonomous and setting its own rules. Environment theorists try to develop models whereby events in the environment can be observed and can become manageable. In organization and management theory, it is important not only to study the features of the environment, to which the structure and behavior of the organization can be related, but also to study the links and dependencies that exist in a network of organizations. The concepts of 'the organization as a network' and 'organizational webs' relate to inter-organizational cooperation between intelligent organizations (see chapters 2 and 4 for further detail).

Theory of the growth and development of organizations

phases of growth

This school of thought, which has emerged since 1970, is concerned with both the various phases of growth and development in the economic and technological sense, as well as the problems of growth in the socio-psychological sense. (For economic and technological aspects of management, see Chapter 5; for socio-psychological aspects, see chapters 1 and 8.)

Contingency theory

situationally dependent

The starting point for organizational contingency theory can be summarized in the phrase 'situationally dependent'. In other words, there is no predetermined best way of carrying out such activities as structural design or best leadership style. Recommendations, 'laws' or principles of planning, organizing and leadership have to be adapted to fit specific situations. These contingency contributions to theory, contributions which emerged after 1960, were intended as a means of reviewing and enhancing earlier insights and theories, and they were mostly based on empirical research results. Contributions to the development of theory from this school of thought appear in every chapter of this book.
Figure 1.1 relates the various schools of management and organizational theory to the core tasks of management.

Management and organizational theory: an interdisciplinary field

interdisciplinary

The theory of organization and management is by definition interdisciplinary in nature. In theory, human behavior can be divided into areas of study which can be researched as single disciplines (for example, economics, psychology, sociology). In reality, however, human behavior can only be viewed as a unity and a whole.
Those seeking practical solutions to specific problem situations will find only limited support in those single disciplines or subject-specific theories. Managers and specialists in the field need to realize that the direct application of insights from just one of the single disciplines carries risks.

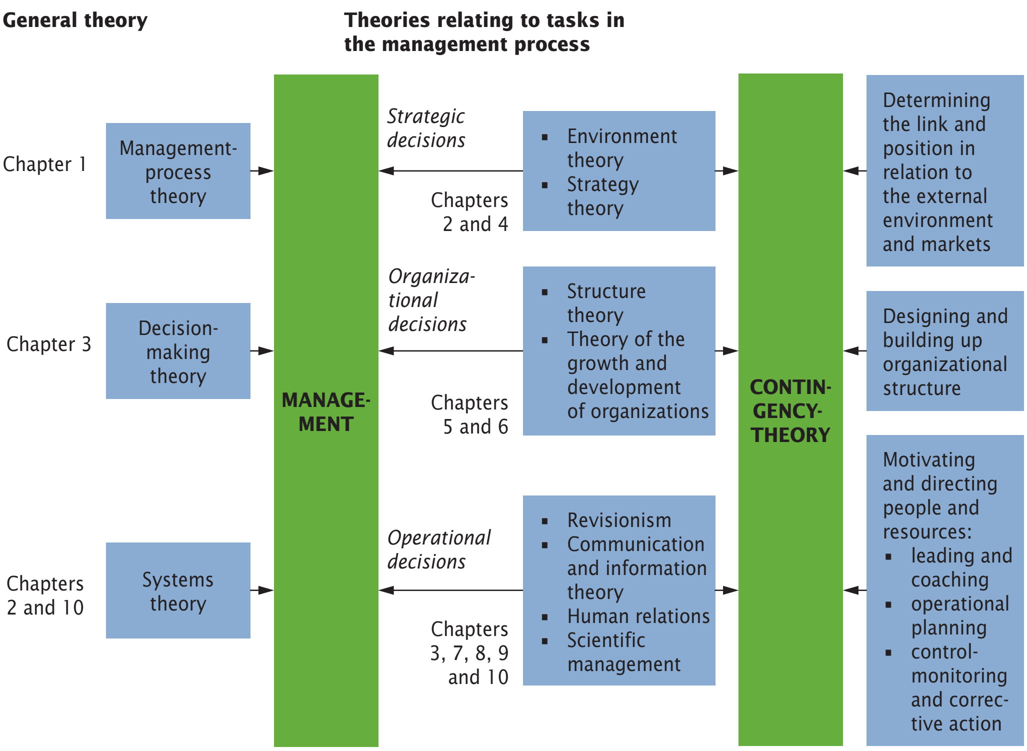

Figure 1.1
Schools of thought in relation to core tasks in management

It means that only one aspect of a problem is put under the microscope, while other aspects receive little or no attention. This does not reflect reality; it gives an unbalanced and biased view. An example would be a head of a department who has spent too little time acting as a leader during the evaluation of results, and too much time as a psychologist or lawyer. The various aspects of the problem need to be related to each other – that is, the demands that are made by the various factors first have to be integrated into the thoughts and actions of the manager. Only then can we do justice to reality.

1.2 The company: its governance structure and management

distinct entity in society

A company or corporation is a distinct entity in society with its own personality and identity formally distinguished from those of its owners. The owners are not personally liable for the company's debts; it can hold property and can do business in its own right. A company continues to exist as an entity even though the individuals who own it may constantly change. In contrast, a partnership is automatically dissolved on the death or departure of one of the owners, unless special arrangements have been made in the agreement.

control

The holders of common stock (that is, the shareholders) are the true owners of the company and have the power to control it. Directors are elected by shareholders; they select and nominate the president and other executive officers of the company, who together make up the top management team or board of management. The precise structure and the terms used to identify the levels of the organizational structure vary according to whether the system adopted is a 'one-tier' or 'two-tier' system (see sections 2.5.8 and 2.5.9).

one-tier two-tier system

board of directors

The governance structure of a large company whose shares are widely held by the public is sometimes pictured as an hour-glass (see Fig 1.2). At the top are many thousands of shareholders. The structure then narrows down to the board of directors. (In a two-tier system (see Section 2.5.9) this would consist of non-executives only and there would be a second tier of top management in the form of a board of management or executive committee headed by the Chief Executive Officer (CEO) as president.) Below the president is a relatively small group of executive managers, a larger group of *middle managers*, an even larger group of *front-line managers* or supervisors, and, last but not least, all the other employees at the operational core of the organization.

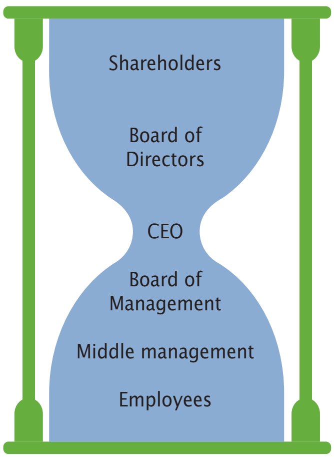

Figure 1.2
Hour-glass model of the company, indicating governance structure and management levels within the organization

The board of directors constitutes a bridge between the shareholders and society on the one hand and the managers of the corporate organization on the other. They are supposed to exercise broad supervision in terms of setting objectives, establishing policy and appraising the results of actions. As representatives of shareholders and other societal stakeholders – such as employees and unions, consumer organizations and banks – the directors must pay sufficient attention to the business, show interest in the company – from a certain distance in the case of non-executive directors – and exercise prudent control in the management of the company's affairs.

non-executive directors

In a publicly quoted company, the board of directors usually consists of three to twelve members, although it could be even larger. Small companies tend to have relatively small boards; some companies, such as banks and public government organizations, have larger boards – sometimes 20 or more members.

chief executive

Directors select and nominate (and may even dismiss) the chief executive and other executive officers, determine their remuneration and act as a court of the last resort when managers disagree. They can issue new stock to the market, they are required to authorize capital spending over a certain amount and they are involved with formulating corporate objectives and strategies such as the type of business the company should be in, should develop, should enter or should leave. They determine what proportion of the company's profits will be paid out in dividends and what proportion will be retained by the company. Under a system of co-optation they would normally nominate their own successors, with the formal nomination subject to election by shareholders.

shareholders

CEOS EARN ANNUAL BLUE COLLAR SALARY IN A DAY

According to the American Association of Labor Unions (AFL-CIO), an average chief executive officer (CEO) of a large company in the US earns 476 times more than the average production employee (blue collar worker). His Dutch colleague earns about 17 times the salary of the average man on the work floor. Elsewhere, top managers are content with less. According to AFL-CIO, the highest manager in Japan only earns 13 times the salary of a production worker. In Germany, the figure is 13 times that salary.

A new analysis by the left-leaning Canadian Centre for Policy Alternatives concludes the country's richest corporate executives pocketed an average of $40,237 by 9:04 a. m. yesterday. 'By the time your computer has finished booting up on your first day back after the New Year's holiday, the average CEO would have already banked what took the average Canadian worker an entire year's worth of work to earn,' the report states.

Source: *The Canadian Press*, January 3, 2009 (Colin Perkel)

CEO

The CEO, generally the company president in European-based companies, is likely to be the chief policy maker in the company although others are expected to make recommendations and will influence decisions. The CEO probably has the final word on most of the important questions that arise. Even in companies where organization charts show a group of apparent equals at the top, there is often one man or woman who is first among the equals – the primus inter pares.

primus inter pares

In the case of group control and group decision making at the top, some executives may be freed from day-to-day operational duties (or at least a proportion of them) in order to devote themselves entirely to overall policy issues. Such a top management structure can address issues relating to strategy, planning, organization and control and may also deal with specific functional issues which need overall coordination, thus bringing more than one mind to bear on the company's most serious problems. It is easier to consider problems with an open mind when not operationally involved and committed to previous decisions, and since members of the top management group are more or less equals this stimulates free discussion. This group structure may work well in some companies; in others it will be less successful. Success depends largely on the personalities of group members. While some will work well together, supplementing each other's knowledge and experience and stimulating ideas, for others, the group structure might dilute the sense of responsibility and perhaps give rise to a tendency to postpone necessary action.

Against this background, three important functions of a board of directors can be identified:

- The board provides advice and counsel.
- The board serves as a source of discipline.
- The board acts in crisis situations.

A typical meeting of a board of directors might have some of the following items on the agenda:

- Consideration of a refinancing plan
- Liquidation of obsolete or surplus plant
- Dividend action
- Consideration of an acquisition proposed by top management
- Company's position and risk of devaluation abroad
- A report on research and development programs and products

In a one-tier system, such as that common in UK companies, few if any questions are usually asked during the meeting by external non-executive directors, and questions are only rarely asked by internal executive directors. It is generally accepted that it is the role of the board of directors to do the following:

1. To establish the basic objectives, corporate strategies and broad policies of the company
2. To ask discerning questions
3. To select the president

Assessing management

Assessing management – that is, fulfilling the key function of deciding whether management is doing a good job – and making difficult decisions such as whether management has to be changed are difficult tasks for an external director.

For example ...

... in a company with 15 board members, eight of whom were insiders, earnings had declined steadily for 18 months. Concerned about the company's leadership, the seven external directors met to discuss what, if anything, should be done. Most of the directors reluctantly concluded that the president had to be replaced, but two directors put forward alternative solutions. They suggested that the president be promoted to a post created for the occasion – vice-chairman of the board; that the president be appointed head of the finance committee; or that the president be retained and the vice-president be asked to take over as chief executive officer. These suggested compromises were rejected by the other five external directors and the president was forced to resign.

For example …

… according to one president: 'The board of directors serves as a sounding board, a wall to bounce the ball against. It is a kind of screen on major moves, whether they be acquisitions or major shifts of policy or product line – the broad decisions of the business. Board members serve as sources of information … The decision is not made by the board, but the directors are a checkpoint for management in adding their experience and knowledge to the program.'
According to another president: 'Let's be honest: my board is a group of advisors and they know it. I select and throw up ideas, opportunities and problems to them and they respond. The board is not a decision-making body. Although there may be times when it could rise up and say no, this would be foolhardy. But I hope that we in management are never stupid enough to come up with such a proposal.'
A third president had this to say: 'One of my outside directors is a real "pro" on acquisitions and he has been most helpful to me. He does not know much about our operations or our problems, but he does know a lot about the process of identifying and acquiring other companies. Also he knows the people involved, and this is useful. There is a lot of stuff on acquisitions that is common to all acquisitions. He has been through a bundle of them and has helped me out of some tight spots – in negotiating, for example.'

owner-managers

Owner-managers of small corporations possess and exercise de jure powers of control, because for them ownership is the same as management. Owner-managers, therefore, determine what directors do or do not do. This is also often the case in family-owned companies.
In large and medium-sized companies where ownership is spread and dissipated among thousands of shareholders, the powers of ownership, while theoretically equivalent to those of the small company owner-managers, are actually minimal and almost non-existent.

presidents

Presidents of these companies have assumed and do exercise de facto powers of control over the companies for which they are responsible. To them the shareholders constitute what is in effect an anonymous mass of paper faces. Thus, presidents in these situations determine what directors do or do not do. As was found by Myles L. Mace (1986), most presidents choose to exercise their powers of control in a moderate and acceptable manner with regard to their relationships with boards of directors. However, they do make it clear, either explicitly or implicitly, that they, as presidents, control the enterprise they are heading and this is generally understood and accepted by the directors.

non-executive directors

Many non-executive directors are presidents of companies themselves and they thoroughly understand the nature and location of powers of control.

AT AMAZON, MARKETING IS FOR DUMMIES

The world's best-known companies typically spend hundreds of millions of dollars a year on advertising and marketing to build their brands. Not Amazon.com (AMZN). The giant online retailer has created one of the world's strongest brands by eschewing conventional tactics. Instead of shelling out big bucks for lavish trade shows and TV and magazine ads, Amazon pours money into technology for its Web site, distribution capability, and good deals on shipping. The result: a smooth shopping experience that burnishes the company name. 'It is pretty unprecedented that their brand has ascended so quickly without a large marketing budget,' says Hayes Roth, chief marketing officer at brand consultant Landor Associates. 'It's not about splaying their logo everywhere. They are all about ease of use.'

Amazon declined to participate in this story, in part because executives say they don't spend much time on branding. Still, the company had the biggest jump in this year's ranking of the Best Global Brands, rising 13 spots, to No. 43. One reason is that Amazon has thrived during the recession, even as other retailers have been battered and pushed into bankruptcy. The company's reputation for offering low prices, broad selection, and quality service has resonated with strapped consumers. In the past six months, Amazon reported 16% revenue growth, while most retailers saw sales fall. 'By investing back in the user experience, you get high loyalty and repeat usage,' says Sebastian Thomas, head of U.S. technology research for RCM Capital Management, an investment firm with a stake in the company.

The performance is something of a vindication for Chief Executive and founder Jeffrey Bezos. After the dot-com bubble burst, critics hammered him for investing so much in technology and physical distribution centers. Some investors called for Bezos to pull back and produce more short-term profits. Now those heavy investments are paying off big time, helping the company sell an ever-widening range of products to more than 94 million customers. Amazon's stock has more than doubled over the past three years, while the Standard & Poor's 500-stock index is up about 20%. 'Amazon has taken the long-term perspective,' says Thomas. 'Things they were criticized for have become essential assets.'

There are limits to the Amazon brand. The company hasn't had much luck selling luxury items, and some expansions, such as its shoe site Endless.com, have failed to gain much traction, prompting Amazon's bid for rival Zappos in July. 'They have not been successful in all categories,' says Citigroup (C) analyst Mark Mahaney.

Such disappointments won't stop Amazon from new experiments, though. The company plans to dabble in conventional marketing this fall, with a national TV ad campaign. But instead of hiring a hotshot ad agency, Amazon started a contest in which anyone could create their own commercial. The company picked five finalists and then asked customers to vote for their favorite. The filmmaker with the highest average customer rating, to be announced on Sept. 21, will get a $10,000 Amazon.com gift card. 'I am sure they will get a great deal of press,' says Landor's Roth. 'They won't have to spend a lot of money on media because they will get everyone else to do it for them.'

Source: *BusinessWeek*, September 17, 2009 (Spencer E. Ante)

1.3 Levels of management within an organization

levels of management

Having considered what managers and organizations are and how they are built up in layers in the governance structure, we will now examine the various levels of management within the organization in greater detail. The levels that can usually be distinguished within companies and institutions are as follows:

- Top management
- Middle management
- Front-line management and operational employees

In the hierarchy of a company, each of these layers has its own job specification with corresponding responsibilities.

tall or steep organization

'flat' organization

If a large number of management layers with limited scope of control and little delegation are discernible, we speak of a 'tall' or 'steep' organization. If, on the other hand, only a few management layers are present, with extensive scope of control and a high degree of delegation, we speak of a 'flat' organization (see Fig 1.3).

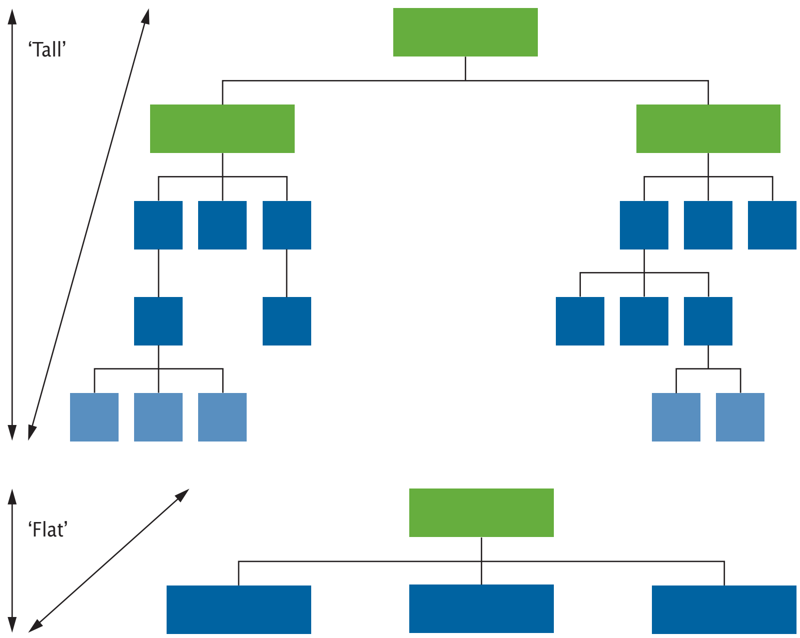

Figure 1.3
Tall and flat organizational structures

1.3.1 Top management tasks

top management

Top management refers to managers such as the owner-leader-manager of the company, the chief executive, the board of directors or the board of management of a hospital or a union. Figure 1.4 shows the position of top management in relation to the wider external environment and the other levels of management in the internal organization of the company.

The task of top management within the organization is to give content to the relationships between the organization and the market and the wider societal environment in such a way that the continued existence of the organization is secured. To do this, strategic decisions are needed. These decisions concern the organization's long-term mission and the route to be followed by the organization in its external positioning. Furthermore, top management needs to ensure that decisions relating to products and services target the right markets and consumer groups. Organizational and administrative arrangements must be made. Middle management can then make the required detailed organizational and operational decisions. In a company, the assignment of responsibility, tasks and authority to managers further down the line and to specialists in staff and support services takes place by means of delegation. Nevertheless, top management retains its own responsibility for the management of the entire operation of the company.

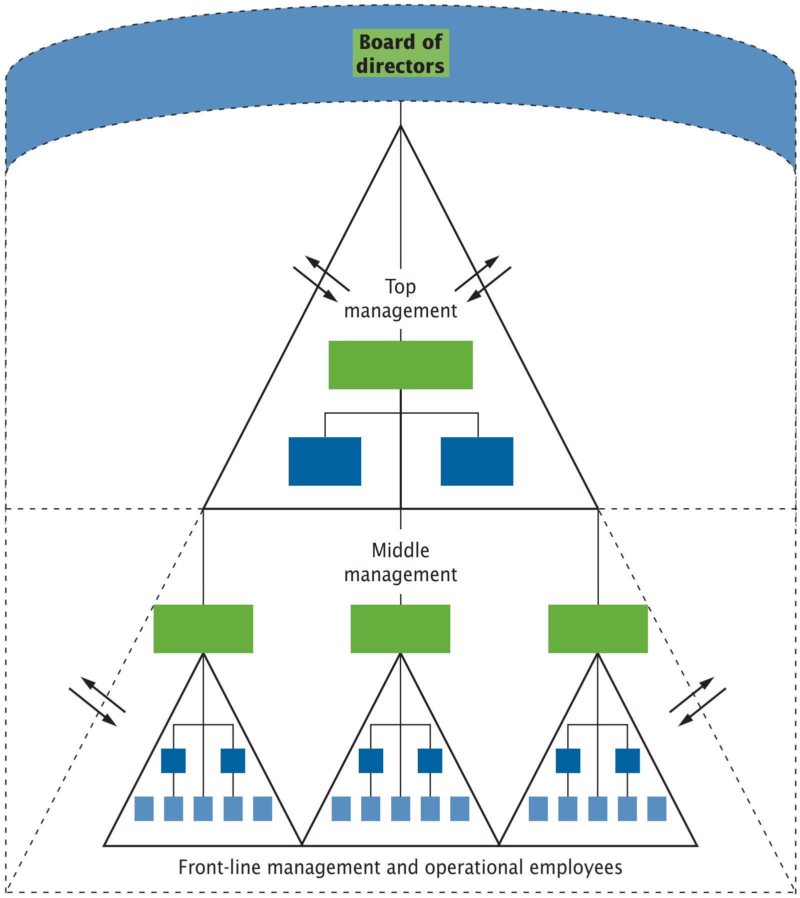

Figure 1.4
Position of top management in relation to the board of directors, lower levels and the societal environment

discharge

The management of a Public Limited Company (PLC) in the United Kingdom – Societé Anonyme (SA) in France, Naamloze Vennootschap (NV) in the Netherlands, and Aktiengesellschaft (AG) in Germany – has to periodically render account with regard to the fulfillment of tasks and the results reached. After audit and approval, discharge is granted. This means that after a review of policy and auditing of results and procedures, management is discharged from further obligations in relation to the period in question. In other words, it has been established that top management has done everything possible to attain a satisfactory result. Owners (shareholders) are then expected to be satisfied. On behalf of the shareholders, the board of directors exercises the ultimate supervision over management as specified in Section 1.2.

1.3.2 Middle management tasks

middle management

As top management cannot concern itself with all the activities of the organization, middle management has responsibility for the timely and accurate execution of operational activities. Within the organization, middle management has both an executive function in relation to the 'top' and a managerial function in relation to the 'bottom'. This means that middle management is positioned at the point where the interests of the various layers of the organization cross. In theory, the term 'middle management' refers to the managers positioned below the top management level – that is, assistant directors, production managers, marketing managers and sales managers – and above the front-line managers – for example, the heads of department, team leaders and supervisors.

In an organization which is built up on a divisional basis, the divisional managers are also considered to be middle management. In large organizations, therefore, a number of layers of middle management can be found. These can be referred to as 'higher middle management' and 'lower middle management'.

higher middle management
lower middle management

Higher middle management directs the activities of lower management and sometimes those of executives. The most important responsibilities of these higher middle managers are translating the strategic decisions and policy of top management and assisting in directing the operational activities. In this respect, it is particularly important for them to strike a balance between the demands from the top and the capacity of the front-line management to satisfy these demands. They perform a kind of buffer function.

buffer function

Middle management has increasingly come under fire in recent years. For that matter, expectations with regard to the position and role of middle management in organizations seem to be in a state of flux. In the one breath, middle management is being described as indispensable, in the next it is under attack and its added value is being questioned in the light of the increasing discretionary power of front line managers and even of operational employees. Its function varies according to the manager's position relative to top management and operations. As the managers move higher up the hierarchical ladder, they have more planning and organizing to do, while at the lower levels they are more concerned with instructing, motivation and operational control. As a result the position of managers in the middle is particularly difficult; they are, so to speak, pinned between the top level and the lowest levels, and are under pressure from both. From a leadership perspective (that is, from the point of view of maintaining and developing good, motivating and stimulating relationships) these middle managers seem to have a considerably tougher task than the managing director at the very top of the ladder.

front line managers

Middle management has to translate the plans of top management into the daily execution of tasks. It has the authority, to a greater or lesser degree, to direct operational activities. Operational execution is directly supervised and operational problems are identified on the spot. If these involve several departments, higher management needs to be called in.

Middle managers spend a great deal of their time on managerial activities (motivating and operational execution) and on organizing the activities of other people.

The responsibilities of middle management include formulating departmental policies, making departmental plans, maintaining network contacts for the company (both internally and externally), the timely gathering of information to help assess and amend operational results, and reporting to higher management on the execution of operations.

1.3.3 Front-line management and operational employees

Front-line managers at the operations level are directly responsible for the work carried out by other operational employees.

For example ...

... Harry Jones is responsible for a machine in a door factory. At his machine, two panels are glued together to form a door. The panels pass through a stretch of 12 meters. Three employees who have to be directed and coached by Harry work along the stretch of this machine. Harry is responsible not only for the quantity and quality of the doors, but also for the correct supply of materials, the correct supply and mix of glues and the maintenance of the machine.

Front-line managers coach and have management authority over the operational staff. The front-line manager is the immediate supervisor or 'boss' in the factory, office or research department. To the operational staff, the front-line manager is their 'real' and most direct boss. Other 'higher' bosses are indirect and often hardly visible, leading to doubts with regard to their contribution. The front-line positions are the key players in keeping the company in action and production. For this reason it is important that front-line managers know the problems of managing and organizing, are able to analyze the situations that can arise, talk about these with higher management, and translate solutions into terms of operational assignments and tasks.

self-steering autonomous process-oriented teams management levels

'Self-steering' or autonomous process-oriented teams are increasingly taking frontline management tasks into their own hands. In operations, resources (raw materials, components, information, etc.) are transformed into products and services. The management levels discussed earlier can be seen in this context as formulators of policy and facilitators of conditions with respect to the operational execution of tasks. They have a regulative and supportive relationship to the operational processes of production or to the rendering of services by which, for example, cars are assembled, machines are manufactured, reports are drawn up or patients are treated or cared for.

operational staff

Operational staff have to concentrate on achieving the specified level of production or demanded level of service. The required output level and the way in which the work is to be done can be decided through consultation with operational staff. The allocation of tasks and the style of leadership are major determining factors in the commitment and motivation of operational staff. (In chapters 6 and 7 we will cover this subject in more detail.)
Having examined the levels of management in an organization, for the remainder of this chapter we will consider the demands that are made of managers. Among other issues, attention will be given to decision making, time management, the workload of managers, and the culture of the organization.

1.4 Core activities of managers

top management middle management front-line management

So far we have considered management as a group of managers in an organization who are placed above the operational staff, and have separated them into top management, middle management and front-line management. In principle, these levels apply to all forms of organization – to both profit-oriented and non-profit-making organizations.

1.4.1 Similarities between management levels

The most important task common to all managers is the direction of people and resources in an organization. According to Mintzberg (1973), managers divide their time between the following:

- Interpersonal activities
- Information-related activities
- Decision-making activities

Interpersonal activities

network of relationships

Managers manage people. They are responsible for progress and for the results from processes which are under their authority. By maintaining network relationships, they are able to control the processes as well as promote the interests of the group, both inside the organization at a higher level as well as to the outside world. The building up of a formal and informal network of relationships inside as well as outside the organization is an integral part of this activity.

Information-related activities

To control an organization, managers need to have information at their disposal. This is why managers need to be kept informed of changes within the organization and the performance of each department. In turn, managers communicate with other members of the organization, stakeholders and other interested parties. Information is essential to enable managers to act and intervene appropriately in an ever-changing environment.

Decision-making activities

As head of a department, group or unit of the organization, the manager has to give direction to the policies that are to be implemented. Based on information gathered and by maintaining personal contacts, the manager will consider the opportunities and threats in the environment and, with due consideration of the strengths and weaknesses of the organization, will translate these into management decisions. The manager has to be constantly prepared to make decisions about the optimal use of people and resources in order to realize the goals. Managers cannot oversee everything, however: managers need their employees.

1.4.2 *Differences between management levels*

From the activities described above, it will be obvious that the manager spends a significant amount of time communicating with organization members and people and institutions outside the organization. However, this varies at each management level.

Top management

The demands made of top managers vary. The following are likely to rank highly as managerial qualities in the years to come:

- leadership qualities
- ability to manage strategy and change
- negotiating and influencing skills
- a focus on both the employee and productivity

While strategy, marketing and sales were important aspects of the traditional approach – a functional one – and were the main company departments, the future is likely to see the emphasis change towards attracting employees, creating employee loyalty and engaging the interest of the employees. Furthermore, researchers indicate that in the twenty-first century, hostile takeovers, protectionism and company espionage will make the life of a top manager more difficult. This explains in part the relevance of negotiating and conflict resolution.

excellent communicator
clean past
politician

The top manager will have to be an excellent communicator who can inspire employees. Furthermore, he or she will have to display creativity, enthusiasm, and an open mind. The top person will also have to have a 'clean past' in the ethical sense, and last but not least, the top manager will have to know how to be a politician, both inside and outside the company.

Since the start of the financial crisis in 2008, the following six managerial aspects have become crucial to top management and can be expected to dominate it even beyond 2010:

1. cutting of costs
2. a focus on growth
3. firmer governance
4. the demise of the Anglo-Saxon model
5. moral leadership
6. reflection

Source: *Management Scope*, February 2009

While cutting costs is a reflex that comes naturally to organizations, its challenge is to operate more intelligently and innovatively and to create growth by calling on the creativity and talents of their employees. Tighter control and more particularly, greater involvement on the part of the board of directors in directing the top management level, should lead to a better understanding of how to run a business. The ability to look critically at one's own performance is a much-needed aspect of this. Shareholder value and a short-term focus based on the financial denominators will disappear as the primary goals, being replaced by a broader and long-term perspective which includes value adding on the basis of reputation and a

customer orientation. Past financial scandals (those involving Enron, Ahold and others) have increased the need for credibility, moral leadership and authentic leadership. If we take stock of things and learn from the past we will be able to clean up our organizations and hopefully make them healthier and improve the way they operate. If not, the cynical cry of 'on to the next crisis!' will be self-fulfilling. We must learn from the 'leadership lessons for hard times' and realize the necessity of rebuilding corporate reputations.
Most particularly, what is required of future leadership is that it be *inspiring leadership*. (See also Section 8.2.)

Middle and front-line management

middle management

The largest group of managers is the level under the top management level of the organization – middle management. Middle management is important since it has to implement general policies and give direct *leadership* to the implementation of operations. The most important tasks of middle management are as follows:
- Leading and controlling activities
- Taking operational decisions
- Passing on information from the top down and from the bottom up
- Planning
- Organizing activities
- Motivating employees
- Maintaining internal and external contacts
- Reporting
- Generating new activities

With the tendency of top management to delegate authority, an increasing number of policy formulating tasks are being placed within the higher middle-management ranks. In organizations where change is taking place, middle management has a key position. After all, while top management may devise ambitious plans, middle management will have to take these plans to the employees and motivate them to put them into action.

1.4.3 Managers and types of decisions

We have already stated that managers spend a certain amount of their time in decision-making activities. We shall now consider the link between the position of a manager within the organization and the nature of the decisions to be taken and the amount of time spent on decision-making activities. (Decision making is discussed fully in Chapter 3.)

types of managerial decisions

The decisions that need to be made in organizations vary widely in nature. In theory, three types of managerial decisions can be identified:
- Strategic decisions
- Organizational (or administrative and tactical) decisions
- Operational decisions

Strategic decisions

Strategic decisions concern selection of the objectives or goals of an organization, the choice and positioning of product-market activities, the choice of resources and the route by which the goals are attained. (See Chapter 3 for more detail.)
Since these decisions concern the entire organization, they need to be made at the highest level. This does not mean, however, that employees at the lower managerial levels can be excluded from decision making. On the contrary, they are a necessary source of information. The final decisions are nevertheless made by the board of directors (or board of management in some companies). These decisions are characterized by a large degree of uncertainty and a lack of available information. They are mostly one-off decisions with far-reaching implications, such as a major investment in a new production process, a merger, the closure of a subsidiary or the development of a new product.

Organizational decisions

Sometimes referred to as administrative or tactical decisions, organizational decisions concern choices relating to the design of an organizational structure and the allocation of the firm's resources – that is, structuring the flow of information and tasks and responsibilities in relation to the members of the organization. (See chapters 5 and 6 for more detail.) The structure of an organization may need to be changed as a result of changes in strategy, or due to problems which arise during implementation of operational tasks. In searching for the most appropriate organizational structure design, choices have to be made from various forms of division of work and coordination. Tasks and authority may have to be allocated under changing conditions – for example, due to technological developments. It may be necessary to set up a new information system or to develop new procedures and guidelines.

Operational decisions

These decisions concern the daily arrangements relating to the operational execution of tasks and optimization of potential resources within the organization. Operational decisions can be made at lower levels of the organization. Were this not the case, overloading would result at the top and delays would occur in the decision-making process. These decisions include those which relate to repetitive operational problems, possibly of a routine nature. Operational targets and levels have to be determined and operational (day-to-day) plans made. Finally, there are the daily regulation and control elements of recording and reporting – for example, in terms of inventory levels, sales figures and cost budgets. (These aspects will be discussed in more detail in Chapter 9.)
In Fig 1.5, the types of decisions and the time and attention devoted to them are related to the levels of management.

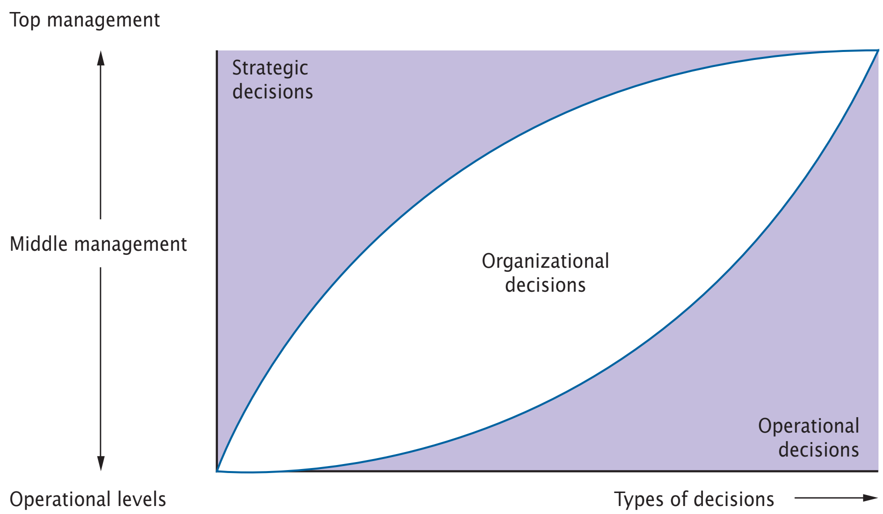

Figure 1.5
Types of decisions in relation to managerial levels

Preparation for, the eventual making of, and the ability to implement decisions usually call for deliberation, consultation and participation. Whether the decision results in its intended goal depends on the quality of the decision as well as on the degree of its acceptance by the members of the organization. This can be expressed in the following way:

E(ffect) = Q(uality) × A(cceptance)

In chapters 3, 6 and 8 aspects of the acceptance of decision making and management will be discussed in more detail.

1.4.4 Policy decisions and business goals

The owner-manager or the appointed managing director has to make policy decisions with regard to product range, direction of growth, location, legal company form, company size (including personnel and financial considerations), investment in and the acquisition of production resources, spatial planning in terms of technical layout and possible collaboration with other companies. A mature company will have staff specialists available within the company to assist it in the making of these decisions, though it may be necessary to consult external professionals in specialized areas. The aim of consultation is to find answers to questions like the following:

- Should we strive for growth? To what extent and in which direction do we want to grow?
- Should we devote ourselves to a specific product, to a specific market segment/niche, or to a specific geographical market area?
- Should we focus on low prices, low costs or superior quality?
- Should we stay small and independent, or seek some form of collaboration?

strategic plan

The answers that are found to such questions form the basis of the business policy which is to be implemented. In mature companies such policies are often made explicit, are written into the mission statement and company objectives, and are worked out in a strategic plan (see Chapter 4). In small companies, goals such as the proposed direction and size of the business are often implicit; they are in the head of the owner-entrepreneur-manager and take shape in actions rather than being established in formally worded company documents. However, in small and medium-sized companies, a plan needs to be drawn up for the purposes of getting company credit or financing expansion activities. Furthermore, external directors in small companies may 'force' management to make company policy explicit in its plans and budgets for the medium and long term by posing explicit questions.

It is the ongoing task of management to see to it that relationships with the organization's external environment as well as with forces inside the organization are such that the survival of the company is assured as much as possible. This means that the organization's management has to take continuous account of what is happening in and around the organization and has to react to matters such as conflicts between departments, a slowdown in decision making, a rise in staff turnover, increases in the prices of resources, a scarcity of labor, the supply of new materials and substitutes or technological breakthroughs.

societal and market environment

In this, management has to realize that these kinds of changes and forces are occurring in an existing organizational framework and within a societal and market environment in which departments, a works council, unions, suppliers, banks, and local and national governments or action groups may exercise their influence. An owner-manager of a small company or the professional management of a large company has to take all of these factors into account in drawing up the company's mission statement, in determining goals and setting out a course of action, choosing the design of the organization and obtaining and employing resources required for the task.

1.4.5 Objectives, goals, policies and planning

policies
planning

To ensure effective and efficient functioning of an organization, all relevant commercial, technological, financial and personnel considerations must be taken into account. Policies have to be formulated and planning has to take place at the various levels of the organization.

plan

The drawing up of a business policy involves the formulation and implementation of ways and means by which management intends to realize its goals. Once the goals are set, a plan has to be formulated which sets out the methods, time scale and resources with which the goals are to be attained.

The difference between a company's success and failure is often its ability or inability to appreciate the demands of its markets and its own limitations with regard to what it wishes to company strategy

achieve. This appreciation of the demands of the market (external appraisal) and the organization's own capabilities and will (internal appraisal) is the essence of company strategy (see Chapter 4). A strategy includes statements about the goals a company wants to attain, the ways in which this will be achieved, and the resources that will be required. During the process of strategic decision making and policy making in companies, goals are determined and policies are drawn up which relate to, among other things:

- Market position – ranges of products or services, nature of customers and clients and geographical markets
- Productivity and added value
- Profitability or the relationship between costs and revenues
- Societal responsibility – employment, the environment, etc.
- Growth and continuity
- Income, working conditions, prestige, status and authority of the managerial and operational staff of the organization.

objectives
methods and resources
organizational structure

In a strategy and business plan, management stipulates the objectives, goals and the guidelines for the activities which will have to take place. A policy stipulates the methods and resources which will be needed if the company goals are to be attained. It is also necessary to determine which organizational structure will be best for the attainment of the company's goals. In this respect, planning precedes commercial, technological, financial and personnel considerations. Planning is the systematic preparation and adjustment of decisions which are directed at realizing future goals. Plans have the following functions:

- They describe the goals which need to be attained by a company and company departments.
- They establish the measurements for attaining these goals.
- They pass down the personnel and financial resources which are necessary for attaining these goals.
- They state the time span during which the set goals will have to be attained.

When drawing up a plan, decisions have to be made regarding *what* has to be produced, *where* this will happen, *how* this will happen, *when* this has to happen, *how much* has to be made, *who* will do this and *with what resources* (see also Chapter 9).
If an organization does not have all the necessary resources itself, it has to look externally, perhaps through measures such as collaboration with another company. Decisions will have to be made relating to the way in which the resources can effectively and economically be spent. Plans need to be based on adequate and reliable data with regard to the future. During the operational implementation, plans need to be monitored and adjusted. Unexpected developments and sudden changes naturally give rise to reviews and adjustments.

1.5 Managers: born or made?

It is often said that 'leaders are born, not made'. There is certainly an element of truth in this statement as some leadership qualities are, of course, part of our genetic make-up. However, leadership always takes place within a socio-cultural context. As a result, in the area of policy development and the daily operational control of the organization, a great deal can be learned. An important managerial responsibility is helping the organization to realize its goals. At the same time, the manager has to see to it that the personal ambitions of fellow workers are utilized to optimum advantage and that the expectations of team members are met. However, while staff can be satisfied and contented, this does not say anything about results. The manager always has to strike the right balance between the interests of employees and the attained results.

management effectiveness

In assessing a manager, the issue is always management effectiveness – that is, the ability to use and handle resources and instruments which contribute to the attainment of organizational goals. This requirement holds true for all managers at the various levels of management. At each organizational level, the relative differences in the capabilities of managers are then of further importance.

1.5.1 Manager or leader?

At the various organizational levels, various managerial skills are required in varying degrees. As far back as 1916, Fayol explained how the relative importance of the manager's various skills was related to the manager's position in the company hierarchy and the size of the company itself. Fayol stated that for lower company managers, their technical capability was of prime importance, while for the higher managers it was their management capability that was significant. In a small company the technical capability will dominate; as the company becomes larger, the managing capabilities become relatively more important.

technical capability
management capability

The differences between managers and leaders – the subject of many studies – will be covered in detail in Chapter 8. For now, we will simply make a few comments. According to some studies, leaders work actively and generate ideas. They are emotionally involved, create tension, are focused on ideas, are visionary and evoke feelings of appreciation and hatred. Managers, on the other hand, concentrate on the careful administration of work to be done. If necessary, they consciously manipulate. They are focused on people and are settled in their working environment. Managers are compromising when directing their efforts towards the objectives of the organization, whereas leaders may want to break up and transform that same organization. The manager keeps things going and controls the operations of the company; the leader strives for change.

HAPPY COMPANIES

The best managers are those who listen to their employees. Strangely, though, there are still managers who don't do this. We need friendly, modest people at the top.

Why don't all companies coddle their employees the way Google does? Just about everybody has heard about the yoga and sports areas in the offices of the Internet company, not to mention the table-top football, the canteens that serve food that's good for you and the employees who are allowed to spend some of their time (or as some would even say, 'have to spend') doing 'things that they like doing'.

Zappos, the American Internet-based shoe shop has a similar philosophy. As chairman of the board Tony Hsieh (pronounced 'shey') said in *The New Yorker*, he is aiming to create such a fantastic company culture that everyone will love going to work. He wants to spread *zappiness*: happiness Zappo-style. 'We are more than a team: we are family', as zappos.com puts it. And that family feeling extends to its customers. Employees are prepared to talk for hours to people who ring the free customer service line.

Like Google, Zappos is highly successful. Founded in 1999, the company has now become the world's biggest Internet-based shoe shop – the Amazon.com of footwear, you could say. Amazon noticed this too. In July, this bookseller giant bought the footwear giant for 850 million dollars, promising to keep Zappo's business structure intact.

At Semco, a successful Brazilian manufacturer, the employees are allowed to determine their own jobs and the time that they do their work. Not only that: they also have a say in what they earn.

Source: Science section, *NRC Handelsblad*, 7/8 November 2009 *charismatic leader*

When managers appear to show shortcomings or even fail, the demand for a charismatic leader becomes louder. In other words, a leader inspires and provides such a lively and appealing image of the future that employees are motivated by it in such a way that they are prepared to accept change. In his book on leadership, Kotter (1988) considers that even the leader will have to have knowledge of the field and will have to have demonstrated past success. In this respect perhaps the differences between the leader and the manager are fading.

1.5.2 Management capabilities: knowledge, skills and attitude

directing and control
communication
interpersonal effectiveness

In the execution of the various management tasks, the main issues are directing and control, communication and interpersonal effectiveness.

- In order to be effective in directing and control, we need to make time for 'managing from behind the desk': reading notes and extracting key points from them, making choices in the drawing up of the annual budget, putting on to paper the headlines for a business plan, drawing up and reading letters, sorting and prioritizing, and so on.

communication

- In order to be effective in communication, mastery of all forms of oral and written language skills is required: attending meetings effectively or leading them efficiently, giving presentations, writing speeches, conducting a follow-up conversation, drafting notes and many other forms of non-verbal communication.

interpersonal effectiveness

- Interpersonal effectiveness has to do with leadership, persuasive power, influence and assertiveness.

What competencies does a good manager need?

It will already have become clear that in order to be able to do their job successfully, managers need to have many, and sometimes extremely diverse qualities. Some people still believe that these qualities can only be developed by trial and error. Although this statement is partly true, it is important to realize that such a way of learning is more difficult, time consuming and costly than it need be. It is far better if, at an early stage, the manager can draw on existing knowledge and experience based on the best practices of others. The areas of knowledge which managers need to cover can be divided up as follows:

areas of knowledge

knowledge of planning, organizing and governing

- Knowledge of planning, organizing and governing an organization. Managers need to have knowledge of the areas of *planning*, *organizing* and *governing* an organization or part of it, otherwise their management will be of little use. They may be able to hide their weaknesses in these areas for a long time and with considerable effort, but in the end they will always fail.

knowledge of people
organizational behavior

- Knowledge of people and organizational behavior. Managers work among and with people and are to a great extent influenced by the behavior of other people. In turn the behavior of managers influences those with whom they work. They should therefore at least be able to recognize normal behavior patterns of people in the work environment and know how people are likely to react to their actions. Only then can managers expect their actions in the areas of coordinating and motivating to be generally effective.

knowledge of technology and the field

- Knowledge of technology and the field. Managers cannot completely do without knowledge of the specific field in which they work. The head of accounts will need to have some knowledge of bookkeeping. It is impossible to imagine a successful marketing manager with no knowledge whatsoever in the areas of sales, distribution and advertising. Managers need to have, as is often mentioned in recruitment advertisements, some demonstrable technical knowledge of the department which they will be managing and of the sector in which they will work. As the manager climbs further up the hierarchical ladder, the work becomes less operational and the importance of specific technical knowledge diminishes.

knowledge of the organization

- Knowledge of the organization in which they work. It speaks for itself that managers without knowledge of their own organization, its goals, and its way of operating, can hardly operate successfully. They have to be fully informed about the history of the organization and also of its policies, philosophy and culture, strengths and weaknesses, problems, place in the sector, image, etc. It is clear that the only source of this kind of information is the organization itself. If the initiative for gathering this information does not come from the institution, the wise manager will acquire it through his or her own initiative.

BOX CLEVER AND KEEP YOUR STAR PERFORMERS HAPPY

Something else to worry about. When business is bad, your best people get twitchy. They struggle. They start looking around for something better to do. 'Clever, creative people want to go to work and have fun,' says Gareth Jones, a fellow of the centre for management development at London Business School (LBS). 'They don't like gloomy workplaces.'

We have heard enough for one lifetime about the 'war for talent'. But this doesn't mean that leaders can ignore who is on their team. Last week I went to a seminar hosted by the Corporate Research Forum which, thankfully, injected new life into that increasingly tired debate over talent, knowledge workers and the rest of it. It is time to reframe this debate. What we should be thinking about, you see, are clever people.

Who are these clever people? What are they like, and why are clever people difficult to lead and manage? Having researched the subject, Prof Jones (and Goffee) has come up with a 10-point check list for managers.

1. Cleverness is central to their identity. They take negative feedback badly.
2. Their skills are not easily replicated. Not many people can do what they do.
3. They know their worth.
4. They ask difficult questions.
5. They are organizationally savvy. Their projects will get funded.
6. They are not impressed by corporate hierarchy. Job titles don't mean much to them, but status does.
7. They expect instant access to the chief executive. If they don't get it they may lose interest, slipping rapidly from obsession in their work to indifference.
8. They are well connected both inside and outside the organization.
9. They have a low boredom threshold.
10. They won't thank you. They do not feel they need to be led.

But there is also good (and slightly less daunting) news for business leaders. Clever people need organizations. Their work usually involves complex tasks that are performed in a team setting. They want 'a high degree of organizational protection', Goffee and Jones say. And they are more effective when they are well led.

Source: *Financial Times*, May 26, 2009 (Stefan Stern)

Other characteristics of good managers

The manager has to be incorruptible – to have a certain measure of self-knowledge and sincerity. Employees will expect promises and expectations to be met. Managers have to set an example. Employees will not so much do as managers *say*, but rather they will do as they *do*.

creativity *innovative*
Creativity and the ability to be innovative are necessary, especially in a changing environment where the manager will always be expected to solve new and unfamiliar problems. Creativity will help to generate new ideas, solutions and approaches.

expert knowledge
As we have mentioned more than once already, thorough expert knowledge is of importance. In this respect, of course, a great deal can be learned: managers have to intervene, make proposals, come up with solutions and give instructions. When employees recognize a manager's expertise, he or she will be accepted as leader more quickly and his or her motivational influence on employees will be greater.

social abilities
The social abilities of a manager are also important. It is necessary to be able to manage

relationships (especially in teams in which employees work closely together) as conflicts, disappointments, tensions and rivalry will occur. The manager needs to have social skills in order to resolve these situations tactically or find ways of avoiding or reducing them.

social skills

Managers need to be driven by and totally devoted to the task of managing. Their active acceptance of the organization's goals should be seen as an example to employees. The steps which they take to serve the organizational goals – even if not popular – have to be accepted by employees without regard for their own interests.

degree of self-confidence

The manager needs to have a certain degree of self-confidence. He or she needs to support organizational policies and exude an aura of calm and confidence. The courage to take risks, the ability to delegate and readiness for action are all important skills. No one best solution exists; there are always other possible solutions. Once a manager has decided on a solution, he or she will have to take the risks associated with that choice.

MEN AND WOMEN AT WORK: CAN WE TALK?

Do men resent powerful women? One of the most intriguing statistics in 'A Woman's Nation,' the recently released survey by Maria Shriver and the Center for American Progress, is this: 69% of women think men resent women who have more power than they do. Only 49% of men agree. Who knows who's right? What we know for sure is that men and women can't agree about power–and aren't very comfortable talking candidly about it.

To research *Getting to 50/50*, the book I wrote with Joanna Strober, we found that fear of candid talk is the biggest logjam blocking the progress of women in the workplace. For one thing, men shy away from giving women honest feedback. One male CEO of a tech start-up told us: 'Every senior male executive I know has been threatened with discrimination charges regardless of the goodness of their track record.' He added, 'I've seen it make cynics out of a lot of men who started out very differently.'

All of us–men and women alike–contribute to this problem. In our politically correct workplaces, discussing male/female differences has become so taboo that the topic is broached only in heated moments, when colleagues let loose their true opinions about gender and power.

Source: *Fortune Magazine*, November 16, 2009 (Sharon Meers)

1.5.3 Expressive and inspiring: developing leadership in high performance organizations

behavioral traits

Future leaders are assessed particularly with regard to the following behavioral traits: their ability to develop a vision and map out a strategy, whether they are geared towards getting results, whether they can create high performance teams and develop entrepreneurial skills, whether they are geared towards change and whether they have a customer orientation. The things that should be looked for when scouting for and selecting future talent are whether they are visionary, can take the initiative, can cope with complex problems and are flexible. To be able to unite business culture and people and get results and bring innovation requires team skills and leadership skills: preconditions for inspiration and motivation. In combination, these skills will achieve results in which innovation and change are the recurring factors. It is important to consider both the business and the human aspects. In production terms, what this means in particular is that managers should have trust in people and should give others the opportunity to expand in a business sense.

inspirational leadership

Passion and generating energy are key factors in this age of inspiration and inspirational leadership. It is of the utmost importance that a top manager should inspire others and energize them to grow and to develop into people with whom customers would like to do business, to turn them into team players who are involved within the company but who are at the same time right in the middle of society, and into leaders who work hard alongside their staff, are focused on results, have their employees at heart, but do not shy away from making hard decisions. This is the picture that comes to mind in a time when everybody is talking about high performance organization and high performance jobs throughout all levels of the organization. The new top people must be 'energized' (in other words, be bouncing with energy) and they must endorse the motto 'to change the company, start with the leader'. It is a challenge for companies to find such people. Instead of the aloof top manager who manages on the basis of figures, there is at the moment a strong need for a new type of leadership, of collaboration and making people enthusiastic.

high performance organization
high performance jobs

This emphasizes once more the fact that the essence of managing lies in creating an inspirational vision and encouraging internal and external collaboration. This is particularly relevant if the aim is to turn a company into a network organization, in which alliances and other forms of collaboration are crucial. The important things are integrity, involvement, authenticity, consistent behavior and adherence to the set priorities and the course that has been mapped out. These characteristics are constantly referred to in recent publications on the 'fundamental state of leadership' and how to reach it, and previously on 'level 5 leadership' (Jim Collins, 2001) as well as on managing one's own 'human sigma' or 'your own human habits' (Covey, 1989 and 2004) and other challenging essays on intrinsic and exceptional leadership. Leaders need to exceed themselves, as it were, and while taking account of others, perform at an exceptional level. At a time of 'performance management' and the creation of a 'high performance organization' leadership is a basic requirement (see also 8.1.4 and 8.2).

inspirational vision
internal and external collaboration

1.6 The management process and core activities

In this introductory chapter we have explained the concepts 'organization', 'leader', 'manager' and 'management' in that we have shown what organizations are and what managers can experience at the various levels of the organization. We have been considering management as a group of people. We now move on to consider management as a process and to draw up a picture of the various management tasks. (These will be discussed in greater detail in chapters 4 to 10.)

1.6.1 Management as a process

Fayol

Henri Fayol (1841-1925) is considered to be the founder of modern management-process theory. Fayol stated that management could be learned. However, the problem was that in his time no theory existed on which management education could be based. With the first systematic analysis of the elements of the managerial function, Fayol met this need himself in 1916. Fayol broke down management (as an activity) into five essential parts:

activity

- Policy making and planning (prévoir)
- Organizing/designing organizational structure (organiser)
- Giving instructions and assistance during the execution of tasks (commander)
- Coordinating (coordonner)
- Controlling and making adjustments, if necessary (contrôler)

Taking Fayol's idea as a starting point, management can be said to always contain the elements depicted in Fig 1.6.

The figure shows that management in its broad sense is a logical series of activities. The concept of 'leading' refers especially to giving orders, motivating people and checking activities which have been performed by other people – that is, managing in the 'narrow' sense (as it is only one of the managerial functions). Managing in the 'broad' sense also includes other management functions, such as determination of the organization's mission

managing in the narrow sense
managing in the broad sense

and course, positioning and the maintenance of external contacts. By seeing management as a process, we are better able to study the activities of 'management' as a group of people and gain insight into the function of management and the role and position of the manager within the organization.

Management is concerned with the process of planning, organizing, governing and controlling – a process in which the skills and talents of the managerial team play an important role.

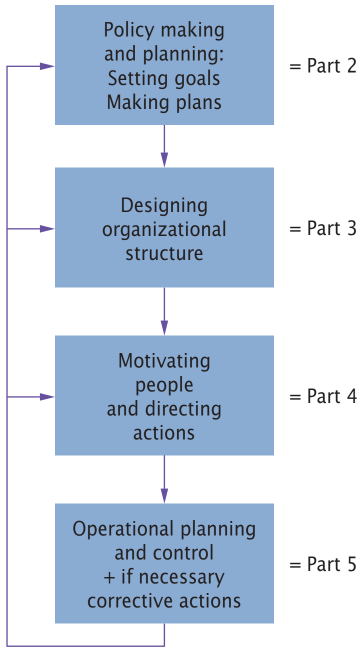

Figure 1.6
A logical series of steps

1.6.2 *The management cycle and core activities*

communication

Good communication is demanded for the execution of all management tasks. All managers have to be able to explain their reasons, intentions and decisions to others in such a way that they will be understood. To achieve this in practice, managers need to have an insight into communication as a process. In the future, communication will become increasingly important to managers as they perform their job. Managers will have to understand others as well as they understand themselves.

The management cycle: areas of knowledge for managers

effective performance
planning

We should never consider the core tasks of the managerial process as independent activities, even though they are described separately. Effective performance of each of these functions depends on the way in which the others are being performed. Effective coordination, for example, is impossible without good planning, while good communication is strongly dependent on good organization. However, the sequence of planning, organizing, giving orders, controlling and adjustment does take place within a sequential time frame.

control cycle
decision making
coordinating
communicating

A business plan is the basis for organizing, while task implementation and output are, in their turn, the basis for daily adjustment of the control cycle. The results of the adjustment and corrective process provide in turn information on the necessity to revise plans. Decision making, coordinating and communicating are functions which are used in planning and organizing as well as managing. The interrelationship between the functions is depicted in Fig 1.7.

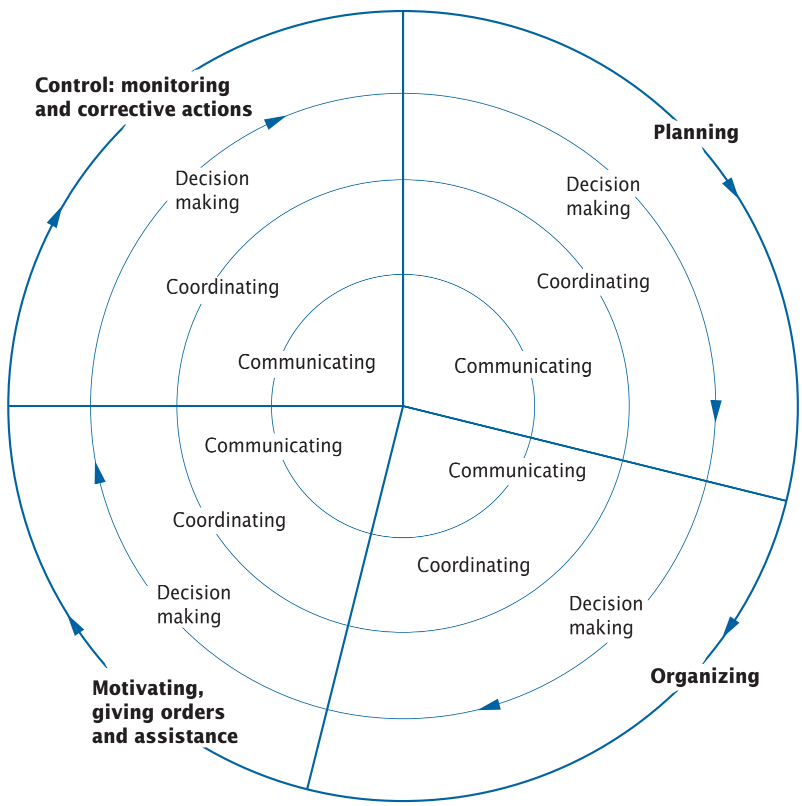

Figure 1.7 *Management cycle showing communication with other people at the core*

1.7 Process model of an organization

management and organizational processes

Management and organizational processes direct the operational functions in an organization, and where manufacturing processes are concerned, effect an actual transformation of resources derived from the environment. In other words, manufacturing processes (and particularly service-provision processes) bring about a technical transformation which adds value, after which products or services are made available to the environment. This process is depicted in Fig 1.8.

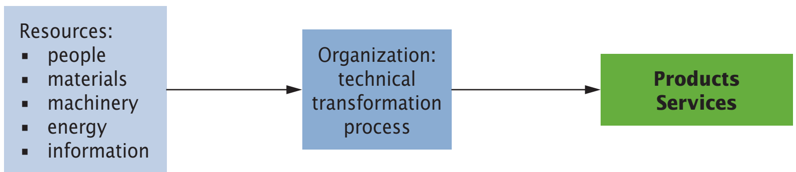

Figure 1.8 *Technical transformation process*

The technical transformation process can, for example, produce screws or cars, and various service-provision processes can result in credit being granted, patients cared for or reports written.

These operations are managed by a managerial process in which decisions are made about what products will be supplied, what services rendered, and how, by whom and where the necessary activities will be undertaken. This flow of management information is illustrated in Fig 1.9.

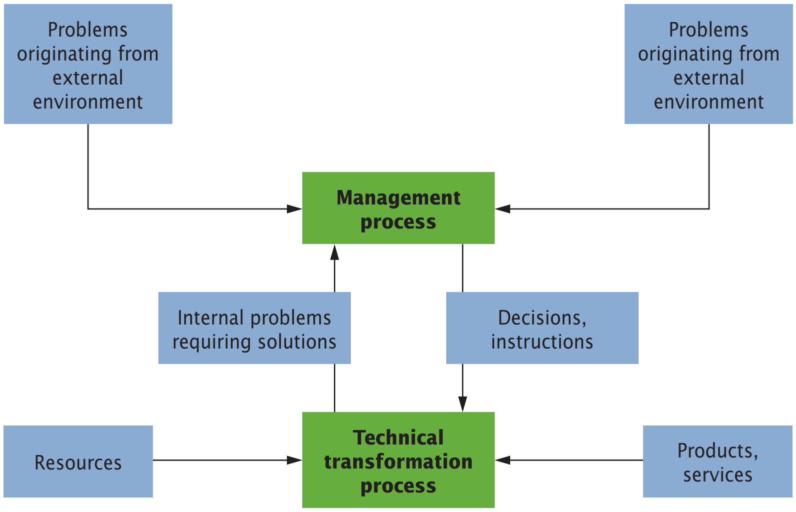

Figure 1.9
Simple process model of an organization

1.7.1 A more detailed process model

Management processes can be defined as the direction given to the primary operational processes or main organizational processes. These processes are illustrated in greater detail in Fig 1.10.

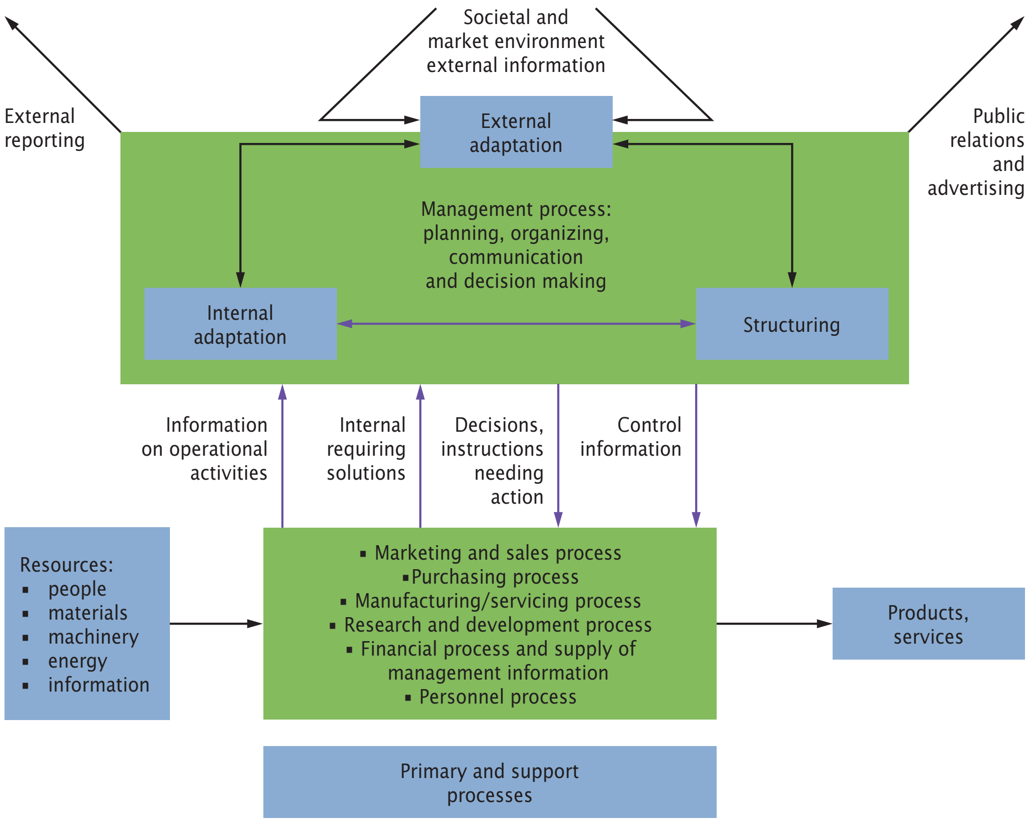

Figure 1.10
More detailed process model of an organization

The following processes have already been identified above:
- Primary or main processes
- Secondary or supporting processes
- Managerial or regulatory and condition-setting processes

Primary processes or main processes are comprised of the activities that make a direct contribution to the manufacturing of a product or the provision of a service (for example purchasing, production and sales). In other words, the primary processes are those processes from which an organization derives its existence.

Secondary processes or supporting processes consist of those activities required to maintain the primary processes or to facilitate production. These tasks are not performed for their own sake but to maintain the effectiveness and continuity of the primary processes.

Managerial or regulatory and condition-setting processes involve all those activities that determine goals for and give direction to the primary and secondary processes. Managerial processes set the conditions according to which value is added, and they ensure that the organization is directed towards the attainment of the organizational goals.
Consequently, the activities with which an organization creates value can be divided into primary, supporting and managerial categories, which together constitute the so-called value chain (Porter, 1985) (see Fig 1.11).
Primary activities can be divided into incoming flow of goods, production or servicing in the widest sense of the words, marketing, sales and servicing. The supporting activities are the purchasing of products and services on behalf of the primary activities and other supporting functions, such as the development of technology (organized, for example into a research and development program), human resource management and the infrastructure which comprises matters such as financing, legal activities and so on.

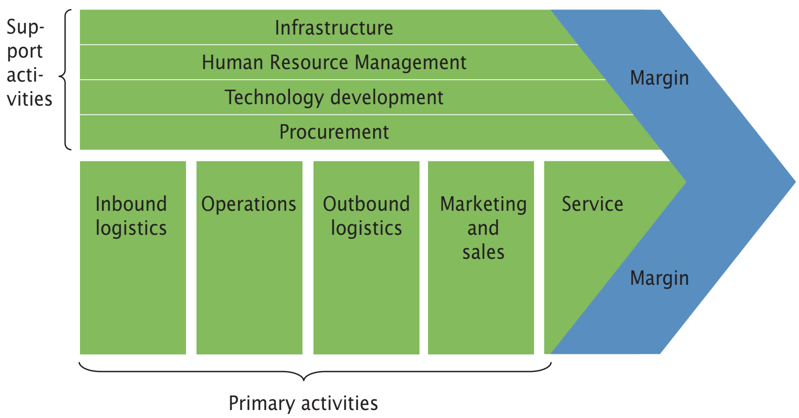

Figure 1.11
The value chain

Source: *Porter*, 1985

Management or managerial activities are concerned with the optimization of relationships, the reduction of cost levels and the enlargement of revenue potential. By giving direction, form and content to operational processes and by performing a steering function, management, even at a general level, adds value to the value chain. These general management activities which form the content of the managerial task are:
- Strategic policy making and positioning
- Design of a suitable organizational structure
- Provision of content and means of performing the organizational processes, including the imposition of controls

As we have seen in Section 1.1.4, the founder of modern management theory, Henri Fayol, represented management (or rather the governance of an organization) as a process. Fayol (1916) broke organizational government up into five essential management functions: prévoir, organiser, commander, coordonner and contrôler. Fayol's five categories can be clumped into three core areas of managerial activity:

external tuning and adaptation
structuring
internal tuning and adaptation

- External tuning and adaptation
- Structuring
- Internal tuning and adaptation

These three management functions are closely related (Fig 1.12). While they are separate functions they are inextricably linked. Thus, in the managerial process they interrelate as shown in Fig 1.12.

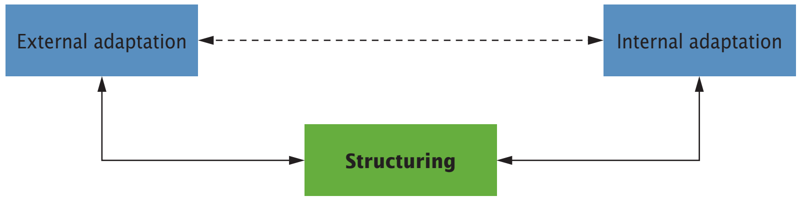

Figure 1.12
Coherence between key managerial problems

Fig 1.10 identifies the following primary and secondary company processes:
- Marketing and sales process
- Purchasing process
- Manufacturing process or servicing process
- Research and development process
- Financial and information supply process
- Personnel process

Other processes often need to be included. They may include the quality process, the environmental care process, and logistic processes (both in and outgoing).
These processes are connected via the activities of managing and organizing them (= management process). The organization's information and communication systems interconnect them further. Via decision making, information is then transmitted into action, after which execution can take place in the various parts of the organization.

1.7.2 *Process and process control*

Processes constitute the ongoing function of a company or institution. In other words, an organization can no longer function if there are no more processes to be performed. Structuring, performing and controlling the organizational processes is therefore crucial. In general, the following is demanded for process control:
- Mapping out the various functional or partial processes
- Fine tuning of the processes through the regulating or steering activities of management

The fine tuning includes:
- Formulating overall organizational objectives and goals
- Deriving partial goals, norms and standards from the above in order to attain the goals
- Formulating and transmitting policy
- Determining guidelines, procedures, instructions and assignments
- Distributing tasks and assigning the authority to take the necessary actions

1.7.3 A process control model

In order to be able to control the process of goal attainment it needs to be monitored and assessed both during the process and after it has been completed. If there is any deviation from the plans, adjustments will have to be made. This can be done by taking corrective action during the process, but can also take place afterwards by adjusting the standards set for the process.

cybernetic cycle

In Fig 1.13, the control process is shown diagrammatically. A cybernetic cycle (comparable to the functioning of a thermostat in a central heating system, see also Section 9.3) always involves the following processes:

- Setting operational standards
- Giving an assignment or signal for execution
- Giving information to a steering organ. The managerial or operational employee is always informed about the actual situation
- Checking, i.e. testing received information according to established standards
- Acting to adjust or correct. Whenever the actual situation deviates from the operational standard an authorized party adjusts or corrects the information relating to the detected deviation from the standard. The correction which follows is also called feedback or feedforward

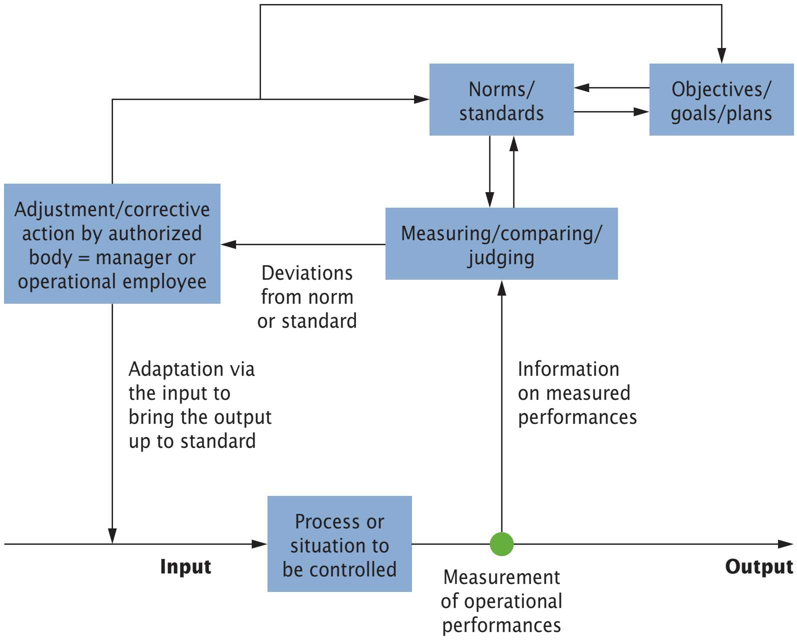

Figure 1.13 *Model of the control process (the cybernetic cycle)*

In the practice of management, we encounter such cybernetic cycles in budgetary practices for example. Deviations between the allowed and the actual costs are signaled. Possible corrections or adjustments are then investigated and implemented. Car manufacturing processes are another example. Numerically managed production equipment is used to assemble the coachwork of a car. The feedback mechanisms built into the highly automated production system detect deviations that exceed a certain margin of tolerance. Once they are detected, action needs to be taken to adjust the process. If no deviations are found, the process can simply continue within acceptable tolerance levels (see also Section 9.2).

1.8 Characteristics of an effective organization and successful management

In their book *In Search of Excellence*, Peters and Waterman (1982) have described eight characteristics of successful management:

- A bias towards action – preferring to undertake something actively instead of endlessly studying and analyzing a concept
- A customer-directed attitude – knowing the customer's preference and serving that preference
- Autonomy and entrepreneurship – dividing the company up into smaller units and encouraging an independent and competitive working attitude
- Productivity through people – making employees aware of the fact that effort is essential and that they profit from the company's success
- Hands-on and value-driven – showing personal commitment and keeping in touch with the essence of the company, stimulating a strong company culture
- 'Stick to the knitting' – stick to the activities that the company performs best
- 'Simple form and lean staff' – few administrative and managerial layers and few people at the top
- Simultaneous loose-tight properties – freedom from constraints, which means taking care of the central values of the company, combined with respect for all employees who accept these values

These eight characteristics were observed in very well functioning ('excellent') organizations, although the degree to which these characteristics were present differed. However, it is known that some years after the research, not all of these 'excellent' companies were still functioning as well. Explanations of successful management are sometimes very complex. Meeting these eight characteristics is no guarantee of continuous success. Such success requires hard work and commitment to attaining and improving the company's performance in changing times and market conditions.

In *Built to Last: Successful Habits of Visionary Companies* (1949), a much-discussed book that has been compared to *In Search of Excellence*, the authors, Collins and Porras investigate what makes a company a 'visionary company': i.e., a company whose vision takes on a concrete form. This book puts a number of persistent management myths under the microscope. As Collins and Porras see it, successful companies have a core ideology.

Jim Collins' bestseller *Good to Great* (2001) also has an inspiring message for companies, describing how good ones can become great ones. The metamorphosis of 11 selected companies is described from the perspective of each of these companies. However, research dating back to 2008 has shown that of these 11 companies, only one is still performing excellently. Success thus obtained turned out to be only temporary, therefore, and could make no easy claim to permanency.

In a later book entitled *How the Mighty Fall* (2009), Collins describes the reasons for successful companies eventually failing, setting out the five stages which end in failure. They are as follows: (1) overconfidence as a consequence of success, (2) striving for more but in an undisciplined way, (3) denial of the risks and ignoring or making light of the warning signals, (4) a 'quick fix' to save the company (a more daring but less familiar strategy, for example, or a substantial change to the company's culture, or a major takeover), and (5) becoming dependent on quick fixes rather than returning to those elements that made the company great in the first place, thus weakening the company financially and causing it to lose ground or even cease to exist.

In short, the managerial rules that Collins describes earlier have turned out not to apply forever or to be universally applicable or transferrable. We can, however, now conclude that to be successful always seems to require a unique combination of situation-determined factors that cannot easily be copied.

THE WORLD'S MOST INNOVATIVE COMPANIES

Each year, the Boston Consulting Group asks thousands of senior executives worldwide what, in their eyes, are the most innovative companies. Traditionally, there are few truly spectacular changes – if a company is already highly innovative it is apparently never suddenly much less innovative the following year. Just as in the previous year, Apple is still in first place, followed by Google and Toyota. Wal-Mart Stores has risen from 23rd place to 10th place, mainly as a result of its pioneering work in the area of systems for digital 'health registration', energy-efficient shops and the social-networking site 'Elevenmoms'. General Electric, whose financial divisions have been hard hit, has fallen from 4th place to 17th. A newcomer – VW – is at 18th place. Its position is partly due to its advanced car options at affordable prices, such as electronic parking aids. MacDonald's has risen from 30 to 19, reflecting its radical innovations, ranging from its interiors to its menus.

The top 20

1.	(1)	Apple	11.	(11)	Amazon.com
2.	(2)	Google	12.	(8)	Procter & Gamble
3.	(3)	Toyota	13.	(6)	Tata
4.	(5)	Microsoft	14.	(9)	Sony
5.	(7)	Nintendo	15.	(19)	Reliance Industries (oil and gas)
6.	(12)	IBM	16.	(26)	Samsung Electronics
7.	(15)	Hewlett-Packard	17.	(4)	General Electric
8.	(13)	Research In Motion (=BlackBerry)	18.	(-)	Volkswagen
9.	(10)	Nokia	19.	(30)	McDonald's
10.	(23)	Wal-Mart Stores	20.	(14)	BMW

Source: *BusinessWeek* April 20, 2009 / Management trends, July-August, 2009

1.8.1 High performance organizations: some characteristics

From around 2004 onwards, the 'high performance organization' has been overtaking the 'excellent' or 'visionary organization' of the preceding period as the preferred choice. The characteristics of a high performance organization are still somewhat intangible. There are not many organizations that fit the bill, but when they do they are immediately recognizable as such. They include Toyota, General Electric, Cisco and Dell. But while we can identify such companies, as yet we cannot identify these new characteristics. The questions that are being asked are as follows: under what conditions does 'high performance' take place? How do we experience it? Can we imitate it elsewhere? As things stand at the moment, we have to admit that we have little knowledge about how to manage 'high performance', although we recognize it when we see it. However, consensus on what constitutes high performance is growing (Kirby, 2005). At least some of the aspects involved are the management of innovation and creativity, the creation of masterly high performance teams and high performance jobs, the efficient conversion of strategies into action, fundamental and excellent leadership, rules for effective collaboration and discipline, quality improvement in the relationship between staff and customers (via an improvement in the 'human sigma') and organizational management that makes use of the indicators that influence behavior and that are incentives for excellent performance. Prahalad has recently (in 2009) added a new business competency, namely 'agility'. In times of change it is crucial that businesses have a flexible production capacity and multi-deployable employees. (For interactive methods of leadership in times of change, see boxing.hbr.org.) These topics will be dealt with in chapters 3 to 10.

1.8.2 Criteria for measuring the effectiveness of an organization

organizational effectiveness

Organizational effectiveness is a characteristic which is difficult to identify because it concerns the degree to which and the means through which goals are attained.
The measuring of effectiveness is only possible if an instrument exists for this purpose. The organization can be seen as a 'lasting complex of people and resources for realization of specific, but in time shifting, goals.' Criteria for effectiveness can be derived from this. Keuning and Eppink (1979, 9th edition, 2008) drew up four main criteria:

efficiency
- Efficiency is the degree to which a set of goals is achieved while using up a minimum of resources, leading to technical and economic efficiency.

satisfaction
- Satisfaction is the degree to which the needs of the members of the organization are satisfied by means of labor-intrinsic and labor-extrinsic factors, leading to psychosocial efficiency.

fulfillment
- Fulfillment of stakeholders' needs is the degree to which the demands and needs of the stakeholders from the external environment are met, leading to societal efficiency.

self-preservation
- Self-preservation through flexibility and responsiveness is the degree to which an organization can speedily adjust its short-term strategies, structure and operational goals in reaction to changing external circumstances, leading to managerial efficiency.

In an evaluation of an organization, all these aspects of an effective and healthy organization can be observed and scored. The organization has to show positive scores in relation to these criteria if it wants to be considered effective.

1.9 The manager and the organizational culture

When a newly appointed employee is getting to know an organization, or a recently recruited manager wants to make changes to the organization, it is important to realize that an organization is more than just a structure and a system of behavior that follows guidelines and procedures. Upon further acquaintance, we usually experience 'something' within the organization which is, to a certain degree, elusive. This 'something' seems to pervade all aspects of the organization, including statements, ways of thinking and the actions of the people within the organization. In recent years, we have started calling this 'something' *organizational culture*.
In the first place, an organizational culture is formed by the prevailing ideas which are disseminated by a large proportion of the members of the organization, members who carry those ideas with them in terms of operative values, norms and convictions.

values
behavior

Values are the things that people consider to be important and which consciously – but often unconsciously – determine human behavior. In organizations, values are expressed in the way in which the organization is managed and the way in which people associate with each other, in things that the members of the organization do or do not do, and in choices that are made. Underlying this behavior are the most influential values and norms, expectations, convictions and attitudes. This is the existing organizational culture. For example, 'loyalty to the company' (a value) results in 'wanting to be on time' (a norm) and finding this to be important.

convictions

Convictions are expressed by members of the organization, whether asked for or not. Convictions are the notions and views of reality which are shared by the members of the organization. These convictions cause them to show certain types of behavior, disseminate information in a certain way, and so on. From one perspective, a conviction brings order to experiences; however, it can also lead to distortions or discord – for example, in statements such as ' … those staff members, they are far too theoretical' or ' … research managers, they are always late.'

Organizational culture is important because it makes organizational life predictable and structures it in certain ways, it creates a relationship between the members of the various parts of the organization, and it means that it is not always necessary to adapt or make new decisions to fit individual circumstances. Organizational culture can be considered as the mutual understanding between the members and the stakeholders of the organization.

mutual understanding

In those positions within the organization where examples are being set, it is important to be aware of the organizational culture. At first sight, this may seem vague and elusive, but it shows itself in all forms of organizational practice, including various forms of sanctions and rewards, traditions and habits, and norms and rules which are in force at various levels or within various parts of the organization. For example, the culture of an organization expresses itself, in the use or otherwise of first names, in the physical environment and corporate image, in the communication between employees, in the way in which customers are treated, in the work effort and the degree of commitment shown by employees, in the dress code and in the language and attitude to time keeping. It is therefore important to 'know' an organization and the existing relationships and interrelationships within it.

Summary

- In this chapter we have introduced the basic concepts of management.
- Management is both a very old and very modern field of study. This is because management has to do with people in collaborative relationships.
- An organization is defined as a 'goal-realizing collaborative unit of people.'
- In this book we cover the management of labor organizations in which paid work is carried out.
- Every person in a labor organization who is in control of others and has to make decisions is a manager. This is what distinguishes a manager from other employees. In every organization, various levels of management can be identified. Each level has its own tasks and responsibilities.
- Elements in today's management are highly influenced by the interrelationship between business and a sustainable society, globalization, changes in power relations and the role of science, technology and marketing philosophy.
- A manager has to make decisions and coordinate activities, and for these tasks good communication within the organization is essential. Management can be described as a process of planning, organizing, giving orders and controlling and adjusting.
- The management cycle depicts the managerial process as being set in motion and maintained by the manager by means of decision making, coordination and communication. From this we can derive the demands that are made of modern managers, which include the following:
  - reacting to internal and external developments
  - achieving acceptance, quality and effectiveness in decision making
  - efficient use of own time
  - working according to the organizational culture
- The criteria for judging the effectiveness of the organization include the following:
  - efficiency
  - satisfaction
  - fulfillment of stakeholders' needs
  - self-preservation through flexibility and responsiveness

Discussion questions

1 With reference to *Management in Action* at the beginning of this chapter:
  a) Explain why some industries are more thriving than others
  b) Explain the decline in commodities
  c) Explain why firm size is not necessarily pivotal to superior performance

2 Does a manager have power or is she/he dependent on others?

3 Is a group of university students waiting at a bus stop an organization?

4 'When we refer to companies or hospitals we describe them as organizations, though we do not use this term when we refer to forms of co-existence such as families or people who live together.' Discuss this comment.

5 What is your opinion of the following contention: 'Why should organizational culture be important to management? Isn't management only concerned with time and money?'

6 'Managers are men in three-piece suits.'
'Managers sit behind desks.'
'Managers are driven around in big cars by chauffeurs.'
Give your opinion on each of the above contentions. In particular, consider the following:
  - whether the image presented matches the way managers are described in this chapter
  - where the image probably originated
  - whether the image relates to the increasing number of women in management

7 'The various management theories mirror the time in which they arose.' What is your opinion of this contention? Which of the theories do you find most convincing?

Research-based exercise

Leadership skill requirements across organizational levels

Introduction
This research-based exercise is based on a research article by Mumford, Campion and Morgeson (2007), published in *The Leadership Quarterly*. The research question, data collection, method, and some of the results of the research project are presented. The exercise consists of three questions based on the research article and the theory in this chapter. The answers should be based on both the theory in Chapter 1 and your own insights into the practical implications of your answer.

Research Question
What are management leadership skill requirements and how do those requirements vary according to organizational level?

Data Collection
The sample consisted of 1023 professional employees working in an international agency of the U.S. government. These employees were generalists working in five different career specialties in 156 different countries, including the United States: administration, public relations, economic analysis, political analysis, and multi-functional positions. The employees were sampled from three levels of the organization that will be referred to as junior (1–5 years experience), mid level (6–20 years), and senior (21+ years).

Outcomes
The researchers demonstrate that heterogeneity of the leadership requirements exists at different organizational levels. That is:
- In terms of leadership skill requirements, the following ranking was found: Cognitive > Interpersonal > Business > Strategic
- Cognitive, Interpersonal, Business, and Strategic leadership skills requirements increase at higher levels within the organization
- Strategic and Business skill leadership requirements have, however, a stronger relationship with organizational level compared to Cognitive and Interpersonal leadership requirements

(Based on Mumford, T., Campion, M., and Morgeson, P. (2007) 'The leadership skills strataplex: Leadership skill requirements across organizational levels.' *The Leadership Quarterly, (18), 154-166.*)

Questions

1 Explain why Cognitive leadership skill requirements are more important relative to other types of skill requirements for each level within the organization.
2 Which types of leadership skill requirements can be taught and learned or represent a personal characteristic a manager or leader is born with?
3 Given the study's results, provide a list of practical implications in terms of hiring, training, and promoting employees.

CASE

Management case study

How to innovate … ‘everything-as-a-service’

In early 2007, Shane Robison, Hewlett-Packard’s (HPQ) executive vice-president and chief strategy and technology officer, gathered the seven chief technology officers from HP’s business units together. Robison, as a Compaq vice-president, had played a major role in the two companies’ controversial 2002 merger and the integration that followed. But when he summoned his division technology chiefs, he was focused on the future: What technologies were emerging, how would they shape the market, and what were the implications for HP?

After months of debate, the group came up with a strategy dubbed ‘everything as a service’, based in part on the then-emerging trend of cloud computing – the idea that the computing and storage needs of a person or a company could be handled off-site. Companies including HP had already begun offering ‘software as a service’ rather than on a shrink-wrapped CD, and HP wanted to build on the service model by developing the supporting hardware and software, as well as its own services. Less than three years later, HP has introduced at least six completely new service offerings, along with several cloud-related software and hardware products and consulting services. More are in development.

How HP implemented its new strategy relatively quickly across its many divisions is worth some attention. As Harvard Business School professors Robert Kaplan and David Norton showed in their 1996 book, *The Balanced Scorecard: Translating Strategy into Action*, and in subsequent research and books, it’s common for companies to develop strategies and then fail to implement them. Following through on innovative strategies is even more difficult. Here’s a look at how HP made ‘everything as a service’ more than an empty buzz-phrase.

New V-P for cloud services & strategy

Faced with executing a new idea, Robison had a head start because he had already involved the company’s divisional CTOs in the process. In other words, the executives who would be key to realizing the strategy within the business groups – as well as the director of HP Labs responsible for developing new technologies to support the strategy – were already invested in the plan.

While each individual CTO was developing an ‘everything as a service’ strategy for his unit, Robison created a temporary position – vice-president of cloud services and strategy – to take a broader approach. For 18 months, Russ Daniels, who had previously served as CTO in HP’s software services group, took on that role. ‘I was able to approach the cloud computing opportunity from a pan-HP perspective,’ he says. That included looking for possible opportunities outside of the existing business units, as well as helping ensure that the units’ individual efforts worked in unison. For instance, was the group that was charged with developing next-generation servers considering the needs of potential users of the company’s planned services? Meanwhile, Prith Banerjee, vice-president of research, was reorganizing HP Labs. Under Banerjee, a rough total of 150 projects then at the labs was cut to 21, all of which supported the new strategy in some way.

For instance, one research project that came out of the reorganization was a technology enabling people to print from a mobile device. Patrick Scaglia, the CTO of HP’s Imaging and Printing Group (IPG), then stepped forward to have his group take the project on and conduct a market test. ‘If our strategy makes sense, then we should be able to deliver a proof point,’ he says. And he did. After diverting some of his incubation funds – venture capital-like money that HP gives each CTO to market-test high-risk and potentially high-payoff technologies that don’t fit naturally into the existing road map – to create a prototype, Scaglia got Blackberry-maker RIM (RIM) interested in the product. In May 2009, HP announced CloudPrint, a service allowing RIM users to print documents on the nearest available printer.

The new partners are now testing the program, with plans to launch it early next year.
Translating strategy into action is ‘a messy process,’ says Scaglia. ‘You can’t just send everyone a memo saying: “Now we’re going to do this”.’ But money talks. This year, more than half of Scaglia’s budget went to support services – CloudPrint, MagCloud (a printing, mailing, and subscription-management service that allows anyone to publish a magazine), and BookCloud (a similar service for book publishers – as did 100% of his incubation funds. HP won’t disclose revenues related to the new strategy and many of its new services are too young to have made a significant top-line impact. But the company says it expects ‘everything as a service’ to remain a key part of its future.

What can executives learn from HP's approach to implementing its innovative strategy?

Appreciate the Difficulty
You can't just send a memo. For tips on executing a strategy successfully, read *The Balanced Scorecard: Translating Strategy into Action*.

Engage Key Leaders in the Process
Robison involved all of the company's group CTOs to help develop the new strategy. When the time came to implement that strategy in their divisions, they never felt it had been imposed on them.

Make Sure You Have the Right People in Place
Sometimes a new strategy requires fresh blood, but if you have people who can adapt to it, keep them. HP asked Russ Daniels to take on a temporary CTO role to help realize the strategy.

Buy or Partner
A new strategy often requires new skills, some of which can come through partnerships. Bigger companies should consider acquisitions, as HP did when it bought Mercury, a company with experience in the technology behind software as a service.

Be Flexible
Your standard procedure for rolling out a new strategy might not work when you enter unknown waters. In HP's case, Robison formed a novel strategy-development team of CTOs and then created a temporary CTO position to flesh out the new approach.

Source: *BusinessWeek*, September 23, 2009, (Jessie Scanlon)

Case study questions

1 Companies commonly develop strategies and then fail to implement them. Describe why companies are likely to fail at strategy implementation and why, in contrast, HP was successful.
2 In the HP case, strategy implementation focuses on technology. Describe whether strategy implementations pertaining to production, marketing, or internalization are likely to be equally successful when a similar implementation strategy is adopted.
3 What would be the next step for HP to further capitalize on their new 'everything-as-a-service' strategy?