Principles of Leadership & Management

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LAURA RADTKE

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Acknowledgements

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This book is primarily an adaptation of the following two sources:

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- Principles of Management by Open Stax is licensed under a Creative Commons Attribution 4.0 International License except otherwise noted.

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A list of changes from the previous sources can be found at Changes from Adapted Text.

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Laura Radtke, BSc (Hons), MA
Professor, Fanshawe College

Collaborators

This project was a collaboration between the author and the team in the OER Design Studio at Fanshawe. The following staff and students were involved in the creation of this project:

- Tyler Pollard – *Instructional Design*
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Changes from Adapted Text

Overall	• The overall focus has changed from management to leadership, although the two are not exclusive of one another, and the overlying theme is that good managers require strong leadership skills. • The overall structure of many of the chapters were changed as they were generally merged with content from other open sources. • Content and cases were updated to add more current information and statistics – of particular note are details related to the COVID-19 pandemic and the war in Ukraine. • Canadian content and statistics were added. You will note some Canadian and some American spelling throughout. • New and updated images were added. Images were re-created for consistency throughout. • Updates to references and removal of broken links. • Added in additional resources: slide decks and key terms.
Chapter 1	• The chapter is based on Chapter 1: Introduction to Principles of Management, from University of Minnesota's Principles of Management. • Content was added to define intrapreneurship and links to relevant articles were provided. • Additional content was included on Katz's Three Skills from Retail Management by Lumen Learning
Chapter 2	• The chapter is based on Chapter 2: Personality, Attitudes, and Work Behaviors from University of Minnesota's Principles of Management. • Additional content on developing leadership skills was included from Boundless Management by Boundless • Details on emotional intelligence were added from Beginning Human Relations by Laura Portolese Dias • Also included is the TedTalk: Great Leadership starts with Self-Leadership by Lars Sudmann
Chapter 3	• Chapter 3 is based on Chapter 10: Leading People and Organizations, from University of Minnesota's Principles of Management and Chapter 13 Leadership from Open Stax. • Paths to Leadership and Influence have been included. • Substitutes for and Neutralizers of Leadership have been added
Chapter 4	• Chapter 4 is based on Chapter 3: History, Globalization from University of Minnesota and Chapter 13 Leadership from Open Stax. • Information on globalization and global trends was updated from Cultivating Your Leadership Capabilities by Granite State College is licensed • Inclusive leadership and potential barriers were discussed to help increase leadership capabilities. • Details around vulnerability in leadership were added from Cultivating Your Leadership Skills by Melissa Plante, Graduate Studies, Granite State College
Chapter 5	• Chapter five is an amalgamation of content from Chapter 12: Communication and Chapter 11: Decision Making in University of Minnesota's Principles of Management, and Chapter 11: Communication in Open Stax. • Additional details were included around how corporate reputations are defined by the manner in which an organization communicates to its stakeholders.
Chapter 6	• This chapter is a combination of key content from Chapter 4: Developing Mission, Vision, and Values and Chapter 5: Strategizing – Principles of Management in University of Minnesota's Principles of Management. • Included are details around PESTEL analysis.
Chapter 7	• This chapter contains content from Chapter 6: Goals and Objectives and Chapter 14: Motivating Employees, in University of Minnesota's Principles of Management.

Chapter 8	• The base for this chapter is Chapter 4: External and Internal Organizational Environments and Corporate Culture in OpenStax Principles of Management and Chapter 8: Organizational Culture in University of Minnesota's Principles of Management. • Details were added around external influences on organizations and PESTEL analysis. • Further information on corporate culture has been included. • Cases on Google and Uber (from Chapter 12 by Open Stax) have been provided • The importance of diversity within the organization has been highlighted. Material taken from Chapter 9 Principles of Management by Lumen Learning. • Content on gender added. • Additional material has been included on avoiding discrimination, respecting the rights of all employees, and providing appropriate accommodations where necessary. • Links were provided to additional information on leadership and gender. • Content has been added to assist readers to fit into the corporate culture when hired for a new position.
Chapter 9	• This chapter is from Open Stax, Chapter 6: International Management. • The GLOBE framework has been moved to after Cultural Stereotyping.
Chapter 10	• This chapter is a combination of key details from Chapter 15: Managing Teams in Open Stax Principles of Management, and Chapter 9: Social Networks in University of Minnesota's Principles of Management. • A TedTalk by Margret Heffernan entitled Dare to Disagree was included.
Chapter 11	• This Chapter includes information from many sources including: Chapter 10 Leading Innovation by Kari Shields, Chapter 7: Organizational Structure and Change and Chapter 8 Organizational Culture by the University of Minnesota's Principles of Management. • Additional information on creating culture change has been included. • Details on building change management skills and overcoming resistance to change have been added. • Additional material on creating a culture of innovation, rewarding innovation, and structuring for innovation has been provided, along with details on partnering for innovation and challenges that hinder innovation. • The ability of social networks to increase creativity and innovation in organizations has been highlighted.

About this Book

This textbook is an open educational resource (OER) that represents just one stage of many journeys begun by others. Building on what earlier writers have compiled, predominantly on management, the book expands its focus to leadership principles with additional material on gender, diversity, inclusion, and Indigenous leadership. It also includes a Canadian perspective. There are case studies to help provide real world knowledge and the development of critical thinking and problem solving capabilities, as well as exercises, assignments and reflection for students to analyze and expand their own leadership skills. The text is directed toward students studying leadership from the viewpoint of multiple disciplines. Like the study and development of leadership itself, it is not yet complete, nor is it likely to ever be. The words of education expert Amy Collier apply well to the path of leadership and to this text: "Not-yetness is **not** satisfying every condition, **not** fully understanding something, **not** check-listing everything, **not** tidying everything, **not** trying to solve every problem…but creating space for emergence to take us to new and unpredictable places, to help us better understand the problems we are trying to solve" (Collier, A., 2015, para. 3).

There is great debate on the difference between leaders and managers. Beginning in Chapter 2, you will begin to see the terms leader and manager intermingled throughout the text. For some, this may be an affront to leadership (or management) principles, but the fact remains that good managers are leaders. Read more to support this concept by professor and researcher Henry Mintzberg. This text has been created for a course called *Managing Leaders and Leadership* in graduate certificate programs at Fanshawe College, and the content is geared not only toward students who are or will become formal leaders (with titles bestowed by an organization), but to those readers who may never fill an official leadership role. We *all* show regular everyday leadership as we go about our day-to-day lives of working, socializing, parenting, etc. – whether we are aware of it or not. The text addresses myriad leadership concepts to empower the emergence of your own personal leadership, and to assist you in allowing others to do the same. I wish you well as your authentic leadership emerges, and as you enable that emergence in others. May you find joy in the journey – both personally and professionally.

Laura Radtke

Accessibility Statement

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The web version of this resource has been designed to meet Web Content Accessibility Guidelines 2.0, level AA. In addition, it follows all guidelines in Appendix A: Checklist for Accessibility of the *Accessibility Toolkit – 2nd Edition*.

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CHAPTER 1: INTRODUCTION TO PRINCIPLES OF LEADERSHIP AND MANAGEMENT

Chapter Content

1.1 Introduction to Principles of Leadership and Management

What's in it for Me?

Reading this chapter will help you do the following:

1. Explain who managers are and the nature of their work.
2. Identify why you should care about leadership, entrepreneurship, and strategy.
3. Describe the dimensions of the planning-organizing-leading-controlling (P-O-L-C) framework.
4. Connect how economic performance feeds social and environmental performance.
5. Compare what performance means at the individual and group levels.
6. Define Katz's three critical skill sets.
7. Create a survivor's guide to learning and developing principles of leadership and management.

We're betting that you already have a lot of experience with organizations, teams, and leadership. You've been through schools, in clubs, participated in social or religious groups, competed in sports or games, or taken on full- or part-time jobs. Some of your experience was probably pretty positive, but you were also likely wondering sometimes, "Isn't there a better way to do this?".

After participating in this course, we hope that you find the answer to be "Yes!". While leadership and management are both art and science, this text will help you identify and develop the skills essential to leading and managing yourself and others.

To being with, what is management, and what are the principles of management?

A manager's primary challenge is to solve problems creatively, and you should view **management** as "the art of getting things done through the efforts of other people".[1] Interestingly, if you look up the definition of a **leader**, you will find that many individuals and organizations use the same basic description as that of a manager – but we will discuss that more as we move through the chapter and the book as a whole.

The **principles of management**, are the means by which you actually manage, that is, get things done through others—individually, in groups, or in organizations. Formally defined, the principles of management are the activities that "plan, organize, and control the operations of the basic elements of [people], materials, machines, methods, money, and markets, providing direction and coordination, and giving leadership to human efforts,

1. We draw this definition from a biography of Mary Parker Follett (1868–1933) written by P. Graham, Mary Parker Follett: Prophet of Management (Boston: Harvard Business School Press, 1995). Follett was an American social worker, consultant, and author of books on democracy, human relations, and management. She worked as a management and political theorist, introducing such phrases as "conflict resolution," "authority and power," and "the task of leadership.

so as to achieve the sought objectives of the enterprise."[2] For this reason, principles of management are often discussed or learned using a framework called P-O-L-C, which stands for planning, organizing, leading, and controlling.

"P.O.L.C." by Alyssa Giles, licensed under CC BY-NC-SA 4.0.

Managers are required in all the activities of organizations: budgeting, designing, selling, creating, financing, accounting, and artistic presentation; the larger the organization, the more managers are needed. Everyone employed in an organization is affected by management principles, processes, policies, and practices as they are either a manager or a subordinate to a manager, and usually, they are both.

Managers do not spend all their time managing. When choreographers are dancing a part, they are not managing, nor are office managers managing when they personally check out a customer's credit. Some employees perform only part of the functions described as managerial—and to that extent, they are mostly managers in limited areas. For example, those who are assigned the preparation of plans in an advisory capacity to a manager are making management decisions by deciding which of several alternatives to present to the management. However, they may have no participation in the functions of organizing, staffing, and supervising and no control over the implementation of the plan selected from those recommended. Even independent consultants are managers since they get most things done through others—those *others* just happen to be their clients! Of course, if advisers or consultants have their own staff of subordinates, they become a manager

2. The fundamental notion of principles of management was developed by French management theorist Henri Fayol (1841–1925). He is credited with the original planning-organizing-leading-controlling framework (P-O-L-C), which, while undergoing very important changes in content, remains the dominant management framework in the world. See H. Fayol, General and Industrial Management (Paris: Institute of Electrical and Electronics Engineering, 1916).

in the fullest sense of the definition. They must develop business plans, hire, train, organize, and motivate their staff members, establish internal policies that will facilitate the work and direct it, and represent the group and its work to those outside of the firm.

1.2 Case in Point: Doing Good as a Core Business Strategy

Example: Doing Good as a Core Business Strategy

Figure 1.2.1: *"Goodwill Store" by Mike Mozart, licensed under CC-BY 2.0.*

Goodwill Industries International (a nonprofit organization) has been an advocate of diversity for over 100 years. In 1902, in Boston, Massachusetts, a young missionary set up a small operation enlisting struggling immigrants in his parish to clean and repair clothing and goods to later sell. This provided workers with the opportunity for basic education and language training. His philosophy was to provide a "hand up," not a "hand out". Although today you can find retail stores in over 2,300 locations worldwide, and in 2009 more than 64 million people in the United States and Canada donated to Goodwill, the organization has maintained its core mission to respect the dignity of individuals by eliminating barriers to opportunity through the power of work. Goodwill accomplishes this goal, in part, by putting 84% of its revenue back into programs to provide employment, which in 2008 amounted to $3.23 billion. As a result of these programs, every 42 seconds of every business day, someone gets a job and is one step closer to achieving economic stability.

Goodwill is a pioneer of social enterprise and has managed to build a culture of respect through its diversity programs. If you walk into a local Goodwill retail store you are likely to see employees from all walks of life, including differences in gender and race, physical ability, sexual orientation, and age. Goodwill provides employment opportunities for individuals with disabilities, lack of education, or lack of job experience. The company has created programs for individuals with criminal backgrounds who might otherwise be unable to find employment, including basic work skill development, job placement assistance, and life skills. In 2008, more than 172,000 people obtained employment, earning $2.3 billion in wages and gaining tools to be productive members of their community. Goodwill has established diversity as an organizational norm, and as a result, employees are comfortable addressing issues of stereotyping and discrimination. In an organization of individuals with such wide-ranging backgrounds, it is not surprising that there is a wide range of values and beliefs.

Management and operations are decentralized within the organization with 166 independent community-based Goodwill stores. These regional businesses are independent, not-for-profit human services organizations. Despite its decentralization, the company has managed to maintain its core values. Seattle's Goodwill is focused on helping the city's large immigrant population and those individuals without basic education and English language skills. And at Goodwill Industries of Kentucky, the organization recently invested in custom software to balance daily sales at stores to streamline operations so managers can spend less time on paperwork and more time managing employees.

Part of Goodwill's success over the years can be attributed to its ability to innovate. As technology evolves and such skills became necessary for most jobs, Goodwill has developed training programs to ensure that individuals are fully equipped to be productive members of the workforce, and in 2008 Goodwill was able to provide 1.5 million people with career services. As an organization, Goodwill itself has entered into the digital age. You can now find Goodwill on Facebook, Twitter, and YouTube. Goodwill's business practices encompass the values of the triple bottom line of people, planet, and profit. The organization is taking advantage of new green initiatives and pursuing opportunities for sustainability. For example, at the beginning of 2010, Goodwill received a $7.3 million grant from the U.S. Department of Labor, which will provide funds to prepare individuals to enter the rapidly growing green industry of their choice. Oregon's Goodwill Industries has partnered with the Oregon Department of Environmental Quality and its Oregon E-Cycles program to prevent the improper disposal of electronics. Goodwill discovered long ago that diversity is an advantage rather than a hindrance.

Exercises

1. How might the implications of the P-O-L-C framework differ for an organization like Goodwill Industries versus a firm like Starbucks?

2. What are Goodwill's competitive advantages?
3. Goodwill has found success in social services. What problems might result from hiring and training the diverse populations that Goodwill is involved with?
4. Have you ever experienced problems with discrimination in a work or school setting?
5. Why do you think that Goodwill believes it necessary to continually innovate?

1.3 Who Are Managers?

Learning Objectives

1. Recognize what is meant by the term “manager”.
2. Compare traditional and contemporary types of managers.
3. Explain the nature of managerial work.

Managers

We tend to think about managers based on their position in an organization which tells us a bit about their role and the nature of their responsibilities. The following figure summarizes the historic and contemporary views of organizations with respect to managerial roles (Ghoshal & Barlett, 1999).

Figure 1.3.1: *The Changing Roles of Management and Managers*

In contrast to the traditional, hierarchical relationship among layers of management and managers and employees, in the *contemporary view*, top managers support and serve other managers and employees (through a process called empowerment), just as the organization ultimately exists to serve its customers and clients. **Empowerment** is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision-making in autonomous ways. Empowerment is a new power – today's leaders and managers afford their followers to be more independent in managing their own work than what has traditionally been granted.

In both the traditional and contemporary views of management, however, there remains the need for different types of managers.

- *Top managers* are responsible for developing the organization's strategy and being a steward of its vision and mission. A second set of managers includes functional, team, and general managers.
- *Functional managers* are responsible for the efficiency and effectiveness of an area, such as accounting or marketing.
- *Supervisory* or *team managers* are responsible for coordinating a subgroup of a particular function or a team composed of members from different parts of the organization.

Sometimes you will hear distinctions made between line and staff managers.

- A **line manager** leads a function that contributes directly to the products or services the organization creates. For example, a line manager (often called a *product*, or *service manager*) at Procter & Gamble (P&G) is responsible for the production, marketing, and profitability of the Tide detergent product line. A *staff manager*, in contrast, leads a function that creates indirect inputs. For example, finance and accounting are critical organizational functions but do not typically provide input into the final product or service a customer buys, such as a box of Tide detergent. Instead, they serve a supporting role. A *project manager* has the responsibility for the planning, execution, and closing of any project. Project managers are often found in construction, architecture, consulting, computer networking, telecommunications, or software development.
- A **general manager** is someone who is responsible for managing a clearly identifiable revenue-producing unit, such as a store, business unit, or product line. General managers typically must make decisions across different functions and have rewards tied to the performance of the entire unit (i.e., store, business unit, product line, etc.). General managers take direction from their top executives. They must first understand the executives' overall plan for the company. Then they set specific goals for their own departments to fit in with the plan. The general manager of production, for example, might have to increase certain product lines and phase out others. General managers must describe their goals clearly to their support staff. The supervisory managers see that the goals are met.

Figure 1.3.2: *"Women In Management Eleanor McDonald Lecture" by Adrian Gaskell, licensed under CC-BY-2.0.*

The Nature of Managerial Work

Managers are responsible for the processes of getting activities completed efficiently with and through other people and setting and achieving the firm's goals through the execution of four basic management functions: planning, organizing, leading, and controlling. Both sets of processes utilize human, financial, and material resources.

Of course, some managers are better than others at accomplishing this! There have been a number of studies on what managers actually do, the most famous of those conducted by Professor Henry Mintzberg in the early 1970s (Mintzberg, 1973). One explanation for Mintzberg's enduring influence is perhaps that the nature of managerial work has changed very little since that time, aside from the shift to an empowered relationship between top managers and other managers and employees, obvious changes in technology, and the exponential increase in information overload.

After following managers around for several weeks, Mintzberg concluded that to meet the many demands of performing their functions, managers assume multiple roles. A role is an organized set of behaviors, and Mintzberg identified 10 roles common to the work of all managers. As summarized in the following figure, the 10 roles are divided into three groups: interpersonal, informational, and decisional.

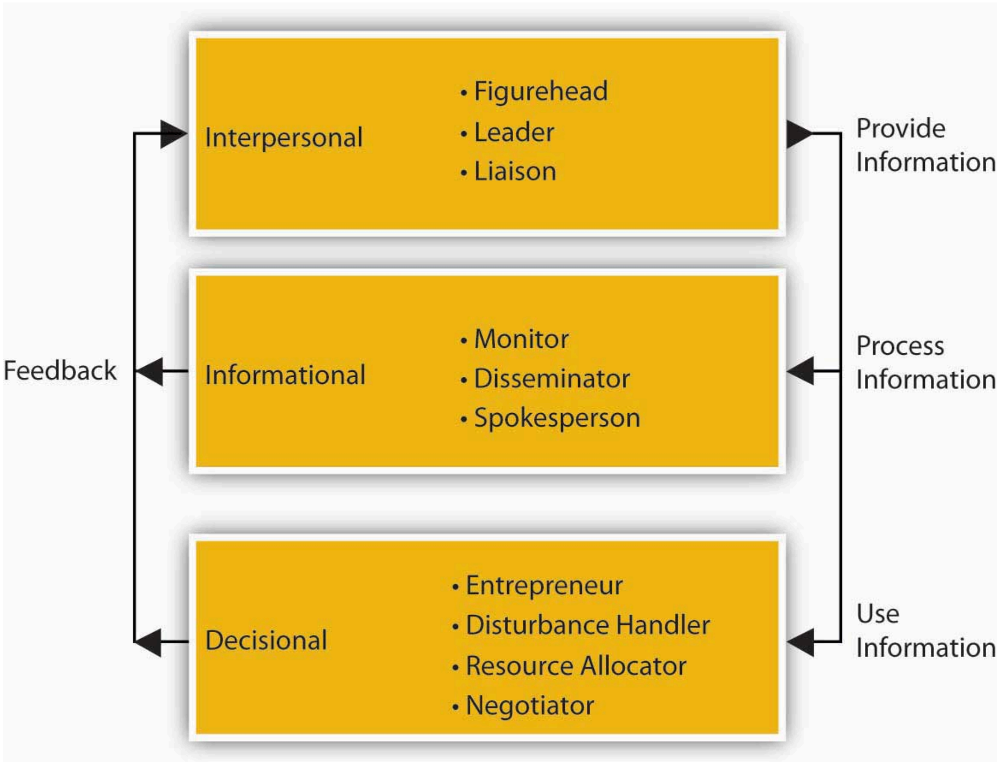

Figure 1.3.3: *Ten Managerial Roles*

The three interpersonal roles are primarily concerned with interpersonal relationships. In the figurehead role, the manager represents the organization in all matters of formality. The top-level manager represents the company legally and socially to those outside of the organization. The supervisor represents the workgroup to higher management and higher management to the workgroup. In the liaison role, the manager interacts with peers and people outside the organization. The top-level manager uses the liaison role to gain favors and information, while the supervisor uses it to maintain the routine flow of work. The leader role defines the relationships between the manager and employees.

The direct relationships with people in the interpersonal roles place the manager in a unique position to get information. Thus, the three informational roles are primarily concerned with the information aspects of managerial work. In the monitor role, the manager receives and collects information. In the role of disseminator, the manager transmits special information into the organization. The top-level manager receives and transmits more information from people outside the organization than the supervisor. In the role of spokesperson, the manager disseminates the organization's information into its environment. Thus, the top-level manager is seen as an industry expert, while the supervisor is seen as a unit or departmental expert.

The informational roles link all managerial work together as compared to the interpersonal roles that ensure information is provided. The decisional roles make significant use of the information. The performance of managerial roles and the requirements of these roles can be played at different times by the same manager and to different degrees, depending on the level and function of management. The 10 roles are described individually, but they form an integrated whole.

The unique access to information places the manager at the center of organizational decision-making. There are four decisional roles managers play. In the entrepreneur role, the manager initiates change. In the disturbance handler role, the manager deals with threats to the organization. In the resource allocator role, the manager chooses where the organization will expend its efforts. In the negotiator role, the manager negotiates on behalf of the organization. The top-level manager makes the decisions about the organization as a whole, while the supervisor makes decisions about his or her particular work unit.

The supervisor performs these managerial roles but with a different emphasis than higher managers. Supervisory management is more focused and short-term in outlook. Thus, the figurehead role becomes less significant and the disturbance handler and negotiator roles increase in importance for the supervisor. Since leadership permeates all activities, the leader role is among the most important of all roles at all levels of management.

So what do Mintzberg's conclusions about the nature of managerial work mean for you? On the one hand, managerial work is the lifeblood of most organizations because it serves to choreograph and motivate individuals to do amazing things. Managerial work is exciting, and it is hard to imagine that there will ever be a shortage of demand for capable, energetic managers. On the other hand, managerial work is necessarily fast-paced and fragmented, where managers at all levels express the opinion that they must process much more information and make more decisions than they could have ever possibly imagined. So, just as the most successful organizations seem to have well-formed and well-executed strategies, there is also a strong need for managers to have good strategies for the way they will approach their work. This is exactly what you will learn through the principles of management.

Exercises

1. Why do organizations need managers?
2. What are some different types of managers and how do they differ?
3. What are Mintzberg's 10 managerial roles?
4. What three areas does Mintzberg use to organize the 10 roles?
5. What four general managerial functions do principles of management include?

Key Takeaways

Managers are responsible for getting work done through others. We typically describe the key managerial functions as planning, organizing, leading, and controlling. The definitions for each of these have evolved over time, just as the nature of managing, in general, has evolved over time. This evolution is best seen in the gradual transition from the traditional hierarchical relationship between managers and employees, to a climate characterized better as an upside-down pyramid, where top executives support middle managers, and they, in turn, support the employees who innovate and fulfill the needs of customers and clients. Through all four managerial functions, the work of managers ranges across 10 roles, from figurehead to negotiator. While actual managerial work can seem challenging, the skills you gain through principles of management—consisting of the functions of planning, organizing, leading, and controlling—will help you to meet these challenges.

1.4 Leadership, Entrepreneurship, and Strategy

Learning Objectives

1. Explain the roles and importance of leadership, entrepreneurship, and strategy in principles of management.
2. Recognize how leadership, entrepreneurship, and strategy are interrelated.

The principles of management are drawn from a number of academic fields, principally, the fields of leadership, entrepreneurship, and strategy.

Leadership

If we can find both management and leadership described as getting things done through others, then **leadership** should be further defined by the social and informal sources of *influence* that you use to inspire action taken by others. It means mobilizing others to *want* to struggle toward a common goal. Great leaders help build an organization's human capital, then motivate individuals to take concerted action. Leadership also includes an understanding of when, where, and how to use more formal sources of authority and power, such as position or ownership.

Increasingly, we live in a world where good *management* requires good *leaders* and *leadership*. While these views about the importance of leadership are not new (see "Views on Managers Versus Leaders"), competition among employers and countries for the best and brightest, increased labor mobility (think "war for talent" here), and hyper-competition puts pressure on firms to invest in present and future leadership capabilities. In essence, the two terms *should* be interchangeable in order to meet the increasing demands of life in the 21st century; in reality, this is not always the case.

Example: P & G Leadership

P&G provides an example of this shift in emphasis to leadership as a key principle of management. For example, P&G recruits and promotes those individuals who demonstrate success through influence rather than direct or coercive authority. Internally, there has been a change from managers being outspoken and needing to direct their staff, to being individuals who electrify and inspire those around them. Good leaders and leadership at P&G used to imply having followers, whereas, in today's society, good leadership means followership and bringing out the best in your peers. This is one of the key reasons that P&G has been consistently ranked among the top 10 most admired companies in the United States, according to CNN Money (2008).

Whereas P&G has been around for some 170 years, Google was considered another winning firm in terms of leadership after only a decade. Both firms emphasize leadership in terms of being exceptional at developing people. Google topped *Fortune's* 100 Best Companies to Work for many years. Google's founders, Sergey Brin and Larry Page, built a company around the idea that work should be challenging and the challenge should be fun (Google, n.d.). Google's culture is probably unlike any in corporate America, and it's not because of the ubiquitous lava lamps throughout the company's headquarters or that the company's chef used to cook for the Grateful Dead.

In the same way, Google puts users first when it comes to online service, Google espouses that it puts employees first when it comes to daily life in all of its offices. There is an emphasis on team achievements and pride in individual accomplishments that contribute to the company's overall success. Ideas are traded, tested, and put into practice with a swiftness that can be dizzying. Observers and employees note that meetings that would take hours elsewhere are frequently little more than a conversation in line for lunch and few walls separate those who write the code from those who write the checks. This highly communicative environment fosters productivity and camaraderie fueled by the realization that millions of people rely on Google results. Leadership at Google amounts to a deep belief that if you give the proper tools to a group of people who like to make a difference, they will.

Views on Managers Versus Leaders

My definition of a leader…is a man who can persuade people to do what they don't want to do, or do what they're too lazy to do, and like it.

Harry S. Truman (1884–1972), 33rd president of the United States

You cannot manage men into battle. You manage things; you lead people.

Grace Hopper (1906–1992), Admiral, U.S. Navy

Managers have subordinates—leaders have followers.

Chester Bernard (1886–1961), former executive and author of Functions of the Executive

Being an engaged leader means you must be reflective while staying in the fray – the hectic, fragmented, never-ending world of managing.

Henry Mintzberg (1939-), Canadian management professor and researcher

The first job of a leader is to define a vision for the organization…Leadership is the capacity to translate vision into reality.

Warren Bennis (1925–), author and leadership scholar

A manager takes people where they want to go. A great leader takes people where they don't necessarily want to go but ought to.

Rosalynn Carter (1927–), First Lady of the United States, 1977–1981

Entrepreneurship

It's fitting that this section on entrepreneurship follows the discussion of Google. **Entrepreneurship** is defined as the recognition of opportunities (needs, wants, problems, and challenges) and the use or creation of resources to implement innovative ideas for new, thoughtfully planned ventures. Perhaps this is obvious, but an **entrepreneur** is a person who engages in the process of entrepreneurship. We describe entrepreneurship as a process because it often involves more than simply coming up with a good idea—someone also has to convert that idea into action. As an example of both, Google's leaders suggest that its point of distinction "is anticipating needs not yet articulated by our global audience, then meeting them with products and services that set new standards. This constant dissatisfaction with the way things are is ultimately the driving force behind the world's best search engine" (Google, n.d.).

Entrepreneurs and entrepreneurship are the catalysts for value creation. They identify and create new markets, as well as foster change in existing ones. However, such value creation first requires an opportunity. Indeed, the opportunity-driven nature of entrepreneurship is critical. Opportunities are typically characterized as problems in search of solutions, and the best opportunities are big problems in search of big solutions. "The greater the inconsistencies in existing service and quality, in lead times and in lag times, the greater the vacuums and gaps in information and knowledge, the greater the opportunities" (Timmons, 1999). In other words, bigger problems will often mean there will be a bigger market for the product or service that the entrepreneur creates. We hope you can see why the problem-solving, opportunity-seeking nature of entrepreneurship is a fundamental building block for effective principles of management.

You may have heard the term **intrapreneur**. Often we think of entrepreneurs as people who start their own businesses, so the title intrapreneur was framed to refer to those who participate in entrepreneurial activities within an existing organization. Employees who use their skills and creativity to expand their employers' business can still be referred to as entrepreneurs, and are in fact applying the same principles. Leaders and managers will want to encourage and empower employees to think outside the box to take advantage of existing opportunities or create new ones. For further information about intrapreneurship, go to Intrareneurship, Explained, or Why You Should Become an Intrapreneur.

Strategy

When an organization has a long-term purpose, articulated in clear goals and objectives, and these goals and objectives can be rolled up into a coherent plan of action, then we would say that the organization has a strategy. It has a *good* or even *great* strategy when this plan also takes advantage of unique resources and capabilities to exploit a big and growing external opportunity. **Strategy,** then, is the central, integrated, externally-oriented concept of how an organization will achieve its objectives (Hambrick & Fredrickson, 2001). **Strategic management** is the body of knowledge that answers questions about the development and implementation of good strategies.

Strategic management is important to all organizations because, when correctly formulated and communicated, strategy provides leaders and employees with a clear set of guidelines for their daily actions. This is why strategy is so critical to the principles of management you are learning about. Simply put, strategy is about making choices: What do I do today? What shouldn't I be doing? What should my organization be doing? What should it stop doing?

Synchronizing Leadership, Entrepreneurship, and Strategy

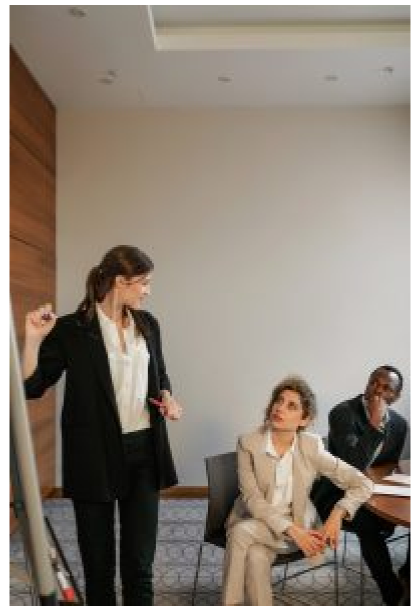

Figure 1.4.1: *"A Woman in Black Blazer Talking to Her Colleagues" by Alena Darmel, Pexels License.*

You know that leadership, entrepreneurship, and strategy are the inspiration for important, valuable, and useful principles of management. Now you will want to understand how they might relate to one another. In terms of principles of management, you can think of leadership, entrepreneurship, and strategic management as answering questions about "who," "what," and "how." Leadership helps you understand who helps lead the organization forward and what the critical characteristics of good leadership might be. Entrepreneurial firms and entrepreneurs, in general, are fanatical about identifying opportunities and solving problems—for any organization, entrepreneurship answers big questions about "what" an organization's purpose might be. Finally, strategic management aims to make sure that the right choices are made—specifically, that a good strategy is in place—to exploit those big opportunities.

We have spent the last two years going through a pandemic, and are currently in the midst of Russia's attack on Ukraine. Today's leaders must be made of tougher stuff than they have in the past because they need to be able to keep up with life at the speed of light, balance a multitude of competing priorities, and pivot on a dime when a crisis hits. Adaptability and resiliency are key to survival, for leaders and their organizations. The consulting firm McKinsey & Company addresses *How leaders can adapt to a very different future*. You may also be interested in McKinsey's interviews with several top business leaders called, ***Leadership Matters.***

One way to see how leadership, entrepreneurship, and strategy can come together for an organization—and for you—is through a recent (disguised) job posting from Craigslist. Look at the ideal candidate characteristics identified in the following Help Wanted ad—you don't have to look very closely to see that if you happen to be a recent undergrad in the field of business, then the organization depicted in the ad is looking for you. The posting identifies a number of areas of functional expertise for the target candidate. You can imagine that this new position is pretty critical for the success of the business. For that reason, we hope you are not surprised to see that, beyond functional expertise, this business seeks someone with leadership, entrepreneurial, and strategic orientation and skills. Now you have a better idea of what is involved with key principles of management.

Example: Help Wanted – Chief of Staff

We're hiring a chief of staff to bring some order to the mayhem of our firm's growth. You will touch everything at the company, from finance to sales, marketing to operations, recruiting to human resources, accounting to investor relations. You will report directly to the CEO.

Here's what you're going to be asked to do across a range of functional areas in the first 90 days before your job evolves into a whole new set of responsibilities:

Marketing

- Leverage our existing customer base using best-in-class direct marketing campaigns via e-mail, phone, Web, and print or mail communications.
- Convert our current customer spreadsheet and database into a highly functional, lean customer relationship management (CRM) system—we need to build the infrastructure to service and reach out to customers for multiple users.
- Be great at customer service personally—excelling in person and on the phone, and you will help us build a Ninja certification system for our employees and partners to be like you.
- Build our Web-enabled direct sales force, requiring a lot of strategic work, sales-force incentive design and experimentation, and rollout of Web features to support the direct channel.

Sales

- Be great at demonstrating our product in the showroom, as well as at your residence and in the field—plan to be one of the top sales reps on the team (and earn incremental variable compensation for your efforts).

Finance and Accounting

- Build our financial and accounting structures and processes, take over QuickBooks, manage our team of accountants, hire additional resources as needed, and get that profit and loss statement (P&L) rocking.
- Figure out when we should pay our bills and manage team members to get things paid on time and manage our working capital effectively.
- Track our actual revenues and expenses against your own projection—you will be building and running our financial model.

Operations

- We are building leading-edge capabilities on returns, exchanges, and shipping—you will help guide strategic thinking on operational solutions and will implement them with our operations manager.
- We are looking for new headquarters, you may help identify, build-out, and launch.

HR and Recruiting

- We are recruiting a team of interns—you will take the lead on the program, and many or all of them will report to you; you will be an ombudsman of sorts for our summer program.
- The company has a host of HR needs that are currently handled by the CEO and third parties; you

will take over many of these.

Production and Product Development

- The company is actively recruiting a production assistant/manager—in the meanwhile, there are a number of Web-facing and vendor-facing activities you will pitch in on.

The Ideal Candidate Is…

- A few years out of college but is at least two or three years away from going to business or other graduate school;
- Charismatic and is instantly likable to a wide variety of people, driven by sparkling wit, a high degree of extraversion, and a balanced mix of self-confidence and humility;
- Able to read people quickly and knows how to treat people accordingly;
- Naturally compassionate and demonstrates strong empathy, easily thinking of the world from the perspective of another person;
- An active listener and leaves people with the sense that they are well heard;
- Exceptionally detail-oriented and has a memory like a steel trap—nothing falls through the cracks;
- Razor sharp analytically, aced the math section of their SAT test, and excels at analyzing and solving problems;
- A perfectionist and keeps things in order with ease.

Exercises

1. How do you define leadership, and who would you identify as a great leader?
2. What is entrepreneurship, and how is intrapreneurship different?
3. What is strategy?
4. What roles do leadership, entrepreneurship, and strategy play in good principles of management?

Key Takeaways

The principles of management are drawn from three specific areas—leadership, entrepreneurship, and strategic management. You learned that leadership helps you understand who helps lead the organization forward and what the critical characteristics of good leadership might be. Entrepreneurs are fanatical about identifying opportunities and solving problems—for any organization, entrepreneurship answers big questions about "what" an organization's purpose might be. Finally, as you've already learned, strategic management aims to make sure that the right choices are made—specifically, that a good strategy is in place—to exploit those big opportunities.

1.5 Planning, Organizing, Leading, and Controlling

Learning Objectives

1. Describe the dimensions of the planning-organizing-leading-controlling (P-O-L-C) framework.
2. Identify the general inputs into each P-O-L-C dimension.

A manager's primary challenge is to solve problems creatively. While drawing from a variety of academic disciplines, and helping managers respond to the challenge of creative problem solving, principles of management have long been categorized into the four major functions of planning, organizing, leading, and controlling (the P-O-L-C framework). The four functions of the P-O-L-C summarized in **Table 1.5.1** below, are actually highly integrated when carried out in the day-to-day realities of running an organization. Therefore, you should not get caught up in trying to analyze and understand a complete, clear rationale for categorizing skills and practices that compose the whole of the P-O-L-C framework.

It is important to note that this framework is not without criticism. Specifically, these criticisms stem from the observation that the P-O-L-C functions might be ideal but that they do not accurately depict the day-to-day actions of actual managers (Mintzberg, 1973; Lamond, 2004). The typical day in the life of a manager at any level can be fragmented and hectic, with the constant threat of having priorities dictated by the law of the trivial many and important few (i.e., the 80/20 rule). However, the general conclusion seems to be that the P-O-L-C functions of management still provide a very useful way of classifying the activities managers engage in as they attempt to achieve organizational goals (Lamond, 2004).

Table 1.5.1: The P-O-L-C Framework

Planning	Organizing	Leading	Controlling
1. Vision & Mission	1. Organization Design	1. Leadership	1. Systems/Processes
2. Strategizing	2. Culture	2.Decision Making	2. Strategic HR
3. Goals & Objectives	3. Social Networks	3. Communications	
		4. Groups/Teams	
		5. Motivations	

Planning

Planning is the function of management that involves setting objectives and determining a course of action for achieving those objectives. Planning requires that managers be aware of environmental conditions facing their organization and forecast future conditions. It also requires that managers be good decision-makers.

Planning is a process consisting of several steps. The process begins with **environmental scanning** which simply means that planners must be aware of the critical contingencies facing their organization in terms of economic conditions, their competitors, and their customers. Planners must then attempt to forecast future conditions. These forecasts form the basis for planning.

Planners must establish objectives, which are statements of what needs to be achieved and when. Planners must then identify alternative courses of action for achieving objectives. After evaluating the various alternatives, planners must make decisions about the best courses of action for achieving objectives. They must then formulate necessary steps and ensure the effective implementation of plans. Finally, planners must constantly evaluate the success of their plans and take corrective action when necessary.

There are many different types of plans and planning.

Figure 1.5.1 *"Types of Planning" by Alyssa Giles, CC BY-NC-SA 4.0.*

- **Strategic planning** involves analyzing competitive opportunities and threats, as well as the strengths and weaknesses of the organization, and then determining how to position the organization to compete effectively in its environment. Strategic planning has a long time frame, often three years or more. Strategic planning generally includes the entire organization and includes the formulation of objectives. Strategic planning is often based on the organization's mission, which is its fundamental reason for existence. An organization's top management most often conducts strategic planning.

- **Tactical planning** is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan. Middle-level managers often engage in tactical planning.
- **Operational planning** generally assumes the existence of organization-wide or subunit goals and objectives and specifies ways to achieve them. Operational planning is short-range (less than a year) planning that is designed to develop specific action steps that support the strategic and tactical plans.

Organizing

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The structure of the organization is the framework within which effort is coordinated. The structure is usually represented by an organization chart, which provides a graphic representation of the chain of command within an organization. Decisions made about the structure of an organization are generally referred to as **organizational design** decisions.

Organizing also involves the design of individual jobs within the organization. Decisions must be made about the duties and responsibilities of individual jobs, as well as the manner in which the duties should be carried out. Decisions made about the nature of jobs within the organization are generally called "job design" decisions.

Organizing at the level of the organization involves deciding how best to departmentalize, or cluster, jobs into departments to coordinate effort effectively. There are many different ways to departmentalize, including organizing by function, product, geography, or customer. Many larger organizations use multiple methods of departmentalization.

Organizing at the level of a particular job involves how best to design individual jobs to most effectively utilize human resources. Traditionally, **job design** was based on principles of division of labor and specialization, which assumed that the more narrow the job content, the more proficient the individual performing the job could become. However, experience has shown that it is possible for jobs to become too narrow and specialized. For example, how would you like to screw lids on jars one day after another, as you might have done many decades ago if you worked in a company that made and sold jellies and jams? When this happens, negative outcomes result, including decreased job satisfaction and organizational commitment, increased absenteeism, and turnover.

Recently, many organizations have attempted to strike a balance between the need for worker specialization and the need for workers to have jobs that entail variety and autonomy. Many jobs are now designed based on such principles as empowerment, **job enrichment,** and **teamwork**.

Leading

Leading involves the social and informal sources of influence that you use to inspire action taken by others. If managers are effective leaders, their subordinates will be enthusiastic about exerting effort to attain organizational objectives.

The behavioral sciences have made many contributions to understanding this function of management. Personality research and studies of job attitudes provide important information as to how managers can most effectively lead subordinates. For example, this research tells us that to become effective at leading, managers must first understand their subordinates' personalities, values, attitudes, and emotions.

Studies of motivation and motivation theory provide important information about the ways in which workers can be energized to put forth a productive effort. Studies of communication provide direction as to how managers can effectively and persuasively communicate. Studies of leadership and leadership style provide information regarding questions, such as, "What makes a manager a good leader?" and "In what situations are certain leadership styles most appropriate and effective?".

Figure 1.5.2: *"Maize seed quality control at small seed company Bidasem" by International Maize and Wheat Improvement Center, licensed under CC BY-NC-SA 2.0.*

Controlling

Controlling involves ensuring that performance does not deviate from standards. Controlling consists of three steps, which include (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Performance standards are often stated in monetary terms such as revenue, costs, or profits but may also be stated in other terms, such as units produced, number of defective products, or levels of quality or customer service.

The measurement of performance can be done in several ways, depending on the performance standards, including financial statements, sales reports, production results, customer satisfaction, and formal performance appraisals. Managers at all levels engage in the managerial function of controlling to some degree.

The managerial function of controlling should not be confused with control in the behavioral or manipulative sense. This function does not imply that managers should attempt to control or manipulate the personalities, values, attitudes, or emotions of their subordinates. Instead, this function of management concerns the manager's role in taking necessary actions to ensure that the work-related activities of subordinates are consistent with and contribute toward the accomplishment of organizational and departmental objectives.

Effective controlling requires the existence of plans since planning provides the necessary performance standards or objectives. Controlling also requires a clear understanding of where responsibility for deviations from standards lies. Two traditional control techniques are budget and performance audits. An audit involves an examination and verification of records and supporting documents. A budget audit provides information about where the organization is with respect to what was planned or budgeted for, whereas a performance audit might try to determine whether the figures reported are a reflection of actual performance. Although controlling is often thought of in terms of financial criteria, managers must also control production and operations processes, procedures for delivery of services, compliance with company policies, and many other activities within the organization.

The management functions of planning, organizing, leading, and controlling are widely considered to be the best means of describing the manager's job, as well as the best way to classify accumulated knowledge about the study of management. Although there have been tremendous changes in the environment faced by managers and the tools used by managers to perform their roles, managers still perform these essential functions.

Exercises

1. What are the management functions that comprise the P-O-L-C framework?
2. Are there any criticisms of this framework?
3. What function does planning serve?
4. What function does organizing serve?
5. What function does leading serve?
6. What function does controlling serve?

Key Takeaways

The principles of management can be distilled down to four critical functions. These functions are planning, organizing, leading, and controlling. This P-O-L-C framework provides useful guidance into what the ideal job of a manager should look like.

1.6 Economic, Social, and Environmental Performance

Learning Objectives

1. Define economic, social, and environmental performance.
2. Connect how economic performance is related to social and environmental performance.

Webster's dictionary defines performance as "the execution of an action" and "something accomplished" (Merriam-Webster, 2008). Principles of leadership and management help you better understand the inputs into critical organizational outcomes like a firm's economic performance. Economic performance is very important to a firm's **stakeholders,** particularly its investors or owners, because this performance eventually provides them with a return on their investment. Other stakeholders, like the firm's employees and society at large, are also deemed to benefit from such performance, albeit less directly. Increasingly though, noneconomic accomplishments, such as reducing waste and pollution, and giving back to society are considered key indicators of performance as well. Indeed, this is why the notion of the **triple bottom line** is gaining so much attention in the business press. Essentially, the triple bottom line refers to the measurement of business performance along social, environmental, *and* economic dimensions. We introduce you to economic, social, and environmental performance and conclude the section with a brief discussion of the interdependence of economic performance with other forms of performance.

Economic Performance

In a traditional sense, the economic performance of a firm is a function of its success in producing benefits for its owners in particular, through product innovation and the efficient use of resources. When you talk about this type of economic performance in a business context, people typically understand you to be speaking about some form of profit.

The definition of economic profit is the difference between revenue and the opportunity cost of all resources used to produce the items sold (Albrecht, 1983). This definition includes implicit returns as costs. For our purposes, it may be simplest to think of economic profit as a form of **accounting profit** where profits are achieved when revenues exceed the accounting cost the firm "pays" for those inputs. In other words, your organization makes a profit when its revenues are more than its costs in a given period of time, such as three months, six months, or a year.

Before moving on to social and environmental performance, it is important to note that *customers* play a big role in economic profits. Profits accrue to firms because customers are willing to pay a certain price for a product or service, as opposed to a competitor's product or service of a higher or lower price. If customers are only willing to make purchases based on price, then in the face of competition, firms will only be able to generate profit if costs are kept under control.

Social and Environmental Performance

You have learned a bit about economic performance and its determinants. For most organizations, you saw that economic performance is associated with profits, and profits depend a great deal on how much customers are willing to pay for a good or service.

With regard to social and environmental performance, it is similarly useful to think of them as forms of profit—social and environmental profit to be exact. Increasingly, the topics of social and environmental performance have garnered their own courses in school curricula; in the business world, they are collectively referred to as **corporate social responsibility (CSR)**

Figure 1.6.1 *"Corporate Social Responsibility." by Alyssa Giles CC BY-NC-SA 4.0.*

CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities, and the environment in all aspects of their operations. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families, as well as for the local community and society at large.

Two companies that have long blazed a trail in CSR are Ben & Jerry's and S. C. Johnson. Their statements about why they do this, summarized in **Table 1.1**, capture many of the facets just described.

Table 1.6.1: Examples of Leading Firms with Strong CSR Orientations

	Why We Do It?
Ben & Jerry's	*"We've taken time each year since 1989 to compile this [Social Audit] report because we continue to believe that it keeps us in touch with our Company's stated Social Mission. By raising the profile of social and environmental matters inside the Company and recording the impact of our work on the community, this report aids us in our search for business decisions that support all three parts of our Company Mission Statement: Economic, Product, and Social. In addition, the report is an important source of information about the Company for students, journalists, prospective employees, and other interested observers. In this way, it helps us in our quest to keep our values, our actions, and public perceptions in alignment"* (Benjerrys, 2008).
S. C. Johnson	*"It's nice to live next door to a family that cares about its neighbors, and at S. C. Johnson we are committed to being a good neighbor and contributing to the well-being of the countries and the communities where we conduct business. We have a wide variety of efforts to drive global development and growth that benefit the people around us and the planet we all share. From exceptional philanthropy and volunteerism to new business models that bring economic growth to the world's poorest communities, we're helping to create stronger communities for families around the globe"* (SC Johnson, 2008).

Integrating Economic, Social, and Environmental Performance

Is there really a way to achieve a triple bottom line in a way that actually builds up all three facets of performance—economic, social, and environmental? Advocates of CSR understandably argue that this is possible and should be the way all firms are evaluated. Increasingly, evidence is mounting that attention to a triple bottom line is more than being "responsible" but instead just good business. Critics argue that CSR detracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; still, others argue that it is an attempt to preempt the role of governments as a watchdog over powerful multinational corporations.

While there is no systematic evidence supporting such a claim, a recent review of nearly 170 research studies on the relationship between CSR and firm performance reported that there appeared to be no negative shareholder effects of such practices. In fact, this report showed that there was a small positive relationship between CSR and shareholder returns (Margolis & Elfenbein, 2008). Similarly, companies that pay good wages and offer good benefits to attract and retain high-caliber employees "are not just being socially responsible; they are merely practicing good management" (Reich, 2007).

The financial benefits of social or environmental CSR initiatives vary by context. For example, environment-friendly strategies are much more complicated in the consumer products and services market. For example, cosmetics retailers The Body Shop and StarKist Seafood Company, a strategic business unit of Heinz Food, both undertook environmental strategies but only the former succeeded. The Body Shop goes to great lengths to ensure that its business is ecologically sustainable (Bodyshop, 2008). It actively campaigns against human rights abuses and for animal and environmental protection and is one of the most respected firms in the world, despite its small size. Consumers pay premium prices for Body Shop products, ostensibly because they believe that it simply costs more to provide goods and services that are environmentally friendly. The Body Shop has been wildly successful.

StarKist, too, adopted a CSR approach, when, in 1990, it decided to purchase and sell exclusively dolphin-safe tuna. At the time, biologists thought that the dolphin population decline was a result of the thousands killed in the course of tuna harvests. However, consumers were unwilling to pay higher prices for StarKist's environmental product attributes. Moreover, since tuna was bought from commercial fishermen, this particular practice afforded the firm no protection from imitation by competitors. Finally, in terms of credibility, the members of the tuna industry had launched numerous unsuccessful campaigns in the past touting their interest in the environment, particularly the world's oceans. Thus, consumers did not perceive StarKist's efforts as sincerely "green."

You might argue that The Body Shop's customers tend to be price-insensitive, hence the success of its environment-based strategy. However, individuals are willing to pay more for organic produce, so why not dolphin-safe tuna? One difference is that while the environment is a public good, organic produce produces both public and private benefits. For example, organic farming is better for the environment and pesticide-free produce is believed to be better for the health of the consumer. Dolphin-free tuna only has public environmental benefits (i.e., preserving the dolphin population and oceans' ecosystems), not private ones like personal health. It is true that personal satisfaction and benevolence are private benefits, too. However, consumers did not believe they were getting their money's worth in this regard for StarKist tuna, whereas they do with The Body Shop's products.

Somewhere in our dialogue on CSR lies the idea of making the solution of an environmental or social problem the primary purpose of the organization. Cascade Asset Management (CAM), is a case in point (Cascade, 2008). CAM was created in April 1999, in Madison, Wisconsin, and traces its beginnings to the University of Wisconsin's Entrepreneurship program where the owners collaborated on developing and financing the initial business plan. CAM is a private, for-profit enterprise established to provide for the environmentally responsible disposition of computers and other electronics generated by businesses and institutions in Wisconsin. With their experience and relationships in surplus asset disposition and computer hardware maintenance, the founders were able to apply their skills and education to this new and developing industry.

Firms are willing to pay for CAM's services because the disposal of surplus personal computers (PCs) is recognized as risky and highly regulated, given the many toxic materials embedded in most components. CAM's story is also credible (whereas StarKist had trouble selling its CSR story). The company was one of the original signers of the "Electronic Recyclers Pledge of True Stewardship" (Computertakeback, 2008) Signers of the pledge are committed to the highest standards of environmental and economic sustainability in their industry and are expected to live out this commitment through their operations and partnerships. The basic principles of the pledge are as follows: no export of untested whole products or hazardous components or commodities (CRTs, circuit boards) to developing countries, no use of prison labor, adherence to an environmental and worker safety management system, provision of regular testing and audits to ensure compliance, and support efforts to encourage producers to make their products less toxic. CAM has grown rapidly and now serves over 500 business and institutional customers from across the country. While it is recognized as one of the national leaders in responsible, one-stop information technology (IT) asset disposal, its success is attracting new entrants such as IBM, which views PC recycling as another profitable service they can offer their existing client base (IBM, 2008).

Exercises

1. Why is financial performance important for organizations?
2. What are some examples of financial performance metrics?
3. What dimensions of performance beyond financial are included in the triple bottom line?
4. How does CSR relate to the triple bottom line?
5. How are financial performance and CSR related?

Key Takeaways

Organizational performance can be viewed along three dimensions—financial, social, and environmental—collectively referred to as the triple bottom line, where the latter two dimensions are included in the definition of CSR. While there used to be debates about whether organizations should consider environmental and social impacts when making business decisions, stakeholders expect that such CSR activities will feature strongly in today's organizations – these behaviors constitute good principles of leadership and management. The reasoning is based on arguments that range from CSR helping attract and retain the best and brightest employees, to showing that the firm is being responsive to market demands, to observations about how some environmental and social needs represent great entrepreneurial business opportunities in and of themselves.

1.7 Performance of Individuals and Groups

Learning Objectives

1. Identify the key dimensions of individual-level performance.
2. List the key dimensions of group-level performance.
3. Describe individual- and group-level performance goals that need to be compatible.

Principles of leadership and management are concerned with organization-level outcomes such as economic, social, or environmental performance, innovation, or ability to change and adapt. However, for something to happen at the level of an organization, something must typically also be happening within the organization at the individual or team level. Obviously, if you are an entrepreneur and the only person employed by your company, the organization will accomplish what you do and reap the benefits of what you create. Normally though, organizations have more than one person, which is why we introduce to you concepts of individual and group performance.

Individual-Level Performance

Individual-level performance draws upon those things you have to do in your job, or **in-role performance**, and those things that add value but which aren't part of your formal job description. These "extras" are called extra-role performance or **organizational citizenship behaviors (OCBs)**. At this point, it is probably simplest to consider an in-role performance as having productivity and quality dimensions associated with certain standards that you must meet to do your job. In contrast, OCBs can be understood as individual behaviors that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system (Organ, 1988).

In comparison to in-role performance, the spectrum of what constitutes extra-role performance, or OCBs, seems be great and growing. In a recent review, for example, management researchers identified 30 potentially different forms of OCB, which they conveniently collapsed into seven common themes: (1) Helping Behavior, (2) Sportsmanship, (3) Organizational Loyalty, (4) Organizational Compliance, (5) Individual Initiative, (6) Civic Virtue, and (7) Self-Development (Podsakoff et al., 2000). Definitions and examples for these seven themes are summarized in **Table 1.7.1** "A current survey of organization citizenship behaviors" (Organ, 1990; Graham, 1991; George & Jones, 1997a; George & Jones, 1997b; Organ, 1994; Moorman & Blakely, 1995).

Table 1.7.1: A Current Survey of Organization Citizen Behaviors

Helping Behavior (Taking on the forms of altruism, interpersonal helping, courtesy, peacemaking, and cheerleading.)

HELPING BEHAVIOR	DESCRIPTION
Altruism	Voluntary actions that help another person with a work problem. Instructing a new hire on how to use equipment, helping a coworker catch up with a backlog of work, fetching materials that a colleague needs and cannot procure on their own.
Interpersonal helping	Focuses on helping coworkers in their jobs when such help was needed.
Courtesy	Subsumes all of those foresightful gestures that help someone else prevent a problem. Touching base with people before committing to actions that will affect them, providing advance notice to someone who needs to know to schedule work.
Peacemaking	Actions that help to prevent, resolve, or mitigate unconstructive interpersonal conflict.
Cheerleading	The words and gestures of encouragement and reinforcement of coworkers. Accomplishments and professional development.
Sportsmanship	A citizenlike posture of tolerating the inevitable inconveniences and impositions of work without whining and grievances.
Organizational Loyalty	Identification with and allegiance to organizational leaders and the organization as a whole, transcending the parochial interests of individuals, work groups, and departments. Representative behaviors include defending the organization against threats, contributing to its good reputation, and cooperating with others to serve the interests of the whole.
Organizational Compliance (or Obedience)	An orientation toward organizational structure, job descriptions, and personnel policies that recognizes and accepts the necessity and desirability of a rational structure of rules and regulations. Obedience may be demonstrated by a respect for rules and instructions, punctuality in attendance and task completion, and stewardship of organizational resources.
Individual Initiative (or Conscientiousness)	A pattern of going well beyond minimally required levels of attendance, punctuality, housekeeping, conserving resources, and related matters of internal maintenance.
Civic Virtue	Responsible, constructive involvement in the political process of the organization, including not just expressing opinions but reading one's mail, attending meetings, and keeping abreast of larger issues involving the organization.
Self-Development	Includes all the steps that workers take to voluntarily improve their knowledge, skills, and abilities so as to be better able to contribute to their organizations. Seeking out and taking advantage of advanced training courses, keeping abreast of the latest developments in one's field and area, or even learning a new set of skills so as to expand the range of one's contributions to an organization.

As you can imagine, principles of leadership and management are likely to be very concerned with individuals' in-role performance. At the same time, just a quick glance through Table 1.5 "A current survey of organization citizenship behaviors" should suggest that those principles should help you better manage OCBs as well.

Group-Level Performance

A **group** is a collection of individuals. Group-level performance focuses on both the outcomes and process of collections of individuals or groups. Individuals can work on their own agendas in the context of a group. Groups might consist of project-related groups, such as a product group or an entire store or branch of a company. The performance of a group consists of the inputs of the group minus any process loss that results in the final output, such as the quality of a product and the ramp-up time to production or the sales for a given month. **Process loss** is any aspect of group interaction that inhibits good problem-solving.

Why do we say *group* instead of *team*? A collection of people is not a team, though they may learn to function in that way. A **team** is a cohesive coalition of people working together to achieve the team agenda (i.e., teamwork). Being on a team is not equal to a total subordination of personal agendas, but it does require a commitment to the vision and involves each individual directly in accomplishing the team's objective. Teams differ from other types of groups in that members are focused on a joint goal or product, such as a presentation, completing in-class exercises, discussing a topic, writing a report, or creating a new design or prototype. Moreover, teams also tend to be defined by their relatively smaller size. For example, according to one definition, "A team is a *small* number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they are mutually accountable" (Katzenback & Smith, 1993)

The purpose of assembling a team is to accomplish bigger goals that would not be possible for the individual working alone or the simple sum of many individuals' independent work. Teamwork is also needed in cases where multiple skills are needed or where buy-in is required from certain key stakeholders. Teams can, but do not always, provide improved performance. Working together to further the team agenda seems to increase mutual cooperation between what are often competing factions. The aim and purpose of a team are to perform, get results, and achieve victory in the workplace and marketplace. The very best leaders are those who can gather together a group of individuals and mold them into an effective team.

Compatibility of Individual and Group Performance

As a manager, you will need to understand the compatibility of individual and group performance, typically with respect to goals and incentives. What does this mean? Looking at goals first, there should be compatibility between individual and group goals. For example, do the individuals' goals contribute to the achievement of the group goal or are they contradictory? Incentives also need to be aligned between individuals and groups. A disconnect between these is most likely when individuals are too far insulated from the external environment or rewarded for action that is not consistent with the goal. For example, individuals may be seeking to perfect a certain technology and, in doing so, delay its release to customers, when customers would have been satisfied with the current solution and put a great priority on its timely delivery. Finally, firms need to be careful to match their goals with their reward structures. For example, if the organization's goal is to increase group performance but the firm's performance appraisal process rewards individual employee productivity, then the firm is unlikely to create a strong team culture.

Exercises

1. What is in-role performance?
2. What is extra-role performance?
3. What is the relationship between extra-role performance and OCBs?
4. What differentiates a team from a group?
5. When might it be important to understand the implications of individual performance for group

performance?

Key Takeaways

This section helped you understand individual and group performance and suggested how they might roll up into organizational performance. Principles of leadership and management incorporate two key facets of individual performance: in-role and OCB (or extra-role) performance. Group performance, in turn, was shown to be a function of how well individuals achieved a combination of individual and group goals. A team is a type of group that is relatively small, and members are willing and able to subordinate individual goals and objectives to those of the larger group.

1.8 Katz's Three Skills

Learning Objectives

1. Define Katz's three critical skill sets.
2. Identify when and where technical, interpersonal, and conceptual skills are applied.

Robert Katz identifies three critical skill sets for successful leaders: technical skills, interpersonal (or human) skills, and conceptual skills. Leaders must possess certain technical skills that assist them in optimizing managerial performance. While these three broad skill categories encompass a wide spectrum of capabilities, each category describes the way in which these skills interact with management at various levels.

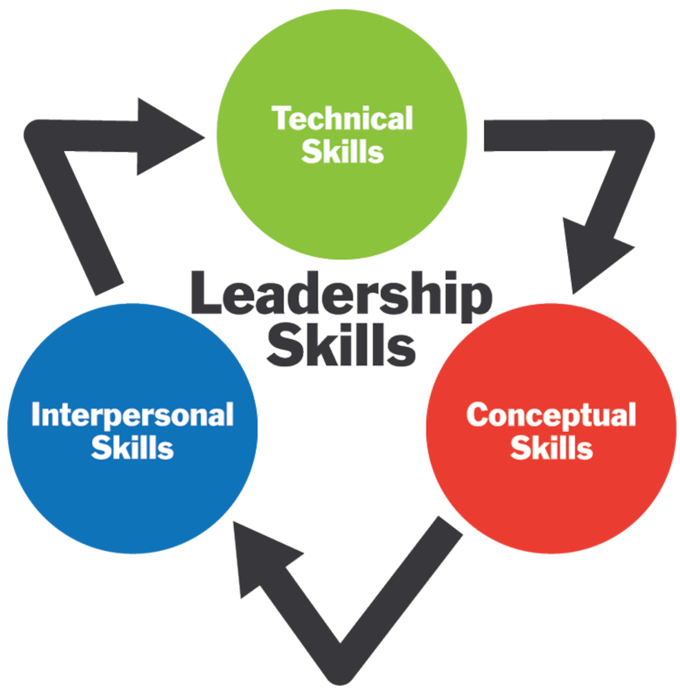

Figure 1.8.1: *"Leadership Skills" by Robert Armstrong, CC-BY-SA 4.0*

Technical Skills

Of the three skill sets identified by Katz, technical skills are the broadest, most easily defined category. Technical skill is defined as a learned capacity in just about any given field of work, study, or even play. For example, the quarterback of a football team must know how to plant his feet and how to position his arm for accuracy and distance—both technical skills. A mechanic needs to be able to deconstruct and reconstruct an engine, employ various machinery (lifts, computer scanning equipment, etc.), and install a muffler.

Leaders also need a broad range of technical know-how. All industries need management, and management must exist at various organizational levels. A technical skill for a leader might include a working understanding of a piece of equipment, the ability to coach the employee on its operation, as well as communicate the basic functions of the machinery.

Leaders in other corporate roles and at higher levels require critical technical skills. These can include office-based competencies such as typing, programming, website maintenance, writing, giving presentations, and using software such as Microsoft Office or Adobe. Office environments require a complex set of communicative, technological, and data-organization skills in order to optimize managerial performance.

Successful leaders in an organization must learn to use the technological assets at their disposal, collecting critical information and data to communicate upward for strategic planning. An example of information management is a mid-level manager in the automotive industry who is responsible for recognizing global marketing potential. This individual must be capable of realizing the legal, demographic, social, technological, and economic considerations of entering a market; the manager will use effective research and delegation skills and also consolidate the information into a useful presentation using technological and communicative skills.

Katz postulates that the higher up in the organization an individual rises, the more conceptual skills (and fewer technical skills) are necessary. Senior managers need fewer technical skills because strategic decision-making is inherently more conceptual; mid-and lower-level skills such as data collection, assessment, and discussion are all more technical. Even so, all disciplines of management require a broad range of skill sets for effective business processes to occur.

Conceptual Skills

Conceptual skills revolve around generating ideas through creative intuitions and a comprehensive understanding of a given context.

Conceptual skills represent one of the three skill sets identified by Robert Katz as critical to a leader’s success in an organization. While each skill set is useful in different circumstances, conceptual skills tend to be most relevant in upper-level thinking and broad strategic situations (as opposed to lower-level and line management). As a result, conceptual skills are often viewed as critical success factors of leadership.

Conceptual thinking is difficult to define but can generally be considered as the ability to formulate ideas or mental abstractions in the mind. Conceptual skills primarily revolve around generating ideas, utilizing a combination of creative intuitions, and a comprehensive understanding of a given context (i.e., incumbent‘s industry, organizational mission, and objectives, competitive dynamics, etc.). When combined with a variety of information, as well as a degree of creativity, conceptual thinking results in new ideas, unique strategies, and differentiation.

While all levels of leaders benefit from conceptual thinking, upper leadership spends the most time within this frame of mind (as opposed to thinking more technically—looking at and working with the detailed elements of a given operation or business process). Leaders are largely tasked with identifying and drafting a strategy for the broader operational and competitive approach of an organization. This strategic planning includes generating organizational values, policies, mission statements, ethics, procedures, and objectives. Creating this complex mix of concepts to use as an organizational foundation requires a great number of conceptual skills—formulating concepts and predicting their effects in an organizational setting.

While upper-level leaders may use conceptual skills the most, all leaders must both understand and participate in the generation of company objectives and values. Of particular importance are the abilities to communicate these critical concepts to subordinates and the ability to gather useful information to convey to upper management so that the concepts can evolve. Collecting the results of conceptual thinking represents a feedback loop. Conceptual skills are important in empowering leaders at all levels of an organization to observe the operations of an organization and frame them conceptually as an aspect of that organization's strategy, objectives, and policies. Conceptual thinking allows for accurate and timely feedback and organizational adaptability.

Interpersonal Skills

Over the years, the common definition of management has become less specific, as managerial functions can include staffing, directing, and reporting. Modern companies have fewer layers of management, as these companies instead rely on the delegation of responsibilities and authority to achieve goals. As a result, businesses often speak of leading or guiding, people rather than giving instructions for every action. Leading people represents a central component of human skills. Interpersonal skills differentiate a manager from a leader. A manager is simply manipulating resources to achieve a given objective, while a leader appeals to the human side of employees to generate creativity and motivation. These concepts of "manager" and "leader" can be distinguished within a team setting. A team leader who is unconcerned with team members' needs or who has a personal agenda that is perceived to be more important than the team's goals is more of a manager than a leader and may alienate team members. Conversely, team leaders who are admired and loyally followed are those who show concern for the team members as individuals with real needs and who place their team above their own personal agendas.

Realistically, most organizations need leaders who can view their teams analytically and objectively, evaluating inefficiencies and making unpopular choices. However, it is misleading to think that a manager has to be distant from or disliked by subordinates to execute these responsibilities. Creating a healthy environment conducive to development, criticism, and higher degrees of achievement simply requires strong human skills, particularly in the realm of communication.

1.9 Your "Principles of Leadership and Management" Survivor's Guide

Learning Objectives

1. Describe your learning style.
2. Discover how to match your style to the circumstances.

Leadership courses typically combine knowledge about skills with the development and application of those skills. For these reasons, it is helpful for you to develop your own strategy for learning about and developing leadership skills. The first part of this strategy should be based on your own disposition toward learning. The second part of this strategy should follow some form of the gauge-discover-reflect process that is outlined in the next section.

Assess Your Learning Style

You can assess your learning style in a number of ways. At a very general level, you can assess your style intuitively (see "What Is Your Intuition about Your Learning Style?"); however, we suggest that you use a survey instrument like the Learning Style Index (LSI), the output from which you can then readily compare with your intuition. In this section, we discuss the dimensions of the LSI that you can complete easily and quickly online (Felder & Soloman, 2008). The survey will reveal whether your learning style is active or reflective, sensory or intuitive, visual or verbal, and sequential or global. [1]

1. Felder, Richard K. and Linda K. Silverman. In addition to their research, there is an online instrument used to assess preferences on four dimensions (active or reflective, sensing or intuitive, visual or verbal, and sequential or global) of a learning style model formulated by Felder and Soloman of North Carolina State University. The Learning Styles Index (LSI) may be used at no cost for non-commercial purposes by individuals who wish to determine their own learning style profile and by educators who wish to use it for teaching, advising, or research. See R. M. Felder, and R. Brent, "Understanding Student Differences," Journal of Engineering Education 94, no. 1 (2005): 57–72, for an exploration of differences in student learning styles, approaches to learning (deep, surface, and strategic), and levels of intellectual development, with recommended teaching practices to address all three categories. R. M. Felder, and J. E. Spurlin, "Applications, Reliability, and Validity of the Index of Learning Styles," Journal of Engineering Education 21, no. 1 (2005): 103–12, provides a validation study of the LSI. Also see T. A. Litzinger, S. H. Lee, J. C. Wise, and R. M. Felder, "A Psychometric Study of the Index of Learning Styles," Journal of Engineering Education 96, no. 4 (2007): 309–19.

Example: What Is Your Intuition About Your Learning Style?

Your learning style may be defined in large part by the answers to four questions:

1. How do you prefer to process information: actively—through engagement in physical activity or discussion? Or reflectively—through introspection?
2. What type of information do you preferentially perceive: sensory (external)—sights, sounds, physical sensations? Or intuitive (internal)—possibilities, insights, hunches?
3. Through which sensory channel is external information most effectively perceived: visual—pictures, diagrams, graphs, demonstrations? Or verbal—words, sounds? (Other sensory channels like touch, taste, and smell are relatively untapped in most educational environments, and are not considered here.)
4. How do you progress toward understanding: sequentially—in continual steps? Or globally—in large jumps, holistically?

Try out the Index of Learning Styles Questionnaire

Active and Reflective Learners

Everybody is active sometimes and reflective sometimes. Your preference for one category or the other may be strong, moderate, or mild. A balance of the two is desirable. If you always act before reflecting, you can jump into things prematurely and get into trouble, while if you spend too much time reflecting, you may never get anything done.

“Let’s try it out and see how it works” is an active learner’s phrase; “Let’s think it through first” is the reflective learner’s response. If you are an active learner, you tend to retain and understand information best by doing something active with it—discussing it, applying it, or explaining it to others. Reflective learners prefer to think about it quietly first.

Sitting through lectures without getting to do anything physical but take notes is hard for both learning types but particularly hard for active learners. Active learners tend to enjoy group work more than reflective learners, who prefer working alone.

Sensing and Intuitive Learners

Everybody is sensing sometimes and intuitive sometimes. Here too, your preference for one or the other may be strong, moderate, or mild. To be effective as a learner and problem solver, you need to be able to function both ways. If you overemphasize intuition, you may miss important details or make careless mistakes in calculations or hands-on work. If you overemphasize sensing, you may rely too much on memorization and familiar methods and not concentrate enough on understanding and innovative thinking.

Even if you need both, which one best reflects your learning style? Sensors often like solving problems by well-established methods and dislike complications and surprises; intuitors like innovation and dislike repetition. Sensors are more likely than intuitors to resent being tested on material that has not been explicitly covered in class. Sensing learners tend to like learning facts; intuitive learners often prefer discovering possibilities and relationships.

Sensors tend to be patient with details and good at memorizing facts and doing hands-on (laboratory) work; intuitors may be better at grasping new concepts and are often more comfortable than sensors with abstractions and mathematical formulations. Sensors tend to be more practical and careful than intuitors; intuitors tend to work faster and be more innovative than sensors.

Sensors don't like courses that have no apparent connection to the real world (so if you are a sensor, you should love principles of leadership and management!); intuitors don't like "plug-and-chug" courses that involve a lot of memorization and routine calculations.

Visual and Verbal Learners

In most college classes, very little visual information is presented to learners; students mainly listen to lectures and read material written on whiteboards, in textbooks, and on handouts. Unfortunately, most of us are visual learners, which means that we typically do not absorb nearly as much information as we would if more visual presentation were used in class. Effective learners are capable of processing information presented either visually or verbally.

Visual learners remember best what they see—pictures, diagrams, flowcharts, timelines, films, and demonstrations. Verbal learners get more out of words—written and spoken explanations. Everyone learns more when information is presented both visually and verbally.

Sequential and Global Learners

Sequential learners tend to follow logical, stepwise paths in finding solutions; global learners may be able to solve complex problems quickly or put things together in novel ways once they have grasped the big picture, but they may have difficulty explaining how they did it. Sequential learners tend to gain understanding in linear steps, with each step following logically from the previous one. Global learners tend to learn in large jumps, absorbing material almost randomly without seeing connections, and then suddenly "getting it."

Many people who read this description may conclude incorrectly that they are global since everyone has experienced bewilderment followed by a sudden flash of understanding. What makes you global or not is what happens before the light bulb goes on. Sequential learners may not fully understand the material, but they can nevertheless do something with it (like solve the homework problems or pass the test) since the pieces they have absorbed are logically connected. Strongly global learners who lack good sequential thinking abilities, however, may have serious difficulties until they have the big picture. Even after they have it, they may be fuzzy about the details of the subject, while sequential learners may know a lot about specific aspects of a subject but may have trouble relating them to different aspects of the same subject or to different subjects.

Adapt Your Style

Okay, so what should you do now that you've assessed your learning style? Well, you can apply this valuable and important information about yourself to how you approach your principles of management course and the larger P-O-L-C framework.

Active Learners

If you act before you think, you are apt to make hasty and potentially ill-informed judgments. You need to concentrate on summarizing situations and taking time to sit by yourself to digest the information you have been given before jumping in and discussing it with others.

If you are an active learner in a class that allows little or no class time for discussion or problem-solving activities, you should try to compensate for these lacks when you study. Study in a group in which the members take turns explaining different topics to one another. Work with others to guess what you will be asked on the next test, and figure out how you will best answer those questions. You will always retain information better if you find ways to do something with it.

Reflective Learners

If you think too much, you risk doing nothing—ever. There comes a time when a decision has to be made or an action taken. Involve yourself in group decision-making whenever possible, and try to apply the information you have in as practical a manner as possible.

If you are a reflective learner in a class that allows little or no class time for thinking about new information, you should try to compensate for this lack when you study. Don't simply read or memorize the material; stop periodically to review what you have read and to think of possible questions or applications. You might find it helpful to write short summaries of readings or class notes in your own words. Doing so may take extra time but will enable you to retain the material more effectively.

Sensory Learners

If you rely too much on sensing, you tend to prefer what is familiar and concentrate on facts you know instead of being innovative and adapting to new situations. Seek out opportunities to learn theoretical information and then bring in facts to support or negate these theories.

Sensors remember and understand information best if they can see how it connects to the real world. If you are in a class where most of the material is abstract and theoretical, you may have difficulty. Ask your instructor for specific examples of concepts and procedures, and find out how the concepts apply in practice. If the teacher does not provide enough specifics, try to find some in your course text or other references or by brainstorming with friends or classmates.

Intuitive Learners

If you rely too much on intuition, you risk missing important details, which can lead to poor decision-making and problem-solving. Force yourself to learn facts or memorize data that will help you defend or criticize a theory or procedure you are working with. You may need to slow down and look at the details you would otherwise typically skim.

Many college lecture classes are aimed at intuitors. However, if you are an intuitor and you happen to be in a class that deals primarily with memorization and rote substitution in formulas, you may have trouble with boredom. Ask your instructor for interpretations or theories that link the facts, or try to find the connections yourself. You may also be prone to careless mistakes on tests because you are impatient with details and don't like repetition (as in checking your completed solutions). Take time to read the entire question before you start answering, and be sure to check your results.

Visual Learners

If you concentrate more on pictorial or graphical information than on words, you put yourself at a distinct disadvantage because verbal and written information is still the main preferred choice for the delivery of information. Practice your note-taking, and seek out opportunities to explain information to others using words.

If you are a visual learner, try to find diagrams, sketches, schematics, photographs, flowcharts, or any other visual representation of course material that is predominantly verbal. Ask your instructor, consult reference books, and see whether any videos, TedTalks, or other displays of the course material are available. Prepare a concept map by listing key points, enclosing them in boxes or circles, and drawing lines with arrows between concepts to show connections. Color-code your notes with a highlighter so that everything relating to one topic is the same color.

Verbal Learners

As with visual learners, look for opportunities to learn through audiovisual presentations, podcasts, etc. When making notes, group information according to concepts, and then create visual links with arrows going to and from them. Take every opportunity you can to create charts, tables, and diagrams.

Write summaries or outlines of course material in your own words. Working in groups can be particularly effective: you gain an understanding of the material by hearing classmates' explanations, and you learn even more when you do the explaining.

Sequential Learners

When you break things down into small components you are often able to dive right into problem-solving. This seems to be advantageous but can often be unproductive. Force yourself to slow down and understand why you are doing something and how it is connected to the overall purpose or objective. Ask yourself how your actions are going to help you in the long run. If you can't think of a practical application for what you are doing, then stop and do some more "big picture" thinking.

Most college courses are taught in a sequential manner. However, if you are a sequential learner and you have an instructor who jumps around from topic to topic or skips steps, you may have difficulty following and remembering. Ask the instructor to fill in the skipped steps, or fill them in yourself by consulting references. When you are studying, take the time to outline the lecture material for yourself in logical order. In the long run, doing so will save you time. You might also try to strengthen your global thinking skills by relating each new topic you study to things you already know. The more you can do so, the deeper your understanding of the topic is likely to be.

Global Learners

If grasping the big picture is easy for you, then you can be at risk of wanting to run before you can walk. You see what is needed but may not take the time to learn how best to accomplish it. Take the time to ask for explanations, and force yourself to complete all problem-solving steps before coming to a conclusion or making a decision. If you can't explain what you have done and the rationale for your actions, then you may have missed critical details.

If you are a global learner, it can be helpful for you to realize that you need the big picture of a subject before you can master details. If your instructor plunges directly into new topics without bothering to explain how they relate to what you already know, it can cause problems for you. Fortunately, there are steps you can take that may help you get the big picture more rapidly. Before you begin to study the first section of a chapter in a text, skim through the entire chapter to get an overview. Doing so may be time-consuming initially, but it may save you from going over and over individual parts later. Instead of spending a short time on every subject every night, you might find it more productive to immerse yourself in individual subjects for large blocks. Try to relate the subject to things you already know, either by asking the instructor to help you see connections or by consulting references. Above all, don't lose faith in yourself; you will eventually understand the new material, and understanding how it connects to other topics and disciplines may enable you to apply it in ways that most sequential thinkers would never dream of.

1.10 Gauge-Discover-Reflect

Learning Objectives

1. Apply the gauge-discover-reflect framework.

You have already begun to apply the spirit of what we recommend in this third part of the development of your principles of leadership and management survival kit, by gauging your learning style. The three essential components are:

- **Step 1: Gauge**—take stock of your knowledge and capabilities about a topic;
- **Step 2: Discover**—learn enough about a topic so that you can set specific development goals on which you can apply and practice, and later gauge again your progress toward your set goals; and
- **Step 3: Reflect**—step back and look at the ways you have achieved your goals, take the opportunity to set new ones, and chronicle this experience and thought process in a daily journal.

Step 1: Gauge

It is always good to start any self-development process by getting some sense of where you are. That is why we commence with the *gauge* stage. For learning and developing in the area of principles of leadership and management, such knowledge is essential. By analogy, let's say you want to take a road trip out of town. Even if you have a map and a compass, it still is pretty important to know exactly where you are starting on the map!

Your instructor will likely introduce you to a number of different types of leadership assessment tools, and you should experiment with them to see how they work and the degree to which results resonate with your intuition. A word of caution here—just because some assessment results may clash with your intuition or self-image, do not immediately assume that they are wrong. Instead, use them as an opportunity and motivation for further probing (this can fuel your work in the discovery and reflect stages).

The obvious value of commencing your learning process with some form of assessment is that you have a clear starting point, in terms of knowledge. This also means that you now have a basis for comparing your achievement to any relevant specific goals that you set. Less obvious perhaps is the experience you will gain with principles of leadership and management skill assessments in general. More and more organizations use some form of assessment in the recruiting, human resources development, and yes, even promotion processes. Your experience with these different surveys will give you the confidence to take other surveys and the knowledge needed to show organizations that you are aware of your areas of strength and development opportunities.

Step 2: Discover

The *discovery* stage of your principles of leadership and management survival kit has four related facets: (A) learn, (B) set goals, (C) apply, and (D) practice. Let us look at each one in turn.

Learn

You have probably learned a little about a certain subject just by virtue of gauging your depth in it. In some cases, you might even have read up on the subject a lot to accurately gauge where you were strong or weak. There is not an existing survey for every subject, and it is beneficial to learn how you might gauge this or that area of interest.

The learning facet essentially asks that you build your knowledge base about a particular topic. As you know, learning has multiple facets, from simply mastering facts and definitions, to developing knowledge of how you might apply that knowledge. You will typically want to start with some mastery over facts and definitions and then build your knowledge base to a more strategic level—that is, be able to understand when, where, and how you might use those definitions and facts in principles of leadership and management.

Set SMART Goals

Figure 1.10.1 *"SMART Goals" by Business Faculty from Ontario Colleges and eCampusOntario Program Managers, licensed under CC-BY-NC-SA 4.0.*

The combination of gauging and learning about a topic should permit you to set some goals related to your focal topic. For example, you want to develop better team communication skills or better understand change management. While your goals should reflect the intersection of your own needs and the subject, we do know that effective goals satisfy certain characteristics. These characteristics—specific, measurable, aggressive, realistic, and time-bound—yield the acronym SMART.[1] Here is how to tell if your goals are SMART goals.

Specific

Specific goals are more likely to be achieved than general goals. To set a specific goal, you must answer the six "W" questions:

1. ***Who:*** Who is involved?
2. ***What:*** What do I want to accomplish?
3. ***Where:*** At what location?
4. ***When:*** In what time frame?
5. ***Which:*** What are the requirements and constraints?
6. ***Why:*** What is the reason or purpose for accomplishing this goal?

Example: Are You Ready to Be a Great Retail Store Manager?

A general goal would be, "Get a job as a retail store manager." But a specific goal would say, "Identify my development needs in the next three weeks to become a retail store manager." "Are You Ready to Be a Great Retail Store Manager?" provides you with an introductory list of survey questions that might help you accelerate your progress on this particular goal set. The service sector employs more than 80% of the U.S. workforce, and the position of retail store manager is in increasing demand. Have you already developed the skills to be a great store manager? Score yourself on each of these 10 people skills. How close did you get to 100? Identify two areas to develop, and then move on to two more areas once that goal is achieved.

Scoring: Never: 1 Seldom: 3 Often: 5 Regularly: 10

1. "I challenge employees to set new performance goals."
2. "I coach employees to resolve performance problems."
3. "I encourage employees to contribute new ideas."
4. "I take an interest in my employees' personal lives."
5. "I delegate well."
6. "I communicate my priorities and directions clearly."
7. "I resolve conflicts in a productive way."
8. "I behave in a professional way at work."
9. "I inspire my employees with a dynamic personality."
10. "I am a good listener."

1. In his seminal 1954 work, The Practice of Management (New York: Collins), Peter Drucker coined the usage of the acronym for SMART objectives while discussing objective-based management.

Measurable

When goals are specific, performance tends to be higher (Tubbs, 1986). Why? If goals are not specific and measurable, how would you know whether you have reached the goal? Any performance level becomes acceptable. For the same reason, telling someone, “Do your best” is not an effective goal because it is not measurable and does not give the person a specific target.

Attainable

This may sound counterintuitive, but effective goals are difficult, not easy. Achievable goals may be envisioned as less demanding, however goals should be challenging. When goals demand new knowledge, capacity, and expansion beyond the “comfort zone”, they require you to work harder or smarter and generally result in dramatically higher performance.

Relevant

While goals should be difficult, they should also be based in reality. In other words, if a goal is viewed as impossible to reach, it does not have any motivational value. Only you can decide which goal is realistic and which is impossible to achieve; just be sure that the goal you set, while it is aggressive, remains grounded in reality.

Timely

The goal should contain a statement regarding when the proposed performance level will be reached. This way, it provides the person with a sense of urgency.

Apply

Your knowledge of the subject, plus your SMART goals, gives you an opportunity to apply and test your knowledge. Going back to our road-trip analogy, gauging gives you a starting point, learning gives you a road map and compass, and goals give you a target destination.

Practice

Practice, in turn, simply means some repetition of the application process. Your objective here should be to apply and practice a subject long enough that, when you gauge it again, you are likely to see some change or progress.

<u>Step 3: Reflect</u>

This final stage has two parts: (A) gauge again and (B) record.

a. Gauge Again

As suggested under “Apply and Practice,” you will want to gauge your progress. Have you become more innovative? Do you better communicate in teams? Do you have a better understanding of other key principles of leadership and management?

b. Record

Many people might stop at the gauge again point, but they would be missing out on an incredibly valuable opportunity. Specifically, look at what you have learned and achieved regarding your goals, and chronicle your progress in some form of a journal (Bromley, 1993). A journal may be a required component of a leadership course, so there may be extrinsic as well as intrinsic motives for starting to keep a journal.

There are also various exercises that you can partake in through your journaling. These allow you to challenge yourself and think more creatively and deeply. An effective journal entry should be written with clear images and feelings. You should aim to include your reactions along with the facts or events related to your developmental goals. The experience of certain experiments may not necessarily be what you thought it would be, and this is what is important to capture. You are bound to feel turmoil in various moments, and these feelings are excellent fodder for journaling. Journaling allows you to vent and understand emotions. These types of entries can be effective at giving yourself a more rounded perspective on past events.

In addition to the goals you are evaluating, there are numerous things to write about in a journal. You can reflect on the day, the week, or even the year. You can reflect on events that you have been a part of or people you have met. Look for conclusions that you may have made or any conflicts that you faced. Most important, write about how you felt. This will allow you to examine your own emotional responses. You may find that you need to make a personal action or response to those conflicts. The conclusions that you make from your journal entries are the ingredients to self-growth. Facing those conflicts may also change your life for the better, as you are able to grow as a person.

You should also always go back and review what you have written. Think about each journal entry you have made and what it means. This is the true aspect of self-growth through journaling. It is easy to recognize changes in yourself through your journaling. You may find that you had a disturbing idea one day, but the next your attitude was much better. You may also find that your attitude grows and improves day by day. This is what makes journaling a true self-growth tool.

Journaling may be inexpensive, but it does require time and commitment. The time factor itself can be small, only about 10 minutes a day or maybe 30 minutes a week, depending on how you would like to summarize your life. You do, however, have to be motivated to write on a regular basis. Even if you do not have a lot of time to write, you will still be able to enjoy a large amount of personal growth that is available through journaling. Perhaps this suggests that your first goal set relates to the time set aside for journaling.

Exercises

1. What is your learning style?
2. How does your style compare with your prior intuition?
3. What target learning issue could you use to experiment with the gauge-discover-reflect framework?
4. What does the acronym SMART refer to, in the context of goal setting?
5. What SMART goals could you apply to your target learning issue?

Key Takeaways

You have seen how different individuals approach the learning process and that an understanding of these differences can help you with your objectives related to principles of leadership and management. Beyond this general understanding of your own learning style, you also have an opportunity to put together your own survival kit for this course. Your kit will have answers and resources based on the gauge-discover-reflect framework. The development of SMART goals is particularly important in the successful application of the framework.

1.11 Key Terms

Key Terms

Accounting profit is achieved when revenues exceed the accounting costs the firm "pays" for those inputs.

Controlling involves ensuring that performance does not deviate from standards.

Corporate social responsibility (CSR) is a concept whereby organizations consider the interests of society by taking responsibility for their impact on customers, suppliers, employees, shareholders, communities, and the environment beyond their obligation to comply with legislation, including voluntarily taking further steps to improve the quality of life for employees and their families, as well as for the local community and society at large.

Empowerment is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision-making in autonomous ways.

Entrepreneurship is the process of creating new ventures by recognizing opportunities in the marketplace and innovating new products or services of value in meeting those needs.

Entrepreneur is a person who engages in the process of creating a new venture while managing the associated risks.

Environmental scanning is the ongoing process of evaluating and forecasting an organization's internal and external environments to proactively manage strengths, weaknesses, opportunities and threats such as economic conditions, competition, and customer needs.

General manager is someone who is responsible for managing a clearly identifiable revenue-producing unit, such as a store, business unit, or product line.

Group is a collection of individuals.

Group performance is measured by the inputs of the group minus any process loss that results in the final output.

Intrapreneurs individuals who participate in creative, innovative and entrepreneurial activities within an existing organization.

In-role performance is individual-level performance that includes productivity and quality dimensions associated with certain standards that you must meet to do your job.

Job design includes allocating the tasks, responsibilities and duties included in a specific job to ensure the organization meets its overall goals. Contemporary job design consists of ensuring employee empowerment, job enrichment, and teamwork.

Line manager is directly responsible for the products or services the organization creates.

Leadership is an act of influence that inspires action by others.

Leading involves the social and informal sources of influence used to inspire action in others.

Management is creatively solving problems to accomplish organizational goals through the efforts of other people.

Operational planning is short term (less than one year) planning to formulate specific action steps to meet subunit goals which contribute to the overall tactical and strategic goals of the organization.

Organizational design developing an organizational structure and allocating human resources to ensure the accomplishment of objectives.

Organizational citizenship behaviors (OCBs) are voluntary (extra-role) individual-level performance behaviors employees perform that are beneficial to the organization but not part of your formal job description.

Principles of management are the means by which you manage, or get things done through others, and include planning, organizing, controlling and leading people, processes and practices to achieve the sought objectives of the enterprise.

Process loss is any aspect of group interaction that inhibits good problem-solving.

Strategy is made up of the clearly articulated goals and objectives that are part of the action plan an organization creates to achieve its long-term objectives.

Strategic management effectively formulating and communicating strategy to ensure an organization has a clear set of guidelines to enable effective decision making on a day to day basis.

Strategic planning is longer term (three years or more) planning, generally by top management, for an organization to achieve its mission and position itself to compete effectively based on environmental scanning and forecasting around the strengths, weaknesses, opportunities and threats in its environment.

Stakeholders an individual or group with an interest or concern in an organization, such as employees, investors, suppliers, customers, and society at large.

Tactical planning is intermediate-range (one to three years) planning that is designed to develop relatively concrete and specific means to implement the strategic plan.

Triple bottom line refers to the measurement of business performance along social, environmental, and economic dimensions.

Team is a cohesive coalition of people working together to achieve the team agenda (i.e., teamwork).

1.12 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4719#h5p-1

CHAPTER 2: PERSONALITY AND LEADERSHIP

Chapter Content

2.1 Personality and Leadership Introduction

What's in it For Me?

Reading this chapter will help you do the following:

1. Describe the roles of personality and values in determining work behaviors.
2. Explain the process of perception and how it affects work behaviors.
3. Identify the major work attitudes that affect work behaviors.
4. Define the concept of person-organization fit and how it affects work behaviors.
5. List the key set of behaviors that matter for organizational performance.
6. Demonstrate positive attitude skills.

Individuals bring a number of differences to work. They have a variety of personalities, values, and attitudes. When they enter into organizations, their stable or transient characteristics affect how they behave and perform. Moreover, companies hire people with the expectation that they have certain knowledge, skills, abilities, personalities, and values.

Recall the approach to principles of leadership and management through the planning-organizing-leading-controlling (P-O-L-C) framework as shown in **Table 2.1.1**. Employees' personalities, attitudes, and work behaviors affect how managers approach each P-O-L-C dimension.

Table 2.1.1: P-O-L-C Framework

Planning	Organizing	Leading	Controlling
1. Vision 2. Strategizing 3. Goals & Objectives	1. Organization Design 2. Culture 3. Social Networks	1. Leadership 2. Decision Making 3. Communications 4. Groups/Teams 5. Motivation	1. Systems/Processes 2. Strategic Human Resources

Here are just a few examples:

- When conducting environmental scanning during the planning process, a manager's perceptions color the information that is absorbed and processed.
- Employee preferences for job design and enrichment (aspects of organizing) may be a function of individuals' personalities and values.
- Leading effectively requires an understanding of employees' personalities, values, and attitudes.
- Absenteeism can challenge a manager's ability to control costs and performance (at both the group and individual levels).

It is important for leaders to understand the individual characteristics that matter for employee and manager behavior. In this chapter, you will begin to see the terms leader and manager intermingling more in the text. For some, this may be an affront to leadership principles, but the fact remains that good managers are leaders. As management professor and researcher Henry Mintzberg said, “Being an engaged leader means you must be reflective while staying in the fray – the hectic, fragmented, never-ending world of managing” (Mintzberg, 2009). Read more to support this concept by Henry Mintzberg.

The hope is that as you go forward, you will develop leadership skills and understanding that will help you successfully manage your time, your talents, and your personal and your professional life in such a way that you will influence and empower others with whom you interact.

2.2 Case in Point: SAS Institute Invests in Employees

Example: SAS Institute Invest in Employees

Figure 2.2.1 *"SAS Institute Logo " by SAS Institute is used under fair dealing.*

Who are your best customers? Which customers are bringing you the most profits and which are the least profitable? Companies are increasingly relying on complicated data mining software to answer these and other questions. More than 92% of the top 100 companies on the *Fortune* Global 500 list are using software developed by SAS Institute Inc., the world's largest privately held software company, for their business intelligence and analytical needs. The Cary, North Carolina, company is doing extremely well by any measure. They have over 10,000 employees worldwide, operates in over 100 countries, ranked number 1 on *Fortune*'s 2010 list of the "Best Companies to Work For," and reported $2.31 billion in revenue in 2009 (their 33rd consecutive year of growth and profitability). They reinvested 23% of their 2009 revenue into research and development (R&D) activities. The company is quick to attribute its success to the performance and loyalty of its workforce. This is directly correlated with how they treat their employees.

SAS has perfected the art of employee management. It has been ranked on *Fortune* magazine's best places to work list every year since the list was first published. Employees seem to genuinely enjoy working at SAS and are unusually attached to the company, resulting in a turnover rate that is less than 4% in an industry where 20% is the norm. In fact, when Google designed their own legendary campus in California, they visited the SAS campus to get ideas.

One thing SAS does well is giving its employees opportunities to work on interesting and challenging projects. The software developers have the opportunity to develop cutting-edge software to be used around the world. The company makes an effort to concentrate its business in the areas of analytics, which add the most value and help organizations best analyze disparate data for decision making, creating opportunities for SAS workers to be challenged. Plus, the company removes obstacles for employees. Equipment, policies, rules, and meetings that could impede productivity are eliminated.

SAS has treated employees well in bad times as well as in good times. CEO Jim Goodnight is quoted as saying, "For 2010, I make the same promise that I did last year—SAS will have no layoffs. Too many companies worldwide sacrificed employees and benefits to cut costs in 2009. SAS took the opposite stance, and we have been rewarded in employee loyalty and overall success of the business. Maintaining this position throughout the downturn puts us in the best position to meet the expected market upturn."

In addition, the company has a reputation as a pioneer when it comes to the perks it offers employees, but these perks are not given with a mentality of "offer everything but the kitchen sink." There is careful thinking and planning behind the choice of perks the company offers. SAS conducts regular employee satisfaction surveys, and any future benefits and perks offered are planned in response to the results. The company wants to eliminate stressors and anything that dissatisfies people's lives. To keep employees healthy and fit, there are athletic fields; a full gym; a swimming pool; and tennis, basketball, and racquetball courts on campus. Plus, the company offers free on-site health care for employees, covers dependents at their fully staffed primary medical care center, and offers unlimited sick leave. The company understands that employees have a life and encourages employees to work reasonable hours and then go home to their families. In fact, a famous motto in the company is, "If you are working for more than 8 hours, you are just adding bugs." SAS is truly one of the industry leaders in leveraging its treatment of people for continued business success.

Discussion Questions

1. How would you translate SAS's art of employee management in terms of the P-O-L-C framework?
2. SAS is a global company. Do you think that the benefits offered and the strategy used to improve employee satisfaction vary from country to country?
3. If a company is unable to provide the benefits that SAS does, in what other ways might a firm create positive work attitudes?
4. What risks could be associated with giving workplace surveys, as was done at SAS?
5. What are some effective strategies to create a balanced work and home life? Is this more or less of a challenge when you are starting a new career?

2.3 Personality and Values

Learning Objectives

1. Identify the major personality traits that are relevant to leadership and management.
2. Explain the potential pitfalls of personality testing.
3. Describe the relationship between personality and work behaviors.
4. Explain what values are.
5. Describe the link between values and work behaviors.

Personality

Personality encompasses a person's relatively stable feelings, thoughts, and behavioral patterns. Each of us has a unique personality that differentiates us from other people, and understanding someone's personality gives us clues about how that person is likely to act and feel in a variety of situations. To lead effectively, it is helpful to understand the personalities of different employees. Having this knowledge is also useful for placing people into jobs and organizations.

If personality is stable, does this mean that it does not change? You probably remember how you have changed and evolved as a result of your own life experiences, parenting style and attention you have received in early childhood, successes and failures you experienced over the course of your life, and other life events. In fact, personality does change over long periods of time. For example, we tend to become more socially dominant, more conscientious (organized and dependable), and more emotionally stable between the ages of 20 and 40, whereas openness to new experiences tends to decline as we age (Roberts, 2006). In other words, even though we treat personality as relatively stable, change occurs. Moreover, even in childhood, our personality matters, and it has lasting consequences for us. For example, studies show that part of our career success and job satisfaction later in life can be explained by our childhood personality (Judge & Higgins, 1999; Staw et al., 1986).

Is our behavior in organizations dependent on our personality? To some extent, yes, and to some extent, no. While we will discuss the effects of personality for employee behavior, you must remember that the relationships we describe are modest correlations. For example, having a sociable and outgoing personality may encourage people to seek friends and prefer social situations. This does not mean that their personality will immediately affect their work behavior. At work, we have a job to do and a role to perform. Therefore, our behavior may be more strongly affected by what is expected of us, as opposed to how we want to behave. Especially in jobs that involve a lot of autonomy, or freedom, personality tends to exert a strong influence on work behavior (Barrick & Mount, 1993), something to consider when engaging in organizing activities such as job design or enrichment.

How many personality traits are there? How do we even know? In every language, there are many words describing a person's personality. In fact, in the English language, more than 15,000 words describing personality have been identified. When researchers analyzed the traits describing personality characteristics, they realized that many different words were actually pointing to a single dimension of personality. When these words were grouped, five dimensions (known as the Big Five) seemed to emerge, and these explain much of the variation in our personalities (Goldberg, 1990).

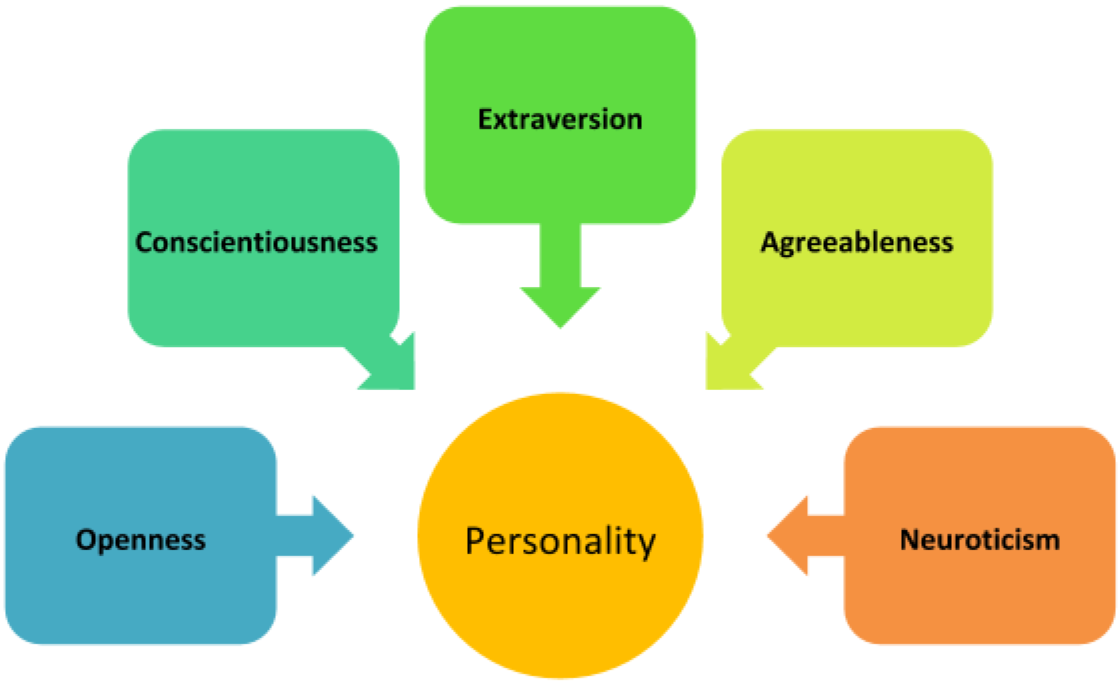

Figure 2.3.1:* "Big Five Personality Traits " by Aaron Spencer and Lumen Learning CC-BY*

These five are not necessarily the only traits out there. There are other, specific traits that represent other dimensions not captured by the Big Five. Still, understanding them gives us a good start for describing personality.

Table 2.3.1: The Big Five Personality Traits

Trait	Description
Openness	Curious, original, intellectual, creative, and open to new ideas.
Conscientiousness	Organized, systematic, punctual, achievement . dependable
Extraversion	Outgoing, talkative, sociable, and enjoys being in social situations.
Agreeableness	Affable, tolerant, sensitive, trusting, kind and warm.
Neuroticism	Anxious, irritable, temperamental, and moody.

(Goldberg, 1990)

As you can see, the Big Five dimensions are openness, conscientiousness, extraversion, agreeableness, and

Neuroticism—if you put the initials together, you get the acronym OCEAN. Everyone has some degree of each of these traits; it is the unique configuration of how high a person rates on some traits and how low on others that produces the individual quality we call personality.

- **Openness** is the degree to which a person is curious, original, intellectual, creative, and open to new ideas. People high in openness seem to thrive in situations that require flexibility and learning new things. They are highly motivated to learn new skills, and they do well in training settings (Barrick & Mount, 1991; Lievens et al., 2003). They also have an advantage when they enter into a new organization. Their open-mindedness leads them to seek a lot of information and feedback about how they are doing and to build relationships, which leads to quicker adjustment to the new job (Wanberg & Kammeyer-Mueller, 2000). When given support, they tend to be creative (Baer & Oldham, 2006). Open people are highly adaptable to change, and teams that experience unforeseen changes in their tasks do well if they are populated with people high in openness (LePine, 2003). Compared with people with low in openness, they are also more likely to start their own business (Zhao & Seibert, 2006). The potential downside is that they may also be prone to becoming more easily bored or impatient with routine.
- **Conscientiousness** refers to the degree to which a person is organized, systematic, punctual, achievement-oriented, and dependable. Conscientiousness is the one personality trait that uniformly predicts how high a person's performance will be across a variety of occupations and jobs (Barrick & Mount, 1991). In fact, conscientiousness is the trait most desired by recruiters, and highly conscientious applicants tend to succeed in interviews (Dunn et al., 1995; Tay et al., 2006). Once they are hired, conscientious people not only tend to perform well, but they also have higher levels of motivation to perform, lower levels of turnover, lower levels of absenteeism, and higher levels of safety performance at work (Judge & Ilies, 2002; Judge et al., 1997; Wallace & Chen, 2006; Zimmerman, 2008). One's conscientiousness is related to career success and career satisfaction over time (Judge & Higgins, 1999). Finally, it seems that conscientiousness is a valuable trait for entrepreneurs. Highly conscientious people are more likely to start their own business compared to those who are not conscientious, and their firms have longer survival rates (Certo & Certo, 2005; Zhao & Seibert, 2006). A potential downside is that highly conscientious individuals can be detail-oriented rather than see the big picture.
- **Extraversion** is the degree to which a person is outgoing, talkative, sociable, and enjoys socializing. One of the established findings is that they tend to be effective in jobs involving sales (Barrick & Mount, 1991; Vinchur et al., 1998). Moreover, they tend to be effective as managers and they demonstrate inspirational leadership behaviors (Bauer et al., 2006; Bono & Judge, 2004). Extraverts do well in social situations, and, as a result, they tend to be effective in job interviews. Part of this success comes from preparation, as they are likely to use their social network to prepare for the interview (Caldwell & Burger, 1998; Tay et al., 2006). Extraverts have an easier time than introverts do when adjusting to a new job. They actively seek information and feedback and build effective relationships, which helps them adjust (Wanberg & Kammeyer-Mueller, 2000). However, they do not necessarily perform well in all jobs; jobs depriving them of social interaction may be a poor fit. Moreover, they are not necessarily model employees. For example, they tend to have higher levels of absenteeism at work, potentially because they may miss work to hang out with or attend to the needs of their friends (Judge et al., 1997)
- **Agreeableness** is the degree to which a person is affable, tolerant, sensitive, trusting, kind, and warm. In other words, people who are high in agreeableness are likable people who get along with others. Not surprisingly, agreeable people help others at work consistently; this helping behavior does not depend on their good mood (Ilies et al., 2006). They are also less likely to retaliate when other people treat them unfairly (Skarlicki et al., 1999). This may reflect their ability to show empathy and to give people the benefit of the doubt. Agreeable people may be a valuable addition to their teams and may be effective leaders because they create a fair environment when they are in leadership positions (Mayer et al., 2007). At the other end of the spectrum, people low in agreeableness are less likely to show these positive behaviors.

Moreover, people who are disagreeable are shown to quit their jobs unexpectedly, perhaps in response to a conflict with a boss or a peer (Zimmerman, 2008). If agreeable people are so nice, does this mean that we should only look for agreeable people when hiring? You might expect some jobs to require a low level of agreeableness. Think about it: When hiring a lawyer, would you prefer a kind and gentle person or someone who can stand up to an opponent? People high in agreeableness are also less likely to engage in constructive and change-oriented communication (LePine & Van Dyne, 2001). Disagreeing with the status quo may create conflict, and agreeable people may avoid creating such conflict, missing an opportunity for constructive change.

- **Neuroticism** refers to the degree to which a person is anxious, irritable, temperamental, and moody. It is perhaps the only Big Five dimension in which scoring high is undesirable. Neurotic people have a tendency to have emotional adjustment problems and habitually experience stress and depression. People with very high neuroticism experience a number of problems at work. For example, they have trouble forming and maintaining relationships and are less likely to be someone people go to for advice and friendship (Klein et al., 2004). They tend to be habitually unhappy in their jobs and report high intentions to leave, but they do not necessarily actually leave their jobs (Judge et al., 2002; Zimmerman, 2008). Being high in neuroticism seems to be harmful to one's career, as these employees have lower levels of career success (measured with income and occupational status achieved in one's career). Finally, if they achieve managerial jobs, they tend to create an unfair climate at work (Mayer et al., 2007).

In contrast, people who are low on neuroticism—those who have a positive affective disposition—tend to experience positive moods more often than negative moods. They tend to be more satisfied with their jobs and more committed to their companies (Connolly & Viswesvaran, 2000; Throresen et al., 2003). This is not surprising, as people who habitually see the glass as half full will notice the good things in their work environment while those with the opposite character will find more things to complain about. Whether these people are more successful in finding jobs and companies that will make them happy, build better relationships at work that increase their satisfaction and commitment, or simply see their environment as more positive, it seems that low neuroticism is a strong advantage in the workplace.

Example: Evaluate Yourself on the Big Five Personality Factors

Go to The Big Five Project Personality Test to see how you score on these factors.

Other Personality Dimensions

In addition to the Big Five, researchers have proposed various other dimensions, or traits, of personality. These include self-monitoring, proactive personality, self-esteem, and self-efficacy.

- **Self-monitoring** refers to the extent to which a person is capable of monitoring his or her actions and appearance in social situations. People who are social monitors are social chameleons who understand what the situation demands and act accordingly, while low social monitors tend to act the way they feel (Snyder, 1974; Snyder, 1987). High social monitors are sensitive to the types of behaviors the social environment expects from them. Their ability to modify their behavior according to the demands of the situation they are in and to manage their impressions effectively are great advantages for them (Turnley & Bolino, 2001). They are rated as higher performers and emerge as leaders (Day et al., 2002). They are effective in influencing other people and are able to get things done by managing their impressions. As managers, however, they tend to have lower accuracy in evaluating the performance of their employees. It seems that while trying to manage their impressions, they may avoid giving accurate feedback to their subordinates to avoid confrontations, which could hinder a leader's ability to carry out the Controlling function (Jawahar, 2001).

- **Proactive personality** refers to a person's inclination to fix what is wrong, change things, and use initiative to solve problems. Instead of waiting to be told what to do, proactive people take action to initiate meaningful change and remove the obstacles they face along the way. Proactive individuals tend to be more successful in their job searches (Brown et al., 2006). They also are more successful over the course of their careers because they use initiative and acquire a greater understanding of how the politics within the company work (Seibert, 1999; Seibert et al., 2001). Proactive people are valuable assets to their companies because they may have higher levels of performance (Crant, 1995). They adjust to their new jobs quickly because they understand the political environment better and make friends more quickly (Kammeyer-Mueller & Wanberg, 2003; Thompson, 2005). Proactive people are eager to learn and engage in many developmental activities to improve their skills (Major et al., 2006). For all their potential, under some circumstances, a proactive personality may be a liability for a person or an organization. Imagine a person who is proactive but is perceived as too pushy, trying to change things other people are not willing to let go of, or using their initiative to make decisions that do not serve a company's best interests. Research shows that a proactive person's success depends on his or her understanding of the company's core values, ability, and skills to perform the job, and ability to assess situational demands correctly (Chan, 2006; Erdogan & Bauer, 2005).
- **Self-esteem** is the degree to which a person has overall positive feelings about himself or herself. People with high self-esteem view themselves in a positive light, are confident, and respect themselves. In contrast, people with low self-esteem experience high levels of self-doubt and question their self-worth. High self-esteem is related to higher levels of satisfaction with one's job and higher levels of performance on the job (Judge & Bono, 2001). People with low self-esteem are attracted to situations where they will be relatively invisible, such as large companies (Turban & Keon, 1993). Leading employees with low self-esteem may be challenging at times because negative feedback given with the intention of improving performance may be viewed as a negative judgment of their worth as an employee. Therefore, effectively leading employees with relatively low self-esteem requires tact and providing lots of positive feedback when discussing performance incidents.

Example: Self-Esteem Around the Globe

Which nations have the highest average self-esteem? Researchers asked this question by surveying almost 17,000 individuals across 53 nations, in 28 languages.

Top 10 nations in terms of highest self-reported self-esteem	10 nations with the lowest self-reported self-esteem
1. Serbia 2. Chile 3. Israel 4. Peru 5. Estonia 6. United States of America 7. Turkey 8. Mexico 9. Croatia 10. Austria	1. South Korea 2. Switzerland 3. Morocco 4. Slovakia 5. Fiji 6. Taiwan 7. Czech Republic 8. Bangladesh 9. Hong Kong 10. Japan

(Denissen et al., 2008; Hitti, 2005 & Schmitt et al., 2005)

Self-efficacy is a belief that one can perform a specific task successfully. Research shows that the belief that we can do something is a good predictor of whether we can actually do it. Self-efficacy is different from other personality traits in that it is job-specific. You may have high self-efficacy in being successful academically, but low self-efficacy in relation to your ability to fix your car. At the same time, people have a certain level of generalized self-efficacy, and they have the belief that whatever task or hobby they tackle, they are likely to be successful in it.

Research shows that self-efficacy at work is related to job performance (Bauer et al., 2007; Judge et al., 2007; Stajkovic & Luthans, 1998). This is probably because people with high self-efficacy actually set higher goals for themselves and are more committed to their goals, whereas people with low self-efficacy tend to procrastinate (Phillips & Gully, 1997; Steel, 2007; Wofford et al., 1992). Academic self-efficacy is a good predictor of your grade point average, as well as whether you persist in your studies or drop out of college (Robbins et al., 2004).

Is there a way of increasing employees' self-efficacy? In addition to hiring people who are capable of performing the required job tasks, training people to increase their self-efficacy may be effective. Some people may also respond well to verbal encouragement. By showing that you believe they can be successful and effectively playing the role of cheerleader, a manager may be able to increase self-efficacy beliefs. Empowering people—giving them opportunities to test their skills so that they can see what they are capable of—is also a good way of increasing self-efficacy (Ahearne et al., 2005).

Personality Testing in Employee Selection

Personality is a potentially important predictor of work behavior. In job interviews, companies try to assess a candidate's personality and the potential for a good match, but interviews are only as good as the people conducting them. In fact, interviewers are not particularly good at detecting the best trait that predicts performance: conscientiousness (Barrick et al., 2000).

One method some companies use to detect potentially good job candidates is personality testing. Several companies conduct pre-employment personality tests. Companies using them believe that these tests improve the effectiveness of their selection and reduce turnover.

Are these methods good ways of employee selection? Experts have not yet reached an agreement on this subject and the topic is highly controversial. Some experts cite data indicating that personality tests predict performance and other important criteria such as job satisfaction. However, we must understand that how a personality test is used influences its validity.

In employee selection, where the employees with the "best" personalities will be the ones receiving a job offer, a complicating factor is that people filling out the survey do not have a strong incentive to be honest, and may guess what the job requires, and try to answer the questions in a way they think the company desires. As a result, the rankings of the candidates who take the test may be affected by their ability to fake. Some experts believe that this is a serious problem (Morgeson et al., 2007a; Morgeson et al., 2007b). Others point out that even with **faking** the tests remain valid—the scores are related to job performance (Barrick & Mount, 1996; Ones et al., 2007; Ones et al., 1996; Tett & Christansen, 2007). It is even possible that the ability to fake is related to a personality trait that increases success at work, such as social monitoring.

Scores on personality self-assessments may be distorted for other reasons beyond the fact that some candidates can fake better than others. Do we even know our own personalities? Are we the best person to ask this question? Using self-report measures of performance may not be the best way of measuring someone's personality (Mount et al., 1994). We have our blind areas. We may also give "aspirational" answers. If you are asked whether you are honest, you may think "yes, I always have the intention to be honest." This actually says nothing about your actual level of honesty.

Another problem with using these tests is the uncertain relationship between performance and personality. On the basis of research, personality is not a particularly strong indicator of how a person will perform. According to one estimate, personality only explains about 10%–15% of the variation in job performance. Our performance at work depends on many factors, and personality does not seem to be the key factor for performance. In fact, cognitive ability (your overall mental intelligence) is a more powerful predictor of job performance. Instead of personality tests, cognitive ability tests may do a better job of predicting who will be good performers. Personality is a better predictor of job satisfaction and other attitudes, but screening people out on the assumption that they may be unhappy at work is a challenging argument to make in an employee selection context.

In any case, if an organization decides to use these tests for selection, it is important to be aware of their limitations. If they are used together with other tests, such as tests of cognitive abilities, they may contribute to making better decisions. The company should ensure that the test fits the job and actually predicts performance.

Finally, the company also needs to make sure that the test does not discriminate against people on the basis of sex, race, age, disabilities, and other legally protected characteristics. Rent-a-Center experienced legal difficulties when the test they used was found to violate the Americans with Disabilities Act (ADA). The company used the Minnesota Multiphasic Personality Inventory for selection purposes, but this test was developed to diagnose severe mental illnesses; it included items such as "I see things or people around me others do not see." In effect, the test served the purpose of a clinical evaluation and was discriminating against people with mental illnesses, which is a protected category under ADA (Heller, 2005). Canada has similar legislation in the Employment Equity Act, and Ontario has the Accessibility for Ontarians with Disabilities Act (AODA)

Values

Values refer to people's stable life goals, reflecting what is most important to them. Values are established throughout one's life as a result of accumulating life experiences, and values tend to be relatively stable (Lusk & Oliver, 1974; Rokeach, 1973). The values that are important to a person tend to affect the types of decisions they make, how they perceive their environment, and their actual behaviors. Moreover, a person is more likely to accept a job offer when the company possesses the values he or she cares about (Judge & Bretz, 1992; Ravlin & Meglino, 1987). Value attainment is one reason people stay in a company. When a job does not help them attain their values, they are likely to decide to leave if they are dissatisfied with the job (George & Jones, 1996).

What are the values people care about? As with personality dimensions, researchers have developed several frameworks, or typologies, of values. One of the particularly useful frameworks includes 10 values (Schwartz, 1992).

Table 2.3.2: Values included in Schwartz's (1992) Value Inventory

Values	Definition
Achievement	The desire for personal success.
Benevolence	The desire to protect the well-being of people who are close to the person.
Conformity	Being motivated by being self-disciplined and obedient. Conforming to others.
Hedonism	The desire for pleasure in life.
Power	The desire for control over others, attaining power and prestige.
Security	Valuing safety and stability
Self-direction	The desire to be free and independent.
Stimulation	The desire for a stimulating and exciting life.
Tradition	Acceptance of social customs and traditional ideas in a society.
Universalism	The desire to protect the well-being of all people. Caring about social justice.

Values a person holds will affect their employment. For example, someone who values stimulation highly may seek jobs that involve fast action and high risk, such as firefighter, police officer, or emergency medicine. Someone who values achievement highly may be likely to become an entrepreneur or intrapreneur. And an individual who values benevolence and universalism may seek work in the nonprofit sector with a charitable organization or in a "helping profession," such as nursing or social work. Like personality, values have implications for Organizing activities, such as assigning duties to specific jobs or developing the chain of command; employee values are likely to affect how employees respond to changes in the characteristics of their jobs.

In terms of work behaviors, a person is more likely to accept a job offer when the company possesses the values he or she cares about. A firm's values are often described in the company's mission and vision statements, an element of the Planning function (Judge & Bretz, 1992; Ravlin & Meglino, 1987). Value attainment is one reason people stay in a company. When a job does not help them attain their values, they are likely to decide to leave if they are also dissatisfied with the job (George & Jones, 1996).

Exercises

1. Think about the personality traits covered in this section. Can you think of jobs or occupations that seem particularly suited to each trait? Which traits would be universally desirable across all jobs?
2. What are the unique challenges of leading and managing employees who have low self-efficacy and self-esteem? How would you deal with this situation?
3. What are some methods that companies can use to assess employee personality?
4. Have you ever held a job where your personality did not match the demands of the job? How did you react to this situation? How were your attitudes and behaviors affected?
5. Identify ways in which the Big Five (of the manager and/or the employees) may affect how you as a manager would carry out the Leadership function.

Key Takeaways

Personality traits and values are two dimensions on which people differ. Personality is the unique, relatively stable pattern of feelings, thoughts, and behavior that each individual displays. Big Five personality dimensions (think OCEAN: openness, conscientiousness, extraversion, agreeableness, and Neuroticism) are important traits; others that are particularly relevant for work behavior include self-efficacy, self-esteem, social monitoring, and proactive personality. While personality is a stronger influence over job attitudes, its relation to job performance is weaker. Some companies use personality testing to screen out candidates, however, they should proceed with caution due to issues around validity and discrimination. Values express a person's life goals; they are similar to personality traits in that they are relatively stable over time. In the workplace, a person is more likely to accept a job that provides opportunities for value attainment. People are also more likely to remain in a job and career that satisfy their values.

2.4 Perception

Learning Objectives

1. Analyze the influence of biases in the process of perception.
2. Describe how we perceive visual objects and how these tendencies may affect our behavior.
3. Describe the biases of self-perception.
4. Describe the biases inherent in our perceptions of other people.

Our behavior is not only a function of our personality and values but also of the situation. We interpret our environment, formulate responses, and act accordingly. **Perception** may be defined as the process by which individuals detect and interpret environmental stimuli. What makes human perception so interesting is that we do not solely respond to the stimuli in our environment. We go beyond the information that is present in our environment, pay selective attention to some aspects of the environment, and ignore other elements that may be immediately apparent to other people.

Our perception of the environment is not entirely rational. For example, have you ever noticed that while glancing at a newspaper or a news Web site, information that is especially interesting or important to you jumps out of the page and catches your eye? If you are a sports fan, while scrolling down the pages, you may immediately see a news item describing the latest success of your team. If you are the mother of a picky eater, an advice column on toddler feeding may be the first thing you see when looking at the page. If you were recently turned down for a loan, an item of financial news may jump out at you. Therefore, what we see in the environment is a function of what we value, our needs, our fears, and our emotions (Higgins & Bargh, 1987; Keltner, et al., 1993). In fact, what we see in the environment may be objectively flat-out wrong because of such mental tendencies. For example, one experiment showed that when people who were afraid of spiders were shown spiders, they inaccurately thought that the spider was moving toward them (Riskind et al., 1995).

In this section, we will describe some common perceptual tendencies we engage in when perceiving objects or other people and the consequences of such perceptions. Our coverage of these perceptual biases is not exhaustive—there are many other biases and tendencies that can be found in the way people perceive stimuli.

Visual Perception

Our visual perception definitely goes beyond the physical information available to us; this phenomenon is commonly referred to as "optical illusions." Artists and designers of everything from apparel to cars to home interiors make use of optical illusions to enhance the look of the product. Leaders and managers rely on their visual perception to form their opinions about people and objects around them and to make sense of data presented in graphical form. Therefore, understanding how our visual perception may be biased is important.

Figure 2.4.1: *Image licensed under CC BY-NC-SA 3.0.*

First, we extrapolate from the information available to us. Take a look at Figure 2.4.1. The white triangle you see in the middle is not really there, but we extrapolate from the information available to us and see it there. Similarly, when we look at objects that are partially blocked, we see the whole (Kellman & Shipley, 1991).

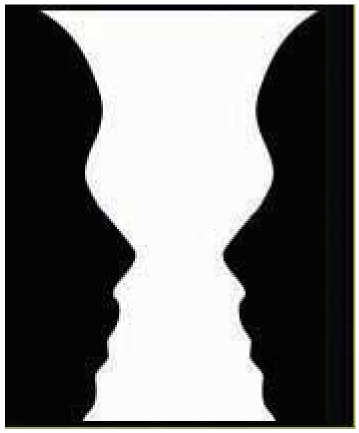

Figure 2.4.2 *"Cup or Faces Paradox" by Bryan Derksen, licensed under CC BY-SA 3.0.*

Now, let's look at Figure 2.4.2. What do you see? Most people look at this figure and see two faces *or* a goblet, depending on which color—*black or white*—they focus upon. Our visual perception is often biased because we do not perceive objects in isolation. The contrast between our focus of attention and the remainder of the environment may make an object appear bigger or smaller.

How do these tendencies influence behavior in organizations? The fact that our visual perception is faulty means that leaders should not always take what they see at face value. Let's say that you do not like one of your peers and you think that you saw this person surfing the Web during work hours. Are you absolutely sure, or are you simply filling the gaps? Have you really seen this person surf unrelated Web sites, or is it possible that the person was searching for work-related purposes? The tendency to fill in the gaps also causes our memory to be faulty. Imagine that you have been at a meeting where several people made comments that you did not agree with. After the meeting, you may attribute most of these comments to people you did not like. In other words, you may twist reality to make your memories more consistent with your opinions of people.

The tendency to compare and contrast objects and people with each other also causes problems. For example, if you are a manager who has been given an office much smaller than the other offices on the floor, you may feel that your workspace is crowded and uncomfortable. If the same office is surrounded by smaller offices, you may actually feel that your office is comfortable and roomy. In short, our biased visual perception may lead to the wrong inferences about the people and objects around us.

Self-Perception

Human beings are prone to errors and biases when perceiving themselves. Moreover, the type of bias people have depends on their personality. Many people suffer from **self-enhancement bias**. This is the tendency to overestimate our performance and capabilities and see ourselves in a more positive light than others see us. People who have a narcissistic personality are particularly subject to this bias, but many others also have this bias to varying degrees (John & Robins, 1994). At the same time, other people have the opposing extreme, which may be labeled as **self-effacement bias** (or modesty bias). This is the tendency to underestimate our performance and capabilities and to see events in a way that puts us in a more negative light. We may expect that people with low self-esteem may be particularly prone to making this error. These tendencies have real consequences for behavior in organizations. For example, people who suffer from extreme levels of self-enhancement tendencies may not understand why they are not getting promoted or rewarded, while those who have a tendency to self-efface may project low confidence and take more blame for their failures than necessary.

When human beings perceive themselves, they are also subject to **false consensus error**. Simply put, we overestimate how similar we are to other people (Fields & Schuman, 1976; Ross et al., 1977). We assume that whatever quirks we have are shared by a larger number of people than in reality. People who take office supplies home, tell 'white lies to their boss or colleagues, or take credit for other people's work to get ahead may genuinely feel that these behaviors are more common than they really are. The problem with this type of behavior within organizations is that, when people believe that a behavior is common and normal, they may repeat the behavior more freely. Under some circumstances, this may lead to a high level of unethical or even illegal behaviors.

Social Perception

How we perceive other people in our environment is also shaped by our biases. Moreover, how we perceive others will shape our behavior, which in turn will shape the behavior of the person we are interacting with.

One of the factors biasing our perception is **stereotypes**. Stereotypes are generalizations based on a group characteristic. For example, believing that women are more cooperative than men or that men are more assertive than women are stereotypes. Stereotypes may be positive, negative, or neutral. In the abstract, stereotyping is an adaptive function—we have a natural tendency to categorize the information around us to make sense of our environment. Just imagine how complicated life would be if we continually had to start from scratch to understand each new situation and each new person we encountered! What makes stereotypes potentially discriminatory and a perceptual bias is the tendency to generalize from a group to a particular individual. If the belief that men are more assertive than women leads to choosing a man over an equally qualified female candidate for a position, the decision will be biased, unfair, and potentially illegal.

Note: *This textbook contains information on gender differences in leadership and management* *from a number of experts. We know that we cannot put all members of any gender in a box, and we need to be extremely cautious about stereotyping. Additionally, a strictly binary approach (male and female) does not promote inclusivity and understanding of all members of our organizations. Please remember these points when working with others. Unfortunately, there is not enough research available on leadership and management (or connected theories such as communication) of transgender, non-binary, and other gender identities, but we will include what we can and update as we go.*

Stereotypes often create a situation called a **self-fulfilling prophecy**. This happens when an established stereotype causes one to behave in a certain way, which leads the other party to behave in a way that confirms the stereotype (Snyder et al., 1977). If you have a stereotype such as “Asians are friendly,” you are more likely to be friendly toward an Asian person. Because you are treating the other person more nicely, the response you get may also be nicer, which confirms your original belief that Asians are friendly. Of course, just the opposite is also true. Suppose you believe that “young employees are slackers.” You are less likely to give a young employee high levels of responsibility or interesting and challenging assignments. The result may be that the young employee reporting to you may become increasingly bored at work and start goofing off, confirming your suspicions that young people are slackers!

Stereotypes persist because of a process called selective perception. **Selective perception** simply means that we pay selective attention to parts of the environment while ignoring other parts, which is particularly important during the Planning process. Our background, expectations, and beliefs will shape which events we notice and which events we ignore. For example, an executive’s functional background will affect the changes he or she perceives in the environment (Waller et al., 1995). Executives with a background in sales and marketing see the changes in the demand for their product, while executives with a background in information technology may more readily perceive the changes in the technology the company is using. Selective perception may also perpetuate stereotypes because we are less likely to notice events that go against our beliefs. A person who believes that men drive better than women may be more likely to notice women driving poorly than men driving poorly. As a result, a stereotype is maintained because the information to the contrary may not even reach our brain!

Let’s say we noticed information that goes against our beliefs. What then? Unfortunately, this is no guarantee that we will modify our beliefs and prejudices. First, when we see examples that go against our stereotypes, we tend to come up with subcategories. For example, people who believe that women are more cooperative when they see a female who is assertive may classify her as a “career woman.” Therefore, the example to the contrary does not violate the stereotype and is explained as an exception to the rule (Higgins & Bargh, 1987). Or, we may simply discount the information. In one study, people in favor of and against the death penalty were shown two studies, one showing the benefits of the death penalty while the other disconfirming any benefits. People rejected the study that went against their belief as methodologically inferior and ended up believing in their original position even more (Lord et al., 1979)! In other words, using data to debunk people’s beliefs or previously established opinions may not necessarily work, a tendency to guard against when conducting Planning and Controlling activities.

One other perceptual tendency that may affect work behavior is **first impressions**. The first impressions we form about people tend to have a lasting effect. In fact, first impressions, once formed, are surprisingly resilient to contrary information. For instance, a job interview shown in figure 2.4.3 is one situation where first impressions formed during the initial stages of an interview may have consequences on your relationship with your future boss or colleagues.

Figure 2.4.3 *Photo by Adabara Ibrahim, Pixabay License.*

Even if people are told that the first impressions were caused by inaccurate information, people hold on to them to a certain degree because once we form first impressions, they become independent from the evidence that created them (Ross et al., 1975). Therefore, any information we receive to the contrary does not serve the purpose of altering them. Imagine the first day that you met your colleague Anne. She treated you in a rude manner, and when you asked for her help, she brushed you off. You may form the belief that Anne is a rude and unhelpful person. Later on, you may hear that Anne's mother is seriously ill, making Anne very stressed. In reality, she may have been unusually stressed on the day you first met her. If you had met her at a time when her stress level was lower, you could have thought that she is a really nice person. But chances are, your impression that she is rude and unhelpful will not change even when you hear about her mother. Instead, this new piece of information will be added to the first one: She is rude and unhelpful, and her mother is sick.

As a manager, you can protect yourself against this tendency by being aware of it and making a conscious effort to open your mind to new information. It would also be to your advantage to pay careful attention to the first impressions you create, particularly during job interviews.

Exercises

1. What are some of the typical errors, or optical illusions, that we experience when we observe physical objects?
2. What are the problems of false consensus error? How can managers deal with this tendency?
3. Describe a situation where perception biases have or could affect any of the P-O-L-C facets. Use an example you have experienced or observed, or, if you do not have such an example, create a hypothetical situation. How do we manage the fact that human beings develop stereotypes? Is there such as thing as a good stereotype? How would you prevent stereotypes from creating unfairness in management decisions?
4. Describe a self-fulfilling prophecy you have experienced or observed in action. Was the prophecy favorable or unfavorable? If unfavorable, how could the parties have chosen different behavior to produce a more positive outcome?

Key Takeaways

Perception is how we make sense of our environment in response to environmental stimuli. While perceiving our surroundings, we go beyond the objective information available to us and our perception is affected by our values, needs, and emotions. There are many biases that affect human perception of objects, self, and others. When perceiving the physical environment, we fill in the gaps and extrapolate from the available information. When perceiving others, stereotypes influence our behavior. Stereotypes may lead to self-fulfilling prophecies. Stereotypes are perpetuated because of our tendency to pay selective attention to aspects of the environment and ignore information inconsistent with our beliefs. Understanding the perception process gives us clues to understanding human behavior.

2.5 Work Attitudes

Learning Objectives

1. Define what work attitudes are.
2. Define and differentiate between job satisfaction and organizational commitment.
3. List several important factors influencing job satisfaction and organizational commitment.
4. Identify two ways companies can track attitudes in the workplace.

How we behave at work often depends on how we feel about being there. Therefore, making sense of how people behave depends on understanding their work attitudes. An **attitude** refers to our opinions, beliefs, and feelings about aspects of our environment. We have attitudes toward the food we eat, people we meet, courses we take, and things we do. At work, two job attitudes have the greatest potential to influence how we behave. These are job satisfaction and organizational commitment.

Job satisfaction refers to the feelings people have toward their job. If the number of studies conducted on job satisfaction is an indicator, job satisfaction is probably the most important job attitude. Institutions such as Gallup or the Society for Human Resource Management (SHRM) periodically conduct studies of job satisfaction to track how satisfied employees are at work. According to a recent Gallup survey, 90% of the employees surveyed said that they were at least somewhat satisfied with their jobs. A recent SHRM study revealed 40% who were very satisfied (Sandberg, 2008).

Organizational commitment is the emotional attachment people have toward the company they work for. A highly committed employee is one who accepts and believes in the company's values, is willing to put out the effort to meet the company's goals, and has a strong desire to remain with the company. People who are committed to their company often refer to their company as "we" as opposed to "they" as in "in this company, we have great benefits." The way we refer to the company indicates the type of attachment and identification we have with the company.

There is a high degree of overlap between job satisfaction and organizational commitment because things that make us happy with our job often make us more committed to the company as well. Companies believe that these attitudes are worth tracking because they often are associated with outcomes that are important to the Controlling role, such as performance, helping others, absenteeism, and turnover.

What Causes Positive Work Attitudes?

What makes you satisfied with your job and develop a commitment to your company? Research shows that people pay attention to several factors of their work environment, including characteristics of the job (a function of Organizing activities), how they are treated (related to Leadership actions), the relationships they form with colleagues and managers (also Leadership related), and the level of stress the job entails.

As we have seen earlier in this chapter, personality and values play important roles in how employees feel about their jobs.

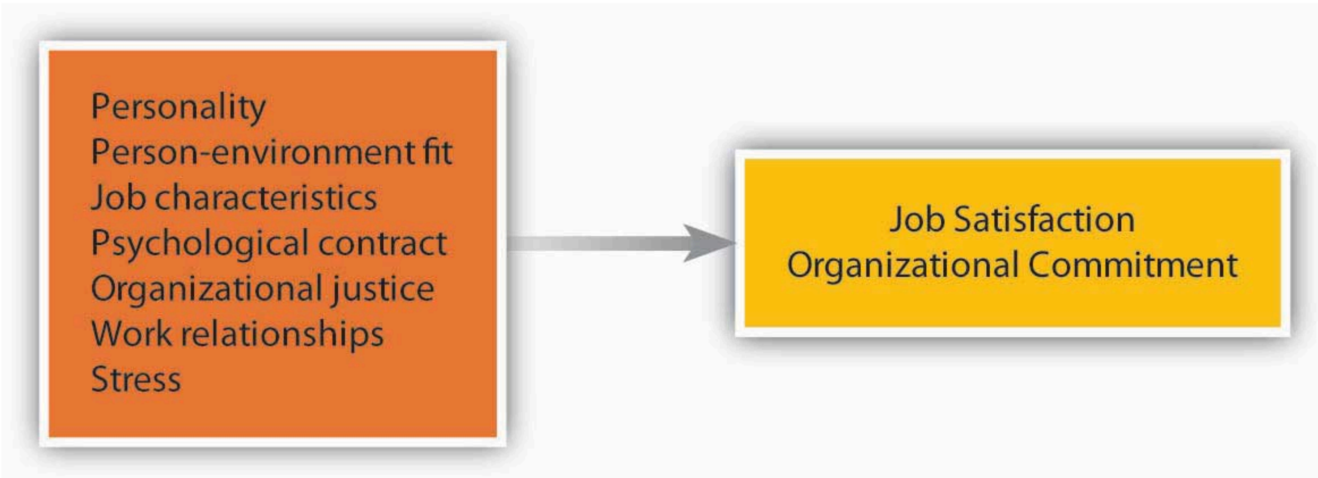

Figure 2.5.1: *Factors Contributing to Job Satisfaction and Organizational Commitment*

Job Characteristics

Employees tend to be more satisfied and committed to jobs that involve certain characteristics. The ability to use a variety of skills, having autonomy at work, receiving feedback on the job, and performing a significant task, are some job characteristics that are related to satisfaction and commitment. However, the presence of these factors is not important for everyone. Some people have a high need for growth. These employees tend to be more satisfied when their jobs help them build new skills and improve (Loher et al., 1985; Mathieu & Zajac, 1990).

Organizational Justice and the Psychological Contract

A strong influence over our satisfaction level is how fairly we are treated. People pay attention to the fairness of company policies and procedures, fair and kind treatment from supervisors, and fairness of their pay and other rewards they receive from the company (Cohen-Charash & Spector, 2001; Colquitt et al., 2001; Meyer et al., 2002). Organizational justice can be classified into three categories: (1) procedural (fairness in the way policies and processes are carried out), (2) distributive (the allocation of resources or compensation and benefits), and

(3) interactional (the degree to which people are treated with dignity and respect). At the root of organizational justice is trust, something that is easier to break than to repair if broken.

The **psychological contract** is the unspoken, informal understanding that an employee will contribute certain things to the organization (e.g., work ability and a willing attitude) and will receive certain things in return (e.g., reasonable pay and benefits). Under the psychological contract, an employee may believe that if he or she works hard and receives favorable performance evaluations, he or she will receive an annual bonus, periodic raises, and promotions, and will not be laid off. Since the “downsizing” trend of the past 20 years, many commentators have declared that the psychological contract is violated more often than not.

Relationships at Work

Two strong predictors of our happiness at work and commitment to the company are our relationships with coworkers and managers. The people we interact with, how friendly they are, whether we are socially accepted in our work group, and whether we are treated with respect by them are important to our happiness at work. Research also shows that our relationship with our manager, how considerate the manager is, and whether we build a trust-based relationship with our manager are critically important to our job satisfaction and organizational commitment (Bauer et al., 2007; Gerstner & Day, 1997; Judge et al., 2004; Kinicki et al., 2002; Mathieu & Zajac, 1990; Meyer et al., 2002; Rhoades & Eisenberger, 2002). When our manager and overall leadership listen to us, care about us, and value our opinions, we tend to feel good at work. When establishing effective relations with employees, little signals that you care about your employees go a long way. For example, in 2004 San Francisco’s Hotel Carlton was taken over and renovated by a new management group, Joie de Vivre Hospitality. One of the small things the new management did that created dramatic results was that, in response to an employee attitude survey, they replaced the old vacuum cleaners housekeepers were using and started replacing them every year. It did not cost the company much to replace old machinery, but this simple act of listening to employee problems and taking action went a long way to make employees feel better (Dvorak, 2007).

Stress

Not surprisingly, the amount of stress present in a job is related to employee satisfaction and commitment. Stressors range from environmental ones (noise, heat, inadequate ventilation) to interpersonal ones (organizational politics, conflicts with coworkers) to organizational ones (pressure to avoid making mistakes, worrying about the security of the job). Some jobs, such as intensive care unit nurse and military fighter pilot, are inherently very stressful.

***Figure 2.5.2**: "Woman Sitting in Front of the Laptop Computer in Shallow Photo" Alexander Dummer, Pexels License.*

Another source of stress has to do with the roles people are expected to fulfill on and off the job. Role ambiguity is uncertainty about what our responsibilities are in the job. Role conflict involves contradictory demands at work; it can also involve conflict between fulfilling one's role as an employee and other roles in life, such as the role of parent, friend, or community volunteer.

Generally speaking, the higher the stress level, the lower job satisfaction tends to be. But not all stress is bad, and some stressors actually make us happier! For example, working under time pressure and having a high degree of responsibility are stressful, but they are also perceived as challenges and tend to be related to high levels of satisfaction (Kinicki et al., 2002; Meyer et al., 2002; Miller et al., 2008; Podsakoff et al., 2007).

Assessing Work Attitudes in the Workplace

Given that work attitudes may give us clues about who will leave or stay, who will perform better, and who will be more engaged, tracking satisfaction and commitment levels is a helpful step for companies. If there are companywide issues that make employees unhappy and disengaged, these need to be resolved. There are at least two systematic ways in which companies can track work attitudes: through **attitude surveys** and exit interviews. Companies such as KFC and Long John Silver restaurants, the SAS Institute, Google, and others give periodic attitude surveys, which are used to track employee work attitudes. Companies can get more out of these surveys if responses are held confidential. If employees become concerned that their individual responses will be shared with their immediate manager, they are less likely to respond honestly. Moreover, the success of these surveys depends on the credibility of management in the eye of employees. If leaders periodically collect these surveys but no action comes out of them, employees may adopt a more cynical attitude and start ignoring these surveys, hampering the success of future efforts. **Exit interviews** involve a meeting with the departing employee. This meeting is often conducted by a member of the human resource management department. If conducted well, this meeting may reveal what makes employees dissatisfied at work and give management clues about areas for improvement.

How strong is the attitude-behavior link? First of all, it depends on the attitude in question. Your attitudes toward your colleagues may influence whether you actually help them on a project, but they may not be a good predictor of whether you quit your job. Second, it is worth noting that attitudes are more strongly related to intentions to behave in a certain way, rather than actual behaviors. When you are dissatisfied with your job, you will have the intention to leave. Whether you actually leave will be a different story! Your leaving will depend on many factors, such as the availability of alternative jobs in the market, your employability in a different company, and sacrifices you have to make while changing jobs. Thus, while the attitudes assessed through employee satisfaction surveys and exit interviews can provide some basis for predicting how a person might behave in a job, remember that behavior is also strongly influenced by situational constraints.

Exercises

1. What is the difference between job satisfaction and organizational commitment? How do the two concepts relate to one another?
2. In your opinion, of the factors that influence work attitudes, which three are the most important in making people dissatisfied with their jobs? Which three are the most important relating to organizational commitment?
3. Do you think making employees happier at work is a good way of motivating people? When would high satisfaction not be related to high performance?
4. How important is pay in making people attached to a company and making employees satisfied?
5. Do you think younger and older people are similar in what makes them happier at work and makes them committed to their companies? Do you think there are male-female differences? Explain your answers.

Key Takeaways

Work attitudes are the feelings we have toward different aspects of the work environment. Job satisfaction and organizational commitment are two key attitudes that are the most relevant to important outcomes. In addition to personality and fit with the organization, work attitudes are influenced by the characteristics of the job, perceptions of organizational justice and the psychological contract, relationships with coworkers and managers, and the stress levels experienced on the job. Many companies assess employee attitudes through surveys of worker satisfaction and through exit interviews. The usefulness of such information is limited, however, because attitudes create an intention to behave in a certain way, but they do not always predict actual behaviors.

2.6 The Interactionist Perspective: The Role of Fit

Learning Objectives

1. Differentiate between person-organization and person-job fit.
2. Appraise the relationship between person-job fit and work behaviors.
3. Identify the relationship between person-organization fit and work behaviors.

As we have seen in the earlier sections of this chapter, human beings bring in their personality, values, attitudes, perceptions, and other stable traits to work. Imagine that you are interviewing an employee who is proactive, creative, and willing to take risks. Would this person be a good job candidate? What behaviors would you expect this person to demonstrate?

The questions we pose here are misleading. While human beings bring their traits to work, every organization is also different, and every job is different. According to the interactionist perspective, behavior is a function of the person and the situation interacting with each other. Think about it. Would a shy person speak up in class? While a shy person may not feel like speaking if he or she is very interested in the subject, knows the answers to the questions, feels comfortable within the classroom environment, and knows that class participation is 30% of the course grade, this person may speak up in class regardless of his or her shyness. Similarly, the behavior you may expect from someone who is proactive, creative, and willing to take risks will depend on the situation.

The fit between what we bring to our work environment and the environmental demands influences not only our behavior but also our work attitudes. Therefore, person-job fit and person-organization fit are positively related to job satisfaction and commitment. When our abilities match job demands, and when our values match company values, we tend to be more satisfied with our job and more committed to the company we work for (Kristof-Brown et al., 2005; Verquer et al., 2003).

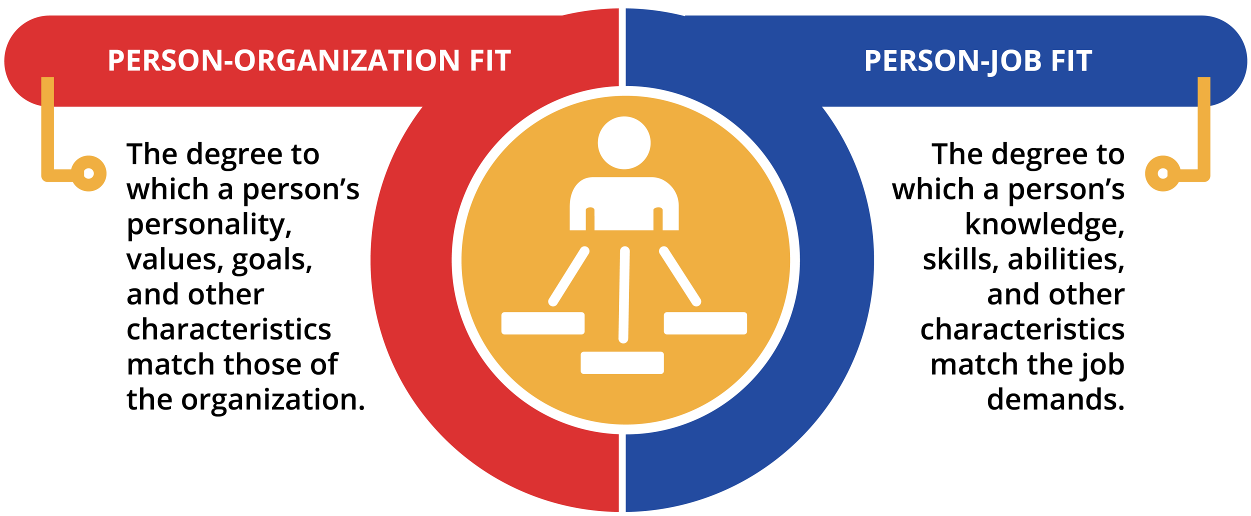

Figure 2.6.1: *"Person Fits" by Alyssa Giles, CC BY-NC-SA 4.0.*

When companies hire employees, they are interested in assessing at least two types of fit. **Person-organization fit** refers to the degree to which a person's personality, values, goals, and other characteristics match those of the organization. **Person-job fit** is the degree to which a person's knowledge, skills, abilities, and other characteristics match the job demands. (Human resources professionals often use the abbreviation KSAO to refer to these four categories of attributes.) Thus, someone who is proactive and creative may be a great fit for a company in the high-tech sector that would benefit from risk-taking individuals but may be a poor fit for a company that puts a high priority on routine and predictable behavior, such as a nuclear power plant. Similarly, this proactive and creative person may be a great fit for a field-based job such as a marketing manager but a poor fit for an office job highly dependent on rules such as an accountant.

When people fit into their organization, they tend to be more satisfied with their jobs, more committed to their companies, are more influential in their company, and remain longer in their company (Anderson et al., 2008; Cable & DeRue, 2002; Kristof-Brown et al., 2005; O'Reilly et al., 1991; Saks & Ashforth, 2002). One area of controversy is whether these people perform better. Some studies found a positive relationship between person-organization fit and job performance, but this finding was not present in all studies, so it seems that only sometimes fitting with a company's culture predicts job performance (Arthur et al., 2006). It also seems that fitting in with the company values is important to some people more than to others. For example, people who have worked in multiple companies tend to understand the effect of a company's culture better and therefore pay closer attention to whether they will fit in with the company when making their decisions (Kristof-Brown et al., 2002). Also, when they build good relationships with their supervisors and the company, being a misfit does not seem to matter as much (Erdogan et al., 2004).

Exercises

1. How can a company assess person-job fit before hiring employees? What are the methods you think would be helpful?
2. How can a company determine person-organization fit before hiring employees? Which methods do you think would be helpful?
3. What can organizations do to increase person-job and person-organization fit *after* they hire employees?

Key Takeaways

While personality, values, attitudes, perceptions, and KSAOs are important, we need to keep in mind that behavior is jointly determined by the person and the situation. Certain situations bring out the best in people, and someone who is a poor performer in one job may turn into a star employee in a different job. Therefore, managers need to consider the individual and the situation when making Organizing decisions about the job or when engaging in Leadership activities like building teams or motivating employees.

2.7 Work Behaviors

Learning Objectives

1. Define job performance, organizational citizenship, absenteeism, and turnover.
2. Explain factors associated with each type of work behavior.

One of the important objectives of the field of organizational behavior is to understand why people behave the way they do; understanding organizational behavior is crucial for leaders. As detailed in Figure 2.7.1, we will focus on four key work behaviors: (1) job performance, (2) organizational citizenship behaviors, (3) absenteeism, and (4) turnover.

Table 2.7.1: Factors That Have the Strongest Influence over Work Behaviors

Job Performance	Organizational Citizenship	Absenteeism	Turnover
General mental abilities	Organizational justice and interpersonal relations	Health problems	Having low performance
Organizational justice and interpersonal relations	Personality	Work/life balance issues	Negative work attitudes
Stress (-)	Positive work attitudes	Negative work attitudes	Stress
Positive work attitudes	Older employee	Younger employee	Personality
Personality			Younger employee & shorter tenure

Note that the first two behaviors are desirable ones, whereas the other two are often regarded as undesirable. While these four are not the only behaviors organizational behavior is concerned about, if you understand what we mean by these behaviors and the major influences over each type of behavior, you will gain more clarity about analyzing the behaviors of others in the workplace.

Job Performance

Job performance refers to the level to which an employee successfully fulfills the factors included in the job description. For each job, the content of job performance may differ. Measures of job performance include quality and quantity of work performed by the employee, the accuracy and speed with which the job is performed, and the overall effectiveness of the person on the job.

In many companies, job performance determines whether a person is promoted, rewarded with pay raises, given additional responsibilities, or fired from the job. Therefore, most employers observe and track job performance. This is done by keeping track of data on topics such as the number of sales the employee closes, the number of clients the employee visits, the number of defects found in the employee's output, or the number of customer complaints or compliments received about the person's work. In some jobs, objective performance data may not be available, and instead, supervisor, coworker, customer, and subordinate assessments of the quality and quantity of work performed by the person (such as through 360-degree performance feedback) become the indicators of job performance. Job performance is one of the main outcomes studied in organizational behavior and is an important variable that leaders must assess.

What Are the Major Predictors of Job Performance?

Under which conditions do people perform well, and what are the characteristics of high performers? These questions receive a lot of research attention. It seems that the most powerful influence over our job performance is our **general mental ability** also known as cognitive ability or intelligence, and often abbreviated as "g." General mental ability can be divided into several components—reasoning abilities, verbal and numerical skills, and analytical skills—and it seems to be important across different situations. It seems that "g" starts influencing us early in our school days because it is strongly correlated with measures of academic success even in childhood (Kuncel et al., 2004). In adult life, "g" is also correlated with different measures of job performance (Bertua et al., 2005; Kuncel et al., 2004; Salgado et al., 2003; Schmidt & Hunter, 2004; Vinchur, et al, 1998). It seems that the influence of "g" on performance is important across different settings, but there is also variation. In jobs with high complexity, it is much more critical to have high general mental abilities. Examples of such jobs are manager, sales representative, engineer, and professions such as law and medicine. In jobs such as police officer and clerical worker, the importance of "g" for high performance is still important but weaker.

Perceptions of organizational justice and interpersonal relationships are factors determining our performance level. When we feel that we are being fairly treated by the company, that our leaders are supportive and reward high performance, and we trust the people we work with, we tend to perform better. Why? It seems that when we believe we are treated well, we want to reciprocate. Therefore, we treat the company well by performing our job more effectively.

The *stress* we experience on the job also determines our performance level. When we are stressed, our mental energies are drained. Instead of focusing on the task at hand, we start concentrating on the stressor trying to cope with it. Because our attention and energies are diverted to dealing with stress, our performance suffers. Having role ambiguity and experiencing conflicting role demands are related to lower performance (Gilboa et al., 2008). Stress that prevents us from doing our jobs does not have to be related to our experiences at work.

Our *work attitudes*, particularly job satisfaction, are also correlated to job performance but not to as great a degree as you might expect. Many studies have been devoted to understanding whether happy employees are more productive. Some studies show weak correlations between satisfaction and performance while others show higher correlations (what researchers would call "medium-sized" correlations of .30) (Iaffaldano & Muchinsky, 1985; Judge et al., 2001; Riketta, 2008). The correlation between commitment and performance tends to be even weaker (Mathieu & Zajac, 1990; Riketta, 2002; Wright & Bonnett, 2002). Why?

It seems that happy workers have an inclination to be more engaged at work. They may *want* to perform better. They may be more motivated. But there are also exceptions. Think about this. Because you want to perform, does this mean that you will actually perform better? Chances are your skill level in performing the job will matter. There are also some jobs where performance depends on factors beyond an employee's control, such as the pace of the machine they are working on. Because of this reason, in professional jobs such as with engineers and researchers, we see a stronger link between work attitudes and performance, as opposed to manual jobs such as assembly-line workers (Riketta, 2002). Also, think about the alternative possibility: If you don't like your job, does this mean that you will reduce your performance? Maybe up to a certain point, but there will be factors that prevent you from reducing your performance such as the fear of getting fired, the desire to get a promotion so that you can get out of the job that you dislike so much, or your professional work ethic. As another example, among nurses, there seems to be a weak correlation between satisfaction and performance. Even when they are unhappy, nurses put a lot of effort into their work because they feel a moral obligation to help their patients. As a result, we should not expect a one-on-one relationship between satisfaction and performance. Still, the observed correlation between work attitudes and performance is important and has practical value.

Finally, job performance has a modest relationship with *personality* traits, particularly conscientiousness. People who are organized, reliable, dependable, and achievement-oriented seem to outperform others in various contexts (Barrick & Mount, 1991; Dudley et al., 2006; Vinchur et al., 1998).

Organizational Citizenship Behaviors

While job performance refers to the performance of duties listed in one's job description, organizational citizenship behaviors involve performing behaviors that are more discretionary. **Organizational citizenship behaviors (OCB)** are voluntary behaviors employees perform to help others and benefit the organization. Helping a new coworker understand how things work in this company, volunteering to organize the company picnic, and providing suggestions to leadership about how to improve business processes are some examples of citizenship behaviors. These behaviors contribute to the smooth operation of a business.

What are the major predictors of citizenship behaviors? Unlike performance, citizenship behaviors do not depend so much on one's abilities. Job performance, to a large extent, depends on our general mental abilities. When you add the education, skills, knowledge, and abilities that are needed to perform well, the role of motivation on performance becomes more limited. As a result, just because someone is motivated does not mean that the person will perform well. For citizenship behaviors, in contrast, the motivation-behavior link is clearer. We help others around us if we feel motivated to do so.

Perhaps the most important factor explaining our citizenship behaviors is *organizational justice and interpersonal relationships*. When we have a good relationship with our leaders, are supported, are treated fairly, are attached to our peers, and trust the people around us, we are more likely to engage in citizenship behaviors. A high-quality relationship with the people we work with will mean that simply doing our job will not be enough to maintain the relationship. In a high-quality relationship, we feel the obligation to reciprocate and go the extra mile to help them out (Cohen-Charash & Spector, 2001; Colquitt et al., 2001; Colquitt et al., 2007; Fassina et al., 2008; Hoffman et al., 2007; Ilies et al., 2007; Lepine et al., 2002; Organ & Ryan, 1995; Podsakoff et al., 1996; Riketta & Van Dick, 2005).

Figure 2.7.1: *Organizational justice and interpersonal relationships. Photo by fauxels, Pexels License.*

Our *personality* is yet another explanation for why we perform citizenship behaviors. Personality is a modest predictor of actual job performance but a much better predictor of citizenship. People who are conscientious, agreeable, and low on neuroticism tend to perform citizenship behaviors more often than others (Borman et al., 2001; Dalal, 2005; Diefendorff et al., 2002; Organ & Ryan, 1995).

Job attitudes are also moderately related to citizenship behaviors—more so than they are to job performance. People who are happier at work, those who are more committed to their companies, and those who have overall positive attitudes toward their work situation tend to perform citizenship behaviors more often than others. When people are unhappy, they tend to be disengaged from their jobs and rarely go beyond the minimum that is expected of them (Dalal, 2005; Diefendorff et al., 2002; Fassina et al., 2008; Hoffman et al., 2007; Lepine et al., 2002; Organ & Ryan, 1995; Riketta, 2002; Riketta & Van Dick, 2005).

Interestingly, age seems to be related to the frequency with which we demonstrate citizenship behaviors. People who are older are better citizens. It is possible that with age we gain more experiences to share. It becomes easier to help others because we have more accumulated company and life experiences to draw from (Ng & Feldman, 2008).

Absenteeism

Absenteeism refers to unscheduled absences from work. Such absences are costly to companies because of their unpredictable nature, affecting a leader's ability to control the budget. When an employee has an unscheduled absence from work, companies struggle to find replacement workers at the last minute. This may involve hiring contingent workers, having other employees work overtime, or scrambling to cover for an absent coworker. The cost of **absenteeism** to organizations is estimated at $74 billion. According to a Mercer Human Resource consulting study, 15% of the money spent on payroll is related to absenteeism (Conlin, 2007; Gale, 2003).

What causes absenteeism? First, we need to look at the type of absenteeism. Some absenteeism is unavoidable and is related to *health reasons*. For example, reasons such as acute or serious illness, lower back pain, migraines, accidents one may have on or off the job, or acute stress are important reasons for absenteeism (Farrell & Stamm, 1998; Martocchio et al., 2000). Health-related absenteeism is costly, but it would be unreasonable and unfair to institute organizational policies penalizing it. When an employee has a contagious illness, showing up at work will infect coworkers and will not be productive. We have seen the huge impact absenteeism can have since the Covid-19 pandemic. If the illness is not contagious, it is still in the organization's best interest for the employee to receive proper medical treatment and rest to promote a full recovery. Indeed, companies are finding that programs aimed at keeping workers healthy are effective in dealing with this type of absenteeism. Many organizations instituted strict measures during the pandemic in order to keep their workers healthy and able to carry out their duties – including working from home in order to stay safe. Companies using wellness programs, educating employees about proper nutrition, helping them exercise, and rewarding them for healthy habits have reported reduced absenteeism (Parks & Steelman, 2008).

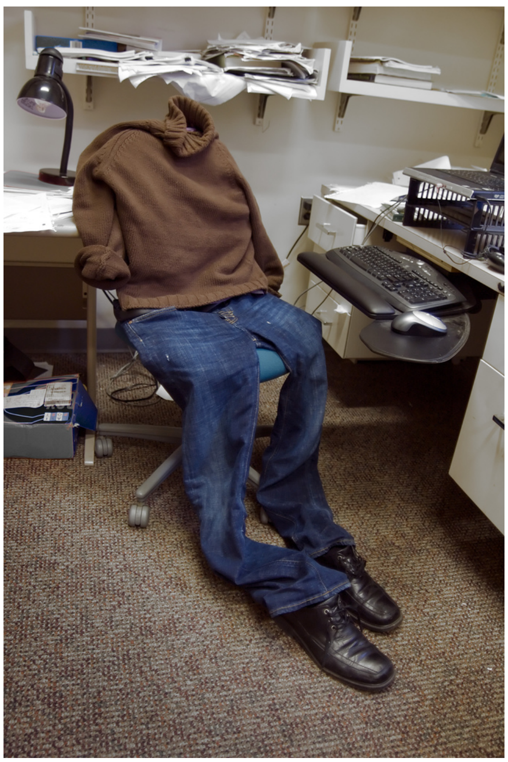

Figure 2.7.2: *"Officemate Disappears" by David Goehring, licensed under CC BY 2.0.*

Work/life balance is another common reason for absences. Staying home to care for a sick family member, attending the wedding or funeral of a loved one, and skipping work to study for an exam are all common reasons for unscheduled absences. Companies may deal with these by giving employees more flexibility in work hours. If employees can manage their own time, they are less likely to be absent. Conversely, when a company has "sick leave" but no other leave for social and family obligations, they may fake being sick and use their "sick leave." One solution is to have a single paid time off policy that would allow workers to balance work and life and allow companies to avoid unscheduled absences. Organizations such as Lahey Clinic in Burlington, Massachusetts, have found this to be effective in dealing with unscheduled absences. Some companies such as IBM got rid of sick leave altogether and instead allow employees to take as much time off as they need, so long as the work gets done (Cole, 2002; Conlin, 2007; Baltes et al., 1999).

Sometimes, absenteeism is a form of work withdrawal and a step followed by turnover. In other words, *poor work attitudes* lead to absenteeism. When employees are dissatisfied with their work or have low organizational commitment, they are likely to be absent more often. Thus, absenteeism is caused by the desire to avoid an unpleasant work environment. In this case, leaders may deal with absenteeism by investigating the causes of dissatisfaction and dealing with them.

Are there personal factors contributing to absenteeism? Research does not reveal a consistent link between personality and absenteeism, but there is one demographic criterion that predicts absenteeism: age. Interestingly, and against some stereotypes that increased age would bring more health problems, research shows that age is negatively related to both frequency and duration of absenteeism. That is, younger workers are the ones more likely to be absent. Because of reasons that include higher loyalty to their company and a stronger work ethic, older employees are less likely be absent from work (Martocchio, 1989; Ng & Feldman, 2008).

Turnover

Turnover refers to an employee's leaving an organization. Employee **turnover** has potentially harmful consequences, such as poor customer service and poor company-wide performance. When employees leave, their jobs still need to be performed by someone, so companies spend time recruiting, hiring, and training new employees, all the while suffering from lower productivity. Yet, not all turnover is bad. Turnover is particularly a problem when high-performing employees leave, while a poor performer's leaving may actually give the company a chance to improve productivity and morale.

Why do employees leave? An employee's *performance* level is an important reason. People who perform poorly are actually more likely to leave. These people may be fired, may be encouraged to quit, or may quit because of their fear of being fired. Particularly if a company has pay-for-performance systems, poor performers will find that they are not earning much due to their below-standard performance. This gives poor performers an extra incentive to leave. This does not mean that high performers will definitely stay with a company. High performers may find it easier to find alternative jobs, so when they are unhappy, they can leave more quickly.

Work attitudes are often the primary culprit in why people leave. When workers are unhappy at work, and when they do not feel committed to their companies, they are more likely to leave. Loving the things you do, being happy with the opportunities for advancement within the company, and being happy about pay are all aspects of our work attitudes relating to turnover. Of course, the link between work attitudes and turnover is not direct. When employees are unhappy, they will have the intention to leave and may start looking for a job. But their ability to actually leave will depend on many factors, such as their employability and the condition of the job market. For this reason, when national and regional unemployment is high, many people who are unhappy will still continue to work for their current company. When the economy is doing well, people will start moving to other companies in response to being unhappy. Understanding the connection between employee happiness and turnover, many companies make an effort to make employees happy. SAS Institute employees have a 35-hour workweek and enjoy amenities such as a swimming pool and child care at work. The company's turnover is around 4%–5%, in comparison to the industry averages ranging from 12%–20% (Carsten, & Spector, 1987; Cohen, 1991; Cohen, 1993; Cohen & Hudecek, 1993; Griffeth et al., 2000; Hom et al., 1992; Karlgaard, 2006; Meyer et al., 2002; Steel & Ovalle, 1984; Tett & Meyer, 1993).

People are more likely to quit their jobs if they experience *stress* at work as well. Stressors such as role conflict and role ambiguity drain energy and motivate people to seek alternatives. For example, call center employees experience a great deal of stress because of poor treatment from customers, long work hours, and constant monitoring of their every action. Companies such as EchoStar realize that one method that is effective in retaining their best employees is to give them opportunities to move to higher-responsibility jobs elsewhere in the company. When a stressful job is a step toward a more desirable job, employees seem to stick around longer (Badal, 2006; Griffeth et al., 2000; Podsakoff et al., 2007).

There are also individual differences in whether people leave or stay. For example, *personality* is a factor in the decision to quit one's job. People who are conscientious, agreeable, and emotionally stable are less likely to quit their jobs. Many explanations are possible. People with these personality traits may perform better at work, which leads to lower quit rates. Or, they may have better relations with coworkers and leaders, which is a factor in their retention. Whatever the reason, it seems that some people are likely to stay longer at any given job regardless of the circumstances (Salgado, 2002; Zimmerman, 2008).

Whether we leave a job or stay also depends on our *age* and *how long we have been there*. It seems that younger employees are more likely to leave. This is not surprising because people who are younger often have fewer responsibilities such as supporting a household or having dependents. As a result, they can quit a job they don't like much more easily. They may also have higher expectations and thus be more easily disappointed when a job proves to be less rewarding than they had imagined. Similarly, people who have been with a company for a short period of time can quit more easily. For example, Sprint Nextel found that many of their new hires were likely to quit within 45 days of their hiring dates. When they investigated, they found that newly hired employees were experiencing a lot of stress from avoidable problems such as unclear job descriptions or problems with hooking up their computers. Sprint was able to solve the turnover problem by paying special attention to orienting new hires. New employees experience a lot of stress at work, and there is usually not much keeping them in the company such as established bonds with a leader or colleagues. New employees may even have ongoing job interviews with other companies when they start working. This, too, gives them the flexibility to leave more easily.

Exercises

1. What is the difference between performance and organizational citizenship behaviors? As a leader, how would you improve someone's performance? How would you increase citizenship behaviors?
2. Are citizenship behaviors always beneficial to the company? Can you think of any citizenship behaviors employees may perform with the intention of helping a company that may have negative consequences overall?
3. Given the factors correlated with job performance, which employee selection methods should be better at identifying future high performers?
4. What are the major causes of absenteeism at work? How can companies minimize the level of absenteeism that takes place?
5. In some companies, leaders are rewarded for minimizing the turnover within their department or branch. A part of their bonus is directly tied to keeping the level of turnover below a minimum. What do you think about the potential effectiveness of these programs? Do you see any downsides to such programs?

Key Takeaways

Employees demonstrate a wide variety of positive and negative behaviors at work. Among these, four are critically important and have been extensively studied. Job performance is the degree of success with which one accomplishes the tasks listed in one's job description. A person's abilities, particularly general mental ability, are the main predictor of job performance in many occupations. How we are treated at work, the level of stress experienced at work, work attitudes, and, to a lesser extent, our personality are also factors relating to one's job performance. Citizenship behaviors are tasks helpful to the organization that go above and beyond one's job description. Performance of citizenship behaviors are less a function of our abilities and more of motivation. How we are treated at work, personality, work attitudes, and our age are the main predictors of citizenship. Among negative behaviors employees demonstrate, absenteeism and turnover are critically important. People who experience health problems and work/life balance issues are prone to more absenteeism. Poor work attitudes are also related to absenteeism, and younger employees are more likely to be absent from work, especially when dissatisfied. Turnover is higher among low performers, people who have negative work attitudes, and those who experience a great deal of stress. Personality and being younger are personal predictors of turnover.

2.8 Emotional Intelligence

Learning Objectives

1. Explain how emotional intelligence can impact your success.

Emotional intelligence (or EI, also known as emotional quotient or EQ) has been found to be an important indicator of life and career success – more specifically, success in leadership. Developing your emotional intelligence skills will benefit your personal and professional relationships. **EQ** refers to a form of social intelligence that involves the ability to monitor one's own and others' feelings and emotions, to discriminate among them, and to use this information to guide one's thinking and actions ([1]his is different from **intelligence quotient (IQ)** in that IQ measures intelligence based on a score derived from intelligence tests. Emotional intelligence is the foundation of our interpersonal skills, and these skills are in high demand by employers.

Why is Emotional Intelligence Necessary for Success?

Contrary to previous thought, IQ is not a good predictor of job performance, happiness, or success. Goleman (1995) points out that if this myth were true, everyone who graduated at the top of their class with honors would be the most successful people. Because we know this isn't the case, we know qualities other than just IQ can help predict success. Research by Bradberry and Greaves (2009) has shown that EQ makes up 58 percent of our job requirements and is the single biggest predictor of performance in the workplace and the strongest driver of leadership and personal excellence. Their research also showed that 90 percent of high performers at work had high EQ, while 20 percent of low performers had low EQ. In other words, you can be a high performer at work without EQ, but the chances are slimmer with low EQ. EQ research by Bradberry and Greaves shows a link between higher EQ and higher salary. In fact, for every point increase in EQ, there is a $1,300 per year increase in salary.

In one study performed by Virginia Tech (2005), six hundred undergraduate computer science students and twenty institutions participated in a survey that measured emotional intelligence and the ability to handle demanding curriculum. Although emotional intelligence was not directly linked to academic success in the study, students with higher levels of emotional intelligence had more self-efficacy (belief in one's own ability), which allowed them to handle problems better—creating higher academic success. For example, the ability to read body language and understand when someone is sad or mad and needs to talk is an emotional intelligence skill. These skills enable us to interact with others successfully. Consider a person who does not have a "filter" and continually puts down others and says exactly what is on their mind, even if it is hurtful. This clear lack of emotional intelligence affects this person's ability to have good, healthy relationships, both at work and in their personal life.

1. Cherniss, 2000). T

In the video below, author and Pulitzer Prize nominee Daniel Goleman discusses the importance of emotional intelligence in career success.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=539#oembed-1

Watch this video: Emotional Intelligence by Key Step Media [3:52](transcript available).

As Daniel Goleman discusses in the video above, our EI/EQ can be more important to our success at work, at school, and in our personal relationships than our IQ. According to Goleman, many people believe that EI means "being nice", however this misnomer "prevents leaders from having powerful, productive conversations that build up their ability to influence and lead in all their relationships" (Goleman, 2020). Goleman's work outlines four key aspects of emotional intelligence necessary to creating better relationships: self-awareness, self-management, social awareness, and relationship management (Goleman, 1995).

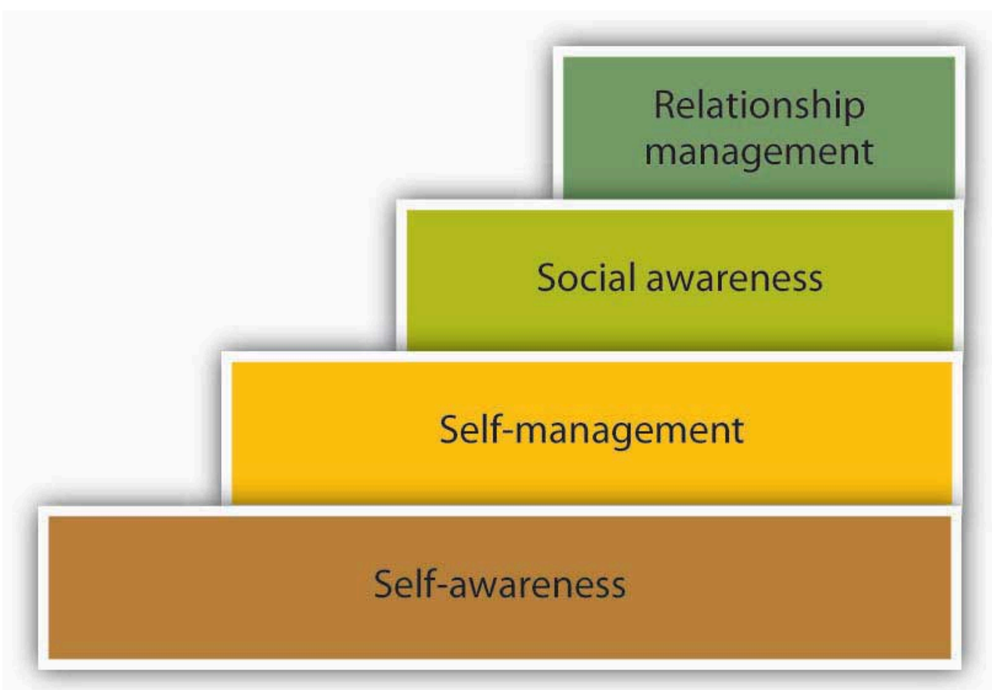

Figure 2.8.1: *"Four Steps of Emotional Intelligence", licensed under CC BY-NC-SA 4.0.*

The four steps of emotional intelligence build upon one another.

1. **Self-awareness.** Self-awareness refers to a person's ability to understand their feelings from moment to moment. It might seem as if this is something we know, but we often go about our day without thinking or being aware of our emotions that impact how we behave in work or personal situations. Understanding our emotions can help us reduce stress and make better decisions, especially when we are under pressure. Self-awareness is also important to building diverse and inclusive relationships. "The key to embracing diversity with empathy is to better understand ourselves" (El-Attrash, 2017, p. 9).In addition, knowing and recognizing our own strengths and weaknesses is part of self-awareness. Assume that Pat is upset about a new process being implemented in the organization. Lack of self-awareness may result in her feeling angry and anxious, without really knowing why. High self-awareness EQ might help Pat to recognize that her anger and anxiety stem from the last time the organization changed processes and fifteen people were laid off. Part of self-awareness is the idea of positive **psychological capital**, which can include emotions such as hope, optimism (which results in higher confidence), and resilience (or the ability to bounce back quickly from challenges) ([2]Psychological capital can be gained through self-awareness and self-management, which is our next area of emotional intelligence.
2. **Self-management.** Self-management refers to our ability to manage our emotions and is dependent on our self-awareness ability. How do we handle frustration, anger, and sadness? Are we able to control our behaviors and emotions? Self-management also is the ability to follow through with commitments and take initiative at work. Someone who lacks self-awareness may project stress on others. For example, say that project manager Mae is very stressed about an upcoming Monday deadline. Lack of self-management may cause Mae to lash out at people in the office because of the deadline. Higher EQ in this area might result in Mae being calm, cool, and collected—to motivate her team to focus and finish the project on time. Considering the connection between leadership and management, relate self-management to *self-leadership,* and the ability we have to influence our own thoughts, emotions, and actions. Daniel Goleman and his colleagues have written an enlightening article about the impact a leader's moods can have on an entire organization.
3. **Social awareness.** Social awareness is our ability to understand social cues that may affect others around us. In other words, understanding how another is feeling, even if we do not feel the same way. Social awareness also includes having empathy for another and recognizing power structure and unwritten workplace dynamics. Social awareness is akin to social radar. Most people high on social awareness have charisma and make people feel good with every interaction. For example, consider Erik's behavior in meetings. He continually talks and does not pick up subtleties, such as body language. Because of this, he can't understand (or even fathom) that his monologues can be frustrating to others. Erik, with higher EQ in social awareness, may begin talking but also spend a lot of time listening and observing in the meeting, to get a sense of how others feel. He may also directly ask people how they feel. This demonstrates high social awareness.
4. **Relationship management.** Relationship management refers to our ability to communicate clearly, maintain good relationships with others, connect with those from other cultures, work well in teams, and manage conflict. Relationship management relies on your ability to use the other three areas of EQ to manage relationships effectively. Take Caroline, for example. Caroline is good at reading people's emotions and showing empathy for them, even if she doesn't agree. As a leader, her door is always open and she makes it clear to colleagues and staff that they are welcome to speak with her anytime. If Caroline has low EQ in the area of relationship management, she may belittle people and have a difficult time being positive. She may not be what is considered a good team player, which shows her lack of ability to manage relationships.

2. Luthans, 2002).

Empathy is a key component of emotional intelligence, but we often confuse empathy with sympathy. Brené Brown explains empathy. and the connection it can create with others, in the short video below.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=539#oembed-2

Watch this video: Brené Brown on Empathy by RSA [2:53](transcript available).

Increase Self-Awareness

To increase self-awareness we should spend time thinking about our emotions to understand why we experience specific emotions. Journaling may be helpful in this process. If we look at those things that cause us strong emotional reactions, such as anger or anxiety, we can begin to understand the underlying reasons for our reactions. This introspection can alert us to patterns within ourselves, give us insight as to how our feelings may affect our behavior, and allow us to better manage those emotions when they arise.

Increase Self-Management (Self-Leadership)

To increase our self-management/self-leadership skills, we can also focus on the positive instead of the negative. Taking deep breaths increases blood flow, which helps us handle difficult situations. Although seemingly childish, counting to ten before reacting can help us manage emotions such as anger. This may provide the time we need to calm down and think about how we will handle the situation. Practicing positive **self-talk** can help increase our ability to lead ourselves into a better space emotionally, which can affect all areas of our lives. Self-talk refers to the thoughts we have about ourselves and situations throughout the day. Since we have over 60,000 thoughts per day getting into the habit of managing those thoughts is important (Tseng & Poppenk, 2020). Table 2.8.2 provides some examples of both positive and negative thoughts. By recognizing the negative thoughts, we can change them for the positive.

Table 2.8.1: Positive and Negative Thoughts

Positive	Negative
I made a mistake.	I am unintelligent.
I need some work on improving my skills.	I am an idiot.
It may take a bit more effort to show them what I have to offer.	They will never accept me.
I need to reprioritize my to-do list.	I will never be able to get all of this done.
Let me see what seminars and training are available.	I just don't have the knowledge required to do this job.

Using the "stoplight" approach can help us increase our self-management/self-leadership skills. Red means stop, think, and calm down. Yellow means to think of possible solutions, consider the feelings of those affected and make sure you understand how you feel. Green means to proceed with our best possible action. Being able to manage our own internal dialogue strengthens our personal leadership skills and our ability to assist our teams.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=539#oembed-3

Watch the video: Great leadership starts with self-leadership with Lars Sudmann by Ted [12:46] (transcript available)

Increase Social Awareness

Increasing social awareness means observing others' actions to get a good sense of how they are reacting. We can gain social awareness skills by learning people's names and making sure we watch body language. Living in the moment, practicing listening skills, and asking follow-up questions can also help improve our social awareness skills.

Increase Relationship Management

Strategies for relationship management might include being open, acknowledging another's feelings, and showing that you care. Taking the time to really listen to colleagues and employees and understand them on a personal level can help enhance relationship management skills. Being willing to accept feedback and grow from that feedback can help people be more comfortable talking with you.

Emotional intelligence applies to all areas of our lives but is especially important to those leading in the midst of our fast-paced globally interconnected society. If leadership is about influence, then today's leaders need emotional intelligence to connect with diverse groups of individuals in order to have any impact at all on others.

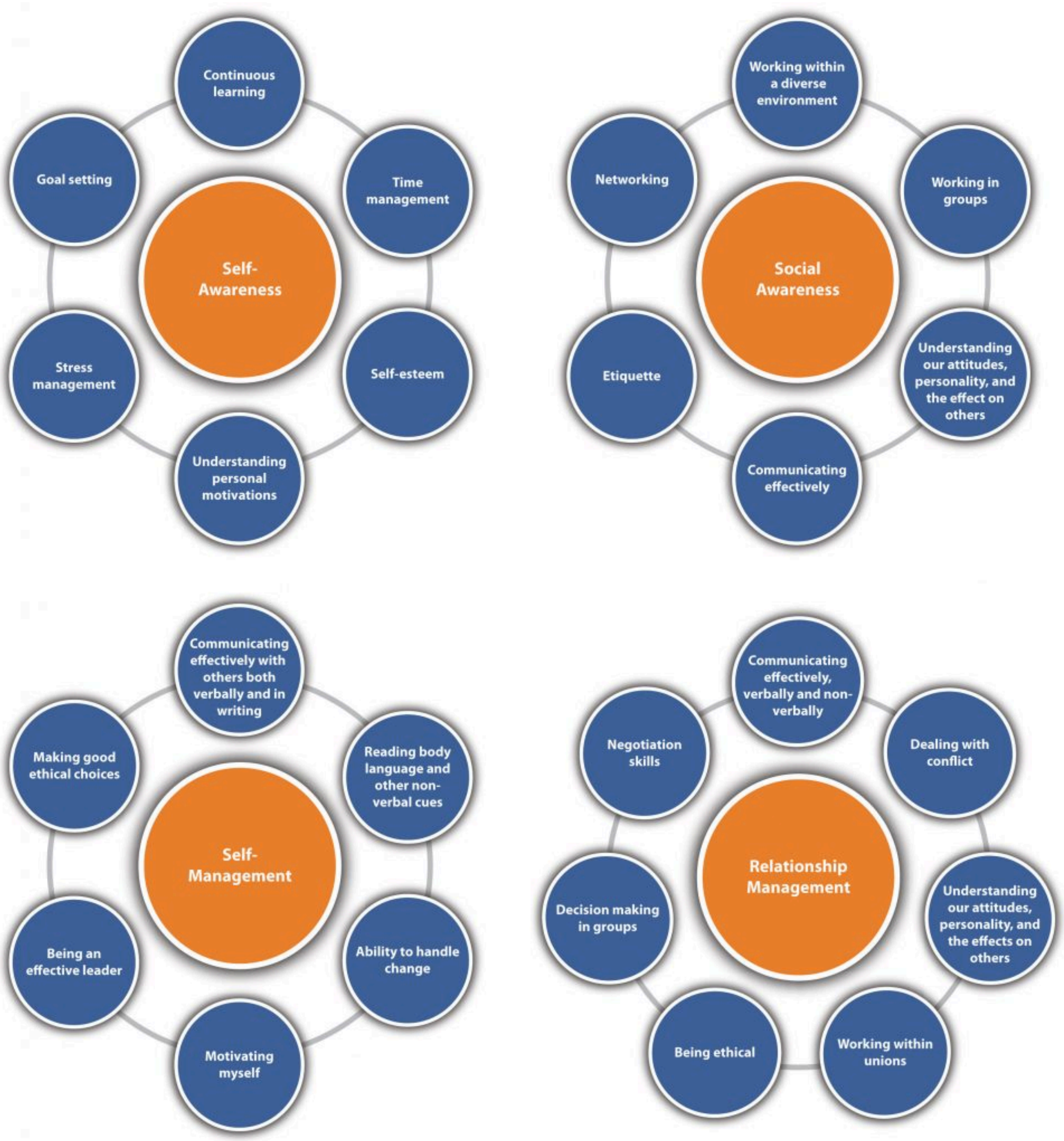

Figure 2.8.2 *: "Emotional Intelligence Categories", licensed under CC BY-NC-SA 4.0.*

Key Takeaways

- Emotional intelligence (EQ) is different from intelligence quotient (IQ) in that EQ can help predict career success and can be improved over time, whereas IQ is stable over time.
- Emotional intelligence consists of four main components. Self-awareness is the first. This level of

intelligence comprises the ability to understand one's own emotions and reactions to those emotions.

- Self-management (self-leadership) refers to the ability to manage one's emotions and behavior.
- Social awareness refers to one's ability to read body language and social cues to develop positive relationships both professionally and personally.
- Relationship management skills require all of the three mentioned skills; it allows us to handle conflict and get along with others.
- EQ is important to our personal and professional lives.

2.9 Developing Your Positive Attitude Skills

Learning Objectives

1. Generate more happiness at work.
2. Apply more positive attitudes for optimum work performance.

Figure 2.9.1: *"Jumping Over The 3rd Largest Pyramid In The World" by Anirudh Koul, licensed under CC BY-NC 2.0.*

Have you ever wondered how you could be happier at work and how greater work satisfaction could improve your overall effectiveness? Here are some ideas that may help you achieve a great sense of peace for yourself as well as when you are working with a negative coworker.

- ***Leverage your Big Five traits***. Your personality is a big part of your happiness. Which of the Big Five positive traits are you strongest on? Be aware of them and look for opportunities to express them at work. Are you high on Neuroticism? If so, work to overcome this challenge: If you choose to find the negative side of everything, you will.

- ***Find a job and company that fit you well***. A good fit with the job and company is important to your happiness. This starts with knowing yourself, your chosen career, and the particular job in question: What do you want from the job? What do you enjoy doing?
- ***Get accurate information about the job and the company***. Ask detailed questions about what life is like in this company. Do your research. Read about the company; use your social network to understand the company's culture.
- ***Develop good relationships at work***. Make friends. Try to get a mentor if your company does not have a formal mentoring program. Approach a person you admire and attempt to build a relationship with this person. An experienced mentor can be a great help in navigating life at a company. Your social network can help you weather the bad days and provide you with emotional and instrumental support during your time at a company as well as afterward.
- **Pay is important, but *job characteristics matter more to your job satisfaction***. So don't sacrifice the job itself for a bit more money. When choosing a job, look at the level of challenge and the potential of the job to make you feel engaged.
- ***Be proactive in managing organizational life***. If the job is stressful, cope with it through effective time management and having a good social network, as well as being proactive in getting to the source of stress. If you don't have enough direction, ask for it!
- ***Know when to leave***. If the job makes you unhappy over an extended period of time and there is little hope of solving the problems, it may be time to look elsewhere.

Exercises

1. Do you believe that your own happiness at work is in your hands? What have you done in the past to increase your own satisfaction with work?
2. Consider the most negative person you work or interact with. Why do you think they focus more on the negative side of life?
3. On the basis of what you have read in this chapter, can you think of ways in which you can improve your effectiveness in dealing with negative coworkers?

Key Takeaways

Promoting a positive work attitude will increase your overall effectiveness as a leader. You can increase your own happiness at work by knowing yourself as a person, by ensuring that you work at a job and company where you fit in, and by building effective work relationships with your leaders and coworkers. Concentrating on the motivating potential of the job when choosing a job and solving the problems you encounter in a proactive manner may be helpful as well.

2.10 Developing Leadership Skills

Methods of Developing Leadership Skills

When we think of developing leadership skills we can look at **leader development** (singular), as in developing our own personal ability to lead, or the ability of one individual in an organization. **Leadership development** (plural) looks at developing groups of individuals, for example, a training program set up in an organization to assist with succession planning, or for employees who are interested in moving into management roles. Leadership skills can be developed in through multiple mechanisms. Here we will look at self-awareness, formal instruction, hands-on experience, developmental coaching and mentoring, 360-degree feedback, and self-directed learning. Using a combination of approaches is most effective.

Figure 2.10.1: *"Leadership Skill Development" by Alyssa Giles, CC BY-NC-SA 4.0.*

Self-Awareness

As discussed earlier, self-awareness is key to good leadership. Higher productivity and more satisfied followers may be correlated with leaders who are more self-aware (Moshavi et al., 2003).

Formal Training

Organizations often provide individuals with leadership development opportunities, however many larger entities build formal leadership development programs. Either way, conventional training increases knowledge and skills using coursework, practice, "overlearning" with rehearsals, and feedback (Kozlowski, 1998). This traditional lecture-based classroom training is useful, however, its limitations include the question of a leader's ability to transfer the information from a training environment to a work setting.

Hands-on experience

Following formal training, organizations can assign leaders to jobs that target newly acquired skills. A job that helps to develop leadership is one in which employees learn, undergo personal change, and gain leadership skills resulting from the roles, responsibilities, and tasks involved in that job. Developmental job assignments are hands-on experience, and one of the most effective forms of leader development. A "stretch" or developmental assignment challenges leaders' new skills and pushes them out of their comfort zone to operate in a more complex environment, one that involves new elements, problems, and dilemmas to resolve.

360-Degree Feedback

The 360-degree feedback approach allows leaders to maximize learning opportunities from their current assignment. It systematically provides leaders with perceptions of their performance from a full circle of viewpoints, including subordinates, peers, superiors, and the leader's own self-assessment. With information coming from so many different sources, the messages may be contradictory and difficult to interpret. However, when several different sources concur on a similar perspective, whether a strength or weakness, the clarity of the message increases. For this mechanism to be effective, the leader must accept feedback and be open and willing to make changes. Coaching is an effective way to facilitate 360-degree feedback and help effect change using open discussion.

Developmental Relationships – Coaching and Mentoring

Leadership coaching focuses on enhancing the leader's effectiveness, along with the effectiveness of the team and organization. It involves a structured, one-on-one relationship aimed at imparting important lessons through assessment, challenge, and support. Although the goal of coaching is sometimes to correct a fault, it is used more and more to help already successful leaders move to the next level of increased responsibilities and complex new challenges. Coaching aims to move leaders toward measurable goals that contribute to individual and organizational growth.

Mentoring is also a developmental relationship with individualized attention, however, it is often informal, unstructured, and may not be focused on specific tasks. Although some organizations do have formal mentoring programs, many individuals will seek out professional relationships with experienced leaders (inside or outside their institutions), to support them as they negotiate a new leadership landscape.

Self-directed Learning

Using self-directed learning, individual leaders teach themselves new skills by selecting areas for development, choosing learning avenues, and identifying resources. This type of development is a self-paced process that aims not only to acquire new skills but also to gain a broader perspective on leadership responsibilities and what it takes to succeed as a leader.

Leadership Skill Development Models

Van Veslor, McCauley and Ruderman (2010) described a two-part model for developing leaders. The first part identifies three elements that combine to make developmental experiences stronger: assessment, challenge, and support. Assessment lets leaders know where they stand in areas of strengths, current performance level, and developmental needs. Challenging experiences are ones that stretch leaders' ability to work outside of their comfort zone, develop new skills and abilities, and provide important opportunities to learn. Support—which comes in the form of bosses, co-workers, friends, family, coaches, and mentors—enables leaders to handle the struggle of developing.

The second part of the leader-development model illustrates that the development process involves a variety of developmental experiences and the ability to learn from them. These experiences and the ability to learn also have an impact on each other: leaders with a high ability to learn from experience will seek out developmental experiences, and through these experiences, leaders increase their ability to learn.

The leader-development process is rooted in a particular leadership context, which includes elements such as age, culture, economic conditions, population gender, organizational purpose and mission, and business strategy. This environment molds the development process. Along with assessment, challenge, and support, leadership contexts are important aspects of leadership skill development models.

2.11 Key Terms

Key Terms

Absenteeism refers to unscheduled absences from work.

Agreeableness is the degree to which a person is affable, tolerant, sensitive, trusting, kind, and warm.

Attitude refers to our opinions, beliefs, and feelings about aspects of our environment.

Conscientiousness refers to the degree to which a person is organized, systematic, punctual, achievement-oriented, and dependable.

EQ refers to a form of social intelligence that involves the ability to monitor one's own and others' feelings and emotions, to discriminate among them, and to use this information to guide one's thinking and behavior.

Exit interviews involve a meeting with the departing employee to determine reasons for leaving and feelings toward an organization.

Extraversion is the degree to which a person is outgoing, talkative, sociable, and enjoys socializing.

False consensus error is the tendency to overestimate how similar we are to other people and assume that our behaviors, attitudes and beliefs are commonly shared by a larger number of people than they really are.

First impressions are mental images formed about a person based on our perception of "who they are" during an initial encounter.

General mental ability is also known as cognitive ability or intelligence, and often abbreviated as "g." General mental ability can be divided into several components—reasoning abilities, verbal and numerical skills, and analytical skills.

Intelligence quotient (IQ) measures an individual's mental ability based on a score derived from standardized intelligence tests.

Job satisfaction refers to the degree of contented feelings people have toward their job.

Leadership development (plural) looks at developing leadership amongst a group of individuals.

Leader development (singular) is developing one individual's ability to lead.

Neuroticism refers to the degree to which a person is anxious, irritable, temperamental, and moody.

Openness is the degree to which a person is curious, original, intellectual, creative, and open to new ideas.

Organizational citizenship behaviors (OCB) are voluntary behaviors employees perform to help others and benefit the organization.

Organizational commitment is the emotional attachment people have toward the company they work for.

Perception may be defined as the process by which individuals detect and interpret environmental stimuli.

Personality encompasses a person's relatively stable feelings, thoughts, and behavioral patterns.

Person-job fit is the degree to which a person's knowledge, skills, abilities, and other characteristics match the job demands.

Person-organization fit refers to the degree to which a person's personality, values, goals, and other characteristics match those of the organization.

Proactive personality refers to a person's inclination to fix what is wrong, change things, and use initiative to solve problems.

Psychological capital includes positive emotions gained through self- awareness and self-management such as hope, optimism and resilience to increase one's ability to cope with the demands of life and work.

Psychological contract is the unspoken, informal understanding that an employee will contribute certain things to the organization (e.g., work ability and a willing attitude) and will receive certain things in return (e.g., reasonable pay and benefits).

Relationship management refers to our ability to communicate clearly, maintain good relationships with others, connect with those from other cultures, work well in teams, and manage conflict.

Selective perception occurs when we sort through the variety of stimuli in our environment by paying selective attention to those things that confirm our previous beliefs while ignoring those which do not.

Self-awareness refers to a person's ability to evaluate and understand their own feelings, thoughts, desires, and actions.

Self-effacement bias (or modesty bias) is the tendency to underestimate our performance and capabilities and to see events in a way that puts us in a more negative light.

Self-efficacy is a belief that one can perform a specific task successfully.

Self-enhancement bias is the tendency to overestimate our performance and capabilities and see ourselves in a more positive light than others see us.

Self-esteem is the degree to which a person has overall positive feelings about himself or herself.

Self-fulfilling prophecy happens when an established stereotype or false belief causes those expectations to be fulfilled in a way that confirms the stereotypic behavior.

Self-management (self-leadership) is dependent upon our self-awareness and refers to our ability to manage our emotions, follow through with commitments, and take initiative.

Self-monitoring refers to the extent to which a person is capable of monitoring his or her actions and appearance in social situations.

Self-talk refers to our internal dialogue, or the thoughts we have about ourselves and situations throughout the day. Positive self-talk can increase our ability to lead ourselves into a better space emotionally.

Social awareness is our ability to understand social cues and includes having empathy along with recognizing power structure and unwritten workplace dynamics. Social awareness is akin to social radar.

Stereotypes are generalizations based on a group characteristic.

Turnover refers to the number and rate of employees leaving an organization during a certain period of time.

Values refer to people's stable life goals, reflecting what is most important to them. Values are established throughout one's life as a result of accumulating life experiences, and values tend to be relatively stable.

2.12 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4721#h5p-2

CHAPTER 3: LEADERSHIP APPROACHES

Chapter Content

3.1 Leading People and Organizations

What's in it for Me?

Reading this chapter will help you do the following:

1. Define what leadership is and identify traits of effective leaders.
2. Describe behaviors that effective leaders demonstrate.
3. Specify the contexts in which various leadership styles are effective.
4. Explain the concepts of transformational, transactional, charismatic, servant, and authentic leadership.
5. Develop your own leadership skills.

What is Leadership?

Leadership may be defined as the act of influencing others to work toward a goal. Leaders exist at all levels of an organization. Some leaders hold a position of authority and may use the power that comes from their position, as well as their personal power, to influence others; they are called **formal leaders**. In contrast, **informal leaders** are without a formal position of authority within the organization but demonstrate leadership by influencing others through personal forms of power. One caveat is important here: Leaders do not rely on the use of force to influence people. Instead, people willingly adopt the leader's goal as their own goal. If a person is relying on force and punishment, the person is a dictator, not a leader. Leaders give their followers direction. Leaders are key players in determining the success or failure of coordinated tasks and organizational initiatives.

What makes leaders effective? What distinguishes people who are perceived as leaders from those who are not perceived as leaders? More importantly, how do we train future leaders and improve their leadership ability? These are important questions that have attracted scholarly attention in the past several decades.

In this chapter, we will review the history of leadership studies and summarize the major findings relating to these important questions. Around the world, we view leaders as at least partly responsible for their team's or company's success and failure. Company chief executive officers (CEOs) are paid millions of dollars in salaries and stock options with the assumption that they hold their company's future in their hands. In politics, education, sports, and profit and nonprofit sectors, the influence of leaders over the behaviors of individuals and organizations is rarely questioned. When people and organizations fail, managers and CEOs are often viewed as responsible. Some people criticize the assumption that leadership always matters and call this belief "the romance of leadership." However, research evidence pointing to the importance of leaders for organizational success is accumulating (Hogan et al., 1994).

Example: Springfield Sea Lions Manager

John Arroyo is thrilled with his new position as general manager of the Springfield Sea Lions, a minor league baseball team. Arroyo has been a baseball fan all of his life, and now his diligent work and his degree in sports management are paying off.

Arroyo knew he had a hard act to follow. The general manager whom John replaced, "T.J." Grevin, was a much-loved old-timer who had been with the Sea Lions since their inception 14 years ago. John knew it would be difficult for whoever followed T.J., but he didn't realize how ostracized and powerless he would feel. He tried a pep talk: "I'm the general manager—the CEO of this ball club! In time, the staff *will* respect me." [Not a very good pep talk!]

After his first season ends, Arroyo is discouraged. Ticket and concession sales are down, and some long-time employees are rumored to be thinking about leaving. If John doesn't turn things around, he knows his tenure with the Sea Lions will be short.

Question: Is John correct in assuming that the staff will learn to respect him in time? What can John do to earn the loyalty of his staff and improve the ball club's performance?

Outcomes: During the winter, John thinks long and hard about how he can earn the respect of the Sea Lions staff. Before the next season opener, John announces his plan: "So I can better understand what your day is like, I'm going to spend one day in each of your shoes. I'm trading places with each of you. I will be a ticket taker, a roving hot dog vendor, and a janitor. And I will be a marketer, and an accountant—for a day. You in turn will have the day off so you can enjoy the game from the general manager's box." The staff laughs and whistles appreciatively. Then the Springfield mascot, Sparky the Sea Lion, speaks up: "Hey Mr. Arroyo, are you going to spend a day in my flippers?" "You bet!" says John, laughing. The entire staff cheers.

John continues. "At the close of the season, we will honor a staff member with the T.J. Grevin Award for outstanding contributions to the Sea Lions organization. T.J. was such a great guy, it's only right that we honor him." The meeting ends, but John's staff linger to tell him how excited they are about his ideas. Amidst the handshakes, he hopes that this year may be the best year yet for the Sea Lions.

According to Louise Axon, director of content strategy, and her colleagues at Harvard Business Publishing, in seeking management talent, *leadership* is an urgently needed quality in all managerial roles (Axon et al., n.d.). Good leaders and good leadership are rare. Harvard management professor John P. Kotter notes that "there is a leadership crisis in the U.S. today" (Labich, 1988) and the late USC Professor Warren Bennis states that many of our organizations are overmanaged and underled (Bennis, 1989).

3.2 Case in Point: Indra Nooyi Draws on Vision and Values to Lead

Example: Indra Nooyi Draws On Vision and Values to Lead

Figure 3.2.1: *"Indra Nooyi, CEO" by GPA Photo Archive, licensed under CC BY-NC 2.0.*

She is among the top 100 most influential people according to *Time* magazine's 2008 list. She has also ranked number 4 in *Forbes*'s "Most Influential Women in the World" (2010), number 1 in *Fortune*'s "50 Most Powerful Women" (2006 through 2009), and number 22 in *Fortune*'s "25 Most Powerful People in Business" (2007). The lists go on and on. To those familiar with her work and style, this should come as no surprise: Even before she became the CEO of PepsiCo Inc. (NYSE: PEP) in 2006, she was one of the most powerful executives at PepsiCo and one of the two candidates being groomed for the coveted CEO position. Born in Chennai, India, Nooyi graduated from Yale's School of Management and worked in companies such as the Boston Consulting Group Inc., Motorola Inc., and ABB Inc. She also led an all-girls rock band in high school, but that is a different story.

What makes her one of the top leaders in the business world today? To start with, she has a clear vision for PepsiCo, which seems to be the right vision for the company at this point in time. Her vision is framed under the term “performance with purpose,” which is based on two key ideas: tackling the obesity epidemic by improving the nutritional status of PepsiCo products and making PepsiCo an environmentally sustainable company. She is an inspirational speaker and rallies people around her vision for the company. She has the track record to show that she means what she says. She was instrumental in PepsiCo’s acquisition of the food conglomerate Quaker Oats Company and the juice maker Tropicana Products Inc., both of which have healthy product lines. She is bent on reducing PepsiCo’s reliance on high-sugar, high-calorie beverages, and she made sure that PepsiCo removed trans fats from all its products before its competitors. On the environmental side, she is striving for a net-zero impact on the environment. Among her priorities are plans to reduce the plastic used in beverage bottles and find biodegradable packaging solutions for PepsiCo products. Her vision is long-term and could be risky for short-term earnings, but it is also timely and important.

Those who work with her feel challenged by her high-performance standards and expectation of excellence. She is not afraid to give people negative feedback—and with humor, too. She pushes people until they come up with a solution to a problem and does not take “I don’t know” for an answer. For example, she insisted that her team find an alternative to the expensive palm oil and did not stop urging them forward until the alternative arrived: rice bran oil.

Nooyi is well-liked and respected because she listens to those around her, even when they disagree with her. Her background cuts across national boundaries, which gives her a true appreciation for diversity, and she expects those around her to bring their values to work. In fact, when she graduated from college, she wore a sari to a job interview at Boston Consulting, where she got the job. She is an unusually collaborative person in the top suite of a *Fortune* 500 company, and she seeks help and information when she needs it. She has friendships with three ex-CEOs of PepsiCo who serve as her informal advisors, and when she was selected to the top position at PepsiCo, she made sure that her rival for the position got a pay raise and was given influence in the company so she did not lose him. She says that the best advice she received was from her father, who taught her to assume that people have good intentions. Nooyi notes that expecting people to have good intentions helps her prevent misunderstandings and show empathy for them. It seems that she is a role model to other business leaders around the world, and PepsiCo is well-positioned to tackle the challenges the future may bring.

Exercises

1. Do you think Indra Nooyi’s vision of “performance with purpose” has been effective? Why or why not?
2. How does charisma relate to leadership? Do you think the CEO of PepsiCo possesses this characteristic?
3. What makes Indra Nooyi so successful at her job? Is it her level of authority, or is it something else?
4. What do the types of advisors that Indra Nooyi relies on tell you about her values?

5. How much passion does Indra Nooyi seem to bring to her role as CEO of PepsiCo?

3.3 The Nature of Leadership

Learning Objectives

1. What is the nature of leadership and the leadership process?

The Nature of Leadership

The many definitions of leadership each have a different emphasis. Some definitions consider leadership an act or behavior, such as initiating structure so group members know how to complete a task. Others consider a leader to be the center or nucleus of group activity, an instrument of goal achievement who has a certain personality, a form of persuasion and power, and the art of inducing compliance (Bass, 1990). Some look at leadership in terms of the management of group processes. In this view, a good leader develops a vision for the group, communicates that vision (Bennis, 1989; Bennis & Nanus, 1985), orchestrates the group's energy and activity toward goal attainment, "[turns] a group of individuals into a team," and "[transforms] good intentions into positive actions" (Pickens, 1992).

Leadership is frequently defined as a social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation (Hollander & Julian, 1969) Effective leadership helps individuals and groups achieve their goals by focusing on the group's *maintenance needs* (the need for individuals to fit and work together by having, for example, shared norms; relationships) and *task needs* (the need for the group to make progress toward attaining the goal that brought them together).

Figure 3.3.1: *"Joe Madden ribs Kyle Schwarber" by Bart Hanlon, licensed under CC BY-NC-ND 2.0.*

As an example, let's take Joe Madden, manager of the Chicago Cubs baseball team, who is lauded for both his managerial and leadership skills. Maddon is a role model for managers competing in the business world. Managers can learn and profit from the Cubs skipper's philosophy of instilling an upbeat attitude with the team, staying loose but staying productive, and avoiding being the center of attention.

Leader versus Manager

According to many, the dual concepts of leader and manager/leadership and management, are not interchangeable, nor are they redundant. This can be confusing, as generally, to be a good manager one needs to be an effective leader. Many CEOs have been hired in the hope that their leadership skills, their ability to formulate a vision, and get others to “buy into” that vision, will propel the organization forward. This is not always the case. Effective leadership necessitates the ability to manage—to set goals; plan, devise, and implement strategy; make decisions and solve problems; and organize and control. Effective leadership calls for the ability to manage, and effective management requires leadership.

3.4 The Leadership Process

Learning Objectives

1. What are the processes associated with people coming to leadership positions?

The Leadership Process

Leadership is a process, a complex and dynamic exchange relationship built over time between leader and follower and between leader and the group of followers who depend on each other to attain a mutually desired goal (Hollander & Julian, 1969). There are several key components to this “working relationship”: the leader, the followers, the context (situation), the leadership process per se, and the consequences (outcomes) (see **Figure 3.4.1**) (Stogdill, 1948). Across time, each component interacts with and influences the other components, and whatever consequences (such as leader-follower trust) are created influence future interactions. As any one of the components changes, so too will leadership (Murphy, 1941).

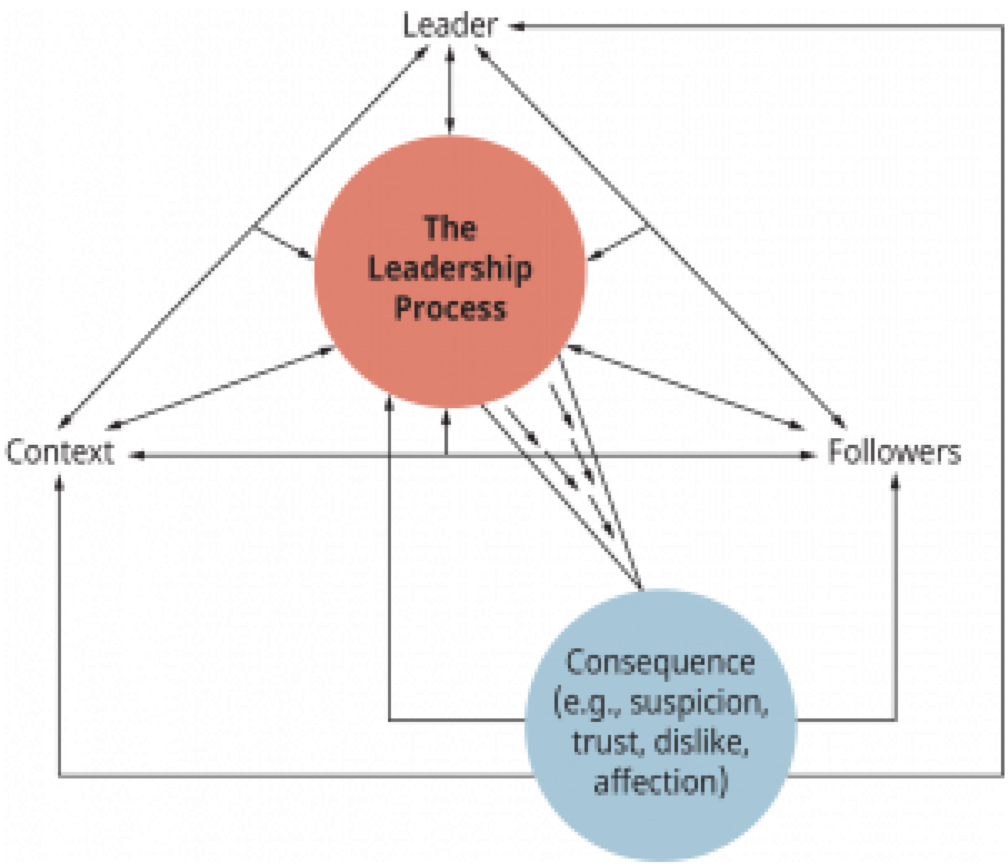

Figure 3.4.1: *"The Leadership Process" by Rice University & OpenStax, licensed under CC BY 4.0.*

The Leader

Figure 3.4.2: *"The Summit Thursday" by Web Summit, licensed under CC BY 2.0.*

Leaders are people who take charge of or guide the activities of others. They are often seen as the focus or orchestrater of group activity, the people who set the tone of the group so that it can move forward to attain its goals. Leaders provide the group with what is required to fulfill its maintenance and task-related needs. An example of a strong leader is Elon Musk co-founded and leads Tesla, SpaceX, Neuralink, and The Boring Company. As the co-founder and CEO of Tesla, Elon leads all product design, engineering, and global manufacturing of the company's electric vehicles, battery products, and solar energy products.

The Follower

The follower is not a passive player in the leadership process. Edwin Hollander, after many years of studying leadership, suggested that the follower is the most critical factor in any leadership event (Hollander, 1964). It is, after all, the follower who perceives the situation and comes to define the needs that the leader must fulfill. In addition, it is the follower who either rejects leadership or accepts acts of leadership by surrendering his power to the leader to diminish task uncertainty, define and manage the meaning of the situation to the follower, and orchestrate the follower's action in pursuit of goal attainment.

The follower's personality and readiness to follow determine the style of leadership that will be most effective. For example, individuals with an internal locus of control are much more responsive to participative styles of leadership than individuals with an external locus of control (House & Mitchell, 1974). Individuals with an authoritarian personality are highly receptive to the effectiveness of directive acts of leadership (Yuki, 1971). It is the followers' expectations, as well as their performance-based needs, that determine what a leader must do in order to be effective.

The strength of the follower's self-concept has also been linked to the leadership process. High-self-esteem individuals tend to have a strong sense of self-efficacy, that is, a generalized belief they can be successful in difficult situations. They, therefore, tend to be strongly motivated to perform and persist in the face of adversity (Gardner & Pierce, 1988). The high-self-esteem follower tends to be responsive to participative styles of leadership. Low-self-esteem individuals, who doubt their competence and worthiness and their ability to succeed in difficult situations, function better with supportive forms of leadership. This helps them deal with the stress, frustration, and anxiety that often emerge with difficult tasks. Followers without a readiness to follow, limited by their inability to perform and lack of motivation and commitment, usually need more directive forms of leadership (Hersey & Blanchard, 1988).

Follower behavior plays a major role in determining what behaviors leaders engage in. For example, followers who perform at high levels tend to cause their leaders to be considerate in their treatment and to play a less directive role. Followers who are poor performers, on the other hand, tend to cause their leaders to be less warm toward them and to be more directive and controlling in their leadership style (Greene, 1975).

The Context

Situations make demands on a group and its members, and not all situations are the same. Context refers to the situation that surrounds the leader and the followers. Situations are multidimensional. We discuss the context as it pertains to leadership in greater detail later in this chapter, but for now, let's look at it in terms of the task and task environment that confront the group. Is the task structured or unstructured? Are the goals of the group clear or ambiguous? Is there agreement or disagreement about goals? Is there a body of knowledge that can guide task performance? Is the task boring? Frustrating? Intrinsically satisfying? Is the environment complex or simple, stable or unstable? These factors create different contexts within which leadership unfolds, and each factor places a different set of needs and demands on the leader and on the followers.

The Process

The process of leadership is separate and distinct from the leader (the person who occupies a central role in the group). The process is a complex, interactive, and dynamic working relationship between leader and followers. This working relationship, built over time, is directed toward fulfilling the group's maintenance and task needs. Part of the process consists of an exchange relationship between the leader and follower. The leader provides a resource directed toward fulfilling the group's needs, and the group gives compliance, recognition, and esteem to the leader. To the extent that leadership is the exercise of influence, part of the leadership process is captured by the surrender of power by the followers and the exercise of influence over the followers by the leader (Hollander & Julian, 1969). Thus, the leader influences the followers, and the followers influence the leader, the context influences the leader and the followers, and both leader and followers influence the context.

The Consequences

A number of outcomes or consequences of the leadership process unfold between leader, follower, and situation. At the group level, two outcomes are important:

- Have the group's maintenance needs been fulfilled? That is, do members of the group like and get along

with one another, do they have a shared set of norms and values, and have they developed a good working relationship? Have individuals' needs been fulfilled as reflected in attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of the group membership?
- Have the group's task needs been met? That is, there are also important consequences of the leadership process for individuals: attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of their group membership.

The leader-member exchange (LMX) theory of the leadership process focuses attention on consequences associated with the leadership process. The theory views leadership as consisting of a number of dyadic relationships linking the leader with a follower. A leader-follower relationship tends to develop quickly and remains relatively stable over time. The quality of the relationship is reflected by the degree of mutual trust, loyalty, support, respect, and obligation. High- and low-quality relationships between a leader and each of his followers produce in and out-groups among the followers. Members of the in-group come to be key players, and high-quality exchange relationships tend to be associated with higher levels of performance, commitment, and satisfaction than are low-quality exchange relationships (Graen & Wakabayahsi, 1994). Attitudinal similarity and extroversion appear to be associated with a high-quality leader-member relationship (Schriesheim et al., 2000)

The nature of the leadership process varies substantially depending on the leader, the followers, and the situation and context. Thus, leadership is the function of an interaction between the leader, the follower, and the context.

The leadership context for the leader of a group of assembly-line production workers differs from the context for the leader of a self-managing production team and from the context confronted by the lead scientists in a research laboratory. The leadership tactics that work in the first context might fail miserably in the latter two.

Example: Catching the Entrepreneurial Spirit – How a Start-Up Finds the Right Leader

Start-ups, by their very nature, require innovation to bring new products and services to market. Along with establishing a new brand or product, the leader has to develop the relationships and processes that make a company succeed, or risk its early demise. While leading an established firm has its challenges, a start-up requires even more from a leader.

How critical is leadership to a start-up? Ask the four cofounders of the now-defunct PYP (Pretty Young Professionals), a website founded as a source of information for young professional women. What began as four young professional women working on a new start-up ended with hurt feelings and threats of legal action. In 2010, Kathryn Minshew, Amanda Pouchot, Caroline Ghosn, and Alex Cavoulacos decided to create the website, and Minshew was named CEO (Cohan, 2011). Lines blurred about Minshew's authority and the ultimate look, feel, and direction of the website. Ideals about shared leadership, where the company was going, and how it was going to get there ultimately got lost in the power shuffle. By June 2011, passwords were changed and legal actions began, and in August Minshew and Cavoulacos left altogether (Cohan, 2011).

When the legal haggling from PYP was over, Alex Cavoulacos and Kathryn Minshew, joined by Melissa McCreery, tried again. But this time, rather than hoping for the best, they put a leadership plan in place.

Minshew was named CEO of the new start-up, The Daily Muse, with Cavoulacos as chief operating officer and McCreery as editor in chief. Rather than trusting to luck, the three co-founders based their team positions on strengths and personalities. Cavoulacos and McCreery agreed that Minshew's outgoing personality and confidence made her the proper choice as CEO (Casserly, 2013).

No single trait will guarantee that a person can lead a start-up from idea to greatness, but a survey of successful entrepreneurs does show some common traits. According to David Barbash, a partner at Boston-based law firm Posternak Blankstein & Lund LLP, personality is paramount: "You can have great technology but if you're not a great communicator it may die in the lab" (Casserly, 2013). A start-up needs a leader who is confident and willing, if not eager, to face the future. According to Michelle Randall, a principal of Enriching Leadership International, start-up CEOs have to be willing to fundraise and not be too proud to beg (Casserly, 2013). Peter Shankman, an entrepreneur, and angel investor says leaders have to be willing to make the hard decisions, even risking being the bad guy (Casserly, 2013).

Gary Vaynerchuk credits his success to six factors. Angel investor, social media marketer, and early social media adopter, Vaynerchuk leveraged YouTube in its early years to market wine from the family's liquor store, eventually increasing sales from $3 million to $60 million a year (Clifford, 2017). Gary believes good leaders recognize that they don't dictate to the market, but rather respond to where it is going. They have respect for and believe in other people, and have a strong work ethic, what Vaynerchuk called a "lunch pail work ethic": they are willing to put in long hours because they love the work, not the perks. He also stresses that he loves technology and doesn't fear it, is obsessed with the youth of today, and is optimistic about people and the future of humanity (Vaynerchuk, 2017).

Leading a startup requires more than simple management. It requires the right leader for the right company at the right time, which means matching the right management skills with the proper flexibility and drive to keep it all together and moving in the right direction.

Exercises

1. Why would start-up leaders need different leadership qualities than someone managing an established firm?
2. Vaynerchuk has been quoted as saying that if you live for Friday, get a different job. How does this apply to successful entrepreneurs?
3. What are the processes associated with people coming to leadership positions?

3.5 Paths to Leadership and Influence

Learning Objectives

1. How do leaders influence and move their followers to action?

How do leaders influence and move their followers to action?

Leaders hold a unique position in their groups, exercising influence and providing direction. Leonard Bernstein was part of the symphony, but his role as the New York Philharmonic conductor differed dramatically from that of the other symphony members. Besides conducting the orchestra, he created a vision for the symphony. In this capacity, leadership can be seen as a differentiated role and the nucleus of group activity.

Organizations have two kinds of leaders: formal and informal. A **formal leader** is an individual who is recognized by those outside the group as the official leader of the group. Often, the formal leader is appointed by the organization to serve in a formal capacity as an agent of the organization. Jack Welch was the formal leader of General Electric, and Leonard Bernstein was the formal leader of the symphony. Practically all managers act as formal leaders as part of their assigned role. Organizations that use self-managed work teams allow members of the team to select the individual who will serve as their team leader. When this person's role is sanctioned by the formal organization, these team leaders become formal leaders. Increasingly, leaders in organizations will be those who "best sell" their ideas on how to complete a project—persuasiveness and inspiration are important ingredients in the leadership equation, especially in high-involvement organizations (Conger, 1993).

Informal leaders, by contrast, are not assigned by the organization. The **informal leader** is that individual whom members of the group acknowledge as their leader. Athletic teams often have informal leaders, individuals who exert considerable influence on team members even though they hold no official, formal leadership position. In fact, most work groups contain at least one informal leader. Just like formal leaders, informal leaders can benefit or harm an organization depending on whether their influence encourages group members to behave consistently with organizational goals.

Here is where the terms *leader* and *manager* are deemed <u>not</u> to be synonymous. Grace Hopper, retired U.S. Navy admiral, draws a distinction between leading and managing: "You don't manage people, you manage *things*. You lead *people*" (Pickens, 1992). Informal leaders often have considerable leverage over their colleagues. Traditionally, the roles of informal leaders have not included the total set of management responsibilities because an informal leader does not always exercise the functions of planning, organizing, directing, and controlling. However, high-involvement organizations frequently encourage their formal and informal leaders to exercise the full set of management roles, leading back to the argument that good managers are leaders—and vice-versa. Many consider such actions necessary for self-managing work teams to succeed. Informal leaders are acknowledged by the group, and the group willingly responds to their leadership.

Paths to Leadership

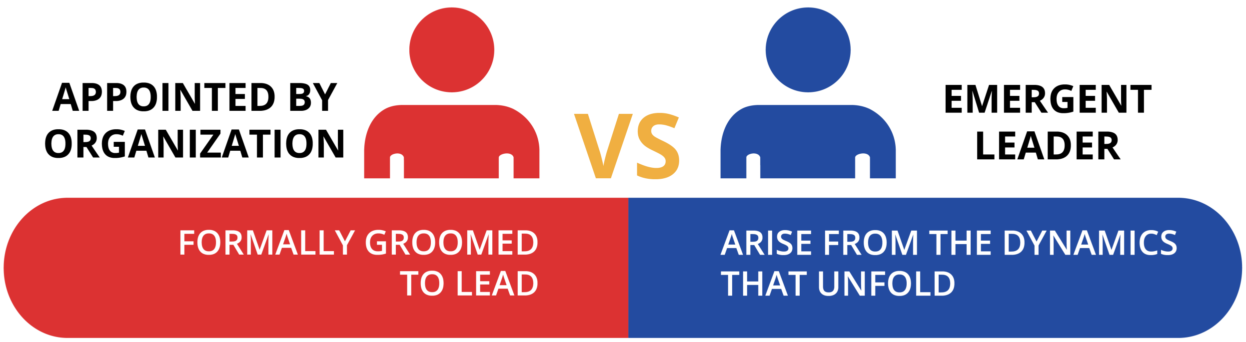

Figure 3.5.1: *"Leader Origin" by Alyssa Giles, CC BY-NC-SA 4.0.*

People come to leadership positions through two dynamics. In many instances, people are put into positions of leadership by forces outside the group. University-based ROTC programs and military academies (like West Point) formally groom people to be leaders. We refer to this person as the **designated leader** (in this instance the designated and formal leader are the same person). **Emergent leaders**, on the other hand, arise from the dynamics and processes that unfold within and among a group of individuals as they endeavor to achieve a collective goal.

A variety of processes help us understand how leaders emerge. Gerald Salancik and Jeffrey Pfeffer observe that power to influence others flows to those individuals who possess the critical and scarce resources (often knowledge and expertise) that a group needs to overcome a major problem (Salancik & Pfeffer, 1977). They note that the dominant coalition and leadership in American corporations during the 1950s was among engineers because organizations were engaged in competition based on product design. The power base in many organizations shifted to marketing as competition became a game of advertising aimed at differentiating products in the consumer's mind. About 10–15 years ago, power and leadership once again shifted, this time to people with finance and legal backgrounds, because the critical contingencies facing many organizations were mergers, acquisitions, hostile takeovers, and creative financing. Thus, Salancik and Pfeffer reason that power and thus leadership flow to those individuals who have the ability to help an organization or group [overcome its critical contingencies]. As the challenges facing a group change, so too may the flow of power and leadership.

Many leaders emerge out of the needs of the situation. Different situations call for different configurations of knowledge, skills, and abilities. A group often turns to the member who possesses the knowledge, skills, and abilities that the group requires to achieve its goals (Murphy, 1941) People surrender their power to individuals whom they believe will make meaningful contributions to attaining group goals (Smircich & Morgan, 1982). The individual to whom power is surrendered is often a member of the group who is in good standing. As a result of this member's contributions to the group's goals, he has accumulated *idiosyncrasy credits* (a form of competency-based status). These credits give the individual a status that allows him to influence the direction that the group takes as it works to achieve its goals (Hollander, 1964).

It is important to recognize that the traits possessed by certain individuals contribute significantly to their emergence as leaders. Research indicates that people are unlikely to follow individuals who, for example, do not display drive, self-confidence, knowledge of the situation, honesty, and integrity.

Leadership as an Exercise of Influence

As we have noted, leadership is the exercise of influence over those who depend on one another for attaining a mutual goal in a group setting. But *how* do leaders effectively exercise this influence? *Social or (interpersonal) influence* is one's ability to effect a change in the motivation, attitudes, and/or behaviors of others. *Power*, then, essentially answers the "how" question: How do leaders influence their followers? The answer often is that a leader's social influence is the source of his power.

French and Raven provide us with a useful typology that identifies the sources and types of power that may be at the disposal of leaders:

- ***Reward power***—the power a person has because people believe that they can bestow rewards or outcomes, such as money or recognition that others desire
- ***Coercive power***—the power a person has because people believe that the person can punish them by inflicting pain or by withholding or taking away something that they value
- ***Referent power***—the power a person has because others want to associate with or be accepted by him
- ***Expert power***—the power a person has because others believe that the person has and is willing to share expert knowledge that they need (The concept of *resource power* extends the idea of expert power to include the power that a person has because others believe that the person possesses and is willing to share resources, such as information, time, or materials that are needed)
- ***Legitimate power***—the power a person has because others believe that the person possesses the "right" to influence them and that they ought to obey. This right can originate in tradition; in the charisma or appeal of the person; and in laws, institutional roles within society, moralistic appeal, and rationality (that is, logical arguments, factual evidence, reason, and internally consistent positions) (French & Raven, 1959)

Not all forms of power are equally effective (see **Figure 3.5.1**), nor is a leader's total power base the simple sum of the powers at his disposal. Different types of power elicit different forms of compliance: Leaders who rely on coercive power often alienate followers who resist their influence attempts. Leaders who rely on reward power develop followers who are very measured in their responses to [what?]; the use of rewards often leads people to think in terms of "How much am I getting?" or "How much should I give?" or "Am I breaking even?" The use of referent power produces identification with the leader and his cause. The use of rationality, expert power, and/or moralistic appeal generally elicits commitment and the internalization of the leader's goals (Etzioni, 1961; Kelman, 1958).

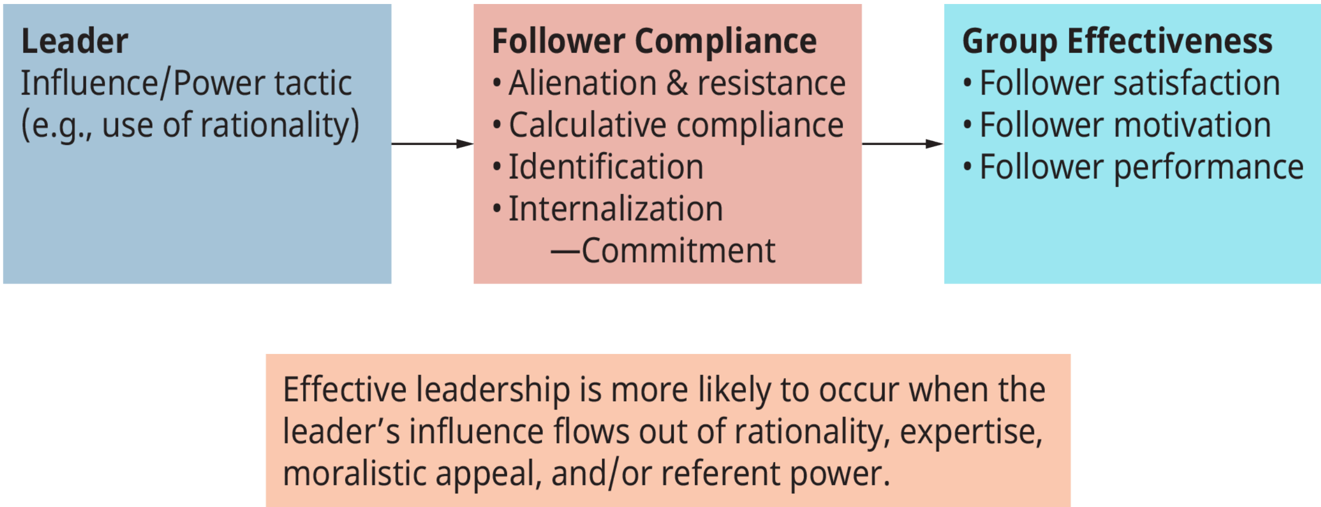

Figure 3.5.2: *The Leader-Follower Power Relationship*

Leaders who use referent and expert power commonly experience a favorable response in terms of follower satisfaction and performance. Research suggests that rationality is the most effective influence tactic in terms of its impact on follower commitment, motivation, performance, satisfaction, and group effectiveness (Yukl & Tracey, 1992; Hinkin & Schriesheim, 1990; Podsakoff & Schriesheim, 1985).

Reward and legitimate power (that is, relying on one's position to influence others) produce inconsistent results. Sometimes these powers lead to follower performance and satisfaction, yet they also sometimes fail. Coercive power can result in favorable performance, yet follower and resistance dissatisfaction are not uncommon.

Good leaders, whether formal or informal, develop many sources of power. Leaders who rely solely on their legitimate power and authority seldom generate the influence necessary to help their organization and its members succeed. In the process of building their power base, effective leaders have discovered that the use of coercive power tends to dilute the effectiveness of other powers, while the development and use of referent power tends to magnify the effectiveness of other forms of power. A compliment or reward from a person we like generally has greater value than one from someone we dislike, and punishment from someone we love (such as "tough love" from a parent) is less offensive than the pain inflicted by someone we dislike (Hinkin & Schriesheim, 1990).

In sum, one key to effective leadership, especially as it pertains to the exercise of social and interpersonal influence, relates to the type of power employed by the leader. Overall leader effectiveness will be higher when people follow because they want to follow. This is much more likely to happen when the leader's influence flows out of intrinsic such as rationality, expertise, moralistic appeal, and/or referent power.

Leadership is also about having a vision and communicating that vision to others in such a way that it provides meaning for the follower (Bennis, 1989). Language, ritual, drama, myths, symbolic constructions, and stories are some of the tools leaders use to capture the attention of their "followers to be" to evoke emotion and to manage the meaning "of the task (challenges) facing the group" (Smircich & Morgan, 1982). These tools help the leader influence the attitudes, motivation, and behavior of their followers.

Influence-Based Leadership Styles

Many writers and researchers have explored how leaders can use power to address the needs of various situations. One view holds that in traditional organizations members expect to be told what to do and are willing to follow highly structured directions. Individuals attracted to high-involvement organizations, however, want to make their own decisions, expect their leaders to allow them to do so, and are willing to accept and act on this responsibility. This suggests that a leader may use and employ power in a variety of ways.

The Tannenbaum and Schmidt Continuum

In the 1950s, Tannenbaum and Schmidt created a continuum (see **Figure 3.5.2**) along which leadership styles range from authoritarian to extremely high levels of worker freedom (Tannenbaum & Schmidt, 1958). Subsequent to Tannenbaum and Schmidt's work, researchers adapted the continuum by categorizing leader power styles as *autocratic* (boss-centered), *participative* (workers are consulted and involved), or *free-rein* (members are assigned the work and decide on their own how to do it; the leader relinquishes the active assumption of the role of leadership) (Davis & Newstrom, 1985).

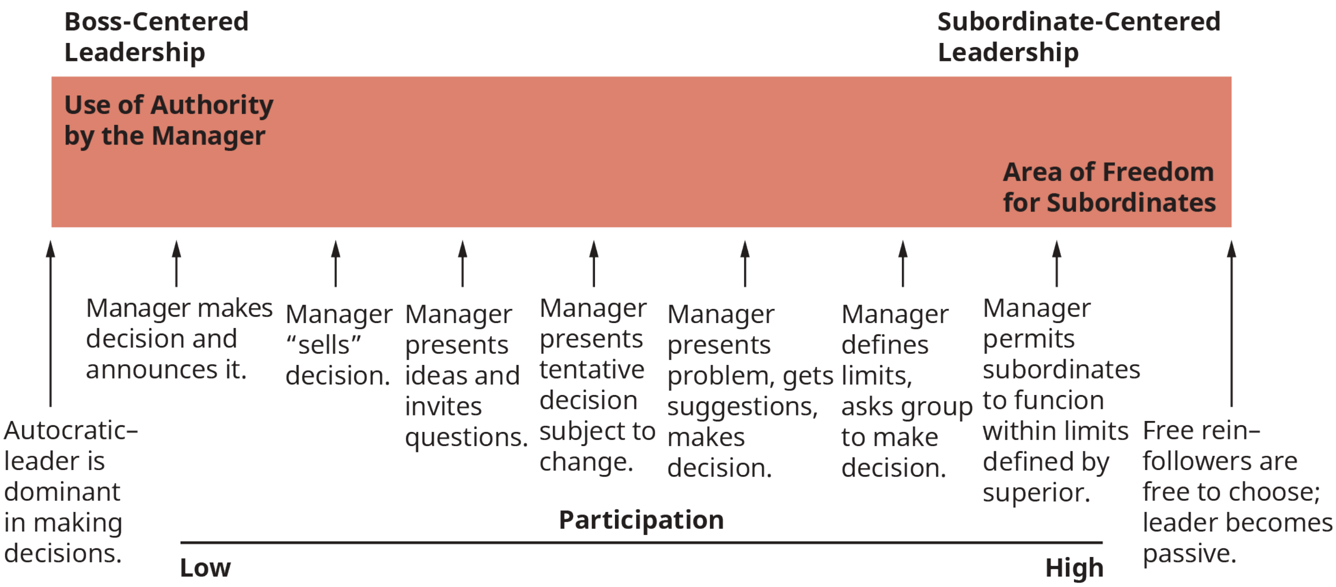

Figure 3.5.3: *Tannenbaum and Schmidt's Leadership (Modifed from Tannenbaum & Schmidt, 1971, p. 167)*

Theory X and Theory Y Leaders

McGregor's Theory X and Theory Y posit two different sets of attitudes about the individual as an organizational member (McGregor, 1957; McGregor, 1960). Theory X and Y thinking give rise to two different styles of leadership. The *Theory X leader* assumes that the average individual dislikes work and is incapable of exercising adequate self-direction and self-control. As a consequence, they exert a highly controlling leadership style. In contrast, *Theory Y leaders* believe that people have creative capacities, as well as both the ability and desire to exercise self-direction and self-control. They typically allow organizational members significant amounts of discretion in their jobs and encourage them to participate in departmental and organizational decision-making. Theory Y leaders are much more likely to adopt involvement-oriented approaches to leadership and organically designed organizations for their leadership group.

Theory X and Theory Y thinking and leadership are not strictly American phenomena. Evidence suggests that managers from different parts of the global community commonly hold the same view. A study of 3,600 managers from 14 countries reveals that most of them held assumptions about human nature that could best be classified as Theory X (Haire et al., 1966). Even though managers might publicly endorse the merits of participatory management, most of them doubted their workers' capacities to exercise self-direction and self-control and to contribute creatively (Miles, 1975).

Directive/Permissive Leadership Styles

Contemplating the central role of problem-solving in management and leadership, Jan P. Muczyk and Bernard C. Reimann of Cleveland State University offer an interesting perspective on four different leadership styles (see **Figure 3.5.3**) that revolve around decision-making and implementation processes (Muczyk & Reimann, 1987).

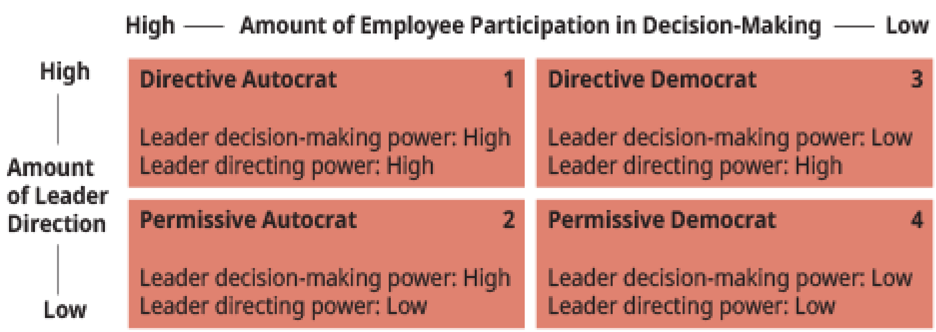

Figure 3.5.4: *Leadership Behavior and the Uses of Power (Modified from Muczyk & Reimann, 1987, p. 304)*

- A *directive autocrat* retains power, makes unilateral decisions, and closely supervises workers' activities. This style of leadership is seen as appropriate when circumstances require quick decisions and organizational members are new, inexperienced, or underqualified. A doctor in charge of a hastily constructed shelter for victims of a tornado may use this style to command nonmedical volunteers.
- The *permissive autocrat* mixes his or her use of power by retaining decision-making power but permitting organizational members to exercise discretion when executing those decisions. This leadership behavior is recommended when decision-making time is limited, when tasks are routine, or when organizational members have sufficient expertise to determine appropriate role behaviors.
- Also sharing power is the *directive democrat,* who encourages participative decision-making but retains the power to direct team members in the execution of their roles. This style is appropriate when followers have valuable opinions and ideas, but one person needs to coordinate the execution of the ideas. A surgeon might allow the entire surgical team to participate in developing a plan for a surgical procedure. Once surgery begins, however, the surgeon is completely in charge.
- Finally, the *permissive democrat* shares power with group members, soliciting involvement in both decision-making and execution. This style is appropriate when participation has both informational and motivational value, when time permits group decision-making, when group members are capable of improving decision quality, and when followers are capable of exercising self-management in their performance of work.

The permissive democratic approach to leadership is characteristic of leadership in high-involvement organizations. Here, leaders act as facilitators, process consultants, network builders, conflict managers, inspirationalists, coaches, teachers/mentors, and cheerleaders (Pasmore, 1988; Peters & Waterman, 1982). Such is the role of Ralph Stayer, founder, owner, and CEO of Johnsonville Foods. He defines himself as his company's philosopher. At Quad/Graphics, president Harry V. Quadracci is a permissive democrat because he encourages all Quad employees to play a major role in decision-making and execution as they manage their teams as independent profit centers. Jeff Bezos Jeff Bezos, founder, and CEO of Amazon used to bring an empty chair to meetings to signal and remind participants of the most important people that did not have a seat at the table: the customers. He has now replaced the empty chair with Amazon employees with the job title Customer Experience Bar Raisers.

Figure 3.5.5: *"Jeff Bezos" by Daniel Oberhaus, licensed under CC BY 2.0.*

Exercises

1. What is the role of the leader and follower in the leadership process?
2. How do the theories of Tannenbaum and Schmidt's leadership continuum and McGregor's Theory X and Theory Y attempt to define leadership?

3.6 Who Is a Leader? Trait Approaches to Leadership

Learning Objectives

1. Describe the position of trait approaches in the history of leadership studies.
2. Explain the traits that are associated with leadership.
3. Discuss the limitations of trait approaches to leadership.

Traits of a Successful Leader

Ralph Stogdill, while on the faculty at The Ohio State University, pioneered the trait approach to leadership (Stogdill, 1948; Stogdill, 1974). Scholars taking the trait approach attempted to identify physiological (appearance, height, and weight), demographic (age, education, and socioeconomic background), personality (dominance, self-confidence, and aggressiveness), intellective (intelligence, decisiveness, judgment, and knowledge), task-related (achievement drive, initiative, and persistence), and social characteristics (sociability and cooperativeness) with leader emergence and leader effectiveness. After reviewing several hundred studies of leader traits, Stogdill (1974) described the successful leader in this way:

The [successful] leader is characterized by a strong drive for responsibility and task completion, vigor and persistence in pursuit of goals, venturesomeness and originality in problem-solving, drive to exercise initiative in social situations, self-confidence and sense of personal identity, willingness to accept consequences of decision and action, readiness to absorb interpersonal stress, willingness to tolerate frustration and delay, ability to influence other person's behavior, and capacity to structure social interaction systems to the purpose at hand (Stogdill, 1948).

The last three decades of the 20th century witnessed continued exploration of the relationship between traits and both leader emergence and leader effectiveness. Edwin Locke from the University of Maryland and a number of his research associates reviewed the trait research and observed that successful leaders possess a set of core characteristics that are different from those of other people (Kirkpatrick & Locke, 1991; Locke et al., 1991). Although these core traits do not solely *determine* whether a person will be a leader—or a successful leader—they are seen as preconditions that endow people with leadership potential. Among the core traits identified are:

- ***Drive***—a high level of effort, including a strong desire for achievement as well as high levels of ambition, energy, tenacity, and initiative
- ***Leadership motivation***—an intense desire to lead others
- ***Honesty and integrity***—a commitment to the truth, where word and deed correspond
- ***Self-confidence***—an assurance in one's self, one's ideas, and one's ability

- ***Cognitive ability***—conceptually skilled, capable of exercising good judgment, having strong analytical abilities, possessing the capacity to think strategically and multidimensionally
- ***Knowledge of the business***—a high degree of understanding of the company, industry, and technical matters
- ***Other traits***—charisma, creativity/originality, and flexibility/adaptiveness

(Kirkpatrick & Locke, 1991)

Figure 3.6.1: *"Traits of a Leader" by Alyssa Giles, CC BY-NC-SA 4.0.*

While leaders may be "people with the right stuff," effective leadership requires more than simply possessing the correct set of motives and traits. Knowledge, skills, ability, vision, strategy, and effective vision implementation are all necessary for the person who has the "right stuff" to realize their leadership potential (Stewart, 1999; Locke et al., 1991). According to Locke, people endowed with these traits engage in behaviors that are associated with leadership. As followers, people are attracted to and inclined to follow individuals who display, for example, honesty and integrity, self-confidence, and the motivation to lead.

With regard to the validity of the "great person approach to leadership": Evidence accumulated to date does not provide a strong base of support for the notion that leaders are born. Yet, the study of twins at the University of Minnesota leaves open the possibility that part of the answer might be found in our genes. Many personality traits and vocational interests (which might be related to one's interest in assuming responsibility for others and the motivation to lead) have been found to be related to our "genetic dispositions" as well as to our life experiences (House & Aditya, 1997; Bouchard et al., 1990). Each core trait recently identified by Locke and his associates traces a significant part of its existence to life experiences. Thus, a person is not born with self-confidence. Self-confidence is developed, honesty and integrity are a matter of personal choice, motivation to lead comes from within the individual and is within his control, and knowledge of the business can be acquired. While cognitive ability does in part find its origin in the genes, it still needs to be developed. Finally, drive, as a dispositional trait, may also have a genetic component, but it too can be self- and other-encouraged. It goes without saying that none of these ingredients are acquired overnight.

Other researchers have had success in identifying traits that predict leadership (House & Aditya, 1997); the traits that show relatively strong relations with leadership and overlap with those mentioned by Stogdill are as follows (Judge et al., 2002):

Intelligence

General mental ability, which psychologists refer to as "g" and which is often called IQ in everyday language, has been related to a person's emerging as a leader within a group. Specifically, people who have high mental abilities are more likely to be viewed as leaders in their environment (House & Aditya, 1997; Ilies et al., 2004; Lord et al., 1986; Taggar et al., 1999). We should caution, though, that intelligence is a positive but modest predictor of leadership. In addition to having a high IQ, effective leaders tend to have high emotional intelligence (EQ). People with high EQ demonstrate a high level of self-awareness, motivation, empathy, and social skills. The psychologist who coined the term emotional intelligence, Daniel Goleman, believes that IQ is a threshold quality: it matters for entry- to high-level management jobs, but once you get there, it no longer helps leaders because most leaders already have a high IQ. According to Goleman, what differentiates effective leaders from ineffective ones becomes their ability to control their own emotions and understand other people's emotions, their internal motivation, and their social skills (Goleman, 2004). Many observers believe that Carly Fiorina, the ousted CEO of HP, demonstrated high levels of intelligence but low levels of empathy for the people around her, which led to an over-reliance on numbers while ignoring the human cost of her decisions (Karlgaard, 2002).

The Big Five Personality Traits

Psychologists have proposed various systems for categorizing the characteristics that make up an individual's unique personality; one of the most widely accepted is the Big Five model, which rates an individual according to openness to experience, conscientiousness, extraversion, agreeableness, and Neuroticism. Several of the Big Five personality traits have been related to leadership emergence (whether someone is viewed as a leader by others) and leadership effectiveness.

Table 3.6.1: Big Five Personality Traits

Trait	Description
Openness	Being curious, original, intellectual, creative, and open to new ideas.
Conscientious	Being organized, systematic, punctual, achievement-oriented, and dependable
Extraversion	Being outgoing, talkative, sociable, and enjoying social situations.
Agreeableness	Being affable, tolerant, sensitive, trusting, kind, and warm.
Neuroticism	Being anxious, irritable, temperamental, and moody.

(Goldberg, 1990)

Figure 3.6.2: *"Jim Buckmaster at Edinburgh Entrepreneurship Club" by Ewan McIntosh, licensed under CC BY-NC 2.0.*

For example, extraversion is related to leadership. *extraverts* are sociable, assertive, and energetic people. They enjoy interacting with others in their environment and demonstrate self-confidence. Because they are both dominant and sociable in their environment, they emerge as leaders in a wide variety of situations.

Out of all personality traits, extraversion has the strongest relationship to both leader emergence and leader effectiveness. Research shows that conscientious people are also more likely to be leaders. This is not to say that all effective leaders are extraverts, but you are more likely to find extraverts in leadership positions. An example of an introverted leader is Jim Buckmaster, the CEO of Craigslist. He is known as an introvert, and he admits to not having meetings because he does not like them (Management Today, 2008).

Figure 3.6.3: "*Steve Ballmer, Microsoft CEO" by Georg Holzer, licensed under CC BY-NC 2.0.*

Steve Ballmer, CEO of Microsoft, is an extraverted leader. For example, to celebrate Microsoft's 25th anniversary, Ballmer enthusiastically popped out of the anniversary cake to surprise the audience.

Another personality trait related to leadership is *conscientiousness*. Conscientious people are organized, take initiative, and demonstrate persistence in their endeavors. Conscientious people are more likely to emerge as leaders and be effective as leaders. Finally, people who have *openness to experience*—those who demonstrate originality, creativity, and are open to trying new things—tend to emerge as leaders and tend to be effective as leaders.

Self-Esteem

Self-esteem is not one of the Big Five personality traits, but it is an important aspect of one's personality. The degree to which people are at peace with themselves and have an overall positive assessment of their self-worth and capabilities seems to be relevant to whether they will be viewed as a leader. Leaders with high self-esteem support their subordinates more, and when punishment needs to be administered, they punish more effectively (Atwater et. al., 1998; Niebuhr & Davis, 1984). It is possible that those with high self-esteem have greater levels of self-confidence and this affects their image in the eyes of their followers. Self-esteem may also explain the relationship between some physical attributes and emerging as a leader. For example, research shows a strong relationship between height and being viewed as a leader (as well as one's career success over life). It is proposed that self-esteem may be the key to the connection of height with leadership because people who are taller are also found to have higher self-esteem and therefore may project greater levels of charisma as well as confidence to their followers (Judge & Cable, 2004).

Integrity

Research also shows that people who are effective as leaders tend to have a moral compass and demonstrate honesty and integrity (Reave, 2005). Leaders whose integrity is questioned lose their trustworthiness, and they hurt their company's business along the way. For example, when it was revealed that Whole Foods CEO John Mackey was using a pseudonym to make negative comments online about the company's rival Wild Oats, his actions were heavily criticized, his leadership was questioned, and the company's reputation was affected (Farrell & Davidson, 2007).

Figure 3.6.4: *Traits Associated with Leadership*

There are also some traits that are negatively related to emerging as a leader and being successful as a leader. For example, agreeable people who are modest, good-natured, and avoid conflict are less likely to be *perceived* as leaders (Judge et. al., 2002).

The key to benefiting from the findings of trait researchers is to be aware that not all traits are equally effective in predicting leadership potential across all circumstances. Some organizational situations allow leader traits to make a greater difference (House & Aditya, 1997). For example, in small, entrepreneurial organizations where leaders have a lot of leeway to determine their own behavior, the type of traits leaders have may make a difference in leadership potential. In large, bureaucratic, and rule-bound organizations, such as the government and the military, a leader's traits may have less to do with how the person behaves and whether the person is a successful leader (Judge et. al., 2002). Moreover, some traits become relevant in specific circumstances. For example, bravery is likely to be a key characteristic in military leaders but not necessarily in business leaders. Scholars now conclude that instead of trying to identify a few traits that distinguish leaders from non-leaders, it is important to identify the conditions under which different traits affect a leader's performance, as well as whether a person emerges as a leader (Hackman & Wageman, 2007).

Other Leader Traits

Sex and gender, disposition, and self-monitoring also play an important role in leader emergence and leader style.

Sex and Gender Role

Much research has gone into understanding the role of sex and gender in leadership (Helgesen, 1990; Fierman, 1990; Rosener, 1990). Two major avenues have been explored: sex and gender roles in relation to leader emergence, and whether style differences exist across the sexes. As noted earlier in this text, the majority of research has been carried out focused on a binary approach to gender (male and female), so does not take into account transgender, non-binary, and other gender identities. It is important to have diverse, equitable, and inclusive organizations. Stereotyping should be avoided. The following research does make some good points to keep in mind, and additional research will be provided as it materializes.

Evidence supports the observation that men emerge as leaders more frequently than women (Chapman, 1975; Fagenson, 1990). Throughout history, few women have been in positions where they could develop or exercise leadership behaviors. In contemporary society, being perceived as experts appears to play an important role in the emergence of women as leaders. Yet, gender role is more predictive than sex. Individuals with "masculine" (for example, assertive, aggressive, competitive, willing to take a stand) as opposed to "feminine" (cheerful, affectionate, sympathetic, gentle) characteristics are more likely to emerge in leadership roles (Kent & Moss, 1994). In our society males are frequently socialized to possess masculine characteristics, while females are more frequently socialized to possess feminine characteristics.

Recent evidence, however, suggests that individuals who are androgynous (that is, who simultaneously possess both masculine and feminine characteristics) are as likely to emerge in leadership roles as individuals with only masculine characteristics. This suggests that possessing feminine qualities does not distract from the attractiveness of the individual as a leader (Kent & Moss, 1994).

With regard to leadership style, researchers have looked to see if male-female differences exist in task and interpersonal styles, and whether or not differences exist in how autocratic or democratic men and women are. The answer is that when it comes to interpersonal versus task orientation, differences between men and women appear to be marginal. Women are somewhat more concerned with meeting the group's interpersonal needs, while men are somewhat more concerned with meeting the group's task needs. Big differences emerge in terms of democratic versus autocratic leadership styles. Men tend to be more autocratic or directive, while women are more likely to adopt a more democratic/participative leadership style (Early & Johnson, 1990). In fact, it may be because men are more directive that they are seen as key to goal attainment and they are turned to more often as leaders (Dobbins et al., 1990).

Dispositional Trait

Psychologists often use the terms *disposition* and *mood* to describe and differentiate people. Individuals characterized by a positive affective state exhibit a mood that is active, strong, excited, enthusiastic, peppy, and elated. A leader with this mood state exudes an air of confidence and optimism and is seen as enjoying work-related activities.

Recent work conducted at the University of California-Berkeley demonstrates that leaders (managers) with positive affectivity (a positive mood state) tend to be more competent interpersonally, contribute more to group activities, and be able to function more effectively in their leadership role (Staw & Barsade, 1993). Their enthusiasm and high energy levels appear to be infectious, transferring from leader to followers. Thus, such leaders promote group cohesiveness and productivity. This mood state is also associated with low levels of group turnover and is positively associated with followers who engage in acts of good group citizenship (George & Bellenhausen, 1990).

Self-Monitoring

Self-monitoring as a personality trait refers to the strength of an individual's ability and willingness to read verbal and nonverbal cues and to alter one's behavior so as to manage the presentation of the self and the images that others form of the individual. "High self-monitors" are particularly astute at reading social cues and regulating their self-presentation to fit a particular situation. "Low self-monitors" are less sensitive to social cues; they may either lack motivation or lack the ability to manage how they come across to others.

Some evidence supports the position that high self-monitors emerge more often as leaders. In addition, they appear to exert more influence on group decisions and initiate more structure than low self-monitors. Perhaps high self-monitors emerge as leaders because in group interaction they are the individuals who attempt to organize the group and provide it with the structure needed to move the group toward goal attainment (Dobbins et al., 1990).

Exercises

1. Think of a leader you admire. What traits does this person have? Are they consistent with the traits discussed in this chapter? If not, why is this person effective despite the presence of different traits?
2. Can the findings of trait approaches be used to train potential leaders? Which traits seem easier to teach? Which are more stable?
3. How can organizations identify future leaders with a given set of traits? Which methods would be useful for this purpose?
4. What other traits can you think of that would be relevant to leadership?

Key Takeaways

Many studies searched for a limited set of personal attributes, or traits, which would make someone be viewed as a leader and be successful as a leader. Some traits are consistently related to leadership, such as intelligence (both mental ability and emotional intelligence), personality (extraversion, conscientiousness, openness to experience, self-esteem), and integrity. The main limitation of the trait approach was that it ignored the situation in which leadership occurred. Therefore, it is more useful to specify the conditions under which different traits are needed.

3.7 What Do Leaders Do? Behavioral Approaches to Leadership

Learning Objectives

1. Explain the behaviors that are associated with leadership.
2. Identify the three alternative decision-making styles leaders use and the conditions under which they are more effective.
3. Discuss the limitations of behavioral approaches to leadership.

When the trait researchers became disillusioned in 1940s, their attention turned to studying leader behaviors. What did effective leaders actually do? Which behaviors helped them to be perceived as leaders? Which behaviors increased their success?

Leader Behaviors

In order to understand behaviors of effective leaders, researchers at Ohio State University and University of Michigan used many different techniques such as observing leaders in laboratory settings as well as surveying them. This research stream led to the discovery of two broad categories of behaviors: task-oriented behaviors (sometimes called *initiating structure*) and people-oriented behaviors (also called *consideration*). **Task-oriented leader behaviors** involve structuring the roles of subordinates, providing them with instructions, and behaving in ways that will increase the performance of the group. Task-oriented behaviors are directives given to employees to get things done and to ensure that organizational goals are met. **People-oriented leader behaviors** include showing concern for employee feelings and treating employees with respect. People-oriented leaders genuinely care about the well-being of their employees and they demonstrate their concern in their actions and decisions. At the time, researchers thought that these two categories of behaviors were the keys to the puzzle of leadership (House & Aditya, 1997). However, the research did not support the argument that demonstrating both of these behaviors would necessarily make leaders effective (Nystrom, 1978).

Figure 3.7.1: *"President of Ukraine" by Just Click's With a Camera, public domain.*

When we look at the overall findings regarding these leader behaviors, it seems that both types of behaviors, in the aggregate, are beneficial to organizations but for different purposes. For example, when leaders demonstrate people-oriented behaviors, employees tend to be more satisfied and react more positively. However, when leaders are task-oriented, productivity tends to be a bit higher (Judge et al., 2004). Moreover, the situation in which these behaviors are demonstrated seems to matter. In small companies, task-oriented behaviors were found to be more effective than in large companies (Miles & Petty, 1977). There is also some evidence that working under a leader with very high levels of task-oriented behaviors may cause burnout on the part of employees (Seltzer & Numerof, 1988).

Leader Decision Making

Another question behavioral researchers focused on was how leaders actually make decisions, and the influence of decision-making styles on leader effectiveness and employee reactions. Three types of decision-making styles were studied. In **authoritarian decision-making**, leaders make the decision alone without necessarily involving employees in the decision-making process. When leaders use **democratic decision-making**, employees participate in the making of the decision. Finally, leaders using **laissez-faire decision-making** leave employees alone to make the decision; the leader provides minimum guidance and involvement in the decision.

As with other lines of research on leadership, the research did not identify one decision-making style as the best one. It seems that the effectiveness of the style the leader is using depends on the circumstances. A review of the literature shows that when leaders use more democratic decision-making styles, employees tend to be more satisfied, but the effects on decision quality or employee productivity are weaker. Moreover, instead of expecting to be involved in every single decision, employees seem to care more about the overall participativeness of the organizational climate (Miller & Monge, 1986). Different types of employees may also expect different levels of involvement. In a study conducted in a research organization, scientists viewed democratic leadership most favorably and authoritarian leadership least favorably (Baumgartel, 1957), but employees working in large groups where opportunities for member interaction were limited preferred authoritarian leader decision making (Vroom & Mann, 1960).

Finally, the effectiveness of each style seems to depend on who is using it. There are examples of effective leaders using both authoritarian and democratic styles. For example, Larry Page and Sergey Brin at Google are known for their democratic decision-making styles. At Hyundai USA, high-level managers use authoritarian decision-making styles, and the company is performing well (Deutschman, 2004; Welch et al, 2008).

Figure 3.7.2: *Google cofounders Larry Page and Sergey Brin (shown here) are known for their democratic decision-making styles. "Sergey Brin, Web 2.0 Conference" by James Duncan, licensed under CC BY 2.0.*

The track record of the laissez-faire decision-making style is more problematic. Research shows that this style is negatively related to employee satisfaction with leaders and leader effectiveness (Judge & Piccolo, 2004). Laissez-faire leaders create high levels of ambiguity about job expectations on the part of employees, and employees also engage in higher levels of conflict when leaders are using the laissez-faire style (Skogstad et al., 2007).

Limitations of Behavioral Approaches

Behavioral approaches, similar to trait approaches, fell out of favor because they neglected the environment in which behaviors are demonstrated. The hope of the researchers was that the identified behaviors would predict leadership under all circumstances, but it may be unrealistic to expect that a given set of behaviors would work under all circumstances. What makes a high school principal effective on the job may be very different from what makes a military leader, which would be different from behaviors creating success in small or large business enterprises. It turns out that specifying the conditions under which these behaviors are more effective may be a better approach.

Exercises

1. Give an example of a leader you admire whose behavior is primarily task-oriented, and one whose behavior is primarily people-oriented.
2. What are the limitations of authoritarian decision-making? Under which conditions do you think the authoritarian style would be more effective?
3. What are the limitations of democratic decision-making? Under which conditions do you think the democratic style would be more effective?
4. What are the limitations of laissez-faire decision-making? Under which conditions do you think the laissez-faire style would be more effective?
5. Examine your own leadership style. Which behaviors are you more likely to demonstrate? Which decision-making style are you more likely to use?

Key Takeaways

When researchers failed to identify a set of traits that would distinguish effective from ineffective leaders, research attention turned to the study of leader behaviors. Leaders may demonstrate task-oriented and people-oriented behaviors. Both seem to be related to important outcomes, with task-oriented behaviors more strongly relating to leader effectiveness and people-oriented behaviors leading to employee satisfaction. Leaders can also make decisions using authoritarian, democratic, or laissez-faire styles. While laissez-faire has certain downsides, there is no best style and the effectiveness of each style seems to vary across situations. Because of the inconsistency of results, researchers realized the importance of the context in which leadership occurs, which paved the way to contingency theories of leadership.

3.8 What Is the Role of the Context? Contingency Approaches to Leadership

Learning Objectives

1. Analyze the major situational conditions that determine the effectiveness of different leadership styles.
2. Identify the conditions under which highly task-oriented and highly people-oriented leaders can be successful based on Fiedler's contingency theory.
3. Discuss the main premises of the Path-Goal theory of leadership.
4. Describe a method by which leaders can decide how democratic or authoritarian their decision making should be.

What is the best leadership style? By now, you must have realized that this may not the right question to ask. Instead, a better question might be: under which conditions are different leadership styles more effective? After the disappointing results of trait and behavioral approaches, several scholars developed leadership theories that specifically incorporated the role of the environment. Researchers started following a contingency approach to leadership—rather than trying to identify traits or behaviors that would be effective under all conditions, the attention moved toward specifying the situations under which different styles would be effective.

Fiedler's Contingency Theory

The earliest and one of the most influential contingency theories was developed by Frederick Fiedler (1967). According to the theory, a leader's style is measured by a scale called Least Preferred Coworker (LPC) scale. People who are filling out this survey are asked to think of a person who is their least preferred coworker. Then, they rate this person in terms of how friendly, nice, and cooperative this person is. Imagine someone you did not enjoy working with. Can you describe this person in positive terms? In other words, if you can say that the person you hated working with was still a nice person, you would have a high LPC score. This means that you have a people-oriented personality and you can separate your liking of a person from your ability to work with that person. However, if you think that the person you hated working with was also someone you did not like on a personal level, you would have a low LPC score. To you, being unable to work with someone would mean that you also dislike that person. In other words, you are a task-oriented person.

According to Fiedler's theory, different people can be effective in different situations. The LPC score is akin to a personality trait and is not likely to change. Instead, placing the right people in the right situation or changing the situation is important to increase a leader's effectiveness. The theory predicts that in "favorable" and "unfavorable" situations, a low LPC leader—one who has feelings of dislike for coworkers who are difficult to work with—would be successful. When situational favorableness is medium, a high LPC leader—one who is able to personally like coworkers who are difficult to work with—is more likely to succeed.

How does Fiedler determine whether a situation is favorable, medium, or unfavorable? There are three conditions creating situational favorableness: (1) leader-subordinate relations, (2) position power, and (3) task structure. If the leader has a good relationship with most people, has high position power, and the task is structured, the situation is very favorable. When the leader has low-quality relations with employees, has low position power, and the task is relatively unstructured, the situation is very unfavorable.

Research partially supports the predictions of Fiedler's contingency theory (Peters et al., 1985; Strube & Garcia, 1981; Vecchio, 1983). Specifically, there is more support for the theory's predictions about when low LPC leadership should be used, but the part about when high LPC leadership would be more effective received less support. Even though the theory was not supported in its entirety, it is a useful framework to think about when task- versus people-oriented leadership may be more effective. Moreover, the theory is important because of its explicit recognition of the importance of the context of leadership.

Table 3.8.1: Situational Favorableness

Situation Favorableness	Leader-subordinate Relations	Position Power	Task Structure	Best Style
Favorable	Good	High	High	Low LPC Leader
	Good	High	Low	
	Good	Low	High	
Medium	Good	Low	Low	High LPC Leader
	Poor	High	High	
	Poor	High	Low	
	Poor	Low	High	
Unfavorable	Poor	Low	Low	Low LPC Leader

(Source: Fiedler, 1967)

Situational Leadership

Another contingency approach to leadership is Kenneth Blanchard and Paul Hersey's Situational Leadership Theory (SLT) which argues that leaders must use different leadership styles depending on their followers' development level (Hersey et al., 2007). According to this model, employee readiness (defined as a combination of their competence and commitment levels) is the key factor determining the proper leadership style.

The model summarizes the level of directive and supportive behaviors that leaders may exhibit. The model argues that to be effective, leaders must use the right style of behaviors at the right time in each employee's development. It is recognized that followers are key to a leader's success. Employees who are at the earliest stages of developing are seen as being highly committed but with low competence for the tasks. Thus, leaders should be highly directive and less supportive. As the employee becomes more competent, the leader should engage in more coaching behaviors. Supportive behaviors are recommended once the employee is at moderate to high levels of competence. And finally, delegating is the recommended approach for leaders dealing with employees who are both highly committed and highly competent. While the SLT is popular with managers, relatively easy to understand and use, and has endured for decades, research has been mixed in its support of the basic assumptions of the model (Blank et al., 1990; Graeff, 1983; Fernandez & Vecchio, 2002). Therefore, while it can be a useful way to think about matching behaviors to situations, overreliance on this model, at the exclusion of other models, is premature.

Table 3.8.2: Situational Leadership Theory

Follower Readiness Level	Competence (Low)	Competence (Low)	Competence (Moderate to High)	Competence (High)
	Commitment (High)	Commitment (Low)	Commitment (Variable)	Commitment (High)
Recommended Leader Style	Directing Behavior	Coaching Behavior	Supporting Behavior	Delegating Behavior

Situational Leadership Theory helps leaders match their style to follower readiness levels.

Path-Goal Theory of Leadership

Robert House's path-goal theory of leadership is based on the expectancy theory of motivation (1971). Expectancy theory of motivation suggests that employees are motivated when they believe—or expect—that (1) their effort will lead to high performance, (2) their high performance will be rewarded, and (3) the rewards they will receive are valuable to them. According to the path-goal theory of leadership, the leader's main job is to make sure that all three of these conditions exist. Thus, leaders will create satisfied and high-performing employees by making sure that employee effort leads to performance, and that their performance is rewarded. The leader removes roadblocks along the way and creates an environment that subordinates find motivational.

The theory also makes specific predictions about what type of leader behavior will be effective under which circumstances (House, 1996; House & Mitchell, 1974). The theory identifies four leadership styles: directive, supportive, participative, and achievement-oriented. Each of these styles can be effective, depending on the characteristics of employees (such as their ability level, preferences, locus of control, achievement motivation) and characteristics of the work environment (such as the level of role ambiguity, the degree of stress present in the environment, the degree to which the tasks are unpleasant).

1. **Directive leaders** provide specific directions to their employees. They lead employees by clarifying role expectations, setting schedules, and making sure that employees know what to do on a given workday. The theory predicts that the directive style will work well when employees are experiencing role ambiguity on the job. If people are unclear about how to go about doing their jobs, giving them specific directions

will motivate them. However, if employees already have role clarity, and if they are performing boring, routine, and highly structured jobs, giving them direction does not help. In fact, it may hurt them by creating an even more restricting atmosphere. Directive leadership is also thought to be less effective when employees have high levels of ability. When managing professional employees with high levels of expertise and job-specific knowledge, telling them what to do may create a low empowerment environment, which impairs motivation.

2. **Supportive leaders** provide emotional support to employees. They treat employees well, care about them on a personal level, and are encouraging. Supportive leadership is predicted to be effective when employees are under a lot of stress or when they are performing boring and repetitive jobs. When employees know exactly how to perform their jobs but their jobs are unpleasant, supportive leadership may also be effective.
3. **Participative leaders** make sure that employees are involved in making important decisions. Participative leadership may be more effective when employees have high levels of ability and when the decisions to be made are personally relevant to them. For employees who have a high internal locus of control, or the belief that they can control their own destinies, participative leadership gives employees a way of indirectly controlling organizational decisions, which will be appreciated.
4. **Achievement-oriented leaders** set goals for employees and encourage them to reach their goals. Their style challenges employees and focuses their attention on work-related goals. This style is likely to be effective when employees have both high levels of ability and high levels of achievement motivation.

Table 3.8.3: Predictions of Path-Goal Theory

<table>
<tr><th>Situation</th><th>Appropriate Leadership Style</th></tr>
<tr><td>When employees have high role ambiguity</td><td rowspan="3">Directive</td></tr>
<tr><td>When employees have low abilities</td></tr>
<tr><td>When employees have external locus of control</td></tr>
<tr><td>When tasks are boring and repetitive</td><td rowspan="2">Supportive</td></tr>
<tr><td>When Tasks are stressful</td></tr>
<tr><td>When employees have high abilities</td><td rowspan="3">Participative</td></tr>
<tr><td>When the decision is relevant to employees</td></tr>
<tr><td>When employees have high internal locus of control</td></tr>
<tr><td>When employees have high abilities</td><td rowspan="2">Achievement-oriented</td></tr>
<tr><td>When employees have high achievement motivation</td></tr>
</table>

(Information in the table based on House, 1996; House & Mitchell, 1974)

The path-goal theory of leadership has received partial but encouraging levels of support from researchers. Because the theory is highly complicated, it has not been fully and adequately tested (House & Aditya, 1997; Stinson & Johnson, 1975; Wofford & Liska, 1993). The theory's biggest contribution may be that it highlights the importance of a leader's ability to change styles, depending on the circumstances. Unlike Fiedler's contingency theory, in which the leader's style is assumed to be fixed and only the environment can be changed, House's path-goal theory underlines the importance of varying one's style, depending on the situation.

Vroom and Yetton's Normative Decision Model

Yale School of Management professor Victor Vroom and his colleagues Philip Yetton and Arthur Jago developed a decision-making tool to help leaders determine how much involvement they should seek when making decisions (Vroom, 2000; Vroom & Yetton, 1973; Jago & Vroom, 1980; Vroom & Jago, 1988). The model starts by having leaders answer several key questions and working their way through a funnel based on their responses.

Let's try it. Imagine that you want to help your employees lower their stress so that you can minimize employee absenteeism. There are a number of approaches you could take to reduce employee stress, such as offering gym memberships, providing employee assistance programs, establishing a nap room, and so forth. Let's refer to the model and start with the first question. As you answer each question as high (H) or low (L), follow the corresponding path down the funnel.

1. ***Decision significance.*** The decision has high significance because the approach chosen needs to be effective at reducing employee stress for the insurance premiums to be lowered. In other words, there is a quality requirement to the decision. Follow the path through H.
2. ***Importance of commitment.*** Does the leader need employee cooperation to implement the decision? In our example, the answer is high, because employees may simply ignore the resources if they do not like them. Follow the path through H.
3. ***Leader expertise.*** Does the leader have all the information needed to make a high-quality decision? In our example, leader expertise is low. You do not have information regarding what your employees need or what kinds of stress reduction resources they would prefer. Follow the path through L.
4. ***Likelihood of commitment.*** If the leader makes the decision alone, what is the likelihood that the employees would accept it? Let's assume that the answer is Low. Based on the leader's experience with this group, they would likely ignore the decision if the leader makes it alone. Follow the path from L.
5. ***Goal alignment.*** Are the employee goals aligned with organizational goals? In this instance, employee and organizational goals may be aligned because you both want to ensure that employees are healthier. So let's say the alignment is high, and follow H.
6. ***Group expertise.*** Does the group have expertise in this decision-making area? The group in question has little information about which alternatives are costlier or more user-friendly. We'll say group expertise is low. Follow the path from L.
7. ***Team competence.*** What is the ability of this particular team to solve the problem? Let's imagine that this is a new team that just got together and they have little demonstrated expertise to work together effectively. We will answer this as low, or L.

Based on the answers to the questions we gave, the normative approach recommends consulting employees as a group. In other words, the leader may make the decision alone after gathering information from employees and is not advised to delegate the decision to the team or to make the decision alone with no input from the team members.

In Figure 3.8.1, Vroom and Yetton's leadership decision tree shows leaders which styles will be most effective in different situations.

Leadership Decision Tree

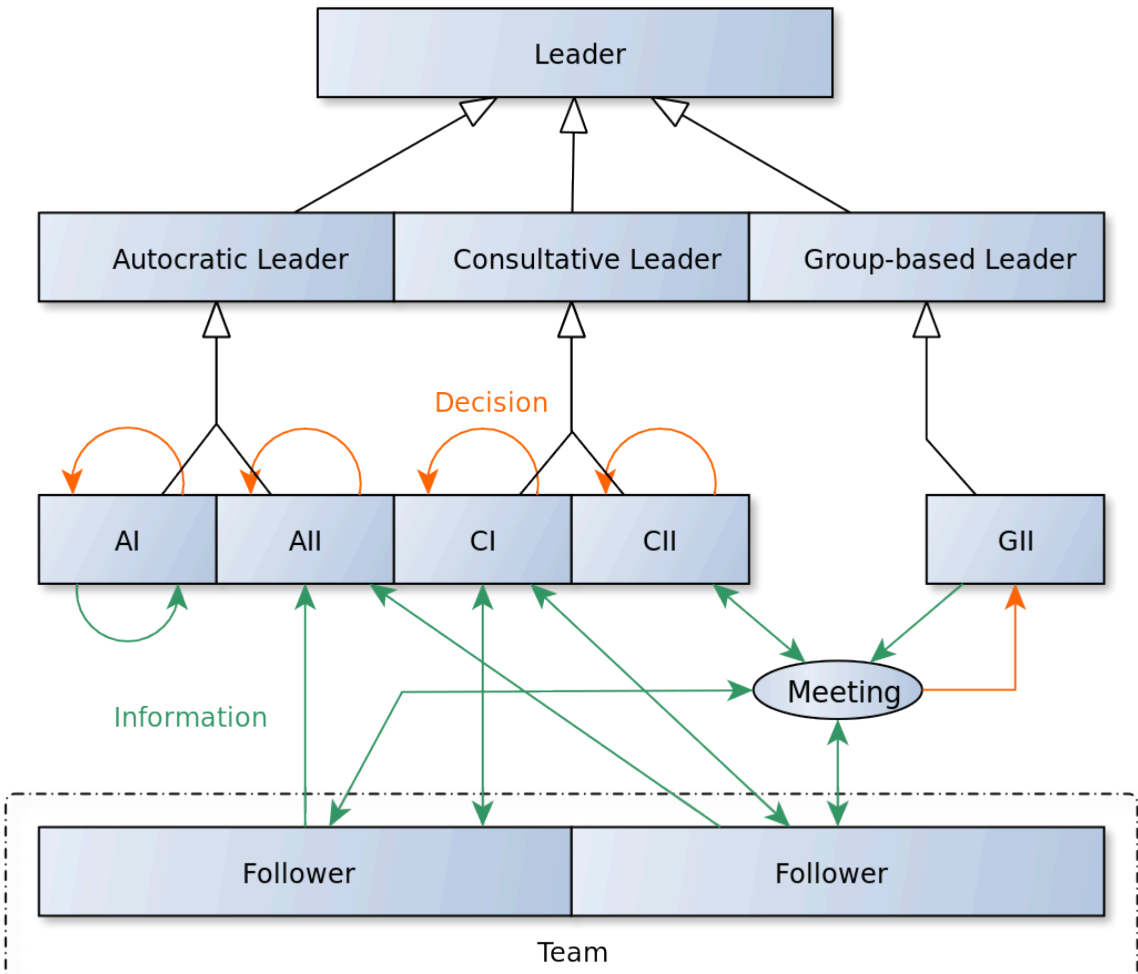

Figure 3.8.1: *"Vroom-Yetton Leader Styles" by MovGP0, licensed under CC BY-SA 3.0.*

Vroom and Yetton's model is somewhat complicated, but research results support the validity of the model. On average, leaders using the style recommended by the model tend to make more effective decisions compared with leaders using a style not recommended by the model (Vroom & Jago, 1978).

Cross-Cultural Context

Gabriel Bristol, the CEO of Intelifluence Live, a full-service customer contact center offering affordable inbound customer service, outbound sales, lead generation, and consulting services for small to mid-sized businesses, notes "diversity breeds innovation, which helps businesses achieve goals and tackle new challenges" (Bristol, 2016). *Multiculturalism* is a new reality as today's society and workforce become increasingly diverse. This naturally leads to the question "Is there a need for a new and different style of leadership?"

The vast majority of the contemporary scholarship directed toward understanding leaders and the leadership process has been conducted in North America and Western Europe. Westerners have "developed a highly romanticized, heroic view of leadership" (Meindl et al., 1985). Leaders occupy the center stage in organizational life. We use leaders in our attempts to make sense of the performance of our groups, clubs, organizations, and nations. We see them as key to organizational success and profitability, we credit them with organizational competitiveness, and we blame them for organizational failures. At the national level, recall that President Reagan brought down Communism and the Berlin Wall, President Bush won the Gulf War, and President Clinton brought unprecedented economic prosperity to the United States during the 1990s.

This larger-than-life role ascribed to leaders and the Western romance with successful leaders raises the question "How representative is our understanding of leaders and leadership across cultures?" That is, do the results that we have examined in this chapter generalize to other cultures?

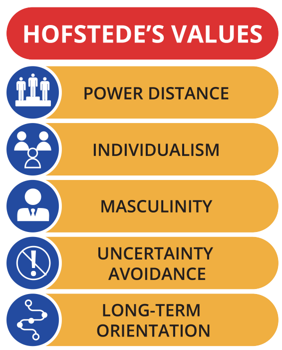

Figure 3.8.2: *"Hofstede's Values" by Alyssa Giles, CC BY-NC-SA 4.0.*

Geert Hofstede points out that significant value differences (individualism-collectivism, power distance, uncertainty avoidance, masculinity-femininity, and time orientation) cut across societies. Thus, leaders of culturally diverse groups will encounter belief and value differences among their followers, as well as in their own leader-member exchanges.

There appears to be a consensus that a universal approach to leadership and leader effectiveness does not exist. Cultural differences work to enhance and diminish the impact of leadership styles on group effectiveness. For example, when leaders empower their followers, the effect on job satisfaction in India has been found to be negative, while in the United States, Poland, and Mexico, the effect is positive (Robert et al., 2000). The existing evidence suggests similarities as well as differences in such areas as the effects of leadership styles, the acceptability of influence attempts, and the closeness and formality of relationships. The distinction between task and relationship-oriented leader behavior, however, does appear to be meaningful across cultures (Dorfman & Roonen, 1991). Leaders whose behaviors reflect support, kindness, and concern for their followers are valued and effective in Western and Asian cultures. Yet it is also clear that democratic, participative, directive and contingent-based rewards and punishment do not produce the same results across cultures. The United States is very different from Brazil, Korea, New Zealand, and Nigeria. The effective practice of leadership necessitates a careful look at, and understanding of, the individual differences brought to the leader-follower relationship by cross-cultural contexts (Dorfman et al. 1997).

Exercises

1. Do you believe that the least preferred coworker technique is a valid method of measuring someone's leadership style? Why or why not?
2. Do you believe that leaders can vary their style to demonstrate directive, supportive, achievement-oriented and participative styles with respect to different employees? Or does each leader tend to have a personal style that he or she regularly uses toward all employees?
3. What do you see as the limitations of the Vroom-Yetton leadership decision-making approach?

4. Which of the leadership theories covered in this section do you think are most useful, and least useful, to practicing managers? Why?

Key Takeaways

The contingency approaches to leadership describe the role the situation would play in choosing the most effective leadership style. Fiedler's contingency theory argued that task-oriented leaders would be most effective when the situation was the most and the least favorable, whereas relationship-oriented leaders would be effective when situational favorableness was moderate. Situational Leadership Theory takes the maturity level of followers into account. House's path-goal theory states that the leader's job is to ensure that employees view their effort as leading to performance and increase the belief that performance would be rewarded. For this purpose, leaders would use directive, supportive, participative, and achievement-oriented leadership styles, depending on what employees needed to feel motivated. Vroom and Yetton's normative decision model is a guide leaders can use to decide how participative they should be given decision environment characteristics. The effective practice of leadership also necessitates a careful look at, and understanding of, the individual differences brought to the leader-follower relationship by cross-cultural contexts.

3.9 Substitutes for and Neutralizers of Leadership

Learning Objectives

1. What does the concept "substitute for leadership" mean?

What does the concept "substitute for leadership" mean?

Several factors have been discovered that can substitute for or neutralize the effects of leader behavior (see Table 3.9.1) (Podsakoff et al., 1993; Kerr, 1977; Kerr & Jermier, 1978; Howell & Dorfman, 1981; Pierce et al., 1984).

Substitutes for leadership behavior can clarify role expectations, motivate organizational members, or satisfy members (making it unnecessary for the leader to attempt to do so). In some cases, these substitutes supplement the behavior of a leader. Sometimes it is a group member's characteristics that make leadership less necessary, as when a master craftsperson or highly skilled worker performs up to his or her own high standards without needing outside prompting. Sometimes the task's characteristics take over, as when the work itself—solving an interesting problem or working on a familiar job—is intrinsically satisfying. Sometimes the characteristics of the organization make leadership less necessary, as when work rules are so clear and specific that workers know exactly what they must do without help from the leader

Table 3.9.1: Substitutes for and Neutralizers of Leader Behavior

Substitutes for and Neutralizers of Leader Behavior		
	Leader Behavior Influenced	
Supportive or Neutralizer	**Substitute Leadership**	**Instrumental Leadership**
A. Subordinate Characteristics:		
1. Experience, ability, training		Substitute
2. "Professional" orientation	Substitute	Substitute
3. Indifference toward rewards offered by organization	Neutralizer	Neutralizer
B. Task Characteristics:		
1. Structured, routine, unambiguous task		Substitute
2. Feedback provided by task		Substitute
3. Intrinsically satisfying task	Substitute	
C. Organization Characteristics:		
1. Cohesive work group	Substitute	Substitute
2. Low position power (leader lacks control over organizational rewards)	Neutralizer	Neutralizer
3. Formalization (explicit plans, goals, areas of responsibility)		Substitute
4. Inflexibility (rigid, unyielding rules and procedures)		Neutralizer
5. Leader located apart from subordinates with only limited communication possible	Neutralizer	Neutralizer
Source: Adapted from *Leadership in organizations* by G. A. Yukl.		

Neutralizers of leadership, on the other hand, are not helpful; they prevent leaders from acting as they wish. A computer-paced assembly line, for example, prevents a leader from using initiating structure behavior to pace the line. A union contract that specifies that workers be paid according to seniority prevents a leader from dispensing merit-based pay. Sometimes, of course, neutralizers can be beneficial. Union contracts, for example, clarify disciplinary proceedings and identify the responsibilities of both management and labor. Leaders must be aware of the presence of neutralizers and their effects so that they can eliminate troublesome neutralizers or take advantage of any potential benefits that accompany them (such as the clarity of responsibilities provided by a union contract). If a leader's effectiveness is being neutralized by a poor communication system, for example, the leader might try to remove the neutralizer by developing (or convincing the organization to develop) a more effective system.

***Figure 3.9.1:** Focus of Attention. Photo by Karolina Grabowska, Pexels License.*

Followers differ considerably in their *focus of attention* while at work, thereby affecting the effectiveness of the act of leadership. Focus of attention is an employee's cognitive orientation while at work. It reflects what and how strongly an individual thinks about various objects, events, or phenomena while physically present at work. Focus of attention reflects an individual difference in that not all individuals have the same cognitive orientation while at work—some think a great deal about their job, their coworkers, their leader, or off-the-job factors, while others daydream (Gardner et al., 1989). An employee's focus of attention has both "trait" and "state" qualities. For example, there is a significant amount of minute-by-minute variation in an employee's focus of attention (the "state" component), and there is reasonable consistency in the categories of events that employees think about while they are at work (the "trait" component).

Research suggests that the more followers focus on off-job (non-leader) factors, the less they will react to the leader's behaviors. Thus, a strong focus on one's life "away from work" (for example, time with family and friends) tends to neutralize the motivational, attitudinal, and/or behavioral effects associated with any particular leader behavior. It has also been observed, however, that a strong focus on the leader, either positive or negative, enhances the impact that the leader's behaviors have on followers (Gardner, 1987).

Example: Managerial Leadership – You Are Now the Leader

Being a manager means something more than gaining authority or charge over former colleagues. With the title does come the power to affect company outcomes, but it also comes with something more: the power to shape the careers and personal growth of subordinates.

According to Steve Keating, a senior manager at the Toro Company, it is important not to assume that being made a manager automatically makes you a leader. Rather, being a manager means having the opportunity to lead. Enterprises need managers to guide processes, but the employees—the people—need a leader. Keating believes that leaders need a mindset that emphasizes people, and the leader's job is to help the people in the organization to be successful. According to Keating, "If you don't care for people, you can't lead them" (Hakim, 2017).

For someone who has been promoted over his peers, ground rules are essential. "Promotion doesn't mean the end of friendship but it does change it," according to Keating. If a peer has been promoted, rather than grouse and give in to envy, it is important to step back and look at the new manager; take a hard look at why the peer was promoted and what skill or characteristic made you a less appealing fit for the position (Hakim 2017).

Carol Walker, president of Prepared to Lead, a management consulting firm, advises new managers to develop a job philosophy. She urges new managers to develop a core philosophy that provides a guide to the day-to-day job of leading. She urges managers to build up the people they are leading and work as a “servant leader.” The manager’s perspective should be on employee growth and success. Leaders must bear in mind that employees don’t work for the manager; they work for the organization—and for themselves. Managers coordinate this relationship; they are not the center of it. Work should not be assigned haphazardly, but with the employee’s skills and growth in mind. “An employee who understands why she has been asked to do something is far more likely to assume true ownership for the assignment,” Walker says (Yakowicz, 2015). A leader’s agenda should be on employee success, not personal glory. Employees are more receptive when they recognize that their leader is working not for their own success, but for the employee’s success.

A survey from HighGround revealed one important item that most new managers and even many seasoned managers overlook: asking for feedback. Everyone has room for growth, even managers. Traditional management dictates a top-down style in which managers review subordinates. But many companies have found it beneficial to turn things around and ask employees, “How can I be a better manager?” Of course, this upward review only works if employees believe that their opinion will be heard. Managers need to carefully cultivate a rapport where employees don’t fear reprisals for negative feedback. Listening to criticism from those you are leading builds trust and helps ensure that as a manager, you are providing the sort of leadership that employees need to be successful (Kauflin, 2017). Showing respect and caring for employees by asking this simple question is inspiring—an important aspect of leadership itself. Whether asking for feedback or focusing on an employee’s fit with a particular job description, a leader helps guide employees through the day-to-day, builds a positive culture, and helps employees improve their skills.

Exercises

1. Identify and describe substitutes for leadership.
2. What do you think are the most important qualities of a leader? In a manager? Are your two lists mutually exclusive? Why?
3. How do you think a leader can use feedback to model the growth process for employees?

3.10 Key Terms

Key Terms

Achievement-oriented leaders set goals for employees and encourage them to reach their goals.

Authoritarian decision-making occurs when leaders make the decision alone without involving employees in the process.

Coercive power is the ability a person has through their formal role in the organization to bestow punishment by withholding or taking away something that they value.

Context refers to the situation that surrounds the leader and the followers.

Democratic decision-making occurs when employees participate in the process of decision making.

Directive leaders provide specific directions to their employees.

Emergent leaders arise from the dynamics and processes that unfold within and among a group of individuals as they endeavor to achieve a collective goal.

Expert power is personal power bestowed by those who believe an individual has the knowledge and skill sets that they themselves need.

Followers actively support and accept a leader's influence.

Formal leader is an individual who is recognized by those outside the group as the official leader of the group.

Formal leaders hold a position of authority and may use the power that comes from their position, as well as their personal power, to influence others.

Informal leader is not chosen by the organization but whom members of the group acknowledge as their leader.

Informal leaders are without a formal position of authority within the organization but demonstrate leadership by influencing others through personal forms of power.

Laissez-faire decision-making occurs when employees are left alone to make decisions with minimal guidance and involvement from the leader.

Leaders are people who influence the actions of others.

Leadership may be defined as the act of influencing others to work toward a goal.

Legitimate power is formally bestowed by the organization and gives an individual the "right" to influence them through a title which followers ought to obey.

Neutralizers of leadership can negate the influence a leader has by preventing them from acting as they wish.

Participative leaders make sure that employees are involved in making important decisions.

People-oriented leader behaviors focus on relationships and include showing concern for employee feelings and treating employees with respect.

Process of leadership is a complex, interactive, and dynamic working relationship between leader and followers that is built over time and is directed toward fulfilling the group's maintenance and task needs.

Referent power is not formally bestowed by the organization but rather by colleagues who want to associate and be accepted by an individual due to their admiration and respect for them.

Reward power is the ability a person has through their formal role in the organization to bestow rewards or outcomes.

Self-esteem the degree to which people are at peace with themselves and have an overall positive assessment of their self-worth and capabilities.

Self-monitoring refers to an individual's ability and willingness to read social cues and regulate their self-presentation to fit a particular situation.

Situational Leadership Theory (SLT) suggests the use of different leadership styles depending on the competence and commitment levels of followers.

Supportive leaders provide emotional support to employees.

Task-oriented leader behaviors involve structuring the roles of subordinates, providing them with instructions, and behaving in ways that will increase the performance of the group.

3.11 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4725#h5p-3

CHAPTER 4: VALUES-BASED LEADERSHIP AND CONTEMPORARY APPROACHES

Chapter Content

4.1 Values-Based and Contemporary Approaches to Leadership

What's in It for Me?

Reading this chapter will help you do the following:

1. Analyze the context for contemporary principles of leadership and management.
2. Identify key global trends.
3. Determine how globalization is affecting leadership and management principles and practices.
4. Explain the importance of value-based leadership (ethics).

Figure 4.1.1: *Contemporary leadership. Photo by Tima Miroshnichenko, Pexels License.*

In this chapter, you'll learn that some principles of leadership and management are enduring, but you'll also see that leaders need to be continually adapting to changing times. Global trends affect both the style and the substance of leadership. As the world becomes more global, managers find themselves leading workforces that may be distributed across the country—and the world. Workers are more educated, but more is expected of them.

The realm of managers is expanding, and the capacity to lead is a necessity in 21st-century workplaces. You will need to be a role model in the organization, setting the tone not just for *what* gets done but *how* it gets done. Increasingly, good business practice extends to stewardship, not just of the organization, but of the environment and community at large. Ethics and values-based leadership aren't just good ideas—they're vital to attracting talent and retaining loyal customers and business partners.

Views of Leadership Through the Ages

A leader is a dealer in hope.

—Napoleon

I suppose that leadership at one time meant muscle; but today it means getting along with people.

—Indira Gandhi

What leaders really do: set direction, align people, and motivate people.

—John Kotter (Kotter, 1990)

4.2 Case in Point: Hanna Andersson Corporation Changes for Good

Example: Hanna Andersson Corporation Changes for Good

Figure 4.2.1: *"Pajama Time" by Jessica Lucia, licensed under CC BY-NC-ND 2.0.*

Born from a desire to bring quality European-style children's clothing to the United States, Hanna Andersson Corporation has sold colorful clothing and accessories since 1983. Husband and wife co-founders, Tom and Gun (pronounced "gōōn") Denhart, started the Portland, Oregon–based company by distributing imported Swedish clothing from their home. Named for Gun's Swedish grandmother, the company now boasts over $100 million in annual sales and employs over 500 people. Growing from an exclusive mail-order catalog business in the early 1980s, today Hanna Andersson also distributes products online, in 29 retail stores nationwide, and through select specialty retailers.

Over the years, Hanna Andersson has shown that it deeply values its employees. The company provides supplemental child-care reimbursement to all employees—even part-time sales associates. Additional employee benefits include part-time and flexible work hours, considerable paid time off, and 8 hours per year of paid time for employees to volunteer in the community. More important, though, employees feel like they are part of the Hanna Andersson family. In fact, in the beginning, many of the employees were friends and family members of the Denharts.

It was important to the Denharts that they were involved in the decisions of the company and that those decisions took the quality of life issues into account. Gun states, “If you can create balance among your work, your community, your family, and your friends, then you’re going to be more satisfied.” Examples of this philosophy infusing Hanna Andersson include the establishment of HannaDowns, a clothing recycling program where customers can return used clothing and receive a 20% off coupon for their next purchase. The charitable nature of Hanna Andersson has continued through what is now the HannaHelps program. This program awards grants and donates products to schools and nonprofit groups, helping children in the community and around the world. In addition, under Gun’s leadership, Hanna Andersson established ongoing donations, 5% of pre-tax profits, to charities that benefit women and children.

The considerable growth and development the business experienced did not come without its challenges and necessary organizational change. In the 1990s and early 2000s, increased competition from other retailers and the introduction of online commerce posed some challenges for Hanna Andersson. The Denharts found themselves without a solid growth plan for the future. They worried that they might have lost sight of market forces. ‘Change’ was necessary if Hanna Andersson was to remain viable.

Realizing the need for help and direction, the Denharts decided to promote individuals from within the company to help initiate change and strategic growth, and in 1995, Phil Losca took the strategic lead as CEO. Hanna Andersson was then sold to a private equity firm in 2001 and has since changed ownership several times, leading to a new business direction for the company. After selling the business, Gun remained on the Hanna board of directors until 2007. She also served as chair of the Hanna Andersson Children’s Foundation from 2001 to 2006. She still partners with the company from time to time on charitable events in the community.

Under Phil’s steady leadership, the company opened several retail stores throughout the country in 2002 and established online commerce. In 2009, Hanna Andersson began distributing merchandise wholesale through retail partners such as Nordstrom and Costco. The implementation of each of these new distribution avenues required a great deal of change within the company. HR Vice President Gretchen Peterson explains, “The growth of the retail business required the greatest shift in our internal processes from both technical systems, to inventory planning and buying to distribution processes to our organizational communication and HR processes (recruitment, compensation, etc.), as well as our marketing communication programs.” Tenured employees throughout the company found themselves in unfamiliar territory, unsure of the company’s future as the board and owners debated the risks and rewards of retail expansion. Fortunately, the changes were mostly offset by a consistent leadership team. Petersen, who has been with the company since 1994, explains, “From 1995 to 2010, we retained the same CEO (Losca) and therefore, the face of the company and the management style did not fluctuate greatly.”

When Losca retired in early 2010, chief operating officer Adam Stone took over as CEO. He helped his company weather yet another transition with a calm push for changes within the company. To help understand different points of view at Hanna Andersson, Stone often sat in on inventory and operational planning meetings. Step by step, Stone was able to break down work initiatives so the continuing changes were not so overwhelming to the company and its valued employees. Over time, his and other company leaders' presence has helped employees make better, more strategic decisions. Rather than resisting change, they now feel heard and understood.

The decision to sell wholesale turned out to be a good one, as it has enabled the company to weather the recession's negative effect on retail and online purchases. Accounting for approximately 10% of total sales, the company's wholesale business is expected to boost yearly revenue by 5%. With more conscientious inventory purchases and strategic distribution initiatives, Hanna Andersson has realized a higher sales volume, lower inventory at year-end, and less liquidation. Through it all, company management has done an effective job at interpreting the desired growth goals of its owners while inspiring change within the company. With continued clear communication, direction, and willingness to try new techniques, Hanna Andersson is poised for growth and success in the future while not forgetting to take care of its employees.

Exercises

1. How has Hanna Andersson applied values-based leadership in terms of the organization's choices related to P-O-L-C?
2. How did company leaders like Iosca, Petersen, and Stone help facilitate change within the company? Did they remain consistent with the values of the founders?
3. What were the reasons for organizational change within Hanna Andersson, both internally and externally?
4. What unique challenges do family-owned and -operated businesses face?
5. How did the mission of Hanna Andersson evolve over time?

4.3 Contemporary Approaches to Leadership

Learning Objectives

1. Determine the difference between transformational and transactional leaders.
2. Define charismatic leadership and how it relates to leader performance.
3. Describe how high-quality leader-subordinate relationships develop.
4. Define servant leadership and evaluate its potential for leadership effectiveness.
5. Identify authentic leadership and evaluate its potential for leadership effectiveness.

What leadership theories make the greatest contributions to today's business environment? In this section, we will review the most recent developments in the field of leadership. *You will find more information on the next page regarding transformational, authentic, and ethical leadership from the viewpoint of vulnerability and values-based leadership.*

Transformational Leadership

Transformational leadership theory is a recent addition to the literature, but more research has been conducted on this theory than all the contingency theories combined. The theory distinguishes between transformational and transactional leaders. **Transformational leaders** lead employees by aligning employee goals with the leader's goals. Thus, employees working for transformational leaders start focusing on the company's well-being rather than on what is best for them as individual employees. However, **transactional leaders** ensure that employees demonstrate the right behaviors because the leader provides resources in exchange (Bass, 1985; Burns, 1978).

Transformational leaders have four tools in their possession, which they use to influence employees and create commitment to the company goals (Bass, 1985; Burns, 1978; Row et al., 1995; Judge & Piccolo, 2004). First, transformational leaders are charismatic. **Charisma** refers to behaviors leaders demonstrate that inspire confidence, commitment, and admiration toward the leader (Shamir et al., 1993). Charismatic individuals have a "magnetic" personality that is appealing to followers. Leaders such as Barack Obama, John F. Kennedy, Ronald Reagan, Mahatma Gandhi, Mustafa Kemal Ataturk (founder of the Republic of Turkey), and Winston Churchill are viewed as charismatic. Second, transformational leaders are sometimes referred to as engaging in **visionary leadership** because they use **inspirational motivation** or come up with a vision that is inspiring to others. Third is the use of **intellectual stimulation**, which means that they challenge organizational norms and status quo, and they encourage employees to think creatively and work harder. Finally, they use **individualized consideration**, which means that they show personal care and concern for the well-being of their followers. Examples of transformational business leaders include Steve Jobs of Apple; Lee Iacocca, who transformed Chrysler in the 1980s; and Jack Welch, who was the CEO of General Electric for 20 years. Each of these leaders is charismatic and is held responsible for the turnarounds of their companies.

While transformational leaders rely on their charisma, persuasiveness, and personal appeal to change and inspire their companies, transactional leaders use three other methods. **Contingent rewards** mean rewarding employees for their accomplishments. **Active management by exception** involves leaving employees to do their jobs without interference, but at the same time proactively predicting potential problems and preventing them from occurring. **Passive management by exception** is similar in that it involves leaving employees alone, but in this method, the manager waits until something goes wrong before coming to the rescue.

Which leadership style do you think is more effective, transformational or transactional? Research shows that transformational leadership is a powerful influence over leader effectiveness as well as employee satisfaction (Judge & Piccolo, 2004). In fact, transformational leaders increase the intrinsic motivation of their followers, build more effective relationships with employees, increase performance and creativity of their followers, increase team performance, and create higher levels of commitment to organizational change efforts (Herold et al., 2008; Piccolo & Colquitt, 2006; Schaubroeck et al., 2007; Shin & Zhou, 2003; Wang et al., 2005). However, except for passive management by exception, the transactional leadership styles are also effective, and they also have positive influences over leader performance as well as employee attitudes (Judge & Piccolo, 2004). To maximize their effectiveness, leaders are encouraged to demonstrate both transformational and transactional styles. They should also monitor themselves to avoid demonstrating passive management by exception or leaving employees to their own devices until problems arise.

Why is transformational leadership more effective? The key factor may be **trust**. Trust is the belief that the leader will show integrity, fairness, and predictability in his or her dealings with others. Research shows that when leaders demonstrate transformational leadership behaviors, followers are more likely to trust the leader. The tendency to trust transactional leaders is substantially lower. Because transformational leaders express greater levels of concern for people's well-being and appeal to people's values, followers are more likely to believe that the leader has a trustworthy character (Dirks & Ferrin, 2002).

Is transformational leadership genetic? Some people assume that charisma is something people are born with. You either have charisma or you don't. However, research does not support this idea. We must acknowledge that there is a connection between some personality traits and charisma. Specifically, people who have a neurotic personality tend to demonstrate lower levels of charisma, and people who are extraverted tend to have higher levels of charisma. However, personality explains only around 10% of the variance in charisma (Bono & Judge, 2004). A large body of research has shown that it is possible to train people to increase their charisma and increase their transformational leadership (Barling et al., 1996; Dvir et al., 2002; Frese et al., 2003).

Figure 4.3.1: *Mustafa Kemal Ataturk, the founder of Turkish Republic and its first president, is known as a charismatic leader. He is widely admired and respected in Turkey and around the world. His picture appears in all schools, state buildings, denominations of Turkish lira, and in many people's homes in Turkey. "Mustafa Kemla Atatürk statue" by brew books, licensed under CC BY-SA 2.0.*

Even if charisma may be teachable, a more fundamental question remains: is it really needed? Charisma is only one element of transformational leadership and leaders can be effective without charisma. In fact, charisma has a dark side. For every charismatic hero such as Lee Iacocca, Steve Jobs, and Virgin's Sir Richard Branson, there are charismatic personalities who harmed their organizations or nations, such as Adolph Hitler of Germany and Jeff Skilling of Enron. Leadership experts warn that when organizations are in a crisis, a board of directors or hiring manager may turn to heroes who they hope will save the organization and sometimes hire people who have no other particular qualifications outside of perceived charisma (Khurana, 2002).

An interesting study shows that when companies have performed well, their CEOs are perceived as charismatic, but CEO charisma has no relation to the future performance of a company (Agle et al., 2006). So, what we view as someone's charisma may be largely because of their association with a successful company, and the success of a company depends on a large set of factors, including industry effects and historical performance. While it is true that charismatic leaders may sometimes achieve great results, the search for charismatic leaders under all circumstances may be irrational. See the next page for more information on transformational leadership.

Leader-Member Exchange Theory

Leader-member exchange (LMX) theory proposes that the type of relationship leaders have with their followers is the key to understanding how leaders influence employees. Leaders form different types of relationships with their employees. In **high-quality LMX relationships**, the leader forms a trust-based relationship with the member. The leader and members like each other, help each other when needed, and respect one another. In these relationships, the leader and the member are both ready to go above and beyond their job descriptions to promote the other's ability to succeed. In contrast, in **low-quality LMX relationships**, the leader and the member have lower levels of trust, liking, and respect toward each other. These relationships do not have to involve actively disliking each other, but the leader and member do not go beyond their formal job descriptions in their exchanges. In other words, the member does his or her job, the leader provides rewards and punishments, and the relationship does not involve high levels of loyalty or obligation toward each other (Dansereau et al., 1975; Erdogan & Liden, 2002; Gerstner & Day, 1997; Graen & Uhl-Bien, 1995; Liden & Maslyn, 1998).

Figure 4.3.2: *Factors Contributing to the Development of a High-Quality Leader-Member Exchange and Its Consequences*

If you have work experience, you may have witnessed the different types of relationships managers form with their employees. In fact, many leaders end up developing very different relationships with different followers. Within the same workgroup, they may have in-group members who are close to them and out-group members who are more distant. If you have ever been in a high-quality LMX relationship with your manager, you may attest to its advantages. Research shows that high-quality LMX members are more satisfied with their jobs, more committed to their companies, have higher levels of clarity about what is expected of them, and perform at a higher level (Gerstner & Day, 1997; Hui et al., 1999; Kraimer et al., 2001; Liden et al., 2000; Settoon et al., 1996; Tierney et al., 1999; Wayne et al., 1997). Their high levels of performance may not be a surprise because they may receive higher levels of resources and help from their leaders as well as more information and guidance. If they have questions, these employees feel more comfortable seeking feedback or information (Chen et al., 2007). Because of all the help, support, and guidance they receive, those employees who have a good relationship with the manager are in a better position to perform well. Given all they receive, these employees are motivated to reciprocate to the manager, and therefore they demonstrate higher levels of citizenship behaviors such as helping the leader and coworkers (Ilies et al., 2007). Being in a high-quality LMX relationship is also advantageous because a high-quality relationship is a buffer against many stressors, such as being a misfit in a company, having personality traits that do not match job demands, and having unmet expectations (Bauer et al., 2006; Erdogan et al., 2004; Major et al., 1995). The list of benefits high-quality LMX employees receive is long, and it is not surprising that these employees are less likely to leave their jobs (Ferris, 1985; Graen et al., 1982).

The problem, of course, is that not all employees have a high-quality relationship, and those who are in the leader's out-group may suffer as a result. But how do you end up developing such a high-quality relationship with the leader? That seems to depend on many factors. Leaders can help develop such a high-quality and trust-based relationship by treating employees in a fair and dignified manner (Masterson et al., 2000). They can also test to see whether the employee is trustworthy by delegating certain tasks when the employee first starts working with the manager (Bauer et al., 1996). Employees also have an active role in developing the relationship.

Employees can seek feedback to improve their performance, be open to learning new things on the job, and engage in political behaviors such as flattery (Colella & Varma, 2001; Maslyn & Uhl-Bien, 2001; Janssen & Van Yperen, 2004; Wing et al., 2007).

Interestingly, high performance on the employee's part does not seem to be enough to develop a high-quality exchange with the leader. Instead, interpersonal factors such as personality similarity and liking are more powerful influences over how the relationship develops (Engle & Lord, 1997; Liden et al., 1993; Wayne et al., 1997). Finally, relationship development occurs in a slightly different manner in different types of companies; corporate culture matters in how leaders develop these relationships. In performance-oriented cultures, how the leader distributes rewards seem to be the relevant factor, whereas in people-oriented cultures, whether the leader treats people with dignity is more relevant (Erdogan et al., 2006).

Should you worry if you do not have a high-quality relationship with your leader? One problem in a low-quality exchange is that you may not have access to the positive work environment available to the high-quality LMX members. Second, low LMX employees may feel that their situation is unfair. Even when their objective performance does not warrant it, those who have a good relationship with the leader tend to receive positive performance appraisals (Duarte et al., 1994). Moreover, they are more likely to be given the benefit of the doubt. For example, when they succeed, the manager is more likely to think that they succeeded because they put forth a lot of effort and they had high abilities, whereas, for low LMX members who perform objectively well, the manager is less likely to think so (Heneman et al., 1989). In other words, the leader may interpret the same situation differently, depending on which employee is involved and may reward low LMX employees less even when they are performing well. In short, those with a low-quality relationship with the leader may experience a work environment that may not be very supportive or fair.

Despite its negative consequences, we cannot say that all employees want to have a high-quality relationship with the leader. Some employees may genuinely dislike the leader and may not value the rewards in the leader's possession. If the leader is not well-liked in the company and is known as abusive or unethical, being close to such a person may imply guilt by association. For employees who have no interest in advancing their careers in the current company (such as a student employee who is working in retail but has no interest in retail as a career), having a low-quality exchange may afford the opportunity to just do one's job without having to go above and beyond these job requirements. Finally, not all leaders are equally capable of influencing their employees by having a good relationship with their employees: It also depends on the power and influence of the leader in the overall company and how the leader himself or herself is treated within the company. Leaders who are more powerful will have more to share with employees who are close to them (Erdogan & Enders, 2007; Sparrowe & Liden, 2005; Tangirala et al., 2007).

What LMX theory implies for leaders is that one way of influencing employees is through the types of relationships leaders form with their employees. These relationships develop naturally because of the work-related and personal interactions between the manager and the employee. Because they occur naturally, some leaders may not be aware of the power that lies in them. These relationships have an important influence on employee attitudes and behaviors. In the worst case, they have the potential to create a negative work environment characterized by favoritism and unfairness. Therefore, managers are advised to be aware of how they build these relationships; put forth effort in cultivating these relationships consciously; be open to forming good relationships with people from all backgrounds regardless of their permanent characteristics such as sex, race, age, or disability status; and prevent these relationships from leading to an unfair work environment.

Self-Assessment: Rate Your LMX

Answer the following questions using 1 = not at all, 2 = somewhat, 3 = fully agree

1. _____ I like my supervisor very much as a person.
2. _____ My supervisor is the kind of person one would like to have as a friend.
3. _____ My supervisor is a lot of fun to work with.
4. _____ My supervisor defends my work actions to a superior, even without complete knowledge of the issue in question.
5. _____ My supervisor would come to my defense if I were "attacked" by others.
6. _____ My supervisor would defend me to others in the organization if I made an honest mistake.
7. _____ I do work for my supervisor that goes beyond what is specified in my job description.
8. _____ I am willing to apply extra efforts, beyond those normally required, to further the interests of my work group.
9. _____ I do not mind working my hardest for my supervisor.
10. _____ I am impressed with my supervisor's knowledge of his/her job.
11. _____ I respect my supervisor's knowledge of and competence on the job.
12. _____ I admire my supervisor's professional skills.

Scoring:

Add your score for 1, 2, 3 = _____ This is your score on the *Liking* factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of liking. A score of 5 to 6 indicates an average LMX in terms of liking. A score of 7+ indicates a high-quality LMX in terms of liking.

Add your score for 4, 5, 6 = _____ This is your score on the *Loyalty* factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of loyalty. A score of 5 to 6 indicates an average LMX in terms of loyalty. A score of 7+ indicates a high-quality LMX in terms of loyalty.

Add your score for 7, 8, 9 = _____ This is your score on the *Contribution* factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of contribution. A score of 5 to 6 indicates an average LMX in terms of contribution. A score of 7+ indicates a high-quality LMX in terms of contribution.

Add your score for 10, 11, 12 = _____ This is your score on the *Professional Respect* factor of LMX.

A score of 3 to 4 indicates a low LMX in terms of professional respect. A score of 5 to 6 indicates an average LMX in terms of professional respect. A score of 7+ indicates a high-quality LMX in terms of professional respect.

Source: Adapted from Liden & Maslyn, 1998.

Servant Leadership

The early 21st century has been marked by a series of highly publicized corporate ethics scandals: between 2000 and 2003, we witnessed Enron, WorldCom, Arthur Andersen, Qwest, and Global Crossing shake investor confidence in corporations and leaders. The importance of ethical leadership and keeping the long-term interests of stakeholders in mind is becoming more widely acknowledged.

Servant leadership approach defines the leader's role as serving the needs of others. According to this approach, the primary mission of the leader is to develop employees and help them reach their goals. Servant leaders put their employees first, understand their personal needs and desires, empower them, and help them develop in their careers. Unlike mainstream management approaches, the overriding objective in servant leadership is not necessarily getting employees to contribute to organizational goals. Instead, servant leaders feel an obligation to their employees, customers, and the external community. Employee happiness is seen as an end in itself, and servant leaders sometimes sacrifice their own well-being to help employees succeed. In addition to a clear focus on having a moral compass, servant leaders are also interested in serving the community. In other words, their efforts to help others are not restricted to company insiders, and they are genuinely concerned about the broader community surrounding their company (Greenleaf, 1977; Liden et al., 2008). According to historian Doris Kearns Goodwin, Abraham Lincoln was a servant leader because of his balance of social conscience, empathy, and generosity (Goodwin, 2005).

Even though servant leadership has some overlap with other leadership approaches such as transformational leadership, its explicit focus on ethics, community development, and self-sacrifice are distinct characteristics of this leadership style. Research shows that servant leadership has a positive effect on employee commitment, employee citizenship behaviors toward the community (such as participating in community volunteering), and job performance (Liden et al., 2008). Leaders who follow the servant leadership approach create a climate of fairness in their departments, which leads to higher levels of interpersonal helping behavior (Erhart, 2004).

Servant leadership is a tough transition for many managers who are socialized to put their own needs first, be driven by success, and tell people what to do. In fact, many of today's corporate leaders are not known for their humility! However, leaders who have adopted this approach attest to its effectiveness. David Wolfskehl, of Action Fast Print in New Jersey, founded his printing company when he was 24. He marks the day he started asking employees what he can do for them as the beginning of his company's new culture. In the next two years, his company increased its productivity by 30% (Buchanan, 2007).

Authentic Leadership

Leaders have to be a lot of things to a lot of people. They operate within different structures, work with different types of people, and they have to be adaptable. At times, it may seem that a leader's smartest strategy would be to act as a social chameleon, changing his or her style whenever doing so seems advantageous. But this would lose sight of the fact that effective leaders have to stay true to themselves. **The authentic leadership approach** embraces this value: its key advice is "be yourself." Think about it: We all have different backgrounds, different life experiences, and different role models. These trigger events over the course of our life that shape our values, preferences, and priorities. Instead of trying to fit into societal expectations about what a leader should be like, act like, or look like, authentic leaders derive their strength from their own past experiences. Thus, one key characteristic of authentic leaders is that they are self-aware. They are introspective, understand where they are coming from, and have a thorough understanding of their own values and priorities. Second, they are not afraid to act the way they are. In other words, they have high levels of personal integrity. They say what they think. They behave in a way consistent with their values—they practice what they preach. Instead of trying to imitate other great leaders, they find their style in their own personality and life experiences (Avolio & Gardner, 2005; Gardner et al., 2005; George, 2007; Ilies et al., 2005; Sparrowe, 2005).

One example of an authentic leader is Howard Schultz, the founder of Starbucks coffeehouses. As a child, Schultz witnessed the job-related difficulties his father experienced because of medical problems. Even though he had no idea he would have his own business one day, the desire to protect people was shaped in those years and became one of his foremost values. When he founded Starbucks, he became an industry pioneer in providing health insurance and retirement coverage to part-time as well as full-time employees (Shamir & Eilam, 2005).

Figure 4.3.3
"Howard-Schultz-Starbucks" by Sillygwailo, licensed under CC BY 2.5.

Authentic leadership requires understanding oneself. Therefore, in addition to self-reflection, feedback from others is needed to gain a true understanding of one's behavior and effect on others. Authentic leadership is viewed as a potentially influential style because employees are more likely to trust such a leader. Moreover, working for authentic leaders is likely to lead to greater levels of satisfaction, performance, and overall well-being on the part of employees (Walumbwa, et. al., 2008). Best-selling author Jim Collins studied companies that had, in his opinion, gone from good to great, and he found they had one thing in common (Collins, 2001). All of these companies had what he calls Level 5 leaders who build organizations through their personal humility and professional will. He notes that Level 5 leaders are modest and understated. In many ways, they can be seen as truly authentic leaders. See the next page for more information on transformational leadership.

Leadership Needs in the 21st Century

Frequent headlines in popular business magazines like *Fortune* and *Business Week* call our attention to a major movement going on in the world of business. Organizations are being reengineered and restructured, and network, virtual, and modular corporations are emerging. People talk about the transnational organization, the boundaryless company, the post-hierarchical organization. By the end of the decade, the organizations that we will be living in, working with, and competing against are likely to be vastly different from what we know today.

The transition will not be easy; uncertainty tends to breed resistance. We are driven by linear and rational thinking, which leads us to believe that "we can get there from here" by making some incremental changes in who we are and what we are currently doing. Existing paradigms frame our perceptions and guide our thinking. Throwing away paradigms that have served us well in the past does not come easily.

A look back tells most observers that the past decade has been characterized by rapid change, intense competition, an explosion of new technologies, chaos, turbulence, and high levels of uncertainty. A quick scan of today's business landscape suggests that this trend is not going away anytime soon. According to Professor Jay A. Conger from Canada's McGill University, "In times of great transition, leadership becomes critically important.

Leaders, in essence, offer us a pathway of confidence and direction as we move through seeming chaos. The magnitude of today's changes will demand not only *more* leadership but *newer forms* of leadership" (Conger, 1993).

According to Conger, two major forces are defining for us the genius of the next generation of leaders. The first force is the organization's external environment. Global competitiveness, supply chain disruption, a global pandemic, and the current war Russia is waging on Ukraine is creating unique leadership demands. The second force is the growing diversity in organizations' internal environments. Diversity will significantly change the relationship between organizational members, work, and the organization in challenging, difficult, and also very positive ways.

What will the leaders of tomorrow be like? Professor Conger suggests that the effective leaders of the 21st century will have to be many things (Conger, 1993). They will have to be *strategic opportunists;* only organizational visionaries will find strategic opportunities before competitors. They will have to be *globally aware*; with 80 percent of today's organizations facing significant foreign competition, knowledge of foreign markets, global economics, and geopolitics is crucial. They will have to be *capable of managing a highly decentralized organization*; movement toward the high-involvement organization will accelerate as the environmental demands for organizational speed, flexibility, learning, and leanness increase. They will have to be *sensitive to diversity*; as fewer numbers of those entering the workforce in North America will be white, Anglo-Saxon males, and the incoming women, minorities, and immigrants will bring with them a very different set of needs and concerns. They will have to be *interpersonally competent*; a highly diverse workforce will necessitate a leader who is extremely aware of and sensitive to multicultural expectations and needs. They will have to be *builders of an organizational community*; work and organizations will serve as a major source of need fulfillment, and in the process, leaders will be called on to help build this community in such a way that organizational members develop a sense of ownership for the organization and its mission.

Finally, it is important to note that leadership theory construction and empirical inquiry are an ongoing endeavor. While the study of traits, behavior, and contingency models of leadership provides us with a great deal of insight into leadership, the mosaic is far from complete. During a 15 year span, several new theories of leadership emerged including leader-member exchange theory, implicit leadership theory, neocharismatic theory, value-based theory, and visionary leadership (House & Aditya, 1997) Now we are seeing more literature around areas such as charismatic leadership, positive leadership, and conscious evolutionary leadership. There is also continuous research being done in other fields such as the social sciences that correlate to the study of leadership – some of that you will read in the next section on Vulnerability and Leadership. These lists are not exhaustive and are constantly evolving; together they all add to our bank of knowledge about leaders and the leadership process.

Leaders of the 21st-century organization have a monumental challenge awaiting them and a wealth of self-enriching and fulfilling opportunities. The challenge and rewards awaiting effective leaders are awesome!

Exercises

1. What are the characteristics of transformational leaders? Are transformational leaders more effective than transactional leaders?
2. What is charisma? What are the advantages and disadvantages of charismatic leadership? Should

organizations look for charismatic leaders when selecting managers?
3. What are the differences (if any) between a leader having a high-quality exchange with employees and being friends with employees?
4. What does it mean to be a servant leader? Do you know any leaders whose style resembles servant leaders? What are the advantages of adopting such a leadership style?
5. What does it mean to be an authentic leader? How would such a style be developed?

Key Takeaways

Contemporary approaches to leadership include transformational leadership, leader-member exchange, servant leadership, and authentic leadership. The transformational leadership approach highlights the importance of leader charisma, inspirational motivation, intellectual stimulation, and individualized consideration as methods of influence. Its counterpart is the transactional leadership approach, in which the leader focuses on getting employees to achieve organizational goals. According to the leader-member exchange (LMX) approach, the unique, trust-based relationships leaders develop with employees is the key to leadership effectiveness. Recently, leadership scholars started to emphasize the importance of serving others and adopting a customer-oriented view in leadership; another recent focus is on the importance of being true to oneself as a leader. While each leadership approach focuses on a different element of leadership, effective leaders will need to change their style based on the demands of the situation as well as using their own values and moral compass.

4.4 Vulnerability in Leadership

Introduction

Vulnerability research was popularized by Dr. Brené Brown through her years of research on shame. Utilizing vulnerability on a day-to-day basis can "demonstrate transparency and an openness to emotional exposure" (Lopez, 2018, ix) with others. This chapter aims to dive deeper into the measure of vulnerability as well as how it is closely related to trust, courage, self-awareness, and three leadership styles: authentic, ethical, and transformational.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=541#oembed-1

Watch this video: "The power of vulnerability" by Brené Brown [Time: 20:49](Transcript Available).

Vulnerability: Definition and Myths

Definitions of vulnerability among researchers vary but include similar components of putting trust in another (Lapidot et al., 2007), acknowledging failure (Ito & Bligh, 2017), and risking emotional exposure (Crouch, 2016; Brown, 2012a). Displaying vulnerability can also be a chance to embrace changes and challenges while feeling safe enough to acknowledge failure (Ito & Bligh, 2017). Vulnerability is emotional exposure (Brown, 2012a) that threatens the loss "of our own sense of self" (Crouch, 2016, p. 41). Cléro (2018) adds that "vulnerability should be differentiated from weakness or from the frailty that results from it" (p. 6). Brown goes on further to state that "we think about vulnerability as a dark emotion. We think of vulnerability at the core of fear and shame and grief and disappointment, things that we do not want to feel" (Brown, 2012a). Yet facing the difficult "dark emotion" can lead to "every positive emotion that we need in our lives: love, belonging, joy, empathy" (Brown, 2012a).

Vulnerability is "the emotion we experience during times of uncertainty, risk, and emotional exposure" (Brown, 2018, p. 19).

"When a leader embraces failure and shares vulnerability with humility, followers are able to connect with the leader at an emotional level and are more likely to share feelings of vulnerability themselves" (Ito & Bligh, 2017, p. 67). Some examples of actions that a vulnerable leader might take include reaching out to an employee with an ill child or family member, checking in with a coworker who experienced a recent loss, or taking responsibility for a mistake at work (Seppälä, 2014). "Collaboration, then, as a way to be morally accountable, requires a deep understanding of vulnerability: the generosity, humility, and patience needed to work through conflicts, misunderstandings, and miscommunications" (Pignatelli, 2011, p. 223).

In her book, *The Power of* Vulnerability, Brown identifies four myths regarding vulnerability, and then adds two more in *Dare to Lead* for a total of six:

1. Vulnerability is a character defect and weakness (Brown, 2012a).
2. "I don't do vulnerability" (Brown, 2012a).
3. "That we can create a culture in our family, in our work, and our big culture that we live in even and that we can do this alone" (Brown, 2012a).
4. "You can trust without vulnerability. It's a very chicken/egg proposition" (Brown, 2012a).
5. "Trust comes before vulnerability" (Brown, 2018, p. 29).
6. "Vulnerability is disclosure" (Brown, 2018, p. 34).

Vulnerability and Trust

Vulnerability directly involves the issue of trust (Brown, 2012a). Leaders "must be truthful and consistent in their behavior and must not arbitrarily disregard employees' suggestions and opinions on a regular basis" (Thrash, 2012, p. 4). The best place to work "is one where employees trust the people they work with, have pride in the work they do, and enjoy the people they work with" (Bush & Lewis-Kulin, 2018).

One leadership theory that directly relates to vulnerability and trust is the leader-member exchange theory. This is the theory "that leaders form relationships with their subordinates that fall into two broad groups: an in-group characterized by strong exchange relationships, and an out-group that lacks solid leader connections" (Miller, 2013). Members of the in-group tend to be high-performing employees who take on more responsibility and make greater contributions to an organization (Lunenburg, 2010). The leader takes more risks with members of the in-group, as higher risks correlate to a higher level of trust in the employee (Scandura & Pellegrini, 2008). Yet Scandura and Pellegrini found that a leader's trust is still vulnerable in relationships with in-group members (2008). It is possible the severity of the risk could be underestimated, leading to "a false expectation about the vulnerability of the leader" (Brower et al., 2000, p. 241).

Vulnerability and Courage

"Vulnerability is our most accurate measure of courage. To be vulnerable, to let ourselves be seen is incredibly difficult" (Brown, 2012a). "Courage is contagious. To scale daring leadership and build courage in teams and organizations, we have to cultivate a culture in which brave work, tough conversations, and whole hearts are the expectation, and armor is not necessary or rewarded" (Brown, 2018, p. 12). Brown notes that courage is part of one of the big paradoxes with vulnerability, "It's the first thing I look for in you but it's the last thing I want you to see in me. In you, it's courage, in me, it's inadequacy. In you, it's strength and lovability, in me, it's shame" (2012a).

Vulnerability and Authenticity/Self-Awareness

"How much we know ourselves is extremely important, but how we treat ourselves is the most important" (Brown, 2012a). As we grow up, "we experience pain, and shame, and struggle with worthiness, we shut down parts of ourselves. And we shut down those things that make us vulnerable" (Brown, 2012a). "If I have never expected my closest family members to emotionally support or connect with me, then I am unfamiliar with the experience of being emotionally vulnerable; being encouraged to do so would likely feel prohibitive and foreign" (Chenfeng et al., 2016, p. 562). "When individuals feel less vulnerable or more secure in their relationships with others, they are more likely to let others see them for who they really are" (Oc et al., 2020, p. 4).

Sané Bell wrote: "when I lack self-awareness as a leader and when I'm not connected with the intentions driving my thoughts, feelings, and actions, I limit the perspective and insights that I can share with the people I lead" (Brown, 2018, p. 179). "Leaders need to be authentic for their displays of humility to be effective" (Oc et al., 2020, p. 19). "Authenticity draws attention to who a leader is—whether framed in terms of identity, character, personality, or any other construct of selfhood" (Tomkins & Nicholds, 2017, p. 6). Sedikides, Slabu, Lenton, & Thomaes define authenticity as the "sense or feeling that one is in alignment with one's true or genuine self" (as cited in Oc et al., 2020, p. 1).

Avolio and Gardner (2005) describe authentic leaders as "self-aware and self-regulating individuals, whose beliefs and behaviors are anchored by a commitment to their 'true self'" (as cited in Tomkins & Nicholds, 2017, p. 6). "When leaders engage in reflective practices, their own goals and performance are likely to thrive" (Seefeld, 2016, p. 54). Kezar, Carducci, & Contreras-McGavin (2006) explain that "successful leaders are authentic and behave with consistency, can read the emotions of others, and attend to the emotional aspects of the organization" (as cited in Seefeld, 2016, p. 36).

Wallace and Tice (2012) note that an individual's desire to be socially accepted can affect whether they act authentically (Oc et al., 2020). Individuals often show an inauthentic version of themselves at work and may opt to do so because they feel vulnerable (as cited in Oc et al., 2020, p. 3). "At the same time, our capacity and need to take an action and demonstrate initiative speaks, equally, to our vulnerability and fragility, to the very real risk of inflicting both intended and unintended pain" (Pignatelli, 2011, p. 225).

Vulnerability and Gender/Identity

Fletcher (2004) reflects that traditional leadership characteristics tend to be masculine "such as individualism, control, assertiveness, and skills of advocacy and domination" while more modern characteristics are considered feminine "such as empathy, community, vulnerability, and skills of inquiry and collaboration" (p. 650). While people may instinctively think of the masculine traits when describing a leader, an effective leader needs to have an "androgynous combination of feminine and masculine traits" (Hoyt, 2010, p. 486), where men display slightly less assertiveness and women slightly more integrity . Gardner (2011) finds "authenticity carries masculine connotations in connection with the Enlightenment's rational subject" while Tomkins and Simpson (2015) note, "it can also be feminine, especially when the discourses of authentic and caring leadership are interwoven" (Tomkins & Nicholds, 2017, p. 20).

When discussing the myth of vulnerability as a weakness and that people don't "do vulnerability," Brown (2012a) notes that statement is "normally followed up by a gender comment or a professional comment" such as "I don't do vulnerability, I'm a dude" . "Encouraging leader humility in the workplace may not be an easy task given that many organizational leaders fear that expressing humility demonstrates a lack of competence to others" (Oc et al., 2020, p. 21).

"Despite being underrepresented, women are perceived to have more desirable leadership qualities than men" (Seefeld, 2016, p. 41). Bass (1990) notes that "women are more likely than men to adjust or 'modify' their leadership characteristics as they move up or down the hierarchical leadership ladder" (Seefeld, 2016, p. 100). Schreiber (2002) notes that "women continue to have perceptions about their position(s) in higher education, embracing a collaborative leadership style that can be misunderstood or disrespected, and at times, feeling out of sync with some male-dominated administrations" (as cited in Seefeld, 2016, p. 100)."We ask [men] to be vulnerable, we beg them to let us in, and we plead with them to tell us when they're afraid, but the truth is that most women can't stomach it. In those moments when real vulnerability happens in men, most of us recoil with fear and that fear manifests as everything from disappointment to disgust" (Brown, 2012b, p. 95).

Even more underrepresented are individuals who identify as non-binary (male or female). It is helpful that there is information that addresses an "androgynous combination of feminine and masculine traits" (Hoyt, 2010, p. 486), however, it is important to remember that these findings are not inclusive of all organizational members and that leaders need to update their own knowledge base as new research becomes available.

Leadership Styles

While there are numerous leadership theories and styles, Copeland (2016) found values-based leadership styles to be most effective in her research, namely authentic, ethical, and transformational leadership styles (p. 79). These three styles of leadership all involve some level of risk and will be featured in the study.

Authentic Leadership

Authentic leadership has been described as "the process whereby leaders are aware of their thoughts and behaviors within the context in which they operate" (Maximo et al., 2019, p. 2). Walumbwa et al. (2008) outline the components of authentic leadership as self-awareness (a leader's understanding of themselves including strengths and weaknesses), balanced processing (a leader's ability to make objective decisions after weighing all the evidence), and relational transparency (a leader's strength in communicating honest and genuine information as well as opinions) (Maximo et al., 2019, p. 2).

Michie and Gooty (2005) noted that emotions directed toward others motivate authentic leaders "to behave in ways that reflect self-transcendent values" (Avolio & Gardner, 2005, p. 318). For example, gratitude and appreciation (other-directed emotions) would be motivators for an authentic leader to model values of honesty and loyalty (Avolio & Gardner, 2005, p. 318).

While these components/traits are essential for an authentic leader, authentic leaders also have a significant impact on their organization and their followers (Maximo et al., 2019); thus, authentic leadership should focus on the relationship between the leader and the follower too (Avolio & Gardner, 2005). Authentic followers are likely to display the same behaviors and traits described above, paralleling those exhibited by their authentic leader (Avolio & Gardner, 2005). Followers may also show "increased levels of trust and a stronger willingness to cooperate" (Maximo et al., 2019, p. 3).

As with any relationship based on trust, both parties take a risk in being vulnerable (Maximo et al,. 2019). Detert and Burris (2007) find that employees or followers may not take the risk "if they perceive these risks to result in negative consequences" or if they cause embarrassment (Maximo, et al., 2019, p. 3).

Ethical Leadership

Brown et al. (2005) define ethical leadership as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making” (p. 120). Kaptein (2019) adds that an ethical leader is not just a moral person and manager but also a “moral entrepreneur who creates new norms” (p. 1136). This entrepreneurship should lead to the “development of both society and the trust of stakeholders” (Kaptein, 2019, p. 1136). Brown and Treviño (2014) find that “leaders who have had ethical role models are more likely to become ethical leaders” (Kaptein, 2019, p. 1135).

A leader needs to be “perceived as attractive, credible, and legitimate” in order to be an effective and influential ethical leader (Brown et al., 2005, p. 120). Kalshoven et al. (2011) also find that ethical leaders tend to be agreeable and conscientious (Kaptein, 2019). Brown et al. (2005) studied how MBA students described a leader they perceived as ethical. The results included a leader who listens, keeps their followers’ best interests in mind, is a role model when it comes to ethics, applies discipline when ethics are violated, makes fair decisions, and can be trusted (Kaptein, 2019).

Kaptein (2019) argues that ethical leadership is even an important part of transformational and authentic leadership “because ethics lies at the heart of leadership” (p. 1136).

Transformational Leadership

Bass and Riggio (2006) describe transformational leadership as motivating others through a common mission or challenge that empowers followers and encourages them to develop as leaders (p. 3). Transformational leaders tend to have more satisfied, committed followers with elevated work performances (Bass & Riggio, 2006). This style of leadership addresses “the follower’s sense of self-worth” (Bass & Riggio, 2006, p. 4). Carleton, Barling, and Trivisonno (2018) also found a strong connection between a leader’s trait mindfulness and their positive actions as a transformational leader.

The components of transformational leadership include idealized influence (acting as a strong role model), inspirational motivation (motivating others through a shared vision or common goal), intellectual stimulation (encouraging followers to find creative and innovative solutions), and individualized consideration (paying attention to each follower’s needs and adjusting mentoring strategies to fit those needs) (Bass & Riggio, 2006). Individualized consideration is most important when it comes to vulnerability as it “involves leaders creating relationships with followers that demonstrate care and attention with follower’s needs and emotions” (Simonis, 2015, p. 7). A leader who applies individualized consideration tends to build relationships with a greater level of trust (Simonis, 2015).

A concern regarding transformational leadership is that a leader could lead their followers astray with “destructive” and “selfish” motivations, making a leader’s authenticity vital in a successful relationship (Bass & Riggio, 2006, p. 4).

Ethics in Practice

Uber's Need for an Ethical Leader

Almost since its initial founding in 2009 as a luxury car service for the San Francisco area, controversy has followed Uber. Many complaints are against the tactics employed by the company's founder and former CEO, Travis Kalanick, but the effects are found throughout the business and its operations.

In 2009, UberBlack was a "black car" service, a high-end driving service that cost more than a taxi but less than hiring a private driver for the night. It wasn't until 2012 that the company launched UberX, the taxi-esque service most people think of today when they say "Uber." The UberX service contracted with private drivers who provided rides in their personal vehicles. A customer would use Uber's smartphone app to request the ride, and a private driver would show up. Originally launched in San Francisco, the service spread quickly, and by 2017, Uber was in 633 cities. The service was hailed by many as innovative and the free market's answer to high-priced and sometimes unreliable taxi services. But Uber has not been without its critics, both inside and outside of the company.

In 2013, as the UberX service spread, some UberBlack drivers protested at the company's headquarters complaining about poor company benefits and pay. They also claimed that competition from the newly launched UberX service was cutting into their sales and undermining job security. Kalanick rebuffed the protests, basically calling the complaints sour grapes: most of the protestors had been laid off earlier for poor service (Lawler, 2013). Controversy also arose over the use of contract drivers rather than full-time employees. Contractors complained about a lack of benefits and low wages. Competitors, especially taxi services, complained that they were being unfairly undercut because Uber didn't have to abide by the same screening process and costs that traditional yellow taxi companies did. Some municipalities agreed, arguing further that Uber's lack of or insufficient screening of drivers put passengers at risk.

Uber quickly generated a reputation as a bully and Kalanick as an unethical leader (Ann, 2016). The company has been accused of covering up cases of sexual assault, and Kalanick himself has been quoted as calling the service "Boob-er," a reference to using the service to pick up women (Ann, 2016). Uber has been criticized for its recruiting practices; in particular, it has been accused of bribing drivers working for competitors to switch over and drive for Uber (Ann, 2016). The company was also caught making false driver requests for competing companies and then canceling the order. The effect was to waste the other driver's time and make it more difficult for customers to secure rides on the competing service (D'Orazio, 2014). Susan J. Fowler, the former site reliability engineer at Uber, went public with cases of outright sexual harassment within Uber (Fowler, 2017). Former employees described Uber's corporate culture as an "a**hole culture" and a "'Hobbesian jungle' where you can never get ahead unless someone else dies." (Wong, 2017) One employee described a leadership that encouraged a company's practice of developing incomplete solutions for the purpose of beating the competitor to market. Fowler went so far as to compare the experience to Game of Thrones, and other former employees even consider "making it" at Uber a black mark on a resume (Wong, 2017).

In terms of social acrimony and PR disasters, arguably caused or even encouraged by leadership, Uber's rise to notoriety has arguably been more bad than good. In June 2017, Kalanick made one too many headlines and agreed to step down as the company's CEO.

Exercises

1. In the summer of 2017, Transport of London (TfL) began proceedings to revoke Uber's permit to operate in London. How do think Uber's poor corporate reputation may have been a factor in TfL's thinking?
2. What steps do you think Uber's new CEO, Dara Khosrowshahi, needs to take to repair Uber's reputation?
3. Despite Uber's apparent success in launching in multiple markets, it continues to post quarterly losses in the millions and shareholders effectively subsidize 59 percent of every ride (https://www.reuters.com/article/us-uber-profitability/true-price-of-an-uber-ride-in-question-as-investors-assess-firms-value-idUSKCN1B3103). How is this an outworking of Uber's overall corporate culture?

4.5 Contemporary Principles of Leadership and Management

Learning Objectives

1. Recognize organizations as social movements.
2. List the benefits of social networking.
3. Recognize learning organizations.
4. Define virtual organizations.

Corporations as Social Movements

Traditionally, we've thought of corporations as organizations that had clear boundaries, formal procedures, and well-defined authority structures. In contrast, social movements are seen as more spontaneous and fluid. The term **social movement** refers to a type of group action that is focused on specific political or social issues; examples include the civil rights movement, the feminist movement, and the gay rights movement. Leaders of social movements depend on charisma rather than authority to motivate participants to action. Contemporary management theory, however, is showing that the lines between the two are blurring: corporations are becoming more like social movements, and social movements are taking on more permanence. Just as companies are outsourcing specific jobs, social movements can contract out tasks like lobbying and fundraising.

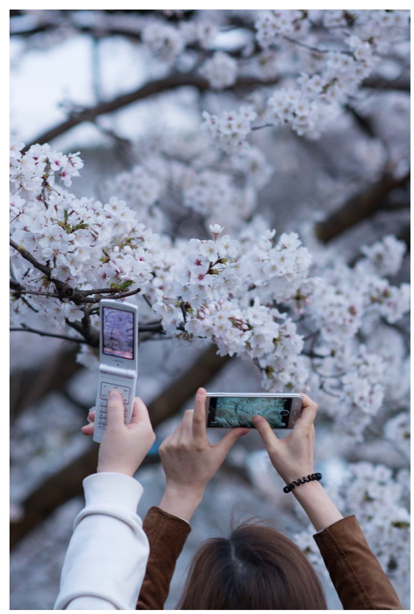

Figure 4.5.1: *We are more connected, at least virtually, than ever before. "Traditional cell phone vs Smart phone" by Takashi Hososhima, licensed under CC BY-SA 2.0.*

Corporations can implement initiatives that mimic a social movement. Consider how the CEO of one bank described a program he introduced: "The hierarchical management structure will give way to some collective activities that will improve our effectiveness in the marketplace. Decisions won't flow from a management level to people on the line who are expected to implement those decisions…We're telling everyone, choose a process, figure out what and where the problems are, work together to come up with solutions, and then put your solutions to work" (Davis et al., 2005). Thus, more and more leading businesses are harnessing the mechanics of social movements to improve how they will manage their businesses in the future.

Social Networking

Social networking refers to systems that allow members of a specific group to learn about other members' skills, talents, knowledge, or preferences. Companies use these systems internally to help identify experts.

In the world, at large, social networks are groups of individuals who share a common interest or passion. Poker players, dog lovers, and high school alumni are a few examples of social networks in action. In the corporate world, a social network is made up of individuals who share an employer and, potentially, other interests as well. But in the pre-Internet age, managers lacked the tools to recognize or tap the business value of in-house social networks. The company softball team was a social network, sure. But what did that have to do with the bottom line?

Today, social networks are starting points for corporate innovation: potentially limitless arrangements of individuals inspired by opportunities, affinities, or tasks. This new attitude toward social networks in the workplace has been fueled by the growth of social networking sites like Facebook.

Facebook was started by then-college student Mark Zuckerberg in 2004 as a way of connecting a social network—specifically, university students. Since then, Facebook has changed the way organizations connect as well. Some companies maintain a physical presence on Facebook that allows consumers to chime in about their passions (or lack of them) for corporate offerings, news, and products. Starbucks has adopted this model, asking consumers to help them revive their product lines and image.

As Zuckerberg told the *Wall Street Journal*, "We just want to share information more efficiently" (Vara, 2007). And, in the information age, that's what social networks do best. Companies are applying the online social networking model of open and closed groups to their corporate intranets, creating secure sites for employees in different locations to collaborate on projects based on common interests, management directives, and incentives. For example, IBM's pilot virtual world will let Big Blue employees use chat, instant messaging, and voice communication programs while also connecting to user-generated content in the public spaces of Second Life, another large social networking site. IBM also opened a virtual sales center in Second Life and, separately from the Second Life partnership, is building an internal virtual world where work groups can have meetings.

The use of online social networking principles can open the door to outside collaborations. For example, Netflix offered a million-dollar reward to anyone in the company's social network of interested inventors who could improve the algorithm that matches movie lovers to new titles they might enjoy. Companies like Procter & Gamble and InnoCentive are tapping social networks of scientists to improve their products.

Social networks fueled by passion can help managers retain, motivate, and educate staff. They might even help Facebook's Mark Zuckerberg with an in-house dilemma as his company grows. According to the *Wall Street Journal*, the world's most dynamic social networking site has "little management experience."

Learning Organizations

In a 1993 article, Harvard Business School professor David Garvin defined a **learning organization** as "an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights" (Garvin, 1993). The five building blocks of learning organizations are:

1. ***Systematic problem solving*:** The company must have a consistent method for solving problems, using data and statistical tools rather than assumptions.
2. ***Experimentation*:** Experiments are a way to test ideas in small steps. Experiments let companies hunt for and test new knowledge, such as new ways of recycling waste or of structuring an incentive program.
3. ***Learning from past experience*:** It's essential for companies to review projects and products to learn what worked and what didn't. Boeing, for example, systematically gathered hundreds of "lessons learned" from previous airplane models, such as the 737 and 747, which the company applied to the 757s and 767s, making those the most successful, error-free launches in Boeing's history.
4. ***Learning from others*:** Recognizing that good ideas come from anywhere, not just inside the company, learning organizations network with other companies in a continual search for good ideas to adapt and adopt.
5. ***Transferring knowledge*:** Sharing knowledge quickly throughout the organization is the way to make everyone a smart, contributing member.

Virtual Organizations

A **virtual organization** is one in which employees work remotely—sometimes within the same city, but more often across a country and across national borders. The company relies on computer and telecommunications technologies instead of a physical presence for communication between employees. E-mail, wikis, Web meetings (i.e., like Webex or GoToMeeting), phone, and Internet relay chat (IRC) are used extensively to keep everyone in touch. Virtual companies present special leadership challenges because it's essential for leaders to keep people informed of what they are supposed to be doing and what other arms of the organization are doing. Communication in a commons area is preferable to one-on-one communication because it keeps everyone up to speed and promotes learning across the organization.

Example: COVID Pandemic

The recent Covid-19 pandemic has led to a great deal of virtual work, if not the need for some organizations to operate almost completely online. Take higher education for example. A recent article in the Financial Post (Rolf, 2021) called 'Work from home 'defined the pandemic, but the future is 'work from anywhere' points to the necessity of remote work options and "how c*ompanies able to broaden talent pool, create new ways of working as centrality of the office declines"*.

(Denmark, n.d; Alexander et al., 2021 & Statistics Canada, 2021)

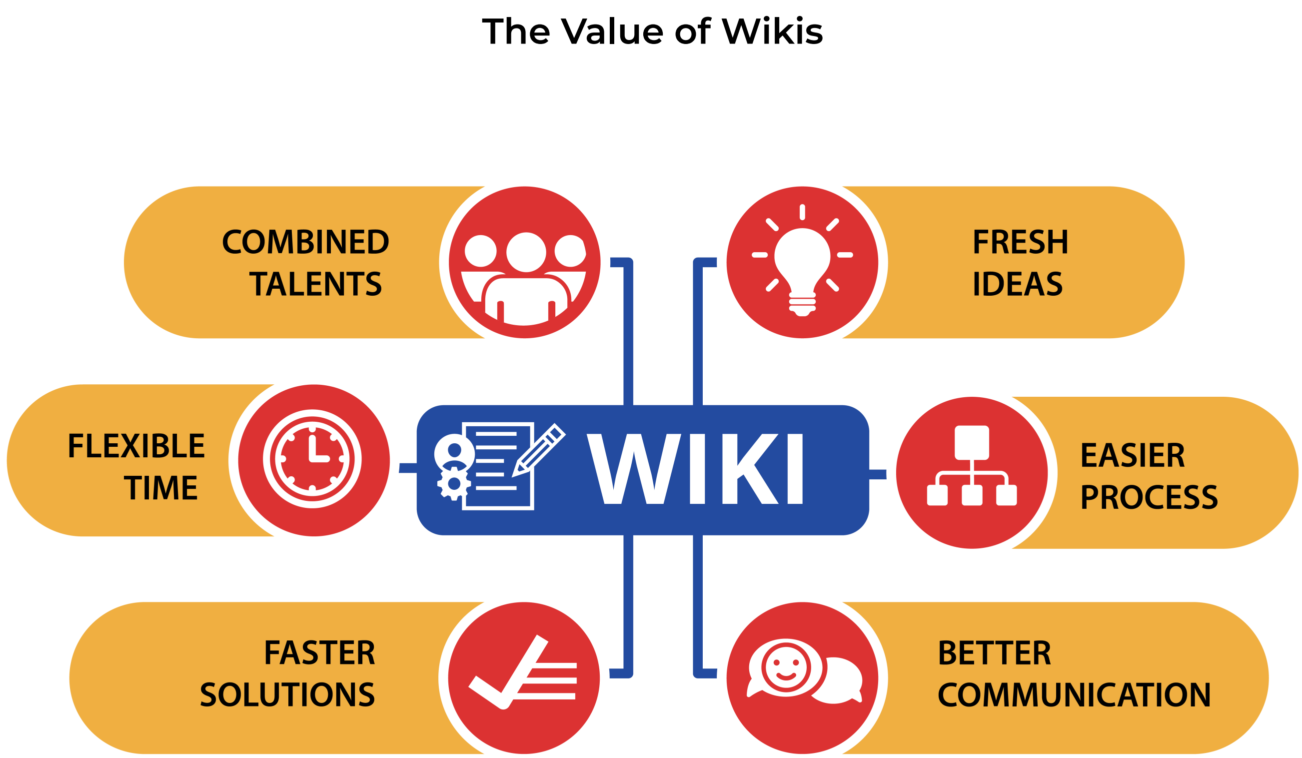

Figure 4.5.2: *"Benefits of WIKI" by Alyssa Giles, CC BY-NC-SA 4.0.*

Wikis provide companies with a number of benefits (Tapscott & Williams, 2006):

- Wikis pool the talent of experts as well as everyone from across the company and beyond it—in all time zones and geographic locations.
- Input from unanticipated people brings fresh ideas and unexpected connections.
- Wikis let people contribute to a project at any time, giving them flexibility in managing their time.
- It's easy to see the evolution of an idea, and new people can get up to speed quickly by seeing the history of the project.
- Co-creation of solutions eliminates the need to "sell" those solutions to get buy-in.
- Wikis cut the need for e-mail by 75% and the need for meetings by 50%.

With more and more companies outsourcing work to other countries, managers are turning to tools like wikis to structure project work globally. A **wiki** is a way for many people to collaborate and contribute to an online document or discussion. The document remains available for people to access anytime. The most famous example is Wikipedia. A wikified organization puts information into everyone's hands. Managers don't just talk about empowering workers—the access to information and communication empowers workers directly. People who are passionate about an idea can tap into the network to make the idea happen. Customers, too, can rally around an issue and contribute their opinions.

Many companies that are not solely virtual use the principles of a virtual organization as a way to structure the work of globally distributed teams. VeriFone, one of the largest providers of electronic payment systems worldwide, has development teams working on software projects around the world. In what the company calls a “relay race,” developers in Dallas working on a rush project send unfinished work at quitting time to another development center in Laupahoehoe, Hawaii. When the sun sets there, the project is handed off to programmers in Bangalore, India, for further work, and by morning, it’s back in Dallas, 16 hours closer to completion. Similarly, midwestern Paper Converting Machine Co. (PCMC) outsourced some design work to Chennai, India. Having U.S. and Indian designers collaborate 24/7 has helped PCMC slash development costs and time, enabling the company to stay in business, according to CEO Robert Chapman. Chapman said, “We can compete and create great American jobs, but not without offshoring” (Engardio, 2006).

Virtual organizations also pose management challenges. In practical terms, if everyone is empowered to be a decision-maker but various people disagree, how can decisions be made? If all workers can work at the times they choose, how can management be sure that workers are doing their work—as opposed to reading Web sites for fun, shopping, or networking with friends—and that they are taking appropriate breaks from work to avoid burnout? There are also challenges related to the virtual environment’s dependence on computers and Web security.

Exercises

1. What commonalities do you see between organizations and social movements?
2. How would you use a social network to solve a work-related task?
3. Why do social networks inspire employees?
4. How do social networks help managers plan, organize, lead, and control?
5. What steps would you take to help your organization become a learning organization?
6. What are the advantages of a virtual organization?
7. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

Key Takeaways

In today’s fast-changing world, organizations are becoming more like social movements, with more fluid boundaries and more participation in leadership across all levels. Social networks within corporations let employees find out about one another and access the people who have the skills, knowledge, or connections to get the job done. Continuous learning is important, not just for individuals but for organizations as a whole, to transfer knowledge and try out new ideas as the pace of change increases. Virtual organizations can speed up cycle time, but they pose new challenges for managers on how to manage remote workers. Global emergencies like the Covid-19 pandemic can create situations where many people have no other option than to work from home; this has created benefits and challenges that make us look at remote work through an entirely different lens. Communication technologies and the Web let employees work from anywhere—around the corner or around the world—and require special attention to managing communication.

4.6 Global Trends

Learning Objectives

1. What are the top 10 ways that the world is changing?
2. What is the pace of these changes?

The world is changing in dramatic ways, and as a leader, you're in the best position to take advantage of these changes. Let's look at 10 major ways in which the world is changing; we'll characterize the first five as challenges and the next five as solutions.

Top 5 Challenge Trends

1. Increasing Concern for the Environment
2. Greater Personalization and Customization
3. Faster Pace of Innovation
4. Increasing Complexity
5. Increasing Competition for Talent

Top 5 Solution Trends

1. Becoming More Connected
2. Becoming More Global
3. Becoming More Mobile
4. Rise of the Creative Class
5. Increasing Collaboration

Top 5 Challenge Trends

Increasing Concern for the Environment

Buis (2021) highlights the effects of our behavior on climate change in the article: Extreme Makeover: Human Activities Are Making Some Extreme Events More Frequent or Intense. The number of catastrophic weather events is on the rise. People are seeing the growing threat of global warming. Effects of climate change are failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever. Currently, 192 nations have signed the Kyoto Protocol to operationalize the United Nations Framework Convention on Climate Change and pledged to participate in the process of reducing greenhouse gas emissions. According to McKinsey Quarterly's (2007) Global Survey of Business Executives, executives across the world believe that business plays a wider role in society and has the responsibility to address issues such as environmental concerns beyond just following the letter of the law to minimize pollution. More and more companies now watch the "triple bottom line"—the benchmark of how they benefit, not just (1) profits but also (2) employees and (3) the environment as a whole. Companies realize they have to take bold steps to minimize their carbon footprint, create environmentally friendly products, and manage the company for more than just the next quarter's profits. Managers can't simply "greenwash" (pretend to be green through tiny steps and heavy advertising).

To learn more about how global warming has influenced the weather within the United States watch the video below.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=93#oembed-1

Watch this video: Extreme Weather and Climate Change by EarthNow [4:00] (Transcript Available).

Greater Personalization and Customization

We're no longer happy with cookie-cutter products. Consumers are demanding more say in products and services. One size no longer fits all, and that means tailoring products and services to meet specific customer preferences. And as companies sell their products globally, that tailoring has to meet vastly different needs, cultural sensitivities, and income levels. Even something simple such as Tide laundry detergent can come in hundreds of potential variants in terms of formulations (powders, liquids, tablets), additives (whiteners, softeners, enzymes), fragrances (unscented, mountain fresh, floral), and package sizes (from single-load laundromat sizes to massive family/economy sizes). Customization and the growing numbers of products mean managing more services and more products. Managing for mass production won't suffice in the future.

Faster Pace of Innovation

We all want the next new thing, and we want it now. New models, new products, and new variations—companies are speeding new products to market in response to customer demands. The Finland-based mobile phone maker Nokia sells 150 different devices, of which 50–60 are newly introduced each year. The new variations are tailored to local languages, case colors, carriers, add-ons, and content. David Glazer, engineering director at Google, explained how his company adapts to this fast pace: “Google has a high tolerance for chaos and ambiguity. When we started OpenSocial [a universal platform for social-network applications], we didn’t know what the outcome was going to be” (Slater, 2008) so Google started running a bunch of experiments. “We set an operational tempo: when in doubt, do something,” Glazer said, “If you have two paths and you’re not sure which is right, take the fastest path” (Slater, 2008).

Increasing Complexity

Our world is becoming more and more complex due to environmental challenges, increasing urbanization, and health impacts . VUCA refers to the increasingly volatile, uncertain, complex, and ambiguous environment in which we live (Kraaijenbrink, 2019). Additionally, the fact that consumers expect more sustainability, customization, and innovation means that companies face growing complexity. Think of the number of phone models produced per year, many of which have 300–400 components, some of which contain millions or hundreds of millions of transistors. Those components have to arrive at the right manufacturing location, from whichever country they originated and arrive just in time to be manufactured. Now add to that supply chain challenges since the pandemic and those currently occurring due to the war in Europe. ‘Complex’ is an understatement.

Increasing Competition for Talent

We need people who can solve all these tough problems, and that’s a challenge all by itself. According to McKinsey’s global survey of trends (2007), business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Jobs are also getting more complex. Consider people who work in warehouses doing shipping and receiving. At Intel, these workers were jokingly called “knuckle-dragging box pushers” and known for using their brawn to move boxes. Now, the field of transportation and shipping has become known as “supply chain management” and employees need brains as well as brawn—they need to know science and advanced math. They’re called on to do mathematical models of transportation networks to find the most efficient trucking routes (to minimize environmental impact) and to load the truck for balance (to minimize fuel use) and for speed of unloading at each destination. Intel now acknowledges the skills that supply chain people need. The company created a career ladder leading to a “supply chain master” that recognizes employees for developing expertise in supply chain modeling, statistics, risk management, and transportation planning. Overall, demand will grow for new types of talent such as in the green energy industry. At the same time, companies face a shrinking supply of seasoned managers as baby boomers retire in droves. Companies will have to deal with shortages of specific skills.

Top 5 Solution Trends

Becoming More Connected

We can now use the Internet and the web to connect people as never before. According to Statista (2022) there are 5 billion internet users worldwide which represents 63% of the world's population. This number will continue to increase as the developing world catches up with the developed world on internet usage (Internet World Stats, 2021). Through almost 1.9 billion websites (Martin, 2021), we can access information, words, sounds, pictures, and videos with ease previously unimaginable. The World Bank (n.d.) has created a surprising graph showing the dramatic increase in Individuals using the Internet over the past 20 years.

Becoming More Global

We can now tap into more global suppliers and global talent. Whatever problem a manager faces, someone in the world probably has the innovative products, the knowledge, or the talent to address the problem. And the Internet gives managers the tools to help problems find solutions, customers find suppliers, and innovators find markets. The global problems we face will require people to work together to solve them. Ideas need to be shaped and implemented. Moving ideas around the world is a lot less costly and generates fewer greenhouse gases than moving people and products around the world. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

Becoming More Mobile

We can now reach employees, suppliers, and customers wherever they are. In June of 2021, almost half the world was using a smartphone (BusinessWire, 2021), and similar to Internet use, mobile phone adoption continues to grow. The penetration of mobile phones is changing the way we do business because people are more connected and able to share more information. Two-way, real-time dialogue and collaboration are available to people anytime, anywhere. The low cost of phones compared with computers puts them in the hands of more people around the world, and the increasing sophistication of software and services for the phone expands its use in business settings. Phones are not just voiced communication devices —they can send text as well as be connective devices to send data. The fastest mobile phone growth is in developing countries, bringing connectivity to the remotest regions. Fishermen off the coast of southern India can now call around to prospective buyers of their catch before they go ashore, which is increasing their profits by 8% while actually lowering the overall price consumers have to pay for fish by 4% (Corbett, 2008). In South Africa, 85% of small black-owned businesses rely solely on mobile phones.

Rise of the Creative Class

With blogs, Flickr, TikTok, and YouTube, anyone can post their creative efforts. And with open source and wikis, anyone can contribute ideas and insights. We have ubiquitous opportunities for creativity that are nurturing a new creative class. For example, *OhmyNews*, a popular newspaper, is written by 60,000 contributing 'citizen reporters' and has become one of South Korea's most influential news sources, with more than 750,000 unique users a day (Hua, 2007; Schonfeld & Yen, n.d.). The demand for workers and the ability for workers to work from anywhere may lead to an 'e-lance economy' where workers may become free agents, working temporarily on one project and then moving to another when that project is done. Mobile connectivity means these new workers can live anywhere in the world and can work from anywhere in their community. For you, as a manager, this means managing workers who might be in a cubicle in Toronto, an apartment in Amsterdam, or an Internet café in Bangalore.

Increasing Collaboration

These solution trends combine to foster a rise in collaboration across space and time. We can now bring more people together to solve more problems more quickly. To design new products quickly—and make sure they meet consumer needs—companies are now looking beyond their four walls for innovation. Google, for example, identifies itself as an organization that believes in open, decentralized innovation. "Google can't do everything. And we shouldn't," said Andy Rubin, senior director of Mobile Platforms, and "That's why we formed the Open Handset Alliance" (Slater, 2008). This alliance is comprised of "a group of 84 technology and mobile companies who have come together to accelerate innovation in mobile and offer consumers a richer, less expensive, and better mobile experience. Together we have developed Android™, the first complete, open, and free mobile platform" (Open Handset Alliance, n.d). While the handset alliance is about 'open' cell phones (i.e., phones that aren't tied to any particular phone company and can be programmed by users), collaboration means much more than communications. People can now not just communicate but actually collaborate, building coalitions, projects, and products (Friedman, 2005, p. 81). A myriad of different groups has and will continue to, self-organize on the Web.

Exercises

1. How do you manage innovation if ideas can come from anywhere, including people who aren't your direct employees—or aren't even part of the company?
2. If, according to some trends, you can work anytime and anywhere, how do you decide when to work? When do you stop working?
3. What advantages do you see from a global workforce?

Key Takeaways

Today's world faces many challenges, from the need to protect the natural environment to the rapid pace of innovation and change. Technological connectivity is bringing the world closer together and enabling people to work from anywhere. Demand for talent and low-cost workers gives rise to outsourcing and employees working remotely, whether from home or from remote different countries. At the same time, information is now available to more and more people. This drives the demand for personalization. It increases complexity but at the same time gives us the collaboration tools needed to solve tough problems.

4.7 Globalization and Principles of Leadership

Learning Objectives

1. Why might global trends influence leadership and management principles?
2. What is the GLOBE project, and why is it relevant to leadership?
3. What is a cultural dimension, and how do cultural dimensions affect business dealings and leadership decisions?

Globalization and Cross-Cultural Lessons

Despite the growing importance of global business, companies find it difficult to recruit mangers with the skills necessary to operate in a global environment (Gregersen et al., 1998). Some experts have argued that most U.S. companies are not positioned to implement global strategies due to a lack of global leadership capabilities (Hollenbeck & McCall, 2003)

It's easy to understand the problem: communicating and working with people from different countries can be a challenge—not just because of language issues but also because of different cultural norms. For example, in Canada, we tend to be more direct in our communication. If you ask a Canadian manager a question, you'll tend to get a direct answer. In other cultures, particularly in southern Europe and Japan, the answer to a question begins with background and context—not the bottom line—so that the listener will understand how the person arrived at the conclusion. Similarly, in some cultures, it is considered rude to deliver bad news or say "no" to a request—instead, the speaker would give a noncommittal answer like "we'll see" or "we'll try."

Country-by-country differences are so prevalent that a worldwide team of scholars proposed to create and validate a theory of the relationship between culture and societal, organizational, and leadership effectiveness. Called the GLOBE Project, it included 170 researchers working together for 10 years to collect and analyze data on cultural values and practices and leadership attributes from more than 17,000 managers in 62 societal cultures. In its 2006 report, GLOBE identified the following nine dimensions of culture (Javidan et al., 2006). You will read more about the GLOBE Project in the next chapter.

Figure 4.7.1: *Our places of work are more diverse than ever before.*
"Diversity" by Oregon Department of Transportation, licensed under CC BY 2.0.

It is important to remember that cultural differences can exist in different regions of a single country, and between different groups within a single region. We must be cautious about stereotypes as nobody fits neatly into a box that someone else has labeled. Respect and understanding are key to leadership – and you cannot understand a group without learning more about the people who make up that group. Take for example the many different Indigenous groups in Canada. Consult Working with Indigenous Leadership and Indigenous Environments for more information.

Global Ventures Gone Awry

When Corning proposed a joint venture with a Mexican glass manufacturer, Vitro, the match seemed made in heaven. But just two years later, the venture was terminated. What happened? Cultural clashes eroded what could have been a lucrative partnership. To start, American managers were continually frustrated with what they perceived to be slow decision-making by Mexican managers. Mexico ranks higher on the power distance dimension than the United States—company structures are hierarchical, and decisions are made only by top managers. Loyalty to these managers is a high priority in Mexico, and trying to work around them is a big taboo. Mexicans also have a less urgent approach to time. They see time as more abundant than their U.S. counterparts. As a result, Mexicans thought that Americans wanted to move too fast on decisions, and they perceived American directness in communication as aggressive (Brake, 1996, p. 203). Additional vignettes on managing across borders are shared next.

Inclusive Leadership and Potential Barriers

Despite advances in diversity that have occurred in the past, women continue to be excluded from top leadership positions in the corporate environment. Today's diverse and constantly changing environment requires more than masculinity as the norm and a command and control leadership approach. It needs a leadership style that will advocate for inclusivity of traditionally excluded voices in leadership. It needs a leadership style that will enhance the four critical processes that are mobilized by leadership (setting mission, actualizing goals, sustaining commitment, responding to change) (Raelin, 2003).

Additionally, the representation of leaders is inherently gendered in the current leadership landscape. Leaders are judged based on stereotypes and expectations grounded in "masculinist perspectives about leadership," (Shea & Renn, 2017, p. 84). This reality shapes leadership opportunities for women and the LGBTQ in general, and women of color in particular. An inclusive leadership style has never been more important to address in will expand the discussion beyond just the gendered idea of inclusion to include other minorities, particularly the newest member of the U.S society, refugee/immigrant leaders.

What is Inclusive Leadership?

Inclusive leadership is about including everyone. This leadership style puts a particular focus on "having the courage to take conscious steps to break down barriers for people at risk of being excluded from society "(Bortini et al., 2019, p. 19). The inclusive leadership approach appreciates diversity and the contributions of everyone. Furthermore, this model encourages full engagement in all aspects of organizational functioning. The objective the authors added, is "to create, change and innovate whilst balancing everybody's needs" (p. 9). Essentially, inclusive leadership is centered around relationships and valuing differences.

Feelings of exclusion in leadership are common for women, individuals who identify as LGTBQ+, people of color, Indigenous peoples, immigrants, and refugees – even more so for anyone fitting into more than one of these categories. Many face additional barriers to inclusion, including cultural (language, social life, religious), socio-economic and structural barriers. Those who struggle to fit in for a variety of reasons can feel cut off from involvement in organizations as a result. According to Bortini et al. (2019), "one of the primary needs of individuals at risk of exclusion is to be accepted 'as they are' and to be regarded as an equal, able to contribute with all of their abilities" (p. 14).

Inclusive leadership is necessary for all of us, in all sectors of society, and particularly important to those at the head of organizations. Inclusive leadership challenges and empowers people because it is based on everyone's inherent worth, on human rights, on awareness of interconnectedness, on the recognition that power influences inclusion efforts, and on shared responsibilities, (Bortini et al., 2019). For leaders who want to inspire collaboration, respect and teamwork within their organization, with clients, and in their communities, inclusive leadership is vital.

What Do Inclusive Leaders Do?

Dillon and Bourke (2016) identified six key characteristics that distinguish inclusive leaders. The first characteristic is commitment.

Champions of inclusive leadership are motivated by their values, including a "deep-seated sense of fairness that, for some, is rooted in personal experience" (p. 3). Inclusive leaders hold themselves accountable to create a welcoming culture in their organizations. They devote time, energy, and resources to nurture an inclusive workforce.

Courage is the second characteristic found in inclusive leaders. They demonstrate courage in challenging organizations to think beyond homogeneous attitudes and practices. Another way they show courage is by not being afraid to exhibit humility; courage and humility allow leaders to accept their limitations and seek guidance from others in overcoming them. They admit to not having all the answers, which for some leaders is a very difficult thing to do, (Dillon & Bourke, 2019).

The third characteristic that distinguishes inclusive leaders is cognizance of bias. Inclusive leaders understand that both personal and organizational biases can negatively impact diversity and inclusion. As a result, they implement policies, processes, and structures to prevent infiltration of such biases in the workplace or any organization. The fourth characteristic found in inclusive leaders is curiosity. This includes being open-minded and having a passion for learning and a desire for exposure to diverse perspectives. "Inclusive leaders' ability to engage in respectful questioning, actively listen to others and synthesize a range of ideas makes the people around them feel valued, respected, and represented" (Dillon & Bourke, 2016, p. 4).

Cultural intelligence is the fifth characteristic identified in inclusive leaders. These leaders understand that knowledge of other cultures is fundamental in fostering inclusiveness. Cultural intelligence allows a leader to better respond to different cultural norms and behaviors and enables leaders to adjust their style accordingly. Additionally, they understand ways in which culture can shape world views and stereotypes. This is very important in setting and communicating expectations in any organization. Lastly, inclusive leaders are collaborative, which is coupled with an ability to willingly share ideas. According to (Raelin, 2003, p. 131), "to create an environment that offers psychological safety is a high task", especially "when covering up has been the dominant reaction to contrary or contradictory information". Furthermore, leaders pay attention to team processes to allow a diversity of thinking to take place.

Potential Barriers to Inclusive Leadership

Although the benefits of inclusive leadership are clear, smarter teams, better decision making, effective problem solving, better financial gains, and customer satisfaction, to name a few, there are common barriers that can hinder an organization's ability/efforts to implement inclusive leadership practices. These barriers can influence companies away from becoming inclusive and prevent them from making the most of any diversity within their organization. According to Gully and Phillips (2012), some of the common obstacles are the "like me" bias, stereotypes, the perceived threat of loss, and ethnocentrism. As described below, these exist in many organizations and can get in the way of organizations' efforts to maximize their diversity. These barriers can arise from decision-making, psychological factors, and employees' lack of awareness, the authors noted. Therefore, it is important for organizations to understand and proactively address these barriers to minimize their impact and enhance inclusion.

Although it is human nature to associate with those like ourselves, the "like me" bias tendencies can negatively impact recruitment by focusing solely on people who look like the existing staff. This can contribute to the unwillingness to employ people of different backgrounds, creating a culture of ingroup and outgroup dynamics in an organizational setting. The result is a homogeneous work environment. This can be a disservice to efforts to increase diversity and inclusion.

According to Gully and Phillips (2012), stereotypes, "beliefs about individual or group based on the idea that everyone in that group will behave the same" (p. 52), have the power to diminish inclusion opportunities for minorities, women, individuals with disabilities, and older workers. Stereotypes are extremely harmful due to the judgmental tendencies implied and the lack of consideration of individual uniqueness. In some cases, the results can be subtle racism, sexism, prejudice, and discomfort. These beliefs can determine what makes good/poor employees, can control the distribution of employment opportunities, and can undermine diversity efforts.

Another common setback can come from those who perceive inclusive efforts as a threat to their career opportunities. The authors further noted that this perceived threat of loss can lead members of groups who are traditionally the predominant employees of a particular workforce or occupation to grow anxious or angry. The need to protect their own prospects can impede those of others (Gully & Phillips, 2012). The authors also noted that the perceived threat of loss "influences employees' willingness to help mentor minority employees, recruit diverse candidates for positions, and support diversity initiatives" (p. 52).

Ethnocentrism, a belief of one's language, native country, and cultural rules/norms being superior to all others, is similarly impactful in a negative way to an inclusiveness attitude. Every organization is susceptible to these challenges, especially when advocating for inclusive leadership practices. However, the extent to which an organization will succeed in its inclusive efforts is due to consistent efforts to be vigilant about these challenges.

Example: Managing Across Borders

Lines on the Map Miss the Real Story

Diversity is deeper than variations between countries. Sometimes those differences appear in different regions of the same country. For example, some parts of Mexico don't use Spanish as the primary language. Wal-Mart's Mexico's Juchitan store, therefore, conducts business in the local Zapotec tongue, encourages female employees to wear traditional Zapotec skirts, and does the morning company cheer in Zapotec.

Talent Abroad

With so much variation across countries, it's no surprise that countries vary in level of talent and the supply of managerial, skilled, and unskilled labor. Companies shouldn't assume that emerging market countries offer inferior labor pools. GM, for instance, found that 50% of its assembly-line workers in India have college degrees—a ratio much higher than in other countries.

Local Solutions by People Who Understand Local Needs

Nokia uses local designers to create country-specific handset models. The models designed in India for Indians are dust resistant and have a built-in flashlight. The models designed in China for the Chinese have a touch screen, stylus, and Chinese character recognition. Local designers are more likely to understand the needs of the local population than headquarters-located designers do.

Strategies in emerging markets conference, held by the MIT Center for Transportation and Logistics (CTL) on March 7, 2007, Cambridge, MA.

Exercises

1. You've just been made a manager in Sweden, known for its institutional collectivism. What incentives and reward structures would you use to motivate your employees?
2. How would you prepare workers for an overseas assignment?
3. Your company has 12 branches in the United States and will be opening its first branch in Brazil. Your company prides itself on its self-managed teams. Will you keep this policy in the new country? Why or why not?
4. You're a manager in Japan, and you've just discovered that a team leader under your supervision has made a mistake that will result in a quality problem. How will you handle this mistake?
5. You work in Hong Kong for a Swiss-owned firm. The Swiss are known for their high uncertainty avoidance. What differences might you expect to see from your Swiss bosses compared with your Hong Kong employees?

Key Takeaways

Because the business environment increasingly depends on collaboration across regional and national borders, a successful global manager needs to be culturally sensitive and have an understanding of how business is done in different cultures. In some countries, loyalty to the group is key. Other countries celebrate mavericks and rule breakers if they can get things done. Knowing how best to communicate with your coworkers and employees—whether to be direct or indirect, whether to follow strict protocol or be more casual, and whom to involve in decisions—are all important considerations.

Inclusive leadership is a promising model for capitalizing on the existing diversity in the modern workforce. This model helps leaders to lead innovative teams and, at the same time, create an environment where people feel they can bring their whole selves to work. Acting inclusively is linked to employees' increased satisfaction, performance, commitment, motivation, creativity, innovation, engagement, and well-being. These outcomes benefit both employees and organizations.

Additionally, inclusive leadership has the potential to positively contribute to efforts to engage groups that are traditionally excluded from senior leadership. When the organization recognizes the value of its senior leadership team reflecting the diversity in its workforce, principles of inclusivity need to be embedded and implemented throughout the employment environment. For employees of a more diverse workforce to follow and respect an organization's leadership, the inclusive leadership model is more likely to achieve that result.

4.8 Developing Your Own Values-Based Leadership Skills

Learning Objectives

1. What ethical challenges do managers likely face?
2. Why are ethics relevant to principles of management?
3. What decision-making framework can you use to help integrate ethics into your own principles of management?

Ethical Challenges Managers Face

It's late at night and the office is quiet—except that you've got a nagging voice in your head. Your product is already two weeks behind schedule. You've got to get it out this week or lose the deal. But you've discovered a problem. To correct the problem would mean another 3-week delay—and you know the client won't go for that. It's a small error—it'll probably never become an issue. What do you do?

Figure 4.8.1: *"Ethical Dilemma Areas" by Alyssa Giles, CC BY-NC-SA 4.0.*

Managers face these kinds of issues all the time. Ethical dilemmas can arise from a variety of areas, such as:

- Advertising (desire to present your product or service in the best light)
- Sourcing of raw materials (does the company buy from a supplier who may be underpaying their people or damaging the environment?)
- Privacy (should the company have access to private e-mails that employees write on company time? or the Web sites they visit during work hours?)
- Safety (employee and community)
- Pay scales (relation of the pay of top executives to the rest of the company)
- Product pricing policies (variable pricing, discounts)
- Communication (with stockholders, announcements of plant closings, etc.)

It's easy to think that people who behave unethically are simply bad apples or have a character flaw. But in fact, it's often the situation or circumstances that create the ethical pressures. A global study of business ethics by Jamrog and Forcade (2006), published by the American Management Association, found that the main reasons for a lapse in ethics are:

1. Pressure to meet unrealistic business objectives/deadlines.
2. A desire to further one's career.
3. A desire to protect one's livelihood.

You may have developed your own personal code of ethics, but the social environment of the organization can be a barrier to fulfilling that code if management is behaving unethically. At Enron, vice president Sherron Watkins pointed out the accounting misdeeds, but she didn't take action beyond sending a memo to the company's chairman. Although she was hailed as a hero and whistleblower, she in fact did not disclose the issue to the public. Similarly, auditors at Arthur Andersen saw the questionable practices that Enron was pursuing, but when the auditors reported these facts to management, Arthur Andersen's managers pointed to the $100 million of business they were getting from the Enron account. Those managers put profits ahead of ethics. In the end, both companies were ruined, not to mention the countless employees and shareholders left shattered and financially bankrupt.

Many companies create their own codes of ethics. In the United States, the **Sarbanes-Oxley Act (SOX)** was passed requiring companies to write a code of ethics. The act sought to reform corporate governance practices in large U.S. public companies. The purpose of the rules is to "define a code of ethics as a codification of standards that is reasonably necessary to deter wrongdoing and to promote honest and ethical conduct," including the ethical handling of actual or apparent conflicts of interest, compliance with laws, and accountability to adhere to the code (U.S. Securities and Exchange Commission, 2002). The U.S. financial crisis of late 2008 pointed out that other areas, particularly in the financial services industry, needed stiffer regulations and regulatory scrutiny as well, and those moves will begin to take effect in early 2009. Canada has a similar provision called Bill 198, often referred to as Canadian Sox or C-SOX (Resolver, 2015). Other countries have legislation providing the same types of protection to stakeholders. Some companies go a step further and articulate a set of values that drives their code of conduct, as "Procter & Gamble's Values and Code of Ethics" shows.

Procter & Gamble's Values and Code of Ethics

Procter & Gamble Company lives by a set of five values that drive its code of business conduct. These values are:

1. ***Integrity***

   We always try to do the right thing.

   We are honest and straightforward with each other.

   We operate within the letter and spirit of the law.

   We uphold the values and principles of P&G in every action and decision.

   We are data-based and intellectually honest in advocating proposals, including recognizing risks.

2. ***Passion for Winning***

   We are determined to be the best at doing what matters most.

   We have a healthy dissatisfaction with the status quo.

   We have a compelling desire to improve and to win in the marketplace.

3. ***Leadership***

   We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results.

   We have a clear vision of where we are going.

We focus our resources to achieve leadership objectives and strategies.

We develop the capability to deliver our strategies and eliminate organizational barriers.

4. ***Trust***

   We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.

   We have confidence in each other's capabilities and intentions.

   We believe that people work best when there is a foundation of trust.

5. ***Ownership***

   We accept personal accountability to meet our business needs, improve our systems, and help others improve their effectiveness.

   We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind (Procter & Gamble, n.d.).

Importance of Ethics in Management

Figure 4.8.2: *Trust is the cornerstone of ethical leadership.*
"Shaking Hands" by Casa Thomas Jefferson, licensed under CC BY-NC-ND 2.0.

Ethical behavior among managers is even more important in organizations because leaders set the moral tone of the organization and serve as role models. Ethical leaders build trust in organizations. If employees see leaders behaving unethically, chances are the employees may be less inclined to behave ethically themselves. Companies may have printed codes of ethics, but the key standard is whether leaders uphold those values and standards. We tend to watch leaders for cues on appropriate actions and behavior that the company expects. Decisions that managers make are an indicator of their ethics. If the company says it cares about the safety of employees but then does not buy enough protective gear for them, it is not behaving in line with its code. Likewise, if managers exhibit unsafe behavior or look the other way when employees act unsafely, their behavior is not aligned with their stated code.

Without integrity, there can be no trust. Leadership is based on trust. Ethics drive effectiveness because employees know they can do the right thing decisively and with confidence. Ethical behavior earns the trust of customers and suppliers as well. It earns the public's goodwill. Ethical managers and ethical businesses tend to be more trusted and better treated. They suffer less resentment, inefficiency, litigation, and government interference. If top management cuts corners, however, or if they make shady decisions, then no matter how good the code of ethics sounds, people will emulate the questionable behavior, not the code.

As a leader, you can make it clear to employees that you expect them to conduct business in an ethical manner by offering seminars on ethics, having an ethics hotline via which employees can anonymously raise issues, and having an ombudsman office or ethics committee to investigate issues.

Integrating Ethics into Managerial Decision Making

Ethics implies making a choice between decision-making rules. For instance, when choosing between two suppliers, do you choose the cheapest (Decision Rule 1) or the highest quality (Decision Rule 2). Ethics also implies deciding on a course of action when no clear decision rule is available. Dilemmas occur when the choices are incompatible and when one course of action seems to better serve your self-interest but appears to violate a moral principle. One way to tackle ethical dilemmas is to follow an ethical decision-making process, like the one described below.

Steps in an Ethical Decision-Making Process

1. Assess the situation: What are you being asked to do? Is it illegal? Is it unethical? Who might be harmed?
2. Identify the stakeholders and consider the situation from their point of view. For example, consider the point of view of the company's employees, top management, stockholders, customers, suppliers, and community.
3. Consider the alternatives you have available to you and how they affect the stakeholders:
    - consequences
    - duties, rights, and principles
    - implications for personal integrity and character
4. How does the action make you feel about yourself? How would you feel if your actions were reported tomorrow in the *Wall Street Journal* (or your daily newspaper)? How would you explain your actions to your mother or to your 10-year-old child?
5. Make a decision. This might involve going to your boss or to a neutral third party (such as an ombudsman or ethics committee). Know your values and your limits. If the company does nothing to rectify the situation, do you want to continue working for the company?
6. Monitor outcomes. How did the decision work out? How did it turn out for all concerned? If you had it to do over again, what would you do differently (Hartman & DesJardins, 2008)?

If you see unethical behavior in others, confronting it early is better. Early on, you have more of an opportunity to talk with the person in a fact-finding (rather than an accusatory) way. The discussion may nip the problem in the bud and prevent it from escalating. Keeping silent because you want to avoid offending the person may lead to much greater problems later on.

1. What are the consequences of unethical behavior?
2. If you were writing a code of ethics for your company, what would you include?
3. In times of economic downturn, is ethical behavior a luxury?
4. How would you handle an ethical violation committed by one of your employees?
5. Nobel laureate economist Milton Friedman said that companies should focus on maximizing profits, not social responsibilities or purposes. Do you agree with this view? Why or why not?

Key Takeaways

Leadership involves decision-making, and decisions often have an ethical component. Beyond personal ethics or a moral code, leaders face making decisions that reflect the company as a whole, affecting its future success and vitality. Ethics doesn't just mean following the law but acting in accordance with basic values.

4.9 Developing Your Charismatic, Servant and Authentic Leadership Skills

Learning Objectives

1. Develop your charismatic leadership.
2. Develop your servant leadership.
3. Develop your individual authentic leadership.

This section provides tips to help you develop your charismatic, servant, and authentic leadership skills. Each of these contemporary approaches to leadership is believed to be related to employee attitudes and a healthy work environment.

Develop Your Charismatic Leadership Skills

Charismatic individuals have a "magnetic" personality that is appealing to followers. While many people assume that charisma is inborn, it is possible to improve your charisma by following these suggestions (Frese et al., 2003; Shamir et al., 1993):

Figure 4.9.1: *The CEO of PepsiCo, Indra Nooyi, is a leader who demonstrates passion for her vision and energizes those around her toward her vision for the company and causes she believes in.*
"Indra Nooyi – World Economic Forum Annual Meeting Davos 2008" by World Economic Forum, licensed under CC BY-SA 2.0.

- Have a vision around which people can gather. When framing requests or addressing others, instead of emphasizing short-term goals, stress the importance of the long-term vision. When giving a message, think about the overarching purpose. What is the ultimate goal? Why should people care? What are you trying to achieve?
- Tie the vision to history. In addition to stressing the ideal future, charismatic leaders bring up the history and how the shared history ties to the future.
- Watch your body language. Charismatic leaders are energetic and passionate about their ideas. This involves truly believing in your own ideas. When talking to others, you may want to look confident, look them in the eye, and express your belief in your ideas.

- Make sure that employees have confidence in themselves. You can achieve this by showing that you believe in them and trust their abilities. If they have a real reason to doubt their abilities, make sure that you help them address the underlying issue, such as through training and mentoring.
- Challenge the status quo. Charismatic leaders solve current problems by radically rethinking the way things are done and suggesting alternatives that are risky, novel, and unconventional.

Develop Your Servant Leadership Skills

Robert Greenleef put forward the idea of servant leadership in the 1970's, an approach where leaders put others first. Despite the fact that this was a new theory mentioned in the literature, this is a timeless style of leadership recorded in religious and other histories as far back as Jesus Christ and the Prophet Muhammad (peace be upon him), as well as other major religions such as Judaism and Buddhism (Servant Leadership Across Cultures). You are likely familiar with other servant leaders from the past such as Abraham Lincoln, Mahatma Ghandi, Mother Theresa, Nelson Mandela, and Martin Luther King Jr., to name just a few. Today, we see examples of CEOs who serve as well-known leaders like Herb Kelleher, formerly of Southwest Airlines; Cheryl Bachelder, formerly of Popeyes Louisiana Kitchen; and Jack Welch, formerly of General Electric. Welch provided some great advice to aspiring leaders, "before you are a leader, success is all about growing yourself. When you become a leader, success is all about growing others" (LEADx, n.d.).

Servant leadership might be considered a difficult transition for an achievement-oriented and success-driven manager who rises to high levels. Here are some tips to achieve servant leadership (Buchanan, 2007; Douglas, 2005; Ramsey, 2005).

- Don't ask what your employees can do for you. Think of what you can do for them. Your job as a leader is to be of service to them. How can you relieve their stress? Protect them from undue pressure? Pitch in to help them? Think about creative ways of helping ease their lives.
- One of your key priorities should be to help employees reach their goals. This involves getting to know them. Learn about who they are and what their values and priorities are.
- Be humble. You are not supposed to have all the answers and dictate to others. One way of achieving this humbleness may be to do volunteer work.
- Be open with your employees. Ask them questions. Give them information so that they understand what is going on in the company.
- Find ways of helping the external community. Giving employees opportunities to be involved in community volunteer projects or even thinking and strategizing about making a positive impact on the greater community would help.

Develop Your Authentic Leadership Skills

Authentic leaders have high levels of self-awareness and their behavior is driven by their core personal values. This leadership approach recognizes the importance of self-reflection and understanding one's life history. Address the following questions to gain a better understanding of your own core values and authentic leadership style.

Understand Your History

- Review your life history. What are the major events in your life? How did these events make you the person you are right now?
- Think about your role models. Who were your role models as you were growing up? What did you learn from your role models?

- Describe your personality. How does your personality affect your life?
- Know your strengths and weaknesses. What are they and how can you continue to improve yourself?

Reflect on Your Successes and Challenges

- Keep a journal. Research shows that journaling is an effective tool for self-reflection. Write down challenges you face and how you will surmount them; periodically review your entries to check your progress.

Make Integrity a Priority

- Understand your core values. What are your core values? Name three of your most important values.
- Do an ethics check. Are you being consistent with your core values? If not, how can you get back on track?

Understand the Power of Words

- Words shape reality. Keep in mind that the words you use to describe people and situations matter. For example, how might the daily reality be different if you refer to those you manage as associates or team members rather than employees or subordinates?

In view of your answers to the questions above, what kind of a leader would you be if you truly acted out your values? How would people working with you respond to such a leadership style?

Exercises

1. What is the connection between leadership and ethics?
2. Do you believe that ethical leaders are more successful in organizations?
3. Have you ever had an authentic leader? What did this person do that made you consider him or her to be authentic? How effective was his or her leadership?

Key Takeaways

The various leadership styles have their pros and cons. It is valuable to be able to assess them in light of your situation and your personal style. Authenticity has become recognized as being important regardless of the other leadership styles one uses. Anyone can be an authentic leader if he or she develops those skills. There is no time like the present to start!

4.10 Key Terms

Key Terms

Active management by exception involves leaving employees to do their jobs without interference, but at the same time proactively predicting potential problems and providing the assistance necessary to prevent them from occurring.

Authentic leadership requires a leader to be "real" and is achieved through introspection, self-awareness and behaving in a way consistent with their values.

Charisma refers to a leader's charm, attractiveness or magnetism and their ability to inspire the confidence, commitment, and admiration necessary to influence followers.

Contingent rewards are awarded based on the ability of employees to accomplish their goals.

Ethical leadership focuses on the common good and models strong moral conduct and values, adhering to socially appropriate norms, and respecting others.

Ethnocentrism is a belief that one's language, native country, and cultural rules/norms are superior to all others.

Experimentation is the process of searching for and testing new knowledge, ideas, and methods.

High-quality LMX relationships the leader forms a trust-based relationship with the member.

Inclusive leadership is centered around relationships and valuing differences while advocating for traditionally excluded voices, appreciating diversity and welcoming the contributions of all parties.

Individualized consideration occurs when leaders show personal care and concern for the well-being of their followers.

Inspirational motivation means come up with a vision that is inspiring to others.

Intellectual stimulation allows for members to challenge organizational norms and status quo, encouraging employees to think creatively and work harder.

Learning organizations consist of individuals who create, acquire and share knowledge, experiment, and modify organizational behaviors based on insights gained. Learning organizations participate in a continual process of transformation through growth and development.

Low-quality LMX relationships the leader and the member have lower levels of trust, liking, and respect toward each other.

Passive management by exception involves leaving employees to do their jobs without interference, and waiting until something goes wrong before coming to the rescue.

Servant leadership approach defines the leader's role as serving the needs of others. According to this approach, the primary mission of the leader is to develop employees and help them reach their goals.

Social movement refers to a type of group action that is focused on specific political or social issues; examples include the civil rights movement, the feminist movement, and the gay rights movement.

Social networking refers to systems that allow members of a specific group to learn about and access other members' skills, talents, knowledge, or preferences.

Strategic opportunists are able to take advantage of strategic opportunities before competitors.

Systematic problem solving a consistent method for solving problems, using data and statistical tools rather than assumptions.

Transactional leaders influence employee behavior through the use of rewards and punishment.

Transformational leaders use their influence to align employee goals with company goals through charisma, inspiration, intellectual stimulation, and by showing care and concern for their followers.

Transformational leadership motivates others through a common mission or challenge that empowers followers and encourages them to develop as leaders (Bass & Riggio, 2006, p. 3).

Trust is the belief that the leader will show integrity, fairness, and predictability in his or her dealings with others.

Virtual organization is one in which employees work remotely— sometimes within the same city, but more often across a country and across national borders.

Visionary leadership is based on communicating a "picture" or vision of a goal and the inspirational motivation to achieve it.

Vulnerability includes taking risks and exposing oneself emotionally by being transparent, sharing feelings and exposing weaknesses.

Wiki is an online document or discussion that allows many people to collaborate and contribute.

4.11 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4723#h5p-4

CHAPTER 5: LEADERSHIP IN COMMUNICATION AND DECISION MAKING

Chapter Content

Communication is crucial to relationships, and no less so to interpersonal connections in the workplace. Strong relationships lead to stronger and more effective organizations, however there are barriers to good communication. Leaders who communicate to understand an issue will make better decisions. We must be able to overcome barriers to communication through respect and active listening, to truly understand each other and build the type of trust necessary to collaborate and make good decisions.

While leadership is a combination of many things, your characterization of particular leaders and their effectiveness is often a reflection of the decisions that they have or have not made. While decision making is a constant process in organizations, it does not always go as well as it could. Understanding how decisions are made, how they can be biased, and how to make the decision-making process run smoothly will help you make choices more fully aligned with the organization's goals.

5.1 Communication and Case in Point: Edward Jones Communicates Caring

What's in It for Me?

Reading this chapter will help you do the following:

1. Define communication and analyze the communication process.
2. Recognize and overcome barriers to effective communication.
3. Compare and contrast different types of communication and communication channels.
4. Develop your own communication skills.

Example: Edward Jones

Figure 5.1.1: *"Edward Jones Investment" by Rona Proudfoot, CC-BY-SA 2.0*

It might come as a surprise that an individual investment company came in at number 2 on *Fortune* magazine's "100 Best Companies to Work For" list in 2010, behind software giant SAS Institute Inc. Edward Jones Investments (a limited partnership company) was originally founded in St. Louis, Missouri, where its headquarters remain today. With more than 10,000 offices across the United States and Canada, they are able to serve nearly 7 million investors. 2010 was the 10th year Edward Jones made the Best Companies list. In 2022, Edward Jones is ranked 35th, and has been on *Fortune's* prestigious list for the past 23 years (Great Place to Work, n.d.). In addition, Edward Jones has ranked highest with client satisfaction among full-service investment firms, according to annual surveys released by J.D. Power and Associates (J.D. Power, 2021).

How has Edward Jones maintained this favorable reputation in the eyes of both its employees and its customers? It begins with the perks offered, including profit sharing and telecommuting. But if you ask the company's CEO, Tim Kirley, he will likely tell you that it goes beyond the financial incentives, and at the heart of it is the culture of honest communication that he adamantly promotes. Kirley works with senior leaders and team members in what makes up an open floor plan and always tries to maintain his approachability. Examples of this include direct communication, letters to staff and video, and Internet-posted talks. In addition, regular meetings are held to celebrate achievements and reinforce the firm's ethos. Staff surveys are frequently administered and feedback is widely taken into consideration so that the 10,000 employees feel heard and respected.

According to *Fortune*'s managing editor, Hank Gilman, "The most important considerations for this year's list were hiring and the ways in which companies are helping their employees weather the recession" (Fortune, 2010). Edward Jones was able to persevere through the trauma of the recent financial crisis with no layoffs and an 8% one-year job growth. While a salary freeze was enacted, profit sharing continued. Kirley insists that the best approach to the recent economic downturn is to remain honest with his employees even when the news he is delivering is not what they want to hear.

Edward Jones was established in 1922 by Edward D. Jones Sr., and long ago, the company recognized the importance of a satisfied workforce and how that has the ability to translate into customer satisfaction and long-term growth. The company's internal policy of open communication seems to carry over to how advisors value their relationship with individual customers. Investors are most likely to contact their advisor by directly visiting them at a local branch or by picking up the phone and calling them. Edward Jones's managing partner, Jim Weddle, explains it best himself: "We are able to stay focused on the long-term because we are a partnership and we know who we are and what we do. When you respect the people who work here, you take care of them—not just in the good times, but in the difficult times as well."

Case originally written based on information from 100 best companies to work for.

Exercises

1. Communication is a key part of leadership. What other things could Edward Jones do to increase its effectiveness in the area of communications?
2. As an organization, what qualities do you think Edward Jones looks for when hiring new financial advisors? How do you think that affects its culture over time?
3. With its success in North America, why do you think Edward Jones has not expanded across the Pacific or Atlantic Oceans?
4. How has technology enabled Edward Jones to become more effective at communicating with its employees and customers?
5. What types of customer service policies do think Edward Jones has in place? How do these relate to its culture over time?

5.2 Understanding Communication

Learning Objectives

1. Define communication.
2. Analyze the communication process.

Communication

Communication is vital to organizations—it's how we coordinate actions, support and motivate one another, and achieve goals. It is defined in the *Merriam-Webster's* dictionary as "a process by which information is exchanged between individuals through a common system of symbols, signs, or behavior (Merriam-Webster, 2008)." We know that 50%–90% of a manager's time is spent communicating (Schnake et. al., 1990) and that communication ability is related to a manager's performance (Penley et. al., 1991). In most work environments, a miscommunication is an annoyance—it can interrupt workflow by causing delays and interpersonal strife. And in some work arenas, like operating rooms and airplane cockpits, communication can be a matter of life and death.

For leaders and organizations, poor communication costs money and wastes time. One study found that 14% of each workweek is wasted on poor communication (Armour, 1998). In contrast, effective communication is an asset for organizations and individuals alike. Effective communication skills, for example, are an asset for job seekers. A study of recruiters at 85 business schools ranked communication and interpersonal skills as the highest skills they were looking for, with 89% of the recruiters saying they were important (Alsop, 2006). Good communication can also help a company retain its star employees. Surveys find that when employees think their organizations do a good job of keeping them informed about matters that affect them and they have ready access to the information they need to do their jobs, they are more satisfied with their employers (Mercer, 2003). So, can good communication increase a company's market value? The answer seems to be yes. "When you foster ongoing communications internally, you will have more satisfied employees who will be better equipped to effectively communicate with your customers," says Susan Meisinger, President/CEO of the Society for Human Resource Management, citing research findings that for organizations that are able to improve their communication integrity, their market value increases by as much as 7.1% (Meisinger, 2003). We will explore the definition and benefits of effective communication in our next section.

Going back to Edward Jones, if you look through their website you will see that on almost every page they link back to their values. They clearly communicate what is important to the organization, and what will be important to you if you work for them or use their services.

The Communication Process

Communication fulfills three main functions within an organization:

1. Transmitting information;
2. Coordinating effort;
3. Sharing emotions and feelings.

All these functions are vital to a successful organization. Transmitting information is vital to an organization's ability to function. Coordinating effort within the organization helps people work toward the same goals. Sharing emotions and feelings bonds teams and unites people in times of celebration and crisis. Effective communication helps people grasp issues, build rapport with coworkers, and achieve consensus. So, how can we communicate effectively? The first step is to understand the communication process.

We all exchange information with others countless times a day, by phone, e-mail, text, printed word, and of course, in person. Let's take a moment to see how a typical communication works using the Process Model of Communication as a guide.

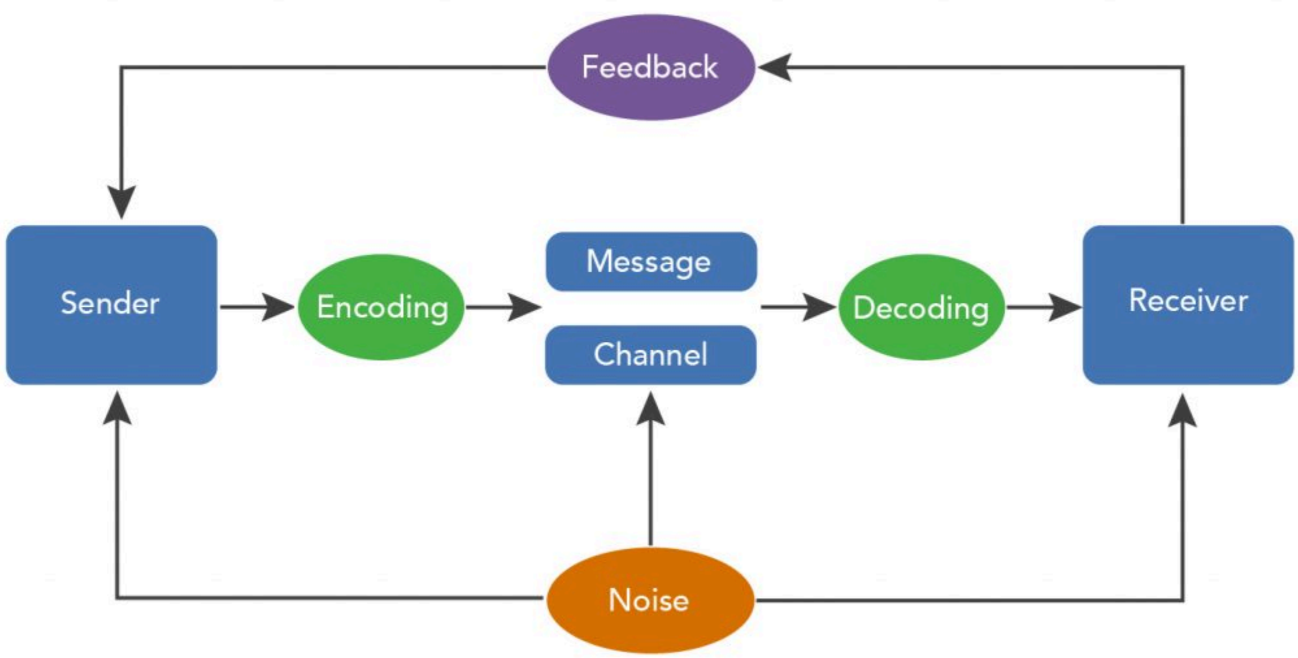

Figure 5.2.1: *"Communication Process Model" by Lumen Learning, licensed under CC BY 4.0.*

A **Sender**, such as a boss, coworker, or customer, originates the Message with a thought. For example, the boss's thought could be: *"Get more printer toner cartridges!"*

The Sender **encodes** the Message, translating the idea into words.

The boss may communicate this thought by saying, *"Hey you guys, we need to order more printer toner cartridges*."

The **medium/channel** of this encoded Message is the manner in which information is exchanged – oral, written (text, email, advertisement, etc.), or non-verbal.

The **receiver** is the person who receives the Message.

The Receiver **decodes** the Message by assigning meaning to the words.

In this example, our Receiver, Bill, has a to-do list a mile long. *"The boss must know how much work I already have*." the Receiver thinks. Bill's mind translates his boss's Message as, *"Could you order some printer toner cartridges, in addition to everything else I asked you to do this week…if you can find the time*?"

The meaning that the Receiver assigns may not be the meaning that the Sender intended because of such factors as noise. **Noise** is anything that interferes with or distorts the Message being transformed. Noise can be external in the environment (such as distractions) or it can be within the Receiver. For example, the Receiver may be highly nervous and unable to pay attention to the Message. Noise can even occur within the Sender: the Sender may not take the time to convey an accurate Message or the words she chooses can be ambiguous and prone to misinterpretation.

Example: The Process Model of Communication

Picture the next scene. The place: a staff meeting. The time: a few days later. The boss believes her Message has been received.

"Are the printer toner cartridges here yet?" she asks.

"You never said it was a rush job!" the Receiver protests.

"But!"

"But!"

Miscommunications like these happen in the workplace every day. We've seen that miscommunication does occur in the workplace. But how does a miscommunication happen? It helps to think of the communication process. The series of arrows pointing the way from the Sender to the Receiver and back again can, and often do, fall short of their target.

Exercises

1. Where have you seen the communication process break down—at work? At school? At home?
2. Explain how miscommunication might be related to an accident at work.
3. Give an example of noise during the communication process.

Key Takeaways

Communication is vital to organizations. Poor communication is prevalent and can have serious repercussions. Communication fulfills three functions within organizations: transmitting information, coordinating, and sharing emotions and feelings. Noise can disrupt or distort communication.

5.3 Communication Barriers

Learning Objectives

1. Distinguish different ways that the communication process can be sidetracked.
2. Consider the problem of poor listening and how to promote active listening.

Barriers to Effective Communication

Communicating can be more of a challenge than you think, when you realize the many things that can stand in the way of effective communication. These include filtering, selective perception, information overload, emotional disconnects, lack of source familiarity or credibility, workplace gossip, semantics, gender differences, differences in meaning between Sender and Receiver, and biased language. Let's briefly examine each of these barriers.

Filtering

Filtering is the distortion or withholding of information to manage a person's reactions. Some examples of filtering include a manager who keeps her division's poor sales figures from her boss, the vice president, fearing that the bad news will make him angry. The old saying, "Don't shoot the messenger!" illustrates the tendency of Receivers (in this case, the vice president) to vent their negative response to unwanted Messages on the Sender. A gatekeeper (the vice president's assistant, perhaps) who doesn't pass along a complete Message is also filtering. The vice president may delete the e-mail announcing the quarter's sales figures before reading it, blocking the Message before it arrives.

As you can see, filtering prevents members of an organization from getting a complete picture of the way things are. To maximize your chances of sending and receiving effective communications, it's helpful to deliver a Message in multiple ways and to seek information from multiple sources. In this way, the effect of any one person's filtering the Message will be diminished.

Since people tend to filter bad news more during upward communication, it is also helpful to remember that those below you in an organization may be wary of sharing bad news. One way to defuse the tendency to filter is to reward employees who clearly convey information upward, regardless of whether the news is good and bad.

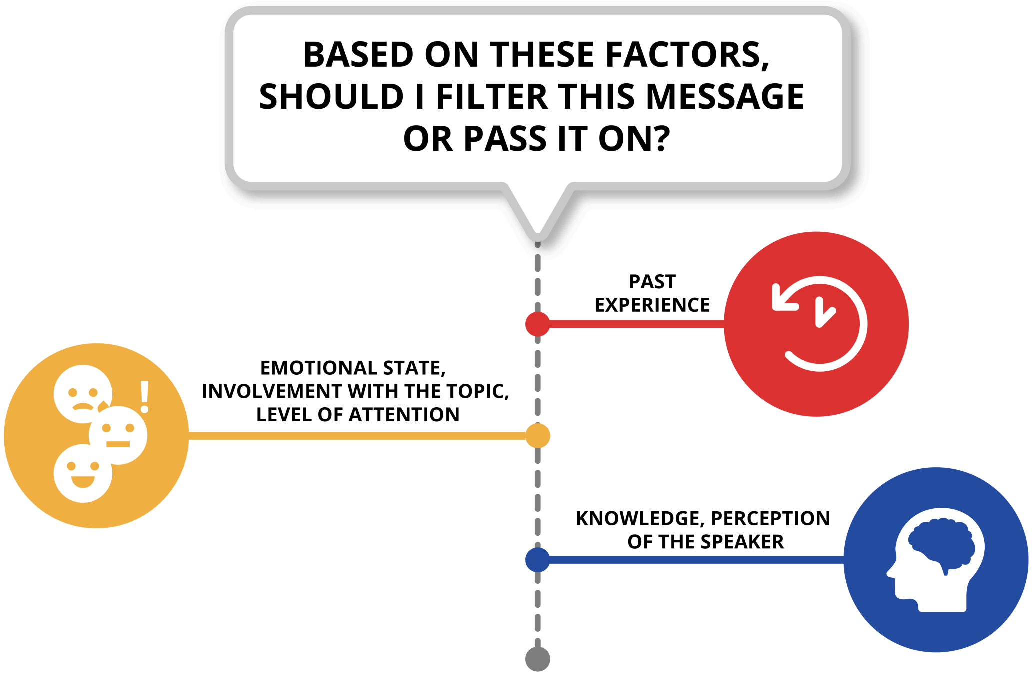

Figure 5.3.1: *"Filtering Messages" by Alyssa Giles, CC BY-NC-SA 4.0.*

Here are some of the criteria that individuals may use when deciding whether to filter a Message or pass it on:

- **Past experience:** Was the Sender rewarded for passing along news of this kind in the past, or was she criticized?
- **Knowledge, perception of the speaker:** Has the Receiver's direct superior made it clear that "no news is good news?"
- **Emotional state, involvement with the topic, level of attention:** Does the Sender's fear of failure or criticism prevent him from conveying the Message? Is the topic within his realm of expertise, increasing his confidence in his ability to decode it, or is he out of his comfort zone when it comes to evaluating the Message's significance? Are personal concerns impacting his ability to judge the Message's value?

Once again, filtering can lead to miscommunications in business. Each listener translates the Message into his or her own words, creating his or her own version of what was said (Alessandra & Hunsaker, 1993).

Selective Perception

Selective perception refers to filtering what we see and hear to suit our own needs. Often, much of this process is unconscious. "We simply are bombarded with too much stimuli every day to pay equal attention to everything so we pick and choose according to our own needs (Pope, 2008)." Selective perception is a time-saver, a necessary tool in a complex culture. But it can also lead to making assumptions and mistakes.

Think back to the earlier example conversation between Bill and his boss about toner cartridges. Since Bill found his boss's to-do list to be unreasonably demanding, he assumed the request could wait. (How else could he do everything else on the list?) The boss, assuming that Bill had heard the urgency in her request, assumed that Bill would place the order before returning to the other tasks on the list.

Both members of this organization were using selective perception to evaluate the communication. Bill's perception was that the task of ordering could wait. The boss's perception was that her time frame was clear, though unstated. When two selective perceptions collide, a misunderstanding occurs.

Information Overload

Information overload can be defined as "occurring when the information processing demands on an individual's time to perform interactions and internal calculations exceed the supply or capacity of time available for such processing (Schick et. al., 1990)." Messages reach us in countless ways every day. Some are societal—advertisements that we may hear or see in the course of our day. Others are professional—e-mails, and memos, voice mails, and conversations from our colleagues. Others are personal—messages and conversations from our loved ones and friends.

Add these together and it's easy to see how we may be receiving more information than we can take in. This state of imbalance is known as information overload. Experts note that information overload is "A symptom of the high-tech age, which is too much information for one human being to absorb in an expanding world of people and technology. It comes from all sources including TV, newspapers, and magazines as well as wanted and unwanted regular mail, e-mail and faxes. It has been exacerbated enormously because of the formidable number of results obtained from Web search engines (PC Magazine, 2008)." Other research shows that working in such fragmented fashion has a significant negative effect on efficiency, creativity, and mental acuity (Overholt, 2001).

Going back to our example of Bill. Let's say he's in his cubicle on the phone with a supplier. While he's talking, he hears the chime of e-mail alerting him to an important message from his boss. He's scanning through it quickly, while still on the phone, when a coworker pokes his head around the cubicle corner to remind Bill that he's late for a staff meeting. The supplier on the other end of the phone line has just given Bill a choice among the products and delivery dates he requested. Bill realizes he missed hearing the first two options, but he doesn't have time to ask the supplier to repeat them all or to try reconnecting to place the order at a later time. He chooses the third option—at least he heard that one, he reasons, and it seemed fair. How good was Bill's decision amid all the information he was processing at the same time?

Dealing with Information Overload

One of the challenges in many organizations is dealing with a deluge of emails that can lead to information overload. Crucial messages may be drowned out by the volume in your inbox. Add the practice of "reply to all" that means that you may get five or six versions of an initial e-mail and need to understand all of the responses as well as the initial communication before responding or deciding that the issue is resolved and no response is needed. Here are suggestions to dealing with e-mail overload.

One way to reduce the volume and the time you spend on e-mail is to unsubscribe to e-newsletters or turn off notifications from social media accounts. Also consider whether your colleagues or direct reports are copying you on too many emails as an FYI. If yes, explain that you only need to be updated under specific circumstances or when final decisions are made.

You will also want to set up a system that will organize your inbox into "folders" that will allow you to manage the flow of messages into groups that will allow you to address them appropriately. Your system might look something like this:

1. **Inbox**: Treat this as a holding pen. E-mails shouldn't stay here any longer than it takes for you to file them into another folder. The exception is when you respond immediately and are waiting for an immediate response.
2. **Today**: This is for items that need a response today.
3. **This week**: This is for messages that require a response before the end of the week.
4. **This month/quarter**: This is for everything that needs a longer-term response. Depending on your role, you may need a monthly or quarterly folder.
5. **FYI**: This is for any items that are for information only and that you may want to refer back to in the future.

(Chingel, 2018)

Another thing to consider is your outgoing e-mail. If your outgoing messages are not specific, too long, unclear, or are copied too widely, your colleagues are likely to follow the same practice when communicating with you. Keep your communication clear and to the point, and managing your outbox will help make your inbound e-mails manageable.

Emotional disconnects

Emotional disconnects happen when the Sender or the Receiver is upset, whether about the subject at hand or about some unrelated incident that may have happened earlier. An effective communication requires a Sender and a Receiver who are open to speaking and listening to one another, despite possible differences in opinion or personality. One or both parties may have to put their emotions aside to achieve the goal of communicating clearly. A Receiver who is emotionally upset tends to ignore or distort what the Sender is saying. A Sender who is emotionally upset may be unable to present ideas or feelings effectively.

Lack of Source Credibility

Lack of source familiarity or credibility can derail communications, especially when humor is involved. Have you ever told a joke that fell flat? You and the Receiver lacked the common context that could have made it funny. (Or yes, it could have just been a lousy joke.) Sarcasm and irony are subtle, and potentially hurtful, commodities in business. It's best to keep these types of communications out of the workplace as their benefits are limited, and their potential dangers are great. Lack of familiarity with the Sender can lead to misinterpreting humor, especially in less-rich information channels like e-mail.

Similarly, if the Sender lacks credibility or is untrustworthy, the Message will not get through. Receivers may be suspicious of the Sender's motivations ("Why am I being told this?"). Likewise, if the Sender has communicated erroneous information in the past, or has created false emergencies, his current Message may be filtered.

Workplace gossip, also known as the **grapevine**, is a lifeline for many employees seeking information about their company (Kurland & Pelled, 2000). Researchers agree that the grapevine is an inevitable part of organizational life. Research finds that 70% of all organizational communication occurs at the grapevine level (Crampton, 1998). Employees trust their peers as a source of Messages, but the grapevine's informal structure can be a barrier to effective communication from a leadership point of view. Its grassroots structure gives it greater credibility in the minds of employees than information delivered through official channels, even when that information is false. Some downsides of the office grapevine are that gossip offers politically minded insiders a powerful tool for disseminating communication (and self-promoting miscommunications). In addition, the grapevine lacks a specific Sender – who is at the root of the gossip network? When the news is volatile, suspicions may arise as to the person or persons behind the Message. Leaders who understand the grapevine's power can use it to send and receive Messages of their own. They also decrease the grapevine's power by sending official Messages quickly and accurately, should big news arise.

Semantics

Semantics is the study of meaning in communication. Words can mean different things to different people, or they might not mean anything to another person. Given the amount of Messages we send and receive every day, it makes sense that humans try to find shortcuts—a way to communicate things in code. In business, this code is known as **jargon**. Jargon is the language of specialized terms used by a group or profession. It is common shorthand among experts and if used sensibly can be a quick and efficient way of communicating. Every profession, trade, and organization has its own specialized terms (Wright, 2008). At first glance, jargon seems like a good thing—a quicker way to send an effective communication, the way text message abbreviations can send common messages in a shorter, yet understandable way. But that's not always how things happen. Jargon can be an obstacle to effective communication, causing listeners to tune out or fostering ill-feeling between partners in a conversation. When jargon rules the day, the Message can get obscured.

A key question to ask before using jargon is, "Who is the Receiver of my Message?" If you are a specialist speaking to another specialist in your area, jargon may be the best way to send a message while forging a professional bond—similar to the way best friends can communicate in code. For example, an information technology (IT) systems analyst communicating with another IT employee may use jargon as a way of sharing information in a way that reinforces the pair's shared knowledge. But that same conversation should be held in standard English, free of jargon, when communicating with staff members outside the IT group.

Here is a Web site of 80 buzz words in business. If you are not familiar with these, it may be helpful to learn some of them before you head into the workplace.

This article is a discussion as to why buzzwords and/or slang could be a problem:

Gender Differences

Gender differences in communication have been documented by a number of experts, however we know that we cannot put all members of any gender in a box, and we need to be extremely cautious about stereotyping. Additionally, a strictly binary approach (male and female) does not promote inclusivity and understanding of all members of our organizations. Please remember these points when working with others. Unfortunately, there is not enough research available on the communication styles of transgender, non-binary, and other gender identities.

Linguistics professor Deborah Tannen addressed gender differences in communication in her best-selling book *You Just Don't Understand: Women and Men in Conversation* (Tannen, 1991). Men and women work together every day, but different styles of communication can sometimes work against them. Generally speaking, women like to ask questions before starting a project, while men tend to "jump right in." A male leader who's unaware of how women may communicate their readiness to work may misperceive a ready employee as not ready. Another difference is that men often speak in sports metaphors, while many women use their home as a starting place for analogies. Women who believe men are "only talking about the game" may be missing out on a chance to participate in a division's strategy and opportunities for teamwork and "rallying the troops" for success (Krotz, 2008).

Being aware of these gender differences can be the first step in learning to work with others, as opposed to around them. For example, keep in mind that in this binary understanding, men tend to focus more on competition, data, and orders in their communications, while women tend to focus more on cooperation, intuition, and requests. Both styles can be effective in the right situations, but understanding the differences is a first step in avoiding misunderstandings based on them.

Differences in meaning often exist between the Sender and Receiver. *"Mean what you say, and say what you mean*." It's an easy thing to say. But in business, what do those words mean? Different words mean different things to different people. Age, education, and cultural background are all factors that influence how a person interprets words. The less we consider our audience, the greater our chances of miscommunication will be. When communication occurs in the cross-cultural context, extra caution is needed given that different words will be interpreted differently across cultures and different cultures have different norms regarding nonverbal communication. Eliminating jargon is one way of ensuring that our words will convey real-world concepts to others. Speaking to our audience, as opposed to about ourselves, is another. Nonverbal Messages can also have different meanings.

Table 5.3.1: Gestures Around the Globe (Axtell, 1998)

 ***Figure 5.3.2***	1. *"V" for victory*. Use this gesture with caution! While in North America it signs victory or peace, in England and Australia it means something closer to "take this!"
 ***Figure 5.3.3***	2. *The "OK" gesture*. While in North America it means things are going well, in France it means a person is thought to be worthless, in Japan it refers to money, and in Brazil, Russia, and Germany it means something really not appropriate for the workplace.
 ***Figure 5.3.4***	3. The *"thumbs up"* means one in Germany, five in Japan, but a good job in North America. This can lead to confusion.

 *Figure 5.3.5*	4. *"Hook 'em horns."* This University of Texas rallying call looks like the horns of a bull. However, in Italy it means you are being tricked, while in Brazil and Venezuela it means you are warding off evil.
 *Figure 5.3.6*	5. *Waving your hand*. In much of Europe waving your hand indicates a disagreement. However, in North America it is routinely used as a way to signal greetings or to get someone's attention.

Leaders who speak about "long-term goals and profits" to staff members that have received minimal raises may find their core Message ("You're doing a great job—and that benefits the folks in charge!") could infuriate those they hoped to inspire. Instead, leaders who recognize the "contributions" of their staff and confirm that this work is contributing to company goals in ways "that will benefit the source of our success—our employees as well as executives," will find their core Message ("You're doing a great job—we really value your work") is received rather than misinterpreted.

Biased language can offend or stereotype others on the basis of their personal or group affiliation.

Effective communication is clear, factual, and goal-oriented. It is also respectful. Referring to a person by one adjective (a *brain*, a *diabetic*, an *invalid*) reduces that person to that one characteristic. Language that belittles or stereotypes a person poisons the communication process. Language that insults an individual or group based on age, ethnicity, sexual preference, or political beliefs violates public and private standards of decency, ranging from civil rights to corporate regulations.

The effort to create a neutral set of terms to refer to heritage and preferences has resulted in a debate over the nature of "political correctness." Proponents of **political correctness** see it as a way to defuse the volatile nature of words that stereotyped groups and individuals in the past. Critics of political correctness see its vocabulary as stilted and needlessly cautious.

Many companies offer new employees written guides on standards of speech and conduct. These guides, augmented by common sense and courtesy, are solid starting points for effective, respectful workplace communication. Tips for appropriate workplace speech include but are not limited to:

- Instead of the traditional male pronoun when referring to people in general, alternating "he", "she" and using "they" (even as a singular pronoun).
    - See *A Guide To Gender Identity Terms*
- Remembering that terms that feel respectful or comfortable to us may not be comfortable or respectful to others.
- Relying on human resources–generated guidelines.

Poor Listening and Active Listening

Former Chrysler CEO Lee Iacocca lamented, "I only wish I could find an institute that teaches people how to listen. After all, a good manager needs to listen at least as much as he needs to talk (Iacocca & Novak, 1984)." Research shows that listening skills are related to promotions (Sypher et. al., 1989). A Sender may strive to deliver a Message clearly, but the Receiver's ability to listen effectively is equally vital to effective communication. The average worker spends 55% of her workdays listening, leaders listen up to 70% each day, but listening doesn't lead to understanding in every case. Listening takes practice, skill, and concentration.

According to University of San Diego professor Phillip Hunsaker, "The consequences of poor listening are lower employee productivity, missed sales, unhappy customers, and billions of dollars of increased cost and lost profits. Poor listening is a factor in low employee morale and increased turnover because employees do not feel their managers listen to their needs, suggestions, or complaints (Alessandra & Hunsaker, 1993)." Clearly, if you hope to have a successful career in leadership, it behooves you to learn to be a good listener.

Alan Gulick, a Starbucks spokesperson, puts better listening to work in pursuit of better profits. If every Starbucks employee misheard one $10 order each day, he calculates, their errors would cost the company a billion dollars annually. To teach its employees to listen, Starbucks created a code that helps employees taking orders hear the size, flavor, and use of milk or decaf coffee. The person making the drink echoes the order aloud.

How can you improve your listening skills? The Roman philosopher Cicero said, "Silence is one of the great arts of conversation." How often have we been in conversation with someone else where we are not really listening but itching to convey our portion? This behavior is known as "rehearsing." It suggests the Receiver has no intention of considering the Sender's Message and intends to respond to an earlier point instead. Clearly, rehearsing is an impediment to the communication process. Effective communication relies on another kind of listening: active listening.

Active listening can be defined as giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times (O*NET Resource Center, n.d). Active listening creates a real-time relationship between the Sender and the Receiver by acknowledging the content and receipt of a Message. As we've seen in the Starbucks example, repeating and confirming a Message's content offers a way to confirm that the correct content is flowing between colleagues. The process creates a bond between coworkers while increasing the flow and accuracy of messaging.

The good news is that listening is a skill that can be learned (Brownell, 1990). The first step is to decide that we want to listen. Casting aside distractions, such as by reducing background or internal noise, is critical. The

Receiver takes in the Sender's Message silently, without speaking. Second, throughout the conversation, show the speaker that you're listening. You can do this nonverbally by nodding your head and keeping your attention focused on the speaker. You can also do it verbally, by saying things like, "Yes," "That's interesting," or other such verbal cues. As you're listening, pay attention to the Sender's body language for additional cues about how they're feeling. Interestingly, silence plays a major role in active listening. During active listening, we are trying to understand what has been said, and in silence, we can consider the implications. We can't consider information and reply to it at the same time. That's where the power of silence comes into play. Finally, if anything is not clear to you, ask questions. Confirm that you've heard the message accurately, by repeating back a crucial piece like, "Great, I'll see you at 2 p.m. in my office." At the end of the conversation, a "thank you" from both parties is an optional but highly effective way of acknowledging each other's teamwork. This TedTalk by Celeste Headlee throws some of these recommendations out the window – if we really *are* listening, we should not have to He that we are, as we will automatically be showing these behaviors.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=364#oembed-1

Watch the video: 10 Ways to Have a Better Conversation with Celeste Headlee by Ted [11:21] (transcript available).

In summary, active listening creates a more dynamic relationship between Receiver and Sender. It strengthens personal investment in the information being shared. It also forges healthy working relationships among colleagues by making Speakers and Listeners equally valued members of the communication process.

Exercises

1. Most people are poor listeners. Do you agree or disagree with this statement? Please support your position.
2. Please share an example of how differences in shared meaning have affected you.
3. Give an example of selective perception.
4. Do you use jargon at or in your classes? If so, do you think it helps or hampers communication? Why or why not?
5. In your experience, how is silence used in communication? How does your experience compare with the recommended use of silence in active listening?
6. What are your thoughts on the TedTalk by Celeste Headlee? Do you feel her suggestions could increase your communication skills and strengthen your relationships?

Additional Resources

For further reading about gendered communication and non-verbal cues see Gendered Communication: Differences In Communication Styles.

5.4 Different Types of Communication and Communication Channels

Learning Objectives

1. Describe the features and advantages of verbal communication.
2. Recognize the features and advantages of written communication.
3. Evaluate the features of nonverbal communication and how it interacts with verbal and written communications.
4. Examine how communication channels affect communication.
5. Determine different communication directions within organizations.

Communication can be categorized into three basic types: (1) verbal communication, in which you listen to a person to understand their meaning; (2) written communication, in which you read their meaning; and (3) nonverbal communication, in which you observe a person and infer meaning. Each has its own advantages, disadvantages, and even pitfalls.

Verbal Communication

Verbal communication in business takes place via phone, web based calls or conferences, media, or in person. The medium of the Message is *oral*. Let's return to our printer cartridge example. This time, the Message is being conveyed from the Sender (the Manager) to the Receiver (an employee named Bill) by telephone. We've already seen how the Manager's request to Bill ("We need to buy more printer toner cartridges") can go awry. Now let's look at how the same Message can travel successfully from Sender to Receiver.

Manager (speaking on the phone): "Good morning, Bill!"

(By using the employee's name, the manager is establishing a clear, personal link to the Receiver.)

Manager: "Your division's numbers are looking great."

(The Manager's recognition of Bill's role in a winning team further personalizes and emotionalizes the conversation.)

Manager: "Our next step is to order more printer toner cartridges. Could you place an order for 1,000 printer toner cartridges with Jones Computer Supplies? Our budget for this purchase is $30,000, and the cartridges need to be here by Wednesday afternoon."

(The Manager breaks down the task into several steps. Each step consists of a specific task, time frame, quantity, or goal.)

Bill: “Sure thing! I’ll call Jones Computer Supplies and order 1,000 more printer toner cartridges, not exceeding a total of $30,000, to be here by Wednesday afternoon.”

(Bill, who is good at active listening, repeats what he has heard. This is the Feedback portion of the communication, and verbal communication has the advantage of offering opportunities for immediate feedback. Feedback helps Bill to recognize any confusion he may have had hearing the manager’s Message. Feedback also helps the manager to tell whether she has communicated the Message correctly.)

Storytelling

Storytelling has been shown to be an effective form of verbal communication; it serves an important organizational function by helping to construct common meanings for individuals within the organization. Stories can help clarify key values and help demonstrate how things are done within an organization, and story frequency, strength, and tone are related to higher organizational commitment (McCarthy, 2008). The quality of the stories entrepreneurs tell is related to their ability to secure capital for their firms (Martens et al., 2007). Stories can serve to reinforce and perpetuate an organization’s culture.

Crucial Conversations

While the process may be the same, high-stakes communications require more planning, reflection, and skill than normal day-to-day interactions at work. Examples of high-stakes communication events include asking for a raise or presenting a business plan to a venture capitalist. In addition to these events, there are also many times in our professional lives when we have **crucial conversations**—discussions where not only the stakes are high but also where opinions vary and emotions run strong (Patterson et al., 2002). One of the most consistent recommendations from communications experts is to work toward using “and” instead of “but” as you communicate under these circumstances. In addition, be aware of your communication style and practice flexibility; it is under stressful situations that communication styles can become the most rigid.

Written Communication

Figure 5.4.1: *"Man in Blue and White Checkered Dress Shirt Using Silver Macbook" by Karolina Grabowska, Pexels License.*

In contrast to verbal communications, written business communications are *printed messages*. Examples of written communications include memos, proposals, e-mails, texts, letters, training manuals, and operating policies. They may be printed on paper, handwritten, or appear on the screen. Normally, a verbal communication takes place in real time. Written communication, by contrast, may be constructed over a longer period of time. Written communication is often asynchronous (occurring at different times). That is, the Sender can write a Message that the Receiver can read at any time, unlike a conversation that is carried on in real time. A written communication can also be read by many people (such as all employees in a department or all customers). It's a "one-to-many" communication, as opposed to a one-to-one verbal conversation. There are exceptions, of course: a voicemail is an oral Message that is asynchronous. Conference calls and speeches are oral one-to-many communications, and e-mails may have only one recipient or many.

Most jobs involve some degree of writing. According to the National Commission on Writing, 67% of salaried employees in large American companies and professional state employees have some writing responsibility. Half of responding companies reported that they take writing into consideration when hiring professional employees, and 91% always take writing into account when hiring (for any position, not just professional-level ones) (Flink, 2007).

Luckily, it is possible to learn to write clearly. Here are some tips on writing well. Thomas Jefferson summed up the rules of writing well with this idea "Don't use two words when one will do." One of the oldest myths in business is that writing more will make us sound more important; in fact, the opposite is true. Leaders who can communicate simply and clearly project a stronger image than those who write a lot but say nothing.

Nonverbal Communication

What you say is a vital part of any communication. But what you *don't say* can be even more important. Research also shows that 55% of in-person communication comes from nonverbal cues like facial expressions, body stance, and tone of voice. According to one study, only 7% of a Receiver's comprehension of a Message is based on the Sender's actual words; 38% is based on paralanguage (the tone, pace, and volume of speech), and 55% is based on *nonverbal cues* (body language) (Mehrabian, 1981).

Research shows that nonverbal cues can also affect whether you get a job offer. Judges examining videotapes of actual applicants were able to assess the social skills of job candidates with the sound turned off. They watched the rate of gesturing, time spent talking, and formality of dress to determine which candidates would be the most successful socially on the job (Gifford et al., 1985). For this reason, it is important to consider how we appear in business as well as what we say. The muscles of our faces convey our emotions. We can send a silent message without saying a word. A change in facial expression can change our emotional state. Before an interview, for example, if we focus on feeling confident, our face will convey that confidence to an interviewer. Adopting a smile (even if we're feeling stressed) can reduce the body's stress levels – during telephone interviews we know that interviewers can tell pick up on that smile! *Smile — And The World Can Hear You, Even If You Hide*

To be effective communicators, we need to align our body language, appearance, and tone with the words we're trying to convey. Research shows that when individuals are lying, they are more likely to blink more frequently, shift their weight, and shrug (Siegman, 1985).

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Watch this video: Your Body Language May Shape Who You Are by Amy Cuddy [20:46] (Transcript Available).

Another element of nonverbal communication is *tone*. A different tone can change the perceived meaning of a message demonstrates how clearly this can be true, whether in verbal or written communication. If we simply read these words without the added emphasis, we would be left to wonder, but the emphasis shows us how the tone conveys a great deal of information. Now you can see how changing one's tone of voice or writing can incite or defuse a misunderstanding.

Table 5.4.1 Don't Use That Tone with Me! (Kiely, 1993)

Placement of the emphasis	What it means
I did not tell John you were late.	Someone else told John you were late.
I did **not** tell John you were late.	This did not happen.
I did not **tell** John you were late.	I may have implied it.
I did not tell **John** you were late.	But maybe I told Sharon and José.
I did not tell John **you** were late.	I was talking about someone else.
I did not tell John you **were** late.	I told him you still are late.
I did not tell John you were **late**.	I told him you were attending another meeting.

Changing your tone can dramatically change your meaning.

For an example of the importance of nonverbal communication, imagine that you're a customer interested in opening a new bank account. At one bank, the bank officer is dressed neatly. She looks you in the eye when she speaks. Her tone is friendly. Her words are easy to understand, yet she sounds professional. "Thank you for considering Bank of the East Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," she says with a friendly smile.

At the second bank, the bank officer's tie is stained. He looks over your head and down at his desk as he speaks. He shifts in his seat and fidgets with his hands. His words say, "Thank you for considering Bank of the West Coast. We appreciate this opportunity and would love to explore ways that we can work together to help your business grow," but he mumbles, and his voice conveys no enthusiasm or warmth.

Which bank would you choose?

The speaker's body language must match his or her words. If a Sender's words and body language don't match—if a Sender smiles while telling a sad tale, for example—the mismatch between verbal and nonverbal cues can cause a Receiver to actively dislike the Sender.

Examples of nonverbal cues that can support or detract from a Sender's Message.

- **Body Language** – A simple rule of thumb is that simplicity, directness, and warmth convey sincerity. And sincerity is key to effective communication. A firm handshake, given with a warm, dry hand, is a great way to establish trust. A weak, clammy handshake conveys a lack of trustworthiness. Gnawing one's lip conveys uncertainty. A direct smile conveys confidence.
- **Eye Contact** – In business, the style and duration of eye contact considered appropriate vary greatly across cultures. In the United States, looking someone in the eye (for about a second) is considered a sign of trustworthiness.
- **Facial Expressions** – The human face can produce thousands of different expressions. These expressions have been decoded by experts as corresponding to hundreds of different emotional states (Ekman et. al., 2008). Our faces convey basic information to the outside world. Happiness is associated with an upturned mouth and slightly closed eyes; fear with an open mouth and wide-eyed stare. Flitting ("shifty") eyes and pursed lips convey a lack of trustworthiness. The effect of facial expressions in conversation is instantaneous. Our brains may register them as "a feeling" about someone's character.
- **Posture** – The position of our body relative to a chair or another person is another powerful silent messenger that conveys interest, aloofness, professionalism—or lack thereof. Head up, back straight (but not rigid) implies an upright character. In interview situations, experts advise mirroring an interviewer's tendency to lean in and settle back in her seat. The subtle repetition of the other person's posture conveys that we are listening and responding.
- **Touch** – The meaning of a simple touch differs between individuals, genders, and cultures. In Mexico, when doing business, men may find themselves being grasped on the arm by another man. To pull away is seen as rude. In Indonesia, to touch anyone on the head or touch anything with one's foot is considered highly offensive. In the Far East, according to business etiquette writer Nazir Daud, "it is considered impolite for a woman to shake a man's hand (Daud, 2008)." Americans, as we have noted, place great value in a firm handshake. But handshaking as a

competitive sport ("the bone-crusher") can come off as needlessly aggressive, at home and abroad.

- **Space** – Anthropologist Edward T. Hall coined the term *proxemics* to denote the different kinds of distance that occur between people. These distances vary between cultures. Standing too far away from a colleague (such as a public speaking distance of more than seven feet) or too close to a colleague (intimate distance for embracing) can thwart an effective verbal communication in business.

This figure outlines the basic proxemics of everyday life and their meaning (Hall, 1966).

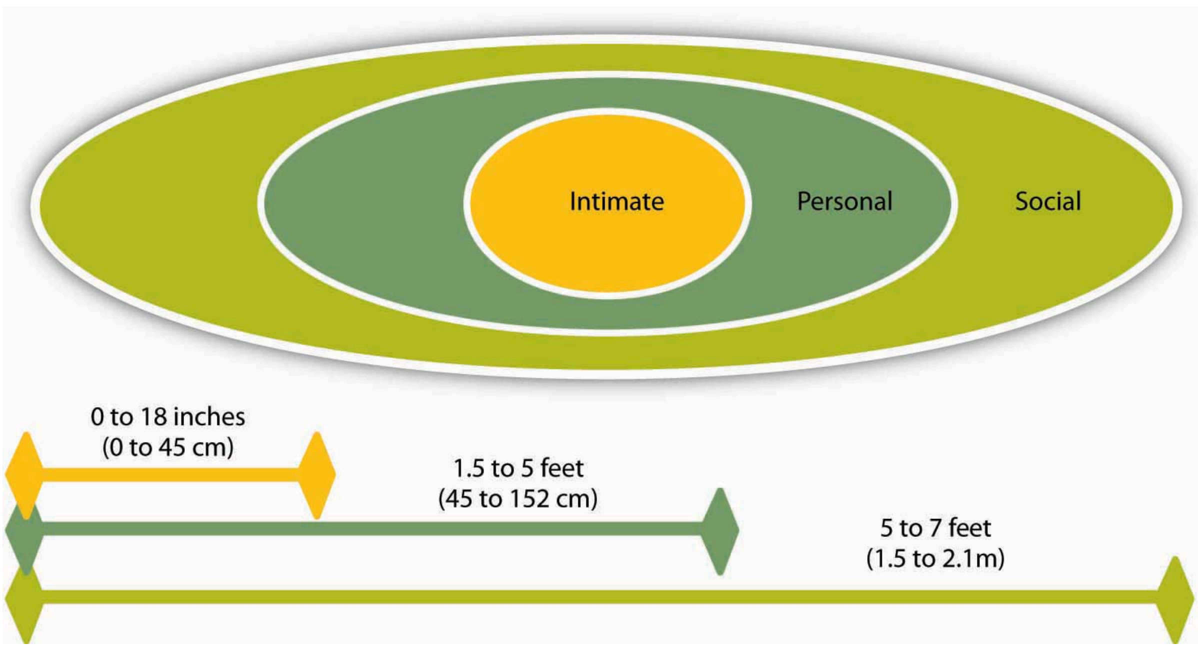

Figure 5.4.2: *Interpersonal Distances*

The channel, or medium, used to communicate a message affects how accurately the message will be received, so it is important to remember what the goal of your message is. Verbal, written, and nonverbal communications have different strengths and weaknesses. In business, the decision to communicate verbally or in written form can be a powerful one. In addition, a smart leader is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of verbal communication comes from the words themselves.

Information Richness

Channels vary in their *information richness*. Information-rich channels convey more nonverbal information. As you may be able to guess from our earlier discussion of verbal and written communications, verbal communications are richer than written ones. Research shows that effective managers tend to use more information-rich communication channels than less effective managers (Allen & Griffeth, 1997; Fulk & Boyd, 1991; Yater & Orlikowski, 1992). The figure below illustrates the information richness of different information channels.

Information Channel	Information Richness
Face-to-face conversation	High
Videoconferencing	High
Telephone conversation	High
E-mails	Medium
Handheld devices	Medium
Blogs	Medium
Written letters and memos	Medium
Formal written documents	Low
Spreadsheets	Low

Figure 5.4.3: *Information Richness*

Like face-to-face and telephone conversation, videoconferencing has high information richness because Receivers and Senders can see or hear beyond just the words—they can see the Sender's body language or hear the tone of their voice. Videoconferencing has been a huge communication asset during the pandemic as many employees have worked from home. Handheld devices, blogs, and written letters and memos offer medium-rich channels because they convey words and pictures/photos. Formal written documents, such as legal documents, and spreadsheets, such as the division's budget, convey the least richness because the format is often rigid and standardized. As a result, nuance is lost.

In business, the decision to communicate verbally or in written form can be powerful. In addition, a smart leader is aware of the nonverbal messages conveyed by either type of communication—as noted earlier, only 7% of a verbal communication comes from the words themselves.

When determining whether to communicate verbally or in writing, ask yourself: *Do I want to convey facts or* *feelings*? Verbal communications are a better way to convey feelings. Written communications do a better job of conveying facts.

Picture a leader making a speech to a team of 20 employees. The leader is speaking at a normal pace. The employees appear interested. But how much information is being transmitted? Not as much as the speaker believes! Humans listen much faster than they speak. The average public speaker communicates at a speed of about 125 words a minute. And that pace sounds fine to the audience. (In fact, anything faster than that probably would sound weird. To put that figure in perspective, someone having an excited conversation speaks at about 150 words a minute.) On the basis of these numbers, we could assume that the employees have more than enough time to take in each word the manager delivers. And that's the problem. The average person in the audience can hear 400–500 words a minute (Lee & Hatesohl, 2008). The audience has *more than enough time* to hear. As a result, they will each be processing many thoughts of their own, on totally different subjects, while the leader is speaking. As this example demonstrates, oral communication is an inherently flawed medium for conveying specific facts. Listeners' minds wander! It's nothing personal—in fact, it's totally normal. In business, once we understand this fact, we can make more intelligent communication choices based on the kind of information we want to convey.

The key to effective communication is to match the communication channel with the goal of the communication (Barry & Fulmer, 2004). For example, written media may be a better choice when the Sender wants a record of the content, has less urgency for a response, is physically separated from the Receiver, doesn't require a lot of feedback from the Receiver, or the Message is complicated and may take some time to understand. Oral communication, however, makes more sense when the Sender is conveying a sensitive or emotional Message, needs feedback immediately, and does not need a permanent record of the conversation. Use the guide provided for deciding when to use written versus verbal communication.

Use Written Communication When:	Use Verbal Communication When:
conveying facts	conveying emotion and feelings
the message needs to become part of a permanent file	the message does not need to be permanent
there is little time urgency	there is time urgency
you do not need immediate feedback	you need immediate feedback
the ideas are complicated	the ideas are simple or can be made simple with explanations

Figure 5.4.4: *Guide for When to Use Written Versus Verbal Communication*

Business Use of E-Mail

The growth of e-mail has been spectacular, but it has also created challenges in managing information and an ever-increasing speed of doing business. Over 100 million adults in the United States use e-mail regularly (at least once a day) (Taylor, 2002). Internet users around the world send an estimated 60 billion e-mails every day, and many of those are spam or scam attempts (ONEINDIA, 2006). That makes e-mail the second most popular medium of communication worldwide, second only to voice. A 2005 study estimated that less than 1% of all written human communications even reached paper—and we can imagine that this percentage has gone down even further since then (Isom, 2005). To combat the overuse of e-mail, companies such as Intel have even instituted "no e-mail Fridays" where all communication is done via other communication channels. Learning to be more effective in your e-mail communications is an important skill. To learn more, check out the business e-mail do's and don'ts.

Business E-Mail Do's and Don'ts

1. **DON'T** send or forward chain e-mails.
2. **DON'T** put anything in an e-mail that you don't want the world to see.
3. **DON'T** write a Message in capital letters—this is the equivalent of **SHOUTING**.
4. **DON'T** routinely "cc" everyone all the time, be cautious about using "reply all" unless it is necessary. Reducing inbox clutter is a great way to increase communication.
5. **DON'T** hit Send until you spell-check your e-mail.
6. **DO** use a subject line that summarizes your Message, adjusting it as the Message changes over time.
7. **DO** make your request in the first line of your e-mail. (And if that's all you need to say, stop there!)
8. **DO** end your e-mail with a brief sign-off such as, "Thank you," followed by your name and contact information.
9. **DO** think of a work e-mail as a binding communication.
10. **DO** let others know if you've received an e-mail in error.

(Leland et al., 2000; Kawasaki, 2006)

An important, although often ignored, rule when communicating emotional information is that e-mail's lack of richness can be your loss. As we saw in the chart above, e-mail is a medium-rich channel. It can convey facts quickly. But when it comes to emotion, e-mail's flaws make it far less desirable a choice than oral communication—the 55% of nonverbal cues that make a conversation comprehensible to a listener are missing. E-mail readers don't pick up on sarcasm and other tonal aspects of writing as much as the writer believes they will, researchers note in a recent study (Kruger, 2005).

The Sender may believe she has included these emotional signifiers in her Message. But, with words alone, those signifiers are not there. This gap between the form and content of e-mail inspired the rise of emoticons—symbols that offer clues to the emotional side of the words in each Message. Generally speaking, however, emoticons are not considered professional in business communication.

You might feel uncomfortable conveying an emotionally laden message verbally, especially when the message contains unwanted news. Sending an e-mail to your staff that there will be no bonuses this year may seem easier than breaking the bad news face-to-face, but that doesn't mean that e-mail is an effective or appropriate way to deliver this kind of news. When the Message is emotional, the Sender should use verbal communication. Indeed, a good rule of thumb is that the more emotionally laden messages require more thought in the choice of channel and how they are communicated.

Direction of Communication Within Organizations

Information can move horizontally, from a Sender to a Receiver, as we've seen. It can also move vertically, down from top leadership or up from the front line. Information can also move diagonally between and among levels of an organization, such as a Message from a customer service representative up to a manager in the manufacturing department, or a Message from the chief financial officer sent down to all department heads.

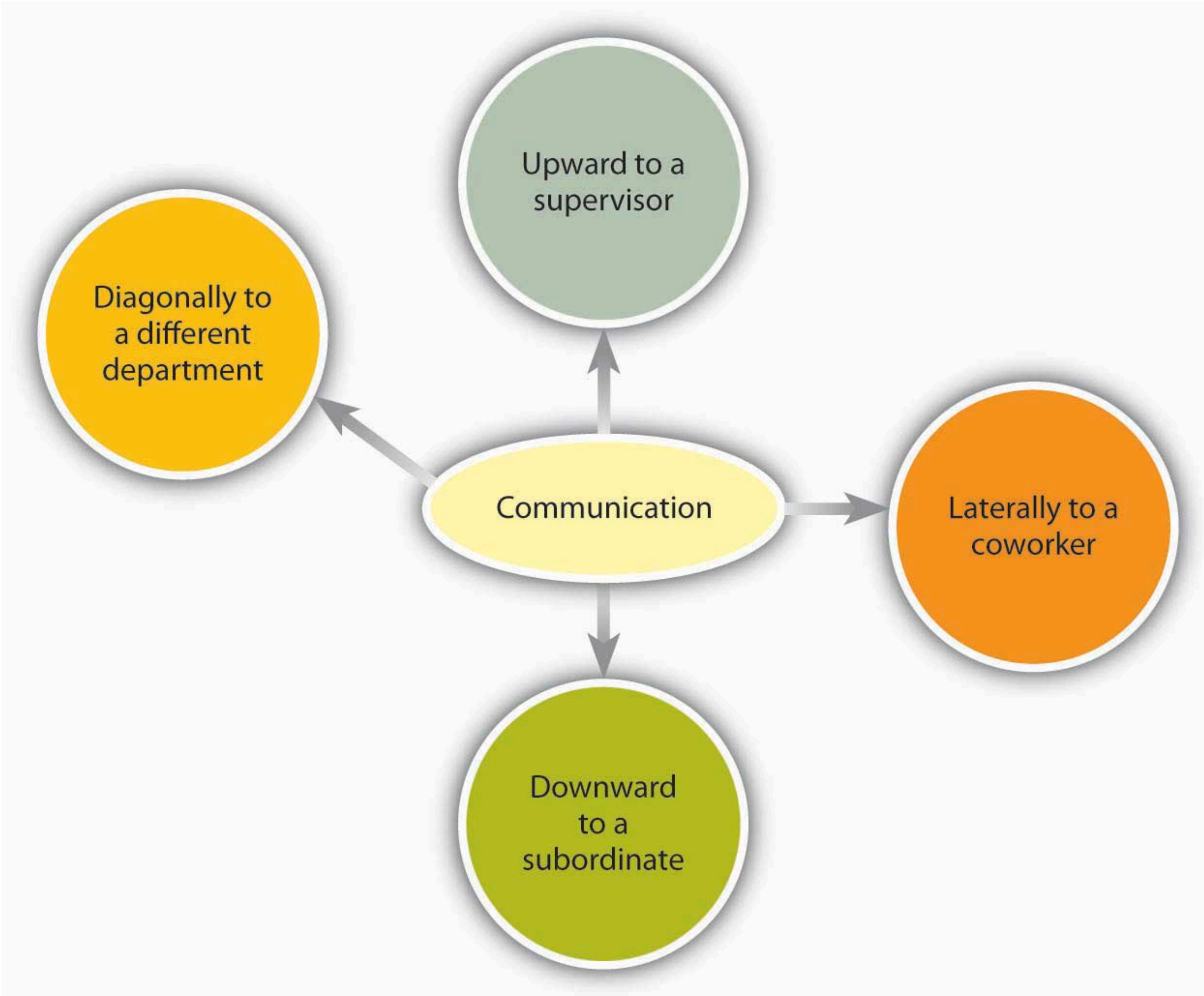

Figure 5.4.5: *Communication flows in many different directions within an organization.*

There is a chance for these arrows to go awry, of course. As Mihaly Csikszentmihalyi, author of best-selling books such as *Flow*, has noted, "In large organizations the dilution of information as it passes up and down the hierarchy, and horizontally across departments, can undermine the effort to focus on common goals." Leaders need to keep this in mind when they make organization design decisions as part of the organizing function.

The organizational status of the Sender can affect the Receiver's attentiveness to the Message. For example, consider: A senior manager sends a memo to a production supervisor. The supervisor, who has a lower status within the organization, is likely to pay close attention to the Message. The same information, conveyed in the opposite direction, however, might not get the attention it deserves. The Message would be filtered by the senior manager's perception of priorities and urgencies.

Requests are just one kind of communication in business. Other communications, both verbal or written, may seek, give, or exchange information. Research shows that frequent communications with one's supervisor is related to better job performance ratings and overall organizational performance (Snyder & Morris, 1984; Kacmar et al., 2003). Research also shows that lateral communication done between peers can influence important organizational outcomes such as turnover (Krackhardt & Porter, 1986).

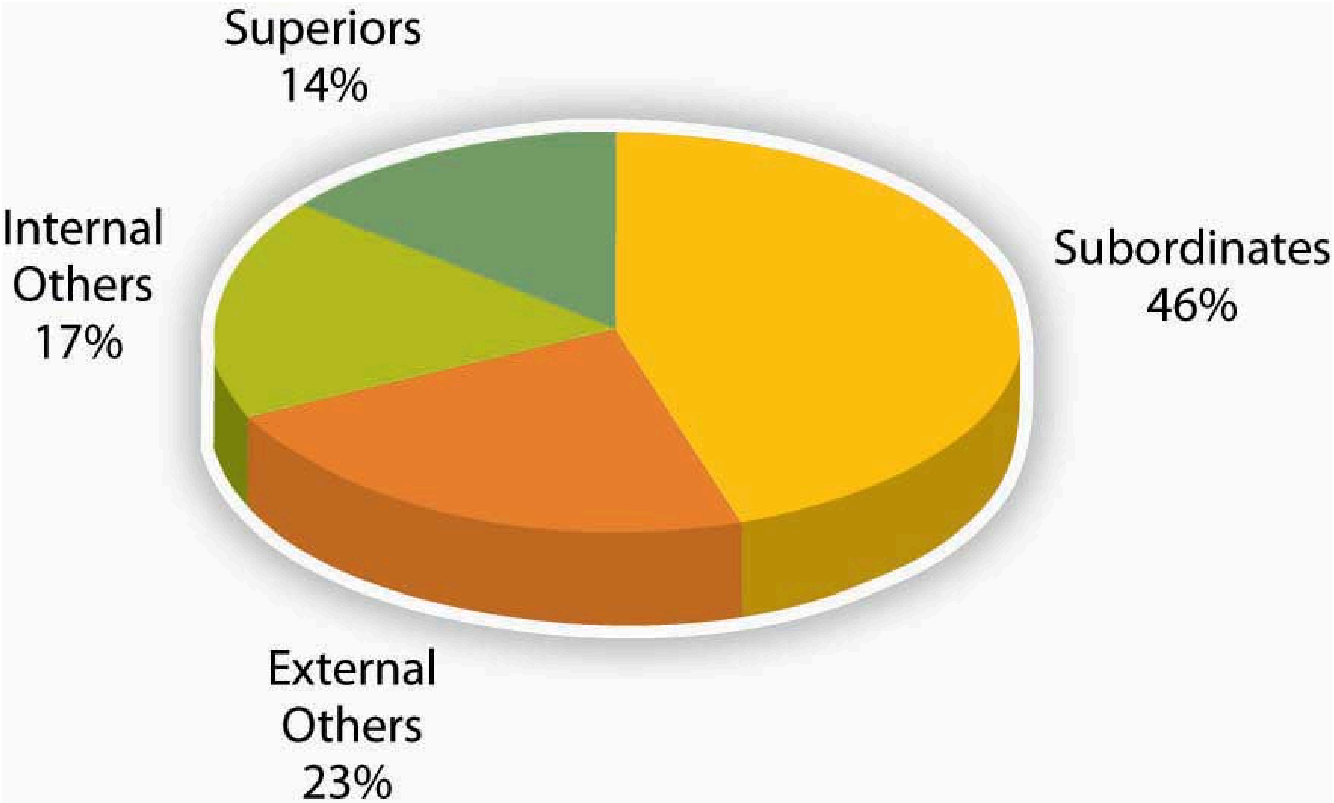

Figure 5.4.6: *Who Managers Spend Time Communicating with at Work (Luthans et al., 1986)*

External Communications

External communications deliver specific business messages to individuals outside an organization. They may announce changes in staff or strategy, earnings, and more. The goal of an external communication is to create a specific Message that the Receiver will understand and share with others. Examples of external communications include press releases, advertisements, web pages and customer communications.

Communication is key to the creation, management, and monitoring of corporate reputation. An understanding of language and its inherent powers, combined with the skill to speak, write, listen, and form interpersonal relationships, will determine whether companies succeed or fail, and whether they are rewarded or penalized for their reputations. The decisions leaders make as to how and what to communicate strongly impact the public's decision on whether or not to do business with an organization.

Different communication channels are more or less effective at transmitting different kinds of information. Some types of communication are information rich while others are medium rich. In addition, communications flow in different directions within organizations. A major internal communication channel is e-mail, which is convenient but needs to be handled carefully. External communication impacts corporate reputation; channels include PR/press releases, ads, Web pages, and customer communications such as letters and catalogs.

Exercises

1. How could you use your knowledge of communication richness to be more effective in your own communications?
2. What are the three biggest advantages and disadvantages you see regarding technology and communications?
3. Explain the difference between internal and external communications in an organization, giving examples of each.
4. When you see a memo or e-mail full of typos, poor grammar, or incomplete sentences, how do you react? Does it affect your perception of the Sender? Why or why not?
5. How aware of your own body language are you? Has your body language ever gotten you into trouble when you were communicating with someone?
6. If the meaning behind verbal communication is only 7% words, what does this imply for written communication?

Key Takeaways

Different communication channels are more or less effective at transmitting different kinds of information. Some types of communication are information rich while others are medium rich. In addition, communications flow in different directions within organizations. A major internal communication channel is e-mail, which is convenient but needs to be handled carefully. External communication channels include PR/press releases, ads, Web pages, and customer communications such as letters and catalogs.

Types of communication include verbal, written, and nonverbal. Verbal communications have the advantage of immediate feedback, are best for conveying emotions, and can involve storytelling and crucial conversations. Written communications have the advantage of asynchronicity, of reaching many readers, and are best for conveying information. Both verbal and written communications convey nonverbal messages through tone; verbal communications are also colored by body language, eye contact, facial expression, posture, touch, and space.

5.5 Decision Making

Learning Objectives

1. Define decision making.
2. Describe different types of decisions.

Figure 5.5.1: *Effective decision making helps you put the right pieces together. "puzzle perspective" by jugbo, licensed under CC BY-NC-ND 2.0.*

What Is Decision Making?

Decision making refers to making choices among alternative courses of action—which may also include inaction. While it can be argued that leadership *is* decision making, half of the decisions made by leaders within organizations fail (Ireland & Miller, 2004; Nutt, 2002; Nutt, 1999). Therefore, increasing effectiveness in decision making is an important part of maximizing your effectiveness at work. This chapter will help you understand how to make decisions alone or in a group while avoiding common decision-making traps.

Individuals throughout organizations use the information they gather through a variety of communications to make a wide range of decisions. These decisions may affect the lives of others and change the course of an organization. For example, the decisions made by executives and consulting firms for Enron ultimately resulted in a $60 billion loss for investors, thousands of employees without jobs, and the loss of all employee retirement funds. Sherron Watkins, a former Enron employee and now-famous whistleblower, uncovered the accounting problems and tried to communicate the need to enact change. Similarly, the decisions made by firms to trade in mortgage-backed securities had massive negative consequences for the entire U.S. economy in the last recession, and those decisions had an impact on the larger global economy. When individuals make decisions, they (and other stakeholders) have to live with the consequences of that decision. Think about the current impact of Vladimir Putin's decision to invade Ukraine, and the ripple effect of that choice on organizations, nations and leaders worldwide, as well as millions (perhaps billions) of innocent bystanders.

Because many decisions involve an ethical component, one of the most important considerations in leadership is whether the decisions you are making as an employee or leader are ethical. Here are some basic questions you can ask yourself to assess the ethics of a decision (Blanchard & Peale, 1988).

- Is this decision fair?
- Will I feel better or worse about myself after I make this decision?
- Does this decision break any organizational rules?
- Does this decision break any laws?
- How would I feel if this decision was broadcast on the news?

Types of Decisions

Despite the far-reaching nature of the decisions in the previous examples, not all decisions have major consequences or even require a lot of thought. For example, before you come to class, you make simple and habitual decisions such as what to wear, what to eat, and which route to take as you go to and from home and school. You probably do not spend much time on these mundane decisions. These types of straightforward decisions are termed **programmed decisions;** these are decisions that occur frequently enough that we develop an automated response to them. The automated response we use to make these decisions is called the **decision rule**. For example, many restaurants face customer complaints as a routine part of doing business. Because this is a recurring problem for restaurants, it may be regarded as a programmed decision. To deal with this problem, the restaurant might have a policy stating that every time they receive a valid customer complaint, the customer should receive a free dessert, which represents a decision rule. Making strategic, tactical, and operational decisions is an integral part of leadership.

Decisions that are unique and important require conscious thinking, information gathering, and careful consideration of alternatives. These are called **nonprogrammed decisions**. For example, in 2005, McDonald's became aware of a need to respond to growing customer concerns regarding foods high in fat and calories. This is a nonprogrammed decision because for several decades, customers of fast-food restaurants were more concerned with the taste and price of the food, rather than the healthiness. In response, McDonald's decided to offer healthier alternatives, such as substituting apple slices in Happy Meals for French fries and discontinuing the use of trans fats. A crisis situation also constitutes a nonprogrammed decision for companies. For example, the leadership of Nutrorim was facing a tough decision. They had recently introduced a new product, ChargeUp with Lipitrene, an improved version of their popular sports drink powder, ChargeUp. But a phone call came from a state health department to inform them that several cases of gastrointestinal distress had been reported after people consumed the new product. Nutrorim decided to recall ChargeUp with Lipitrene immediately. Two weeks later, it became clear that the gastrointestinal problems were unrelated to ChargeUp with Lipitrene. However, the damage to the brand and to the balance sheets was already done. This unfortunate decision caused Nutrorim to rethink the way decisions were made under pressure so that they now gather information to make informed choices even when time is of the essence (Garvin, 2006).

Figure 5.5.2: *"Hamburger University" by Anne, licensed under CC BY-NC-ND 2.0. To ensure consistency around the globe McDonald's trains all restaurant managers (over 65,000 so far) at Hamburger University where they take the equivalent of two years of college courses and learn how to make decisions. The curriculum is taught in 28 languages.*

Decision making can also be classified into three categories based on the level at which they occur. **Strategic decisions** set the course of organization. **Tactical decisions** are decisions about how things will get done. Finally, **operational decisions** are decisions that employees make each day to run the organization. For example, remember the restaurant that routinely offers a free dessert when a customer complaint is received. The owner of the restaurant made a strategic decision to have great customer service. The manager of the restaurant implemented the free dessert policy as a way to handle customer complaints, which is a tactical decision. And, the servers at the restaurant are making individual decisions each day evaluating whether each customer complaint received is legitimate to warrant a free dessert.

Level of Decision	*Examples of Decision*	*Who Typically Makes Decisions*
Strategic Decisions	Should we merge with another company? Should we pursue a new product line? Should we downsize our organization?	Top Management Teams, CEOs, and Boards of Directors
Tactical Decisions	What should we do to help facilitate employees from the two companies working together? How should we market the new product line? Who should be let go when we downsize?	Managers
Operational Decisions	How often should I communicate with my new coworkers? What should I say to customers about our new product? How will I balance my new work demands?	Employees throughout the organization

Figure 5.5.3: *Decisions Commonly Made within Organizations*

In this section, we are going to discuss different decision-making models designed to understand and evaluate the effectiveness of nonprogrammed decisions. We will cover four decision-making approaches starting with the rational decision-making model, moving to the bounded rationality decision-making model, the intuitive decision-making model, and ending with the creative decision-making model.

Making Rational Decisions

The **rational decision-making model** describes a series of steps that decision makers should consider if their goal is to maximize the quality of their outcomes. In other words, if you want to make sure you make the best choice, going through the formal steps of the rational decision-making model may make sense.

Let's imagine that your old, clunky car has broken down and you have enough money saved for a substantial down payment on a new car. It is the first major purchase of your life, and you want to make the right choice. The first step, therefore, has already been completed—we know that you want to buy a new car. Next, in step 2, you'll need to decide which factors are important to you. How many passengers do you want to accommodate? How important is fuel economy to you? Is safety a major concern? You only have a certain amount of money saved, and you don't want to take on too much debt, so price range is an important factor as well. If you know you want to have room for at least five adults, use less than 10 liters of gasoline per 100 kilometers, drive a car with a strong safety rating, not spend more than $22,000 on the purchase, and like how it looks, you've identified the decision criteria. All of the potential options for purchasing your car will be evaluated against these criteria.

Figure 5.5.4: *"Group decision making" by Lars Plougmann, licensed under CC BY-SA 2.0. Using the rational decision-making model to make major purchases can help avoid making poor choices.*

Before we can move too much further, you need to decide how important each factor is to your decision in step 3. If each is equally important, then there is no need to weight them, but if you know that price and gas mileage are key factors, you might weight them heavily and keep the other criteria with medium importance. Step 4 requires you to generate all alternatives about your options. Then, in step 5, you need to use this information to evaluate each alternative against the criteria you have established. You choose the best alternative (step 6) and you go out and buy your new car (step 7).

Of course, the outcome of this decision will be related to the next decision made; that is where the evaluation in step 8 comes in. For example, if you purchase a car but have nothing but problems with it, you are unlikely to consider the same make and model in purchasing another car the next time!

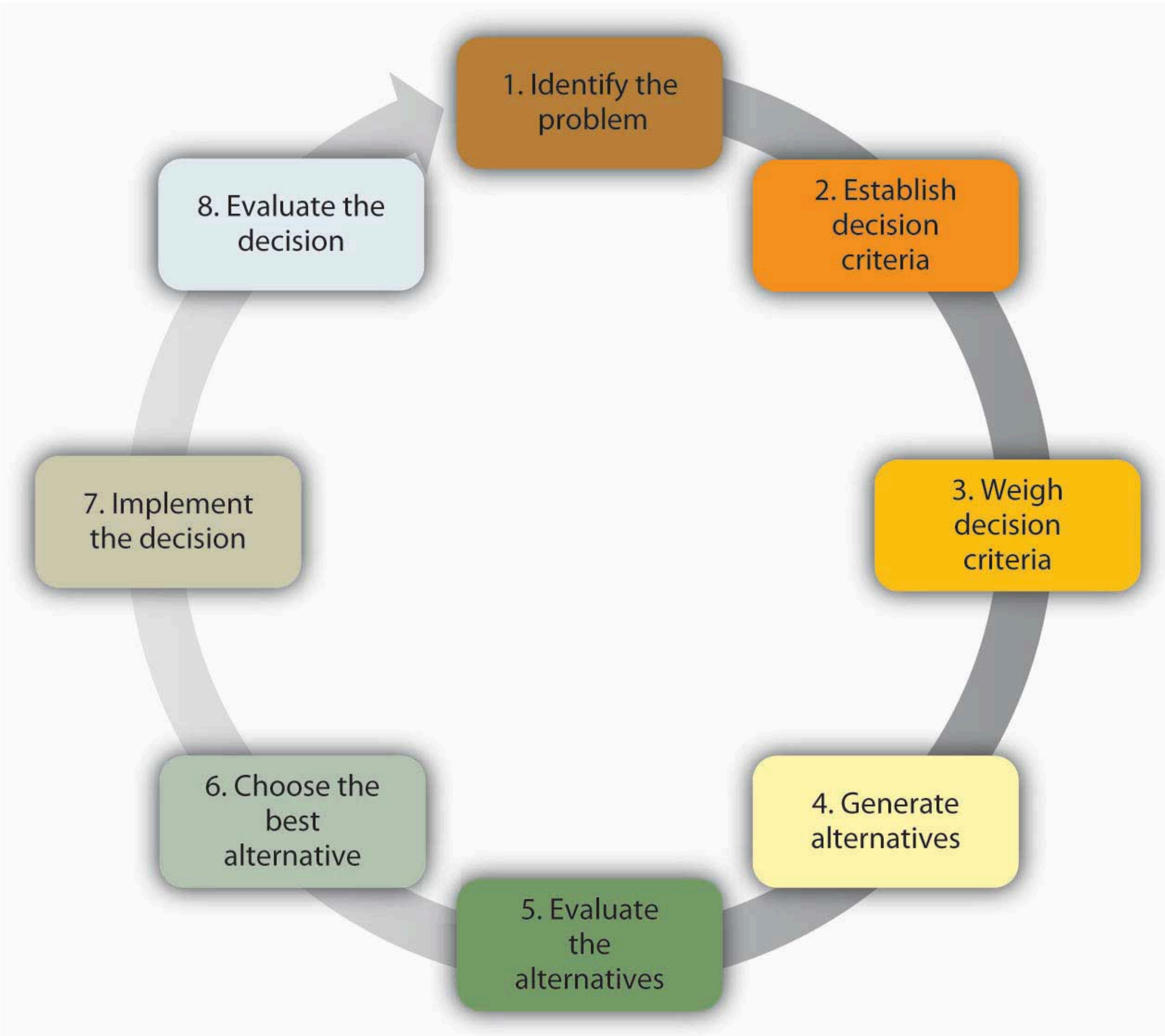

Figure 5.5.5 *Steps in the Rational Decision-Making Model*

While decision makers can get off track during any of these steps, research shows that limiting the search for alternatives in the fourth step can be the most challenging and lead to failure. In fact, one researcher found that no alternative generation occurred in 85% of the decisions studied (Nutt, 1994). Conversely, successful leaders are clear about what they want at the outset of the decision-making process, set objectives for others to respond to, carry out an unrestricted search for solutions, get key people to participate, and avoid using their power to push their perspective (Nutt, 1998).

The rational decision-making model has important lessons for decision makers. First, when making a decision you may want to make sure that you establish your decision criteria before you search for all alternatives. This would prevent you from liking one option too much and setting your criteria accordingly. For example, let's say you started browsing for cars before you decided your decision criteria. You may come across a car that you think really reflects your sense of style and make an emotional bond with the car. Then, because of your love for this car, you may say to yourself that the fuel economy of the car and the innovative braking system are the most important criteria. After purchasing it, you may realize that the car is too small for all of your friends to ride in the back seat when you and your brother are sitting in front, which was something you should have thought about! Setting criteria before you search for alternatives may prevent you from making such mistakes. Another advantage of the rational model is that it urges decision makers to generate all alternatives instead of only a few. By generating a large number of alternatives that cover a wide range of possibilities, you are likely to make a more effective decision in which you do not need to sacrifice one criterion for the sake of another.

Despite all its benefits, you may have noticed that this decision-making model involves a number of unrealistic assumptions. It assumes that people understand what decision is to be made, that they know all their available choices, that they have no perceptual biases, and that they want to make optimal decisions. Nobel Prize–winning economist Herbert Simon observed that while the rational decision-making model may be a helpful tool for working through problems, it doesn't represent how decisions are frequently made within organizations. In fact, Simon argued that it didn't even come close!

Think about how you make important decisions in your life. Our guess is that you rarely sit down and complete all eight steps in the rational decision-making model. For example, this model proposed that we should search for all possible alternatives before making a decision, but this can be time consuming and individuals are often under time pressure to make decisions. Moreover, even if we had access to all the information, it could be challenging to compare the pros and cons of each alternative and rank them according to our preferences. Anyone who has recently purchased a new laptop computer or cell phone can attest to the challenge of sorting through the different strengths and limitations of each brand, model, and plans offered for support and arriving at the solution that best meets their needs.

In fact, the availability of too much information can lead to **analysis paralysis**, where more and more time is spent on gathering information and thinking about it, but no decisions actually get made. A senior executive at Hewlett-Packard admits that his company suffered from this spiral of analyzing things for too long to the point where data gathering led to "not making decisions, instead of us making decisions (Zell, et. al., 2007)." Moreover, you may not always be interested in reaching an optimal decision. For example, if you are looking to purchase a house, you may be willing and able to invest a great deal of time and energy to find your dream house, but if you are looking for an apartment to rent for the academic year, you may be willing to take the first one that meets your criteria of being clean, close to campus, and within your price range.

Making "Good Enough" Decisions

The **bounded rationality model** of decision making recognizes the limitations of our decision-making processes. According to this model, individuals knowingly limit their options to a manageable set and choose the best alternative without conducting an exhaustive search for alternatives. An important part of the bounded rationality approach is the tendency to **satisfice**, which refers to accepting the first alternative that meets your minimum criteria. For example, many college graduates do not conduct a national or international search for potential job openings; instead, they focus their search on a limited geographic area and tend to accept the first offer in their chosen area, even if it may not be the ideal job situation. Satisficing is similar to rational decision making, but it differs in that rather than choosing the best choice and maximizing the potential outcome, the decision maker saves time and effort by accepting the first alternative that meets the minimum threshold.

Making Intuitive Decisions

The intuitive decision-making model has emerged as an important decision-making model. It refers to arriving at decisions without conscious reasoning. Eighty-nine percent of managers surveyed admitted to using intuition to make decisions at least sometimes, and 59% said they used intuition often (Burke & Miller, 1999). When we recognize that leaders often need to make decisions under challenging circumstances with time pressures, constraints, a great deal of uncertainty, highly visible and high-stakes outcomes, and within changing conditions, it makes sense that they would not have the time to formally work through all the steps of the rational decision-making model. Yet when CEOs, financial analysts, and healthcare workers are asked about the critical decisions they make, seldom do they attribute success to luck. To an outside observer, it may seem like they are making guesses as to the course of action to take, but it turns out that they are systematically making decisions using a different model than was earlier suspected. Research on life-or-death decisions made by fire chiefs, pilots, and nurses finds that these experts do not choose among a list of well-thought-out alternatives. They don't decide between two or three options and choose the best one. Instead, they consider only one option at a time. The intuitive decision-making model argues that, in a given situation, experts making decisions scan the environment for cues to recognize patterns (Breen, 2000; Klein, 2003; Salas & Klein, 2001). Once a pattern is recognized, they can play a potential course of action through to its outcome based on their prior experience. Due to training, experience, and knowledge, these decision makers have an idea of how well a given solution may work. If they run through the mental model and find that the solution will not work, they alter the solution and retest it before setting it into action. If it still is not deemed a workable solution, it is discarded as an option and a new idea is tested until a workable solution is found. Once a viable course of action is identified, the decision maker puts the solution into motion. The key point is that only one choice is considered at a time. Novices are not able to make effective decisions this way because they do not have enough prior experience to draw upon.

Making Creative Decisions

In addition to the rational decision making, bounded rationality models, and intuitive decision making, creative decision making is a vital part of being an effective decision maker. **Creativity** is the generation of new, imaginative ideas. With the flattening of organizations and intense competition among organizations, individuals and organizations are driven to be creative in decisions ranging from cutting costs to creating new ways of doing business. Please note that, while creativity is the first step in the innovation process, creativity and innovation are not the same thing. Innovation begins with creative ideas, but it also involves realistic planning and follow-through.

The five steps to creative decision making are similar to the previous decision-making models in some keys ways. All of the models include **problem identification**, which is the step in which the need for problem solving becomes apparent. If you do not recognize that you have a problem, it is impossible to solve it. **Immersion** is the step in which the decision maker thinks about the problem consciously and gathers information. A key to success in creative decision making is having or acquiring expertise in the area being studied. Then, **incubation** occurs. During incubation, the individual sets the problem aside and does not think about it for a while. At this time, the brain is actually working on the problem unconsciously. Then comes **illumination** or the insight moment, when the solution to the problem becomes apparent to the person, usually when it is least expected. This is the "eureka" moment similar to what happened to the ancient Greek inventor Archimedes, who found a solution to the problem he was working on while he was taking a bath. Finally, the **verification and application** stage happens when the decision maker consciously verifies the feasibility of the solution and implements the decision.

A NASA scientist describes his decision-making process leading to a creative outcome as follows: He had been trying to figure out a better way to de-ice planes to make the process faster and safer. After recognizing the problem, he had immersed himself in the literature to understand all the options, and he worked on the problem for months trying to figure out a solution. It was not until he was sitting outside of a McDonald's restaurant with his grandchildren that it dawned on him. The golden arches of the "M" of the McDonald's logo inspired his solution: he would design the de-icer as a series of M's![1] This represented the illumination stage. After he tested and verified his creative solution, he was done with that problem except to reflect on the outcome and process.

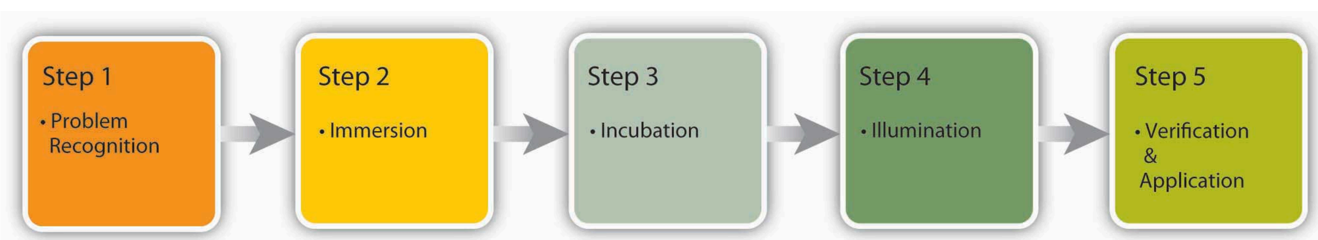

Figure 5.5.6: *The Creative Decision-Making Process*

1. Interview by author Talya Bauer at Ames Research Center, Mountain View, CA, 1990.

How Do You Know If Your Decision-Making Process Is Creative?

Researchers focus on three factors to evaluate the level of creativity in the decision-making process. **Fluency** refers to the number of ideas a person is able to generate. **Flexibility** refers to how different the ideas are from one another. If you are able to generate several distinct solutions to a problem, your decision-making process is high on flexibility. **Originality** refers to an idea's uniqueness. You might say that Reed Hastings, founder and CEO of Netflix, is a pretty creative person. His decision-making process shows at least two elements of creativity. We do not exactly know how many ideas he had over the course of his career, but his ideas are fairly different from one another. After teaching math in Africa with the Peace Corps, Hastings was accepted at Stanford University, where he earned a master's degree in computer science. Soon after starting work at a software company, he invented a successful debugging tool, which led to his founding the computer troubleshooting company Pure Software in 1991. After a merger and the subsequent sale of the resulting company in 1997, Hastings founded Netflix, which revolutionized the DVD rental business through online rentals with no late fees before turning toward streaming online content. In 2007, Hastings was elected to Microsoft's board of directors. As you can see, his ideas are high in originality and flexibility (Conlin, 2007).

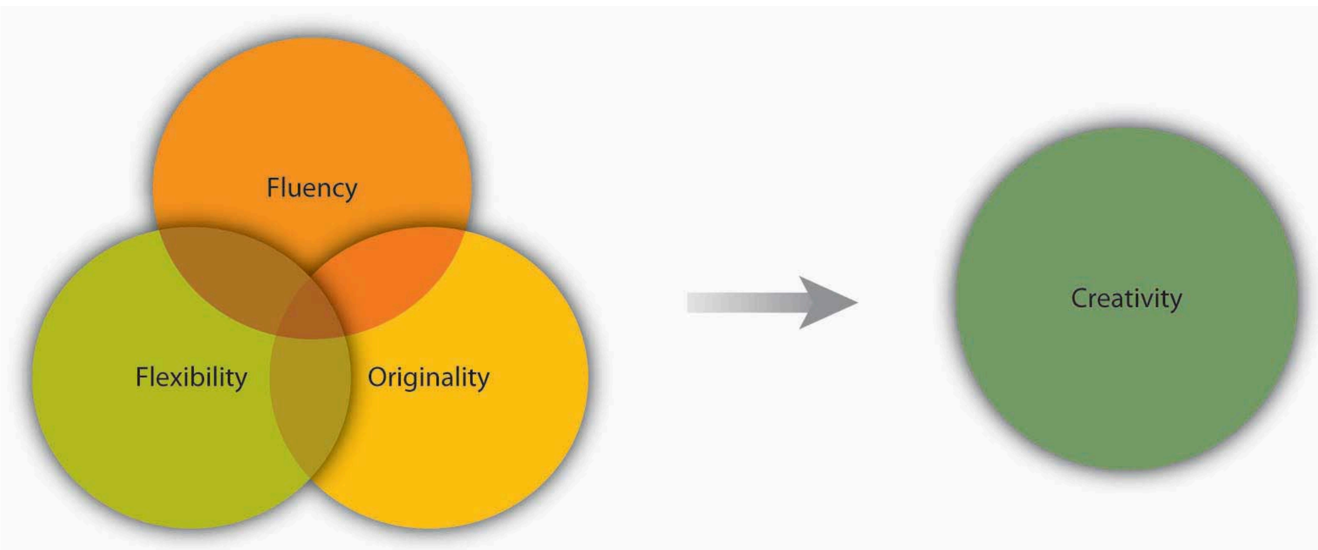

Figure 5.5.7: *Dimensions of Creativity*

Some experts have proposed that creativity occurs as an interaction among three factors: (1) people's personality traits (openness to experience, risk taking), (2) their attributes (expertise, imagination, motivation), and (3) the context (encouragement from others, time pressure, and physical structures) (Amabile, 1988; Amabile et al., 1996; Ford & Gioia, 2000; Tierney et al., 1999; Woodman et al., 1993). For example, research shows that individuals who are open to experience, are less conscientious, more self-accepting, and more impulsive, tend to be more creative (Feist, 1998).

There are many techniques available that enhance and improve creativity. Linus Pauling, the Nobel prize winner who popularized the idea that vitamin C could help build the immunity system, said, "The best way to have a good idea is to have a lot of ideas." One popular way to generate ideas is to use brainstorming. **Brainstorming** is a group process of generated ideas that follows a set of guidelines that include no criticism of ideas during the brainstorming process, the idea that no suggestion is too crazy, and building on other ideas (piggybacking). Research shows that the quantity of ideas actually leads to better idea quality in the end, so setting high **idea**

quotas where the group must reach a set number of ideas before they are done, is recommended to avoid process loss and to maximize the effectiveness of brainstorming. Another unique aspect of brainstorming is that the more people are included in brainstorming, the better the decision outcome will be because the variety of backgrounds and approaches give the group more to draw from. A variation of brainstorming is **wildstorming** where the group focuses on ideas that are impossible and then imagines what would need to happen to make them possible (Scott et al., 2004). Avoiding groupthink is an important skill to learn (Janis, 1972).

The four different decision-making models—rational, bounded rationality, intuitive, and creative—vary in terms of how experienced or motivated a decision maker is to make a choice. Choosing the right approach will make you more effective at work and improve your ability to manage the decision-making process to make choices more fully aligned with the organization's goals, mission and vision.

Decision Making Model	*Use This Model When:*
Rational	• Information on alternatives can be gathered and quantified. • The decision is important. • You are trying to maximize your outcome.
Bounded Rationality	• The minimum criteria are clear. • You do not have or you are not willing to invest much time to making the decision. • You are not trying to maximize your outcome.
Intuitive	• Goals are unclear. • There is time pressure and analysis paralysis would be costly. • You have experience with the problem.
Creative	• Solutions to the problem are not clear. • New solutions need to be generated. • You have time to immerse yourself in the issues.

Figure 5.5.8: *Which decision-making model should I use?*

Something to remember about decision making is that the way a decision is communicated – both to the internal organization and to the world at large – can highly influence the likelihood of acceptance or rejection of that decision.

Exercises

1. What do you see as the main difference between a successful and an unsuccessful decision? How much does luck versus skill have to do with it? How much time needs to pass to answer the first question?
2. Research has shown that over half of the decisions made within organizations fail. Does this

surprise you? Why or why not?

3. Have you used the rational decision-making model to make a decision? What was the context? How well did the model work?
4. Share an example of a decision where you used satisficing. Were you happy with the outcome? Why or why not? When would you be most likely to engage in satisficing?
5. Do you think intuition is respected as a decision-making style? Do you think it should be? Why or why not?

Key Takeaways

Decision making is choosing among alternative courses of action, including inaction. There are different types of decisions, ranging from automatic, programmed decisions to more intensive nonprogrammed decisions. Structured decision-making processes include rational decision making, bounded rationality, intuitive, and creative decision making. Each of these can be useful, depending on the circumstances and the problem that needs to be solved.

5.6 Faulty Decision Making

Learning Objectives

1. Recognize overconfidence bias and how to avoid it.
2. Describe hindsight bias and how to avoid it.
3. Define anchoring and how to avoid it.
4. Recognize framing bias and how to avoid it.
5. Describe escalation of commitment and how to avoid it.
6. Describe what a project premortem is.

No matter which model you use, you need to know and avoid the decision-making traps that exist. Daniel Kahnemann (another Nobel prize winner) and Amos Tversky spent decades studying how people make decisions. They found that individuals are influenced by overconfidence bias, hindsight bias, anchoring bias, framing bias, and escalation of commitment.

Figure 5.6.1: *"Challenges of Decision Making" by Alyssa Giles, CC BY-NC-SA 4.0.*

Potential Challenges to Decision Making

Overconfidence Bias

Overconfidence bias occurs when individuals overestimate their ability to predict future events. Many people exhibit signs of overconfidence. For example, 82% of the drivers surveyed feel they are in the top 30% of safe drivers, 86% of students at the Harvard Business School say they are better looking than their peers, and doctors consistently overestimate their ability to detect problems (Tilson, 1999). Much like a friend who is always 100% sure he can pick the winners of this week's football games despite evidence to the contrary, these individuals are suffering from overconfidence bias. People who purchase lottery tickets as a way to make money are probably suffering from overconfidence bias. It is three times more likely for a person driving 10 miles to buy a lottery ticket to be killed in a car accident than to win the jackpot (Orkin, 1991). To avoid this bias, take the time to stop and ask yourself whether you are being realistic in your judgments.

Hindsight Bias

Hindsight bias is the opposite of overconfidence bias, as it occurs when looking backward in time where mistakes made seem obvious after they have already occurred. In other words, after a surprising event occurred, many individuals are likely to think that they already knew this was going to happen. This may be because they are selectively reconstructing the events. Hindsight bias becomes a problem especially when judging someone else's decisions. For example, let's say a company driver hears the engine making unusual sounds before starting her morning routine. Being familiar with this car in particular, the driver may conclude that the probability of a serious problem is small and continue to drive the car. During the day, the car malfunctions, stranding her away from the office. It would be easy to criticize her decision to continue to drive the car because, in hindsight, the noises heard in the morning would make us believe that she should have known something was wrong and she should have taken the car in for service. However, the driver may have heard similar sounds before with no consequences, so based on the information available to her at the time, she may have made a reasonable choice. Therefore, it is important for decision makers to remember this bias before passing judgments on other people's actions.

Anchoring

Anchoring refers to the tendency for individuals to rely too heavily on a single piece of information. Job seekers often fall into this trap by focusing on a desired salary while ignoring other aspects of the job offer such as additional benefits, fit with the job, and working environment. Similarly, but more dramatically, lives were lost in the Great Bear Wilderness Disaster when the coroner declared all five passengers of a small plane dead within five minutes of arriving at the accident scene, which halted the search effort for potential survivors, when, in fact, the next day two survivors walked out of the forest. How could a mistake like this have been made? One theory is that decision biases played a large role in this serious error; anchoring on the fact that the plane had been consumed by flames led the coroner to call off the search for any possible survivors (Becker, 2007).

Framing Bias

Framing bias refers to the tendency of decision makers to be influenced by the way that a situation or problem is presented. For example, when making a purchase, customers find it easier to let go of a discount as opposed to accepting a surcharge, even though they both might cost the person the same amount of money. Similarly, customers tend to prefer a statement such as "85% lean beef" as opposed to "15% fat" (Li, et. al., 2007)! It is important to be aware of this tendency because, depending on how a problem is presented to us, we might choose an alternative that is disadvantageous simply because of how it is framed.

Escalation of Commitment

Escalation of commitment occurs when individuals continue on a failing course of action after information reveals this may be a poor path to follow. It is sometimes called *sunk costs fallacy* because the continuation is often based on the idea that one has already invested in this course of action. For example, imagine a person purchases a used car that turns out to need another repair every few weeks. An effective way of dealing with this situation might be to sell the car without incurring further losses, donate the car, or drive it without repairing it until it falls apart. However, many people spend hours of their time and hundreds, even thousands of dollars repairing the car in the hopes that they will justify their initial investment in buying the car.

Example: Motorola's Iridium Project

A classic example of escalation of commitment from the corporate world may be Motorola's Iridium project. In 1980s, the phone coverage around the world was weak—it could take hours of dealing with a chain of telephone operators in several different countries to get a call through from, say, Cleveland to Calcutta. Thus, there was a real need within the business community to improve phone access around the world. Motorola envisioned solving this problem using 66 low-orbiting satellites, enabling users to place a direct call to any location around the world. At the time of idea development, the project was technologically advanced, sophisticated, and made financial sense. Motorola spun off Iridium as a separate company in 1991. It took researchers 15 years to develop the product from idea to market release. However, in the 1990s, the landscape for cell phone technology was dramatically different from the 1980s, and the widespread cell phone coverage around the world eliminated a large base of the projected customer base for Iridium. Had they been paying attention to these developments, the decision makers would probably have abandoned the project at some point in the early 1990s. Instead, they released the Iridium phone to the market in 1998. The phone cost $3,000 and it was literally the size of a brick. Moreover, it was not possible to use the phone in moving cars or inside buildings! Not surprisingly, the launch was a failure and Iridium filed for bankruptcy in 1999 (Finkelstein & Sanford, 2000). The company was ultimately purchased for $25 million by a group of investors (whereas it cost the company $5 billion to develop its product), scaled down its operations, and modified it for use by the Department of Defense to connect soldiers in remote areas not served by landlines or cell phones.

Figure 5.6.2: *Motorola released the Iridium phone to the market in 1998. The phone cost $3,000 and was literally the size of a brick. This phone now resides at the Smithsonian Air and Space Museum in Dulles, Virginia. "Iridium phone" by Mark Pellegrini, licensed under CC BY-SA 3.0.*

Why does escalation of commitment occur? There may be many reasons, but two are particularly important.

First, decision makers may not want to admit that they were wrong. This may be because of personal pride or being afraid of the consequences of such an admission. Second, decision makers may incorrectly believe that spending more time and energy might somehow help them recover their losses. Effective decision makers avoid escalation of commitment by distinguishing between when persistence may actually pay off versus when persistence might mean escalation of commitment. To avoid escalation of commitment, you might consider having strict turning back points. For example, you might determine up front that you will not spend more than $500 trying to repair the car and will sell the car when you reach that point. You might also consider assigning separate decision makers for the initial buying and subsequent selling decisions. Periodical evaluations of an initially sound decision to see whether the decision still makes sense is also another way of preventing escalation of commitment. This becomes particularly important in projects such as the Iridium where the initial decision is not immediately implemented but instead needs to go through a lengthy development process. In such cases, it becomes important to assess the soundness of the initial decision periodically in the face of changing market conditions. Finally, creating an organizational climate where individuals do not fear admitting that their initial decision no longer makes economic sense would go a long way in preventing escalation of commitment, as it could lower the regret the decision maker may experience (Wong & Kwong, 2007).

Perform a Project "Premortem" to Fix Problems Before They Happen

Doctors routinely perform postmortems to understand what went wrong with a patient who has died. The idea is for everyone to learn from the unfortunate outcome so that future patients will not meet a similar fate. But, what if you could avoid a horrible outcome before it happened by identifying project risks proactively—before your project derails? Research suggests that the simple exercise of imagining what could go wrong with a given decision can increase your ability to identify reasons for future successes or failures by 30% (Mitchell, et. al., 1989). A "premortem" is a way to imagine and to avoid what might go wrong before spending a cent or having to change course along the way (Breen, 2000; Klein, 2003; Klein, 2007; Pliske et al., 2001).

Gary Klein (2003), an expert on decision making in fast-paced, uncertain, complex, and critical environments, recommends that decision makers follow this six-step premortem process to increase their chances of success.

1. A planning team comes up with an outline of a plan, such as the launching of a new product.
2. Either the existing group or a unique group is then told to imagine looking into a crystal ball and seeing that the new product failed miserably. They then write down all the reasons they can imagine that might have led to this failure.
3. Each team member shares items from their list until all the potential problems have been identified.
4. The list is reviewed for additional ideas.
5. The issues are sorted into categories in the search for themes.
6. The plan should then be revised to correct the flaws and avoid these potential problems.

The premortem technique allows groups to truly delve into "what if" scenarios. For example, in a premortem session at a *Fortune* 50 company, an executive imagined that a potential billion-dollar environmental sustainability project might fail because the CEO had retired.

Exercises

1. Describe a time when you fell into one of the decision-making traps. How did you come to realize that you had made a poor decision?
2. How can you avoid escalation of commitment?
3. Share an example of anchoring.
4. Which of the traps seems the most dangerous for decision makers and why?
5. How might you use the premortem technique to be more effective within groups at school or work?
6. Imagine that your good friend is starting a new job next week as a manager. What

recommendations would you give your friend to be successful with decision making at work?

Key Takeaways

Understanding decision-making traps can help you avoid and manage them. Overconfidence bias can cause you to ignore obvious information. Hindsight bias can similarly cause a person to incorrectly believe in their ability to predict events. Anchoring and framing biases show the importance of the way problems or alternatives are presented in influencing one's decision. Escalation of commitment demonstrates how individuals' desire for consistency, or to avoid admitting a mistake, can cause them to continue to invest in a decision that is not prudent.

5.7 Decision Making in Groups

Learning Objectives

1. Compare the pros and cons of individual and group decision making.
2. Recognize the signs of groupthink.
3. Analyze different tools and techniques for making better decisions.

When It Comes to Decision Making, Are Two Heads Better Than One?

When it comes to decision making, are two heads better than one? The answer to this question depends on several factors. Group decision making has the advantages of drawing from the experiences and perspectives of a larger number of individuals. Hence, they have the potential to be more creative and lead to a more effective decision. In fact, groups often achieve results beyond what they could have done as individuals. Groups also make the task more enjoyable for members in question. Finally, when the decision is made by a group rather than a single individual, implementation of the decision will be easier because group members will be invested in the decision. If the group is diverse, better decisions may be made because different group members may have different ideas based on their background and experiences. Research shows that for top leadership teams, groups that debate issues and that are diverse make decisions that are more comprehensive and better for the bottom line in terms of profitability and sales (Simons, et. al., 1999).

Despite its popularity within organizations, group decision making has some disadvantages. We know that groups rarely outperform their best member (Miner, 1984). While groups have the potential to arrive at an effective decision, they often suffer from process losses. For example, groups may suffer from coordination problems. Anyone who has worked with a team of individuals on a project can attest to the difficulty of coordinating members' work or even coordinating everyone's presence in a team meeting. Furthermore, groups can suffer from **social loafing**, or the tendency of some members to put forth less effort while working within a group. Groups may also suffer from **groupthink**, the tendency to avoid critical evaluation of ideas the group favors. Finally, group decision making takes a longer time compared with individual decision making, given that all members need to discuss their thoughts regarding different alternatives.

Thus, whether an individual or a group decision is preferable will depend on the specifics of the situation. Think back to the Normative Decision model. For example, if there is an emergency and a decision needs to be made quickly, individual decision making might be preferred. Individual decision making may also be appropriate if the individual in question has all the information needed to make the decision and if implementation problems are not expected. However, if one person does not have all the information and skills needed to make the decision, if implementing the decision will be difficult without the involvement of those who will be affected by the decision, and if time urgency is more modest, then decision making by a group may be more effective.

Individual Decision Making		Group Decision Making	
Pros	Cons	Pros	Cons
Typically faster than group decision making	Fewer ideas	Diversity of ideas and can piggyback on others' ideas	Takes longer
Best individual in a group usually outperforms the group	Identifying the best individual can be challenging	Greater commitment to ideas	Group dynamics such as groupthink can occur
Accountability is easier to determine	Possible to put off making decisions if left alone to do it	Interaction can be fun and serves as a team building task	Social loafing-harder to identify responsibility for decisions

Figure 5.7.1: *Advantages and Disadvantages of Different Levels of Decision Making*

Groupthink

Have you ever been in a decision-making group that you felt was heading in the wrong direction, but you didn't speak up and say so? If so, you have already been a victim of groupthink. Groupthink is a group pressure phenomenon that increases the risk of the group making flawed decisions by leading to reduced mental efficiency, reality testing, and moral judgment. Groupthink is characterized by eight symptoms that include (Janis, 1972):

1. *Illusion of invulnerability* shared by most or all of the group members that creates excessive optimism and encourages them to take extreme risks.
2. *Collective rationalizations* where members downplay negative information or warnings that might cause them to reconsider their assumptions.
3. *An unquestioned belief in the group's inherent morality* that may incline members to ignore ethical or moral consequences of their actions.
4. *Stereotyped views of out-groups* are seen when groups discount rivals' abilities to make effective responses.
5. *Direct pressure* on any member who expresses strong arguments against any of the group's stereotypes, illusions, or commitments.
6. *Self-censorship* when members of the group minimize their own doubts and counterarguments.
7. *Illusions of unanimity* based on self-censorship and direct pressure on the group; the lack of dissent is viewed as unanimity.
8. *The emergence of self-appointed mindguards* where one or more members protect the group from

information that runs counter to the group's assumptions and course of action.

Figure 5.7.2: *Avoiding groupthink can be a matter of life or death. In January 1986, the space shuttle Challenger exploded 73 seconds after liftoff, killing all seven astronauts aboard. The decision to launch Challenger that day, despite problems with mechanical components of the vehicle and unfavourable weather conditions, is cited as an example of groupthink. "Challenger flight 51-1 crew" by NASA, public domain.*

While research on groupthink has not confirmed all of the theory, groups do tend to suffer from symptoms of groupthink when they are large and when the group is cohesive because the members like each other (Esser, 1998; Mullen, et. al., 1994). The assumption is that the more frequently a group displays one or more of the eight symptoms, the worse the quality of their decisions will be.

However, if your group is cohesive, it is not necessarily doomed to engage in groupthink.

Recommendations for Avoiding Groupthink

Groups Should:

- Discuss the symptoms of groupthink and how to avoid them.
- Assign a rotating devil's advocate to every meeting.
- Invite experts or qualified colleagues who are not part of the core decision-making group to attend meetings, and get reactions from outsiders on a regular basis and share these with the group.
- Encourage a culture of difference where different ideas are valued.
- Debate the ethical implications of the decisions and potential solutions being considered.

Individuals Should:

- Monitor their own behavior for signs of groupthink and modify behavior if needed.
- Check themselves for self-censorship.
- Carefully avoid mindguard behaviors.
- Avoid putting pressure on other group members to conform.
- Remind members of the ground rules for avoiding groupthink if they get off track.

Group Leaders Should:

- Break the group into two subgroups from time to time.
- Have more than one group work on the same problem if time and resources allow it. This makes sense for highly critical decisions.
- Remain impartial and refrain from stating preferences at the outset of decisions.
- Set a tone of encouraging critical evaluations throughout deliberations.
- Create an anonymous feedback channel where all group members can contribute to if desired.

Tools and Techniques for Making Better Decisions

Nominal Group Technique (NGT) was developed to help with group decision making by ensuring that all members participate fully. NGT is not a technique to be used at all meetings routinely. Rather, it is used to structure group meetings when members are grappling with problem solving or idea generation. It follows four steps (Delbecq, et. al., 1975). First, each member of the group engages in a period of independently and silently writing down ideas. Second, the group goes in order around the room to gather all the ideas that were generated. This goes on until all the ideas are shared. Third, a discussion takes place around each idea and members ask for and give clarification and make evaluative statements. Finally, individuals vote for their favorite ideas by using either ranking or rating techniques. Following the four-step NGT helps to ensure that all members participate fully and avoids group decision-making problems such as groupthink.

Delphi Technique is unique because it is a group process using written responses to a series of questionnaires instead of physically bringing individuals together to make a decision. The first questionnaire asks individuals to respond to a broad question, such as stating the problem, outlining objectives, or proposing solutions. Each subsequent questionnaire is built from the information gathered in the previous one. The process ends when the group reaches a consensus. Facilitators can decide whether to keep responses anonymous. This process is often used to generate best practices from experts. For example, Purdue University professor Michael Campion used this process when he was editor of the research journal *Personnel Psychology* and wanted to determine the qualities that distinguished a good research article. Using the Delphi Technique, he was able to gather responses from hundreds of top researchers from around the world without ever having to leave his office and distill them into a checklist of criteria that he could use to evaluate articles submitted to the journal (Campion, 1993).

Majority rule refers to a decision-making rule where each member of the group is given a single vote, and the option that receives the greatest number of votes is selected. This technique has remained popular, perhaps because of its simplicity, speed, ease of use, and representational fairness. Research also supports majority rule as an effective decision-making technique (Hastie & Kameda, 2005). However, those who did not vote in favor of the decision will be less likely to support it.

Consensus is another decision-making rule that groups may use when the goal is to gain support for an idea or plan of action. While consensus tends to take longer in the first place, it may make sense when support is needed to enact the plan. The process works by discussing the issues, generating a proposal, calling for consensus, and discussing any concerns. If concerns still exist, the proposal is modified to accommodate them. These steps are repeated until consensus is reached. Thus, this decision-making rule is inclusive, participatory, cooperative, and democratic. Research shows that consensus can lead to better accuracy (Roch, 2007), and it helps members feel greater satisfaction with decisions (Mohammed & Ringseis, 2001) and to have greater acceptance. However, groups take longer with this approach and groups that cannot reach consensus become frustrated (Peterson, 1999).

Group decision support systems (GDSS) are interactive computer-based systems that are able to combine communication and decision technologies to help groups make better decisions. Organizations know that having effective **knowledge management systems** to share information is important. Research shows that a GDSS can actually improve the output of group collaborative work through higher information sharing (Lam & Schaubroeck, 2000). Organizations know that having effective knowledge management systems to share information is important, and their spending reflects this reality. According to a 2002 article, businesses invested $2.7 billion into new systems in 2002 and projections were for this number to double every five years. As the popularity of these systems grows, they risk becoming counterproductive. Humans can only process so many ideas and information at one time. As virtual meetings grow larger, it is reasonable to assume that information overload can occur and good ideas will fall through the cracks, essentially recreating a problem that the GDSS was intended to solve that is to make sure every idea is heard. Another problem is the system possibly becoming too complicated. If the systems evolve to a point of uncomfortable complexity, it has recreated the problem of the bully pulpit and shyness. Those who understand the interface will control the narrative of the discussion, while those who are less savvy will only be along for the ride (Nunamaker et al., 1991). Lastly, many of these programs fail to take into account the factor of human psychology. These systems could make employees more reluctant to share information due to lack of control, lack of immediate feedback, the fear of "flaming" or harsher than normal criticism, and the desire to have original information hence more power (Babock, 2004).

Figure 5.7.3: *Healthy communication and trust are key elements to effective group decision making. "Teamwork and team spirit" by 드림포유, licensed under CC BY-ND 2.0.*

Decision trees are diagrams in which answers to yes or no questions lead decision makers to address additional questions until they reach the end of the tree. Decision trees are helpful in avoiding errors such as framing bias (Wright & Goodwin, 2002). Decision trees tend to be helpful in guiding the decision maker to a predetermined alternative and ensuring consistency of decision making—that is, every time certain conditions are present, the decision maker will follow one course of action as opposed to others if the decision is made using a decision tree.

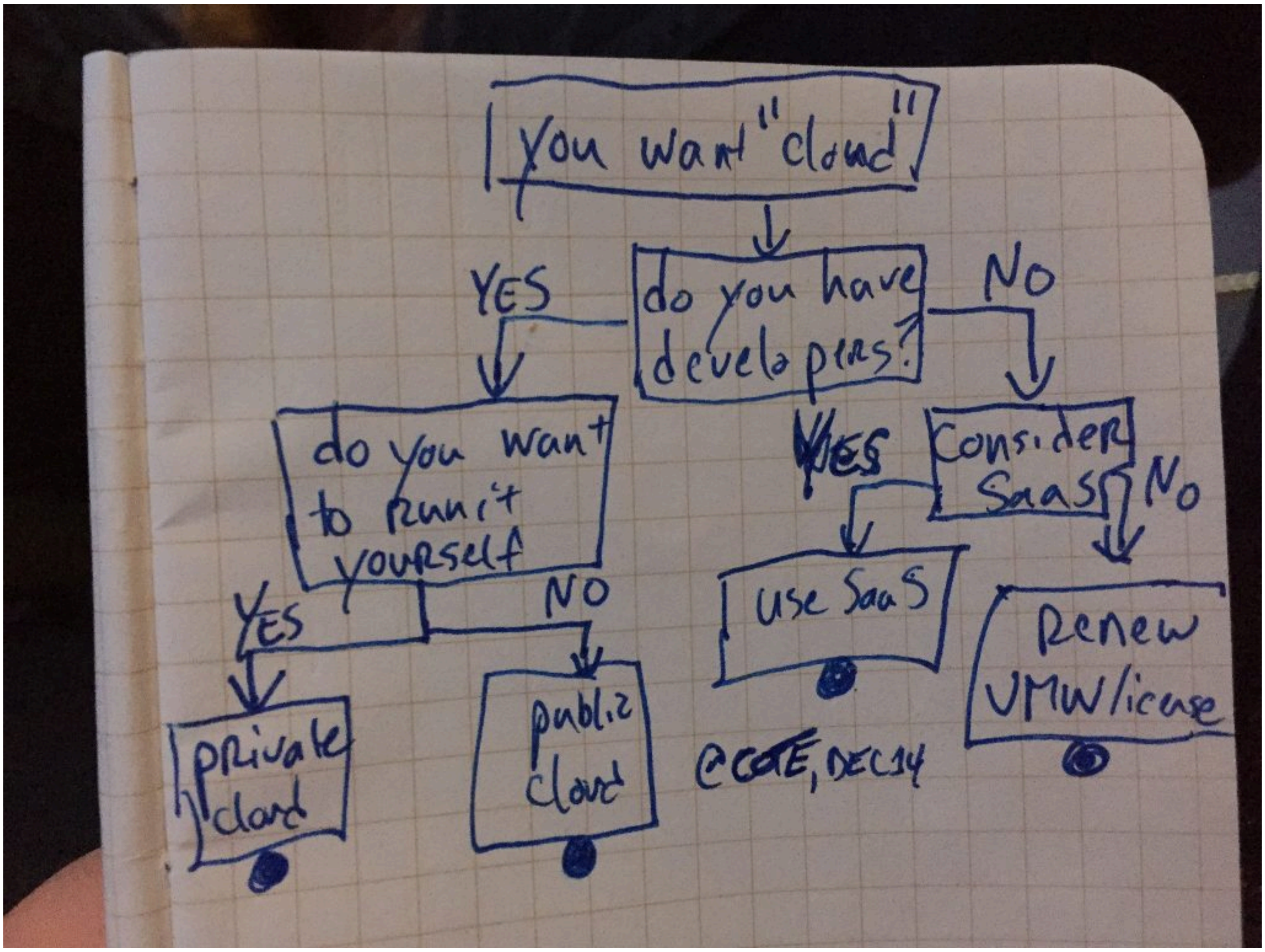

Figure 5.7.4: *Using decision trees can improve investment decisions by optimizing them for maximum payoff. A decision tree consists of three types of nodes. Decision nodes are commonly represented by squares. Chance nodes are represented by circles. End nodes are represented by triangles.*
"Cloud buying decision tree" by Michael Coté, licenced under CC BY 2.0.

Exercises

1. Do you prefer to make decisions in a group or alone? What are the main reasons for your preference?
2. Have you been in a group that used the brainstorming technique? Was it an effective tool for coming up with creative ideas? Please share examples.
3. Have you been in a group that experienced groupthink? If so, how did you deal with it?
4. Which of the decision making tools discussed in this chapter (NGT, Delphi, etc.) have you used? How effective were they?

Key Takeaways

There are trade-offs between making decisions alone and within a group. Groups have greater diversity of experiences and ideas than individuals, but they also have potential process losses such as groupthink. Groupthink can be avoided by recognizing the eight symptoms discussed. Finally, there are a variety of tools and techniques available for helping to make more effective decisions in groups, including the Nominal Group Technique, Delphi Technique, majority rule, consensus, GDSS, and decision trees. Understanding the link between managing teams and making decisions is an important aspect of leadership.

5.8 Key Terms

Key Terms

Active listening creates a real-time relationship between the Sender and the Receiver by paying full attention to what other people are saying without interrupting, reflecting on the message and asking questions to ensure understanding.

Analysis paralysis where more and more time is spent on gathering information and thinking about it, but no decisions actually get made.

Anchoring refers to the tendency for individuals to rely too heavily on a single piece of information.

Biased language consists of words or phrases that may stereotype, offend, exclude or disrespect an individual or group based on age, ethnicity, sexual preference, or political beliefs personal or group affiliation.

Bounded rationality model of decision making limits options to a manageable set from which to choose the best alternative without conducting an exhaustive search for alternatives.

Brainstorming is a group process of generating ideas that follows a set of guidelines including no criticism of ideas, no idea is too wild, and the process of building or piggybacking on other ideas.

Communication is the exchange of information.

Consensus is decision making where the entire group must agree on the idea or plan of action.

Creativity is the generation of new, imaginative ideas.

Crucial conversations are communications involving personal risk and high stress due to participants' differing opinions and strong emotions.

Decision making refers to making choices among alternative courses of action—which may also include inaction.

Decision rule is the automated response we use to make programmed decisions.

Decision trees are diagrams in which answers to yes or no questions lead decision makers to address additional questions until they reach the end of the tree.

Delphi Technique is a group decision making process using written responses to a series of questionnaires instead of physically bringing individuals together to make a decision.

Differences in meaning occur because different words mean different things to different people; age, education, and cultural background are all factors that influence how a person interprets words.

Emotional disconnects happen when the Sender or the Receiver is upset, whether about the subject at hand or about some unrelated incident. An emotionally upset Receiver tends to ignore or distort what the Sender is saying. A Sender who is emotionally upset may be unable to present ideas or feelings effectively.

Escalation of commitment occurs when individuals continue on a failing course of action because they are already invested in it, even after information reveals this may be a poor path to follow.

Filtering is the distortion or withholding of information to manage a person's reactions.

Flexibility refers to how different the ideas are from one another in the creative decision making process.

Fluency refers to the number of ideas a person is able to generate in the creative decision making process.

Framing bias refers to the tendency of decision makers to be influenced by the way that a situation or problem is presented.

Gendered language words, phrases, or titles that are linked to either males or females, for example chairman versus chair.

Grapevine involves unofficial communication amongst colleagues where information is shared that may or may not be accurate (including gossip).

Group decision support systems (GDSS) are interactive computer-based systems that combine communication and decision technologies to help groups make better decisions.

Groupthink the tendency to avoid critically evaluating ideas that the group favors.

Hindsight bias occurs when looking backward in time where mistakes made seem obvious after they have already occurred.

Idea quotas determine the number of ideas a group must generate.

Illumination is the decision making step also known as the insight moment, when the solution to the problem becomes apparent to the person – often when it is least expected.

Immersion is the decision making step involving information gathering and conscious thought about the problem.

Incubation is the decision making step that allows the brain to work on the problem unconsciously while the individual sets the problem aside and does not focus on it.

Information overload a state of imbalance when we are receiving more information than we can take in.

Jargon is the language of specialized terms used by a group or profession.

Lack of source familiarity or credibility occurs when the Sender and the Receiver lack common context, are unfamiliar with one another so misinterpret messages, or when the Sender lacks credibility or is untrustworthy.

Majority rule refers to decision making where each member of the group is given a single vote, and the option that receives the greatest number of votes is selected.

Medium/channel is the manner by which information is exchanged – this can be oral, written (text, email, advertisement, etc.), or non-verbal.

Noise is anything that interferes with or distorts the Message being exchanged.

Nominal Group Technique (NGT) ensures that all members participate fully in group decision making through four steps: (1) each member records ideas independently, (2) the group shares their ideas, (3) discussion, clarification, and evaluation of ideas occurs, and (4) individuals vote for their favorite ideas by using either ranking or rating techniques.

Nonprogrammed decisions are unique and important, requiring conscious thinking, information gathering, and careful consideration of alternatives.

Operational decisions are shorter term decisions that employees make to run an organization on a day to day basis.

Originality refers to the uniqueness of ideas in the creative decision making process.

Overconfidence bias occurs when individuals overestimate their abilities.

Political correctness includes using language in a non-gendered unbiased way to defuse the volatile nature of words and avoid stereotyping.

Problem identification is the first step in decision making where the root cause of the issue is determined.

Programmed decisions are decisions that occur frequently enough that we develop an automated response to them.

Rational decision-making model describes a series of steps that decision makers should consider if their goal is to maximize the quality of their outcomes.

Receiver is the person who receives the Message. The Receiver decodes the Message by assigning meaning to the words or nonverbal communication.

Satisfice refers to accepting the first alternative that meets your minimum criteria.

Selective perception refers to filtering what we see and hear, often unconsciously, to suit our own needs.

Semantics is the study of meaning in communication. Words and phrases can mean different things to different people, or they might not mean anything to another person.

Sender the originator of the information to be exchanged who encodes a message by translating an idea into words.

Social loafing the tendency of some members to put forth less effort while working within a group.

Storytelling is communication through the use of stories to help construct common meanings and provide clarity.

Strategic decisions are long term decisions that set the course of an organization.

Tactical decisions are more detailed mid term decisions including action plans to achieve an organization's overall strategy.

The intuitive decision-making model is based on intuition or experience rather than following a formal process.

Verbal communication takes place via phone, web based calls or conferences, through media, or in person.

Verification and application is the final decision making step where the decision maker consciously verifies the feasibility of the solution and implements the decision.

Wildstorming occurs when a group focuses on generating seemingly impossible ideas then determine ways to make the impossible possible.

Written business communications are printed messages.

5.9 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4727#h5p-5

CHAPTER 6: LEADERSHIP MISSION AND STRATEGY

Chapter Content

6.1 Mission and Strategy

What's in It for Me?

Reading this chapter will help you do the following:

1. Consider the roles of mission, strategy and decision making.
2. Determine how creativity and passion are related to vision.
3. Incorporate stakeholder interests into mission and vision.
4. Develop statements that articulate organizational mission and vision.
5. Apply mission, vision, and values to your personal goals and professional career.
6. Analyze how strategies emerge.
7. Interpret strategy as trade-offs, discipline, and focus.
8. Conduct internal analysis to develop strategy.
9. Conduct external analysis to develop strategy.
10. Formulate organizational and personal strategy with the strategy diamond.

As we discussed in the last chapter, one of the roles of leadership is goal setting. Goal setting involves planning to achieve something—this *something* can be captured in the verbal and written statements of an organization's mission and vision (its *purpose*, in addition to specific goals and objectives). With a mission and vision, you can craft a strategy for achieving them, and your benchmarks for judging your progress and success are clear goals and objectives. Mission and vision communicate the organization's values and purpose, and help guide decision making.

Strategic management, strategizing for short, is essentially about choice—the decisions that will be made in order to achieve specific goals and objectives leading to the realization of the organization's mission and vision. Strategy is also about making choices that provide an organization with some measure of competitive advantage or even a sustainable competitive advantage. For the most part, this chapter emphasizes strategy formulation (answers to the "What should our strategy be?" question) as opposed to strategy implementation (answers to questions about "How do we execute a chosen strategy?"). You will also learn how the concept of strategy can be applied to you personally, in addition to professionally.

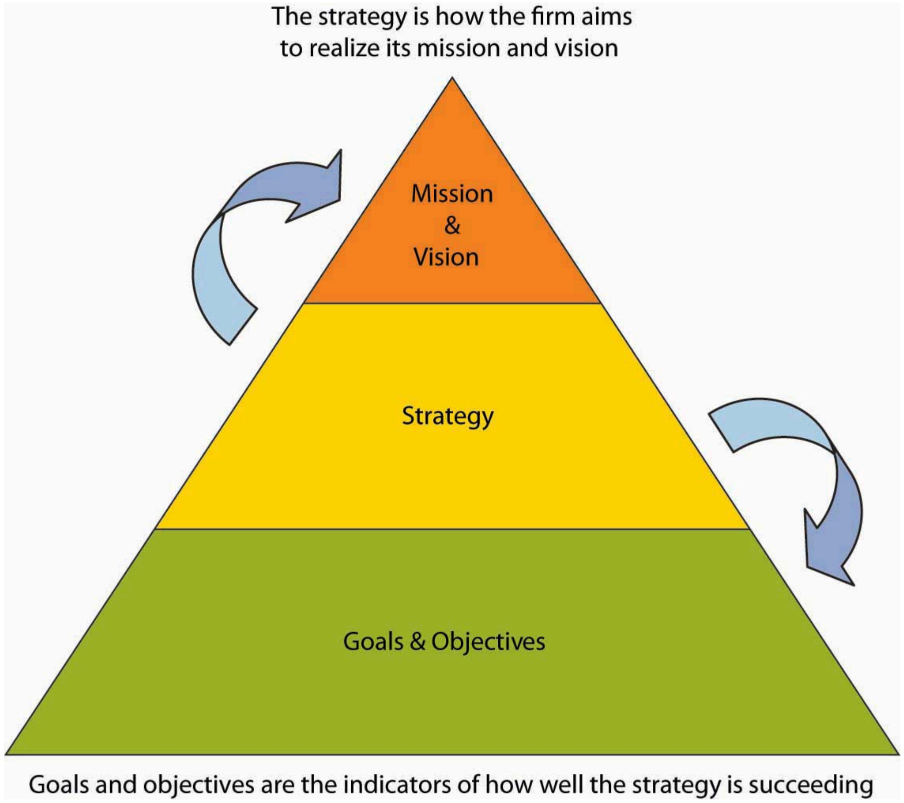

Figure 6.1.1: *"Mission and Vision in the Planning Processs" by University of Minnesota is licensed under CC BY-NC-SA 4.0*

Example: Xerox Motivates Employees for Success


Figure 6.1.2: *Anne Mulcahy, Former Xerox Chairman of the Board (left), and Ursula Burns, Xerox CEO (right)*
Fortune Live Media – Fortune Most Powerful Women 2012 – CC BY-NC-ND 2.0; Fortune Live Media – Fortune Most Powerful Women – CC BY-NC-ND 2.0.

As of 2010, Xerox Corporation (NYSE: XRX) is a $22 billion, multinational company founded in 1906 and operating in 160 countries. Xerox is headquartered in Norwalk, Connecticut, and employs 130,000 people. How does a company of such size and magnitude effectively manage and motivate employees from diverse backgrounds and experiences? Such companies depend on the productivity and performance of their employees. The journey over the last 100 years has withstood many successes and failures. In 2000, Xerox was facing bankruptcy after years of mismanagement, piles of debt, and mounting questions about its accounting practices.

Anne Mulcahy turned Xerox around. Mulcahy joined Xerox as an employee in 1976 and moved up the corporate ladder, holding several management positions until she became CEO in 2001. In 2005, Mulcahy was named by *Fortune* magazine as the second most powerful woman in business. Based on a lifetime of experience with Xerox, she knew that the company had powerful employees who were not motivated when she took over. Mulcahy believed that among other key businesses changes, motivating employees at Xerox was a key strategy to pull the company back from the brink of failure. One of her guiding principles was a belief that in order to achieve customer satisfaction, employees must be treated as key stakeholders and become interested and motivated in their work. Mulcahy not only successfully saw the company through this difficult time but also was able to create a stronger and more focused company.

In 2009, Mulcahy became the chairman of Xerox's board of directors and passed the torch to Ursula Burns, who became the new CEO of Xerox. Burns became not only the first African American woman CEO to head a Standard & Poor's (S&P) company but also the first woman to succeed another woman as the head of an S&P 100 company. Burns is also a lifetime Xerox employee who has been with the company for over 30 years. She began as a graduate intern and was hired full time after graduation. Because of her tenure with Xerox, she has close relationships with many of the employees, which provides a level of comfort and teamwork. She describes Xerox as a nice family. She maintains that Mulcahy created a strong and successful business but encouraged individuals to speak their mind, to not worry about hurting one another's feelings, and to be more critical.

Burns explains that she learned early on in her career, from her mentors at Xerox, the importance of managing individuals in different ways and not intentionally intimidating people but rather relating to them and their individual perspectives. As CEO, she wants to encourage people to get things done, take risks, and not be afraid of those risks. She motivates her teams by letting them know what her intentions and priorities are. The correlation between a manager's leadership style and the productivity and motivation of employees is apparent at Xerox, where employees feel a sense of importance and a part of the process necessary to maintain a successful and profitable business. In 2010, Anne Mulcahy retired from her position on the board of directors to pursue new projects.

Exercises

1. What values do the promotion and retention of Mulcahy and Burns suggest are important at Xerox? How might these values be reflected in its vision and mission statements?
2. How do you think Xerox was able to motivate its employees through the crisis it faced in 2000?

3. How do CEOs with large numbers of employees communicate priorities to a worldwide workforce?
4. How might Ursula Burns motivate employees to take calculated risks?
5. Both Anne Mulcahy and Ursula Burns were lifetime employees of Xerox. How does an organization attract and keep individuals for such a long period of time?

6.2 The Roles of Mission, Vision, and Values

Learning Objectives

1. Define mission and vision.
2. Outline how values are important for mission and vision.

Mission, Vision, and Values

Figure 6.2.1: *"Photo Of People Doing Fist Bump" by fauxels, Pexels License.*

Mission and vision both relate to an organization's purpose and are typically communicated in some written form. Mission and vision are statements from the organization that answer questions about who we are, what we value, and where we're going. A study by the consulting firm Bain and Company reports that 90% of the 500 firms surveyed issue some form of mission and vision statements (Bart & Baetz, 1998). Moreover, firms with clearly communicated, widely understood, and collectively shared mission and vision have been shown to perform better than those without them, with the caveat that they related to effectiveness only when strategy and goals and objectives were aligned with them as well (Bart, et. al., 2001).

A **mission statement** communicates the organization's reason for being, and how it aims to serve its key stakeholders. Customers, employees, and investors are the stakeholders most often emphasized, but other stakeholders like government or communities (i.e., in the form of social or environmental impact) can also be discussed. Mission statements are often longer than vision statements. Sometimes mission statements also include a summation of the firm's values. **Values** are the beliefs of an individual or group, and in this case the organization, in which they are emotionally invested.

A **vision statement**, in contrast, is a *future-oriented* declaration of the organization's purpose and aspirations. In many ways, you can say that *the mission statement lays out the organization's 'purpose for being', and the vision statement then says, 'based on that purpose, this is what we want to become'*. The strategy should flow directly from the vision, since the strategy is intended to achieve the vision and thus satisfy the organization's mission. Typically, vision statements are relatively brief.

Any casual tour of business or organization Web sites will expose you to the range of forms that mission and vision statements can take. To reiterate, mission statements are longer than vision statements, often because they convey the organizations core values. Mission statements answer the questions of "Who are we?" and "What does our organization value?" Vision statements typically take the form of relatively brief, future-oriented statements—vision statements answer the question "Where is this organization going?" Increasingly, organizations also add a **values statement** which either reaffirms or states outright the organization's values that might not be evident in the mission or vision statements.

Roles Played by Mission and Vision

Mission and vision statements play three critical roles: (1) communicate the purpose of the organization to stakeholders, (2) inform strategy development, and (3) develop the measurable goals and objectives by which to gauge the success of the organization's strategy. These interdependent, cascading roles, and the relationships among them, are summarized in the figure.

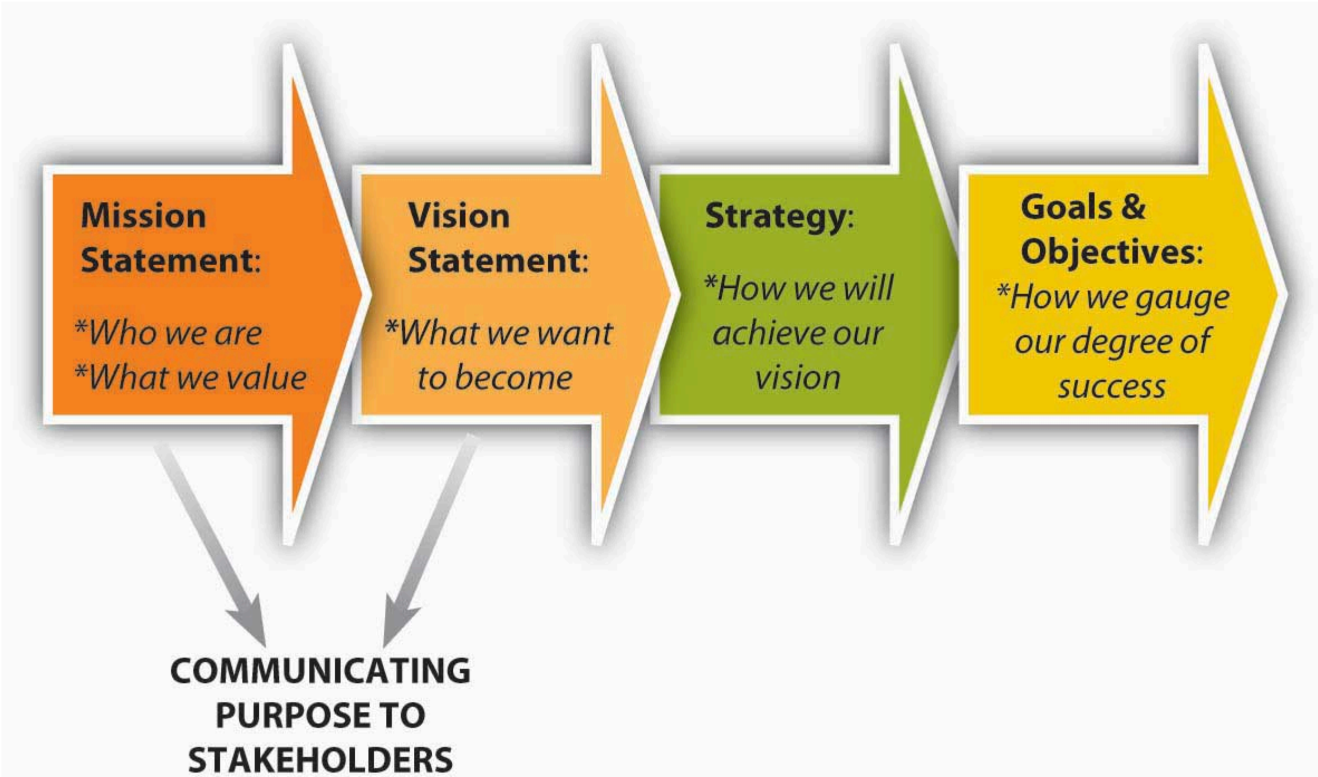

Figure 6.2.2: *Key Roles of Mission and Vision*

First, mission and vision provide a vehicle for communicating an organization's purpose and values to all key stakeholders. Stakeholders are those key parties who have some influence over the organization or stake in its future. You will learn more about stakeholders and stakeholder analysis later in this chapter; however, for now, suffice it to say that some key stakeholders are employees, customers, investors, suppliers, and institutions such as governments. Typically, these statements would be widely circulated and discussed often so that their meaning is widely understood, shared, and internalized. The better employees understand an organization's purpose, through its mission and vision, the better able they will be to understand the strategy and its implementation, and the better decisions they will make.

Second, mission and vision create a target for strategy development. That is, one criterion of a good strategy is how well it helps the firm achieve its mission and vision. To better understand the relationship among mission, vision, and strategy, it is sometimes helpful to visualize them collectively as a funnel. At the broadest part of the funnel, you find the inputs into the mission statement. Toward the narrower part of the funnel, you find the vision statement, which has distilled down the mission in a way that it can guide the development of the strategy. In the narrowest part of the funnel you find the strategy—it is clear and explicit about what the firm will do, and not do, to achieve the vision. Vision statements also provide a bridge between the mission and the strategy. In that sense the best vision statements create a tension and restlessness with regard to the status quo—that is, they should foster a spirit of continuous innovation and improvement. London Business School professors Gary Hamel and C. K. Prahalad describe this tense relationship between vision and strategy as stretch and ambition. Indeed, in a study of such able competitors as CNN, British Airways, and Sony, they found that these firms displaced competitors with stronger reputations and deeper pockets through their ambition to stretch their organizations in more innovative ways (Hamel & Prahalad, 1993).

Third, mission and vision provide a high-level guide, and the strategy provides a specific guide, to the goals and objectives showing success or failure of the strategy and satisfaction of the larger set of objectives stated in the mission.

Exercises

1. What is a mission statement?
2. What is a vision statement?
3. How are values important to the content of mission and vision statements?
4. Where does the purpose of mission and vision overlap?
5. How do mission and vision relate to a firm's strategy?
6. Why are mission and vision important for organizational goals and objectives?

Key Takeaways

Mission and vision both relate to an organization's purpose and aspirations, and are typically communicated in some form of brief written statements. A mission statement communicates the organization's reason for being and how it aspires to serve its key stakeholders. The vision statement is a narrower, future-oriented declaration of the organization's purpose and aspirations. Together, mission and vision guide strategy development, help communicate the organization's purpose to stakeholders, and inform the goals and objectives set to determine whether the strategy is on track. Clear communication of an organization's mission, vision, values and strategy contribute to more effective goal setting and better decision making.

6.3 Mission and Vision Throughout the Organization

Learning Objectives

1. Demonstrate the links between mission and vision and organizational design.
2. Connect leadership to mission and vision, and define visionary leadership.
3. Consider the role of mission and vision with regard to control in an organization.

Beyond the relationship between mission and vision, strategy, goals and objectives and decision making, it is helpful to understand the connection of these concepts to the *organizing*, *leading*, and *controlling* aspects of the P-O-L-C management framework we discussed earlier. Let's look at these three areas in turn.

Mission, Vision, and Organization Design

Thinking back to the P-O-L-C framework, **organizing** is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives. The alignment between organizing and the company's mission and vision is crucial. For instance, **organizational design** is a formal, guided process for integrating the people, information, and technology of an organization. It is used to match the form of the organization as closely as possible to the purpose(s) the organization seeks to achieve. Through the design process, organizations act to improve the probability that the collective efforts of members will be successful.

Organization design should reflect and support the strategy—in that sense, organizational design is a set of decision guidelines by which members will choose appropriate actions, appropriate in terms of their support for the strategy. As you learned in the previous section, the strategy is derived from the mission and vision statements and from the organization's basic values. Strategy unifies the intent of the organization and focuses members toward actions designed to accomplish desired outcomes. The strategy encourages actions that support the purpose and discourages those that do not.

To organize, you must connect people with each other in meaningful and purposeful ways. Further, you must connect people—human resources—with the information and technology necessary for them to be successful. Organization structure defines the formal relationships among people and specifies both their roles and their responsibilities. Administrative systems govern the organization through guidelines, procedures, and policies. Information and technology define the process(es) through which members achieve outcomes. Each element must support each of the others, and together they must support the organization's purpose, as reflected in its mission and vision.

As discussed previously, **organizational culture** is the workplace environment formulated from the interaction of the employees in the workplace, and is defined by all of their life experiences, strengths, weaknesses, education, upbringing, and other attributes. Leadership style and behavior also play a key role in defining organizational culture. Achieving alignment between organizational culture and a company's mission and vision can be very powerful, however changing an organization's culture is not easy. If you are seeking to change your company's vision or mission, it will be challenging to realign the culture to fit, and will not happen over night.

For instance, in 2000, Procter & Gamble (P&G) sought to change a fundamental part of its vision in a way that asked the organization to source more of its innovations from external partners. Historically, P&G had invested heavily in research and development and internal sources of innovation—so much so that "not invented here" (known informally as NIH) was the dominant cultural mind-set (Lafley & Charan, 2008). NIH describes a sociological, corporate, or institutional culture that avoids using products, research, or knowledge that originated anywhere other than inside the organization. It is normally used in a pejorative sense. As a sociological phenomenon, the "not invented here" syndrome is manifested as an unwillingness to adopt an idea or product because it originates from another culture. P&G has been able to combat this NIH bias and gradually change its culture toward one that is more open to external contributions, and hence in much better alignment with its current mission and vision.

Social networks are often referred to as the "invisible organization." They consist of individuals or organizations connected by one or more specific types of interdependency. You are probably already active in social networks through such Web communities as MySpace, Facebook, and LinkedIn. However, these sites are really only the tip of the iceberg when it comes to the emerging body of knowledge surrounding social networks. Networks deliver three unique advantages: access to "private" information (i.e., information that companies do not want competitors to have), access to diverse skill sets, and power. You may be surprised to learn that many big companies have breakdowns in communications even in divisions where the work on one project should be related to work on another. Going back to our Pixar example, for instance, Disney is fostering a network among members of its Pixar division in a way that they are more likely to share information and learn from others. The open internal network also means that a cartoon designer might have easier access to a computer programmer and together they can figure out a more innovative solution. Finally, since Pixar promotes communication across hierarchical levels and gives creatives decision-making authority, the typical power plays that might impede sharing innovation and individual creativity are prevented. Leaders see these three network advantages at work every day but might not pause to consider how their networks regulate them.

Mission, Vision, and Leadership

Leading, influencing others toward the attainment of organizational objectives, and leadership are nearly synonymous with the notions of mission and vision. We might describe a very purposeful person as being "on a mission." As an example, Steve Demos had the personal mission of replacing cow's milk with soy milk in U.S. supermarkets, and this mission led to his vision for, and strategy behind, the firm White Wave and its Silk line of soy milk products (Carpenter & Sanders, 2006). Similarly, we typically think of some individuals as leaders because they are visionary. For instance, when Walt Disney suggested building a theme park in a Florida swamp back in the early 1960s, few other people in the world seemed to share his view.

Any task—whether launching Silk or building the Disney empire— is that much more difficult if attempted alone. Therefore, the more that a mission or vision challenges the status quo—and recognizing that good vision statements always need to create some dissonance with the status quo—the greater will be the organization's need of what leadership researcher Shiba calls "real change leaders"—people who will help diffuse the revolutionary philosophy even while the leader (i.e., the founder or CEO) is not present. Without real change leaders, a revolutionary vision would remain a mere idea of the visionary leader—they are the ones who make the implementation of the transformation real.

In most cases where we think of revolutionary companies, we associate the organization's vision with its leader—for instance, Apple and Steve Jobs, Dell and Michael Dell, or Google with the team of Sergey Brin and Larry Page. In all three of these organizations, the leaders focused on creating an organization with a noble mission that enabled the employees and leadership team to achieve not only a strategic breakthrough, but to realize their personal dreams in the process.

Vision That Pervades the Organization

Figure 6.3.1: *"Human green eye reflecting building and blue sky" by Bruno Henrique, Pexels License.*

A broader definition of **visionary leadership** suggests that, if many or most of an organization's employees understand and identify with the mission and vision, efficiency will increase because the organization's members "on the front lines" will be making decisions fully aligned with the organization's goals. Efficiency is achieved with limited hands-on supervision because the mission and vision serve as a form of cruise control. To make frontline responsibility effective, leadership must learn to trust workers and give them sufficient opportunities to develop quality decision-making skills.

The classic case about Johnsonville Sausage, recounted by CEO Ralph Stayer, documents how that company dramatically improved its fortunes after Stayer shared responsibility for the mission and vision, and ultimately development of the actual strategy, with all of his employees. His vision was the quest for an answer to "What Johnsonville would have to be to sell the most expensive sausage in the industry and still have the biggest market share (Stayer, 1990)?" Of course, he made other important changes as well, such as decentralizing decision making and tying individual's rewards to company-wide performance, but he initiated them by communicating the organization's mission and vision and letting his employees know that he believed they could make the choices and decisions needed to realize them.

Mission and vision are also relevant to leadership well beyond the impact of one or several top executives. Even beyond existing employees, various stakeholders—customers, suppliers, prospective new employees—are visiting organizations' Web sites to read their mission and vision statements. In the process, they are trying to understand what kind of organization they are reading about and what the organization's values and ethics are. Ultimately, they are seeking to determine whether the organization and what it stands for are a good fit for them.

Vision, Mission, and Controlling

The term controlling often conjures up images of exerting power over organizational members akin to puppets on a string, but **controlling** today involves ensuring that organizations operate efficiently and effectively. Controlling consists of three steps: (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Mission and vision are both directly and indirectly related to all three steps.

Figure 6.3.2: *"3 Aspects of Control" by Alyssa Giles, CC BY-NC-SA 4.0.*

Performance Standards

Recall that mission and vision tell a story about an organization's purpose and aspirations. Mission and vision statements are often ambiguous by design because they are intended to *inform* the strategy not *be* the strategy. Nevertheless, those statements typically provide the organization and its employees a general compass heading. For instance, vision may say something about innovativeness, growth, or firm performance, and the firm will likely have set measurable objectives related to these. Performance standards often exceed actual performance but, ideally, leaders will outline a set of metrics that can help to predict the future rather than focus on evaluating the past.

Actual Versus Desired Performance

The goals and objectives that flow from your mission and vision provide a basis for assessing actual versus desired performance. In many ways, such goals and objectives provide a natural feedback loop that helps leaders see when and how they are succeeding and where they might need to take corrective action. This is one reason goals and objectives should ideally be specific and measurable. Moreover, analyzing performance metrics enables leaders to take corrective action on any deviations from goals before too much damage has been done.

Corrective Action

Finally, just as mission and vision should lead to specific and measurable goals and objectives and thus provide a basis for comparing actual and desired performance, corrective action should also be prompted in cases where performance deviates negatively from performance objectives. It is important to point out that while mission and vision may signal the need for corrective action, because they are rather general, high-level statements, they typically will not spell out what specific actions are necessary. This is the role of strategy, and mission and vision are critical for good strategies, but not substitutes for them. A mission and vision are statements of self-worth – that is an interesting thought isn't it? Their purpose is not only to motivate employees to take meaningful action, but to also give leadership a standard for monitoring progress. Additionally, mission and vision tell external audiences how your organization wishes to be viewed and have its progress and successes gauged.

Strategic human resources management (SHRM) reflects the aim of integrating the organization's human capital—its people—into the mission and vision. Human resources management alignment means to integrate decisions about people with decisions about the results an organization is trying to obtain. Research indicates that organizations that successfully align human resources management with mission and vision accomplishment do so by integrating SHRM into the planning process, emphasizing human resources activities that support mission goals, and building strong human resources/management capabilities and relationships (Gerhart & Rynes, 2003).

Exercises

1. How might mission and vision influence organizational design?
2. How might mission and vision influence leadership practices?
3. Why might a specific replacement CEO candidate be a good or poor choice for a firm with an existing mission and vision?
4. Which aspects of controlling do mission and vision influence?
5. Why are mission and vision relevant to the management of internal organizational social

networks?
6. What performance standards might reinforce a firm’s mission and vision?
7. What is the role of mission and vision with strategic human resource management?

Key Takeaways

Mission and vision help to generate specific goals and objectives, and to develop the strategy for achieving them. Mission and vision guide choices about organizing, too, from structure to organizational culture. The cultural dimension is one reason mission and vision are most effective when they pervade the leadership of the entire organization, rather than being just the focus of senior leadership. Finally, mission and vision are tied to the three key steps of controlling: (1) establishing performance standards, (2) comparing actual performance against standards, and (3) taking corrective action when necessary. Since people make the place, ultimately strategic human resources management must bring these pieces together.

6.4 Creativity and Passion

Learning Objectives

1. Describe how creativity relates to vision.
2. Determine how passion relates to vision.

Creativity and passion are of particular relevance to mission and vision statements. A simple definition of **creativity** is the power or ability to invent. We sometimes think of creativity as being a purely artistic attribute, but creativity in business is the essence of innovation and progress. **Passion** at least in the context we invoke here, refers to an intense, driving, or overmastering feeling or conviction. Passion is also associated with intense emotion compelling action. We will focus mostly on the relationship between creativity, passion, and vision in this section because organizational visions are intended to create uneasiness with the status quo and help inform and motivate key stakeholders to move the organization forward. This means that a vision statement should reflect and communicate something that is relatively novel and unique, and such novelty and uniqueness are the products of creativity and passion.

Creativity and passion can, and probably should, also influence the organization's mission. In many ways, the linkages might be clearest between creativity and vision statements and passion and mission statements because the latter is an expression of the organization's values and deeply held beliefs. Similarly, while we will discuss creativity and passion separately in this section, your intuition and experience surely tell you that creativity eventually involves emotion, to be creative, you have to care about—be passionate about—what you're doing.

Creativity and Vision

Work by DeGraf and Lawrence, suggest a finer-grained view into the characteristics and types of creativity (DeGraf & Lawrence, 2002). They argued that creativity "types" could be clustered based on some combination of flexibility versus control and internal versus external orientation. For the leader, their typology is especially useful as it suggests ways to manage creativity, as in simply hiring creative individuals. As summarized in the figure, their research suggests that there are four types of creativity: (1) investment (external orientation with high control), (2) imagination (external orientation with flexibility emphasis), (3) improvement (internal orientation with high control), and (4) incubation (internal orientation with flexibility emphasis).

The first type of creativity, *investment*, is associated with speed—being first and being fast. It is also a form of creativity fostered from the desire to be highly competitive. The second type of creativity, *imagination*, is the form that most of us think of first. This type of creativity is characterized by new ideas and breakthroughs:

Apple's stylish design of Macintosh computers and then game-changing breakthroughs with its iPod and iPhone. Oftentimes, we can tie this type of creativity to the drive or genius of a single individual, such as Apple's Steve Jobs.

Figure 6.4.1: *Four Creativity Types Adapted from Degraf, 2002*

Where big ideas come from the imagination quadrant, *improvement* is a type of creativity that involves making an existing idea better. Two great examples of this are McDonald's and Toyota. Ray Kroc, McDonald's founder, had the idea of creating quality and cooking standards for preparing tasty burgers and fries. While there were many other burger joints around at the time (the 1950s), Kroc's unique process-oriented approach gave McDonald's a big advantage. Similarly, Toyota has used the refinement of its auto-making and auto-assembly processes (called the Toyota Business System) to be one of the largest and most successful, high-quality car makers in the world.

Finally, the fourth area of creativity is *incubation*. Incubation is a very deliberate approach that concerns a vision of sustainability—that is, leaving a legacy. This type of creativity is more complex because it involves teamwork, empowerment, and collective action. In their chapter on problem solving, David Whetten and Kim Cameron provide Gandhi as an example of incubation creativity:

> *"Mahatma Gandhi was probably the only person in modern history who has single-handedly stopped a war. Lone individuals have started wars, but Gandhi was creative enough to stop one. He did so by mobilizing networks of people to pursue a clear vision and set of values. Gandhi would probably have been completely noncreative and ineffective had he not been adept at capitalizing on incubation dynamics. By mobilizing people to march to the sea to make salt, or to burn passes*

that demarcated ethnic group status, Gandhi was able to engender creative outcomes that had not been considered possible. He was a master at incubation by connecting, involving, and coordinating people" – (Whetten & Camerson, 2007).

While no one of these four types of creativity is best, they have some contradictory or conflicting characteristics. For example, imagination and improvement emphasize different approaches to creativity. The size of the new idea, for instance, is typically much bigger with imagination (i.e., revolutionary solutions) than with improvement (i.e., incremental solutions). Investment and incubation also are very different—investment is relatively fast, and the other relatively slow (i.e., incubation emphasizes deliberation and development).

Passion and Vision

Photo by Diego PH, licensed by Unsplash License.

Passion as we invoke the term in this chapter, refers to intense, driving, or overmastering feeling or conviction. Passion is also associated with intense emotion compelling action. Passion is relevant to vision in at least two ways: (1) Passion about an idea as inspiration of the vision and vision statement and (2) shared passion among organizational members about the importance of the vision.

Passion About the Vision

Passion doesn't just have benefits for the individual entrepreneur or leader when formulating a vision statement, it can help the whole business thrive. While there is little academic research on the relationship between passion and vision, studies suggest that fostering engagement, a concept related to passion, in employees has a significant effect on the corporate bottom line. Gallup, for instance, has been on the forefront of measuring the effect of what it calls employee engagement. **Employee engagement** is a concept that is generally viewed as managing discretionary effort; that is, when employees have choices, they will act in a way that furthers their organization's interests.

Engaged employees are those who are performing at the top of their abilities and happy about it. According to Gallup research 15% of employees worldwide and 35% in the U.S. are classified as engaged.(Gallup, n.d.) Consciously creating an environment where passion is both encouraged and actively developed can yield an enormous competitive advantage. That environment starts at the top through the development and active communication of mission and vision.

Exercises

1. What is creativity?
2. Why is creativity relevant to vision and vision statements?
3. What is passion?
4. Why is passion relevant to vision and vision statements?
5. What is the relationship between passion and engagement?

Key Takeaways

You learned about the relationship between creativity and passion and mission and vision. You learned that creativity relates to the power or ability to create and that passion is intense emotion compelling action. Creativity is important if the desired mission and vision are desired to be novel and entrepreneurial; passion is important both from the standpoint of adding energy to the mission and vision and to key stakeholders following the mission and vision.

6.5 Stakeholders

Learning Objectives

1. Define stakeholders and their importance.
2. Identify stakeholder analysis.
3. Map stakeholders and their level of participation.

Stakeholders and Stakeholder Analysis

Stakeholders are individuals or groups who have an interest in an organization's ability to deliver intended results and maintain the viability of its products and services. We've already stressed the importance of stakeholders to a firm's mission and vision. We've also explained that firms are usually accountable to a broad range of stakeholders, including shareholders, who can make it either more difficult or easier to execute a strategy and realize its mission and vision. This is the main reason managers must consider stakeholders' interests, needs, and preferences.

Considering these factors in the development of a firm's mission and vision is a good place to start, but first, of course, you must identify critical stakeholders, get a handle on their short- and long-term interests, calculate their potential influence on your strategy, and take into consideration how the firm's strategy might affect the stakeholders (beneficially or adversely).

For example, one key stakeholder group comprises the CEO and the members of the top-management team. These are key leaders, and they might be owners as well. This group is important for at least three reasons:

1. Its influence as either originator or steward of the organization's mission and vision.
2. Its responsibility for formulating a strategy that realizes the mission and vision.
3. Its ultimate role in strategy implementation.

Typically, stakeholder evaluation of both quantitative and qualitative performance outcomes will determine whether leadership is effective. Quantitative outcomes include stock price, total sales, and net profits, while qualitative outcomes include customer service and employee satisfaction. As you can imagine, different stakeholders may place more emphasis on some outcomes than other stakeholders, who have other priorities.

Stakeholders, Mission, and Vision

Stakeholder analysis refers to the range of techniques or tools used to identify and understand the needs and expectations of major interests inside and outside the organization environment. Leaders perform stakeholder analysis to gain a better understanding of the range and variety of groups and individuals who not only have a vested interest in the organization, and ultimately the formulation and implementation of a firm's strategy, but who also have some influence on firm performance. Leaders thus develop mission and vision statements, not only to clarify the organization's larger purpose but also to meet or exceed the needs of its key stakeholders.

Stakeholder analysis may also enable leaders to identify other parties that might derail otherwise well-formulated strategies, such as local, provincial, state, national, or foreign governmental bodies. Finally, stakeholder analysis enables organizations to better formulate, implement, and monitor their strategies, and this is why stakeholder analysis is a critical factor in the ultimate implementation of a strategy.

Identifying Stakeholders

The first step in stakeholder analysis is identifying major stakeholder groups. As you can imagine, the groups of stakeholders who will, either directly or indirectly, be affected by or have an effect on a firm's strategy and its execution can run the gamut from employees, to customers, to competitors, to the government. Stakeholders can be individuals or groups—communities, social or political organizations, and so forth. In addition, we can break groups down demographically, geographically, by level and branch of government, or according to other relevant criteria. In so doing, we're more likely to identify important groups that we might otherwise overlook.

Stakeholders can include such diverse groups as governmental bodies, community-based organizations, social and political action groups, trade unions and guilds, and even journalists. National and regional governments and international regulatory bodies will probably be key stakeholders for global firms or those whose strategy calls for greater international presence. Internally, key stakeholders include shareholders, business units, employees, and managers.

Steps in Identifying Stakeholders

Identifying all of a firm's stakeholders can be a daunting task. In fact, as we will note again shortly, a list of stakeholders that is too long actually may reduce the effectiveness of this important tool by overwhelming decision makers with too much information. To simplify the process, we suggest that you start by identifying groups that fall into one of four categories: *organizational*, *capital market*, *product market*, and *social*. Let's take a closer look at this step.

Step 1: *Determining Influences on Mission, Vision, and Strategy Formulation*. One way to analyze the importance and roles of the individuals who compose a stakeholder group is to identify the people and teams who should be consulted as strategy is developed or who will play some part in its eventual implementation. These are *organizational stakeholders*, and they include both high-level managers and frontline workers. *Capital-market stakeholders* are groups that affect the availability or cost of capital—shareholders, venture capitalists, banks, and other financial intermediaries. *Product-market stakeholders* include parties with whom the firm shares its industry, including suppliers and customers. Social stakeholders consist broadly of external groups and organizations that may be affected by or exercise influence over firm strategy and performance, such as unions, governments, and activist groups. The next two steps are to determine how various stakeholders are affected by the firm's strategic decisions and the degree of power that various stakeholders wield over the firm's ability to choose a course of action.

Step 2: *Determining the Effects of Key Decisions on the Stakeholder*. Step 2 in stakeholder analysis is to determine the nature of the effect of the firm's strategic decisions on the list of relevant stakeholders. Not all stakeholders are affected equally by strategic decisions. Some effects may be rather mild, and any positive or negative effects may be secondary and of minimal impact. At the other end of the spectrum, some stakeholders bear the brunt of firm decisions, good or bad.

In performing step 1, companies often develop overly broad and unwieldy lists of stakeholders. At this stage, it's critical to determine the stakeholders who are most important based on how the firm's strategy affects the stakeholders. You must determine which of the groups still on your list have direct or indirect material claims on firm performance or which are potentially adversely affected. For instance, it is easy to see how shareholders are affected by firm strategies—their wealth either increases or decreases in correspondence with the firm's actions. Other parties have economic interests in the firm as well, such as parties the firm interacts with in the marketplace, including suppliers and customers. The effects on other parties may be much more indirect. For instance, governments have an economic interest in firms doing well—they collect tax revenue from them. However, in cities that are well diversified with many employers, a single firm has minimal economic impact on what the government collects. Alternatively, in other areas, individual firms represent a significant contribution to local employment and tax revenue. In those situations, the effect of firm actions on the government would be much greater.

Step 3: *Determining Stakeholders' Power and Influence over Decisions*. The third step of a stakeholder analysis is to determine the degree to which a stakeholder group can exercise power and influence over the decisions the firm makes. Does the group have direct control over what is decided, veto power over decisions, nuisance influence, or no influence? Recognize that although the degree to which a stakeholder is affected by firm decisions (i.e., step 2) is sometimes highly correlated with their power and influence over the decision, this is often not the case. For instance, in some companies, frontline employees may be directly affected by firm decisions but have no say in what those decisions are. Power can take the form of formal voting power (boards of directors and owners), economic power (suppliers, financial institutions, and unions), or political power (dissident stockholders, political action groups, and governmental bodies). Sometimes the parties that exercise significant power over firm decisions don't register as having a significant stake in the firm (step 2). In recent years, for example, Wal-Mart has encountered significant resistance in some communities by well-organized groups who oppose the entry of the mega-retailer. Wal-Mart executives now have to anticipate whether a vocal and politically powerful community group will oppose its new stores or aim to reduce their size, which decreases Wal-Mart's per store profitability. Indeed, in many markets, such groups have been effective at blocking new stores, reducing their size, or changing building specifications.

Once you've determined who has a stake in the outcomes of the firm's decisions as well as who has power over these decisions, you'll have a basis on which to allocate prominence in the strategy-formulation and strategy-implementation processes. The framework in the figure will also help you categorize stakeholders according to their influence in determining strategy versus their importance to strategy execution. For one thing, this distinction may help you identify major omissions in strategy formulation and implementation.

Having identified stakeholder groups and differentiated them by how they are affected by firm decisions and the power they have to influence decisions, you'll want to ask yourself some additional questions:

- Have I identified any vulnerable points in either the strategy or its potential implementation?
- Which groups are mobilized and active in promoting their interests?
- Have I identified supporters and opponents of the strategy?
- Which groups will benefit from successful execution of the strategy and which may be adversely affected?
- Where are various groups located? Who belongs to them? Who represents them?

The stakeholder-analysis framework summarized in the figure is a good starting point. Ultimately, because mission and vision are necessarily long term in orientation, identifying important stakeholder groups will help you to understand which constituencies stand to gain or to lose the most if they're realized.

Two Challenges

Two of the challenges of performing stakeholder analysis are determining how stakeholders are affected by a firm's decisions and how much influence they have over the implementation of the decisions that are made. Many people have a tendency to fall into the trap of assessing all stakeholders as being important on both dimensions. In reality, not all stakeholders are affected in the same way and not all stakeholders have the same level of influence in determining what a firm does. Moreover, when stakeholder analysis is executed well, the resulting strategy has a better chance of succeeding, simply because the entities you might rely on in the implementation phase were already involved in the strategy starting with the formulation phase. Thus, you now have a good idea of how and when to engage various stakeholders in decision making regarding mission, vision and strategy.

Exercises

1. What are stakeholders, and why are they relevant to mission and vision?
2. What is stakeholder analysis? What are the three identification steps?
3. How does stakeholder analysis help you craft a mission and vision statement?
4. Which important stakeholders might you intentionally exclude from a mission or vision statement?
5. What are the risks of not conducting stakeholder analysis as an input to the formulation of your mission and vision?

Key Takeaways

This section introduced stakeholders, their roles, and how to begin assessing their roles in the development of the organization's mission and vision. While any person or organization with a stake in your organization is a stakeholder, managers are most concerned with those stakeholders who have the most influence on, or will be most influenced by, the organization. On the basis of your assessment of stakeholders, you now can be proactive in involving them whenever their input is necessary.

6.6 Crafting Mission and Vision Statements

Learning Objectives

1. Determine the basics of the mission and vision development process.
2. Analyze the content of good mission and vision statements.

At this point, you have an understanding of what a mission and vision statement is and how creativity, passion, and stakeholder interests might be accounted for. The actual step-by-step process of developing a mission and vision might start with the mission and vision statements, but you should think of this process more broadly in terms of multiple steps:

1. the process
2. the content of the mission and vision statements
3. communicating mission and vision to all relevant stakeholders
4. monitoring

Mission and vision statements are statements of an organization's purpose and potential; what you want the organization to become. Both statements should be meaningful to you and your organization. It should be shared with all of the employees in the organization to create a unified direction for everyone to move in.

Mission and Vision-Development Process

Mission and vision development are require strong planning. Start with the people. To the greatest extent possible, let those people responsible for executing the mission and vision drive their development. This generally means soliciting their input and guiding them through the development of the actual statements, but ideally, it means teaching them how to craft those statements themselves. Involve as many key stakeholders as possible in its development; otherwise, they won't consider it theirs. Assign responsibility so that it's clear how each person, including each stakeholder, can contribute.

Content

Begin by describing the best possible business future for your company, using a target of 5 to 10 years in the future. Your written goals should be dreams, but they should be achievable dreams. Jim Collins (author of *Good to Great*) suggests that the vision be very bold, or what he likes to call a **BHAG**—a big, hairy, audacious goal—like the United State's goal in the 1960s to go to the moon by the end of the decade, or Martin Luther King's vision for a nonracist America.

Recognizing that the vision statement is derived from aspects of the mission statement, it is helpful to start there. Richard O' Hallaron and his son, David R. O' Hallaron, in *The Mission Primer: Four Steps to an Effective Mission Statement*, suggest that you consider a range of objectives, both financial and nonfinancial (O'Hallaron & O'Hallaron, 2000). Specifically, the O'Hallarons find that the best mission statements have given attention to the following six areas:

1. **What** "want-satisfying" service or commodity do we produce and work constantly to improve?
2. **How** do we increase the wealth or quality of life or society?
3. **How** do we provide opportunities for the productive employment of people?
4. **How** are we creating a high-quality and meaningful work experience for employees?
5. **How** do we live up to the obligation to provide fair and just wages?
6. **How** do we fulfill the obligation to provide a fair and just return on capital?

When writing your statements, use the present tense, speaking as if your business has already become what you are describing. Use descriptive statements describing what the business looks like, feels like, using words that describe all of a person's senses. Your words will be a clear written motivation for where your business organization is headed. Mission statements, because they cover more ground, tend to be longer than vision statements, but you should aim to write no more than a page. Your words can be as long as you would like them to be, but a shorter vision statement may be easier to remember.

Communications

Communicate often: Internal communications are the key to success. People need to see the vision, identify with it, and know that leadership is serious about it.

Leaders must evaluate both the need and the necessary tactics for persuasively communicating a strategy in four different directions: *upward*, *downward*, *across*, and *outward* (Hambrick & Cannella, 1989).

Communicating Upward

Increasingly, firms rely on bottom-up innovation processes that encourage and empower middle-level and division managers to take ownership of mission and vision and propose new strategies to achieve them. Communicating upward means that someone or some group has championed the vision internally and has succeeded in convincing top leadership of its merits and feasibility.

Communicating Downward

Communicating downward means enlisting the support of the people who'll be needed to implement the mission and vision. Too often, leaders undertake this task only after a strategy has been set in stone, thereby running the risk of undermining both the strategy and any culture of trust and cooperation that may have existed previously. Starting on the communication process early is the best way to identify and surmount obstacles, and it usually ensures that a leadership team is working with a common purpose and intensity that will be important when it's time to implement the strategy.

Communicating Across and Outward

The need to communicate across and outward reflects the fact that realization of a mission and vision will probably require cooperation from other units of the firm (*across*) and from key external stakeholders, such as material and capital providers, complementors, and customers (*outward*). Internally, for example, the strategy may call for raw materials or services to be provided by another subsidiary; perhaps it depends on sales leads from other units. The software company Emageon couldn't get hospitals to adopt the leading-edge visualization software that was produced and sold by one subsidiary until its hardware division started cross-selling the software as well. This internal coordination required a champion from the software side to convince managers on the hardware side of the need and benefits of working together.

Application

It is the successful execution of this step—actually using the mission and vision statements—that eludes most organizations. "Yes, it is inconvenient and expensive to move beyond the easy path" and make decisions that support the mission statement, says Lila Booth, a Philadelphia-area consultant who is on the faculty of the Wharton Small Business Development Center. But ditching mission for expediency "is short-term thinking," she adds, "which can be costly in the end, costly enough to put a company out of business (Krattenmaker, 2002)." That is not to say that a mission statement is written in stone. Booth cites her own consulting business. It began well before merger mania but has evolved with the times and now is dedicated in significant part to helping merged companies create common cultures. “Today, our original mission statement would be very limiting,” she says.

Even the most enthusiastic proponents acknowledge that mission statements are often viewed cynically by organizations and their constituents. That is usually due to large and obvious gaps between a company’s words and deeds. “Are there companies that have managers who do the opposite of what their missions statements dictate? Of course,” says Geoffrey Abrahams, author of *The Mission Statement Book*. “Mission statements are tools, and tools can be used or abused or ignored….Management must lead by example. It’s the only way employees can live up to the company’s mission statement (Abrahams, 1999).” Ultimately, if you are not committed to using the mission statement then you are best advised not to create one.

Monitoring

Identify key milestones that are implied or explicit in the mission and vision. Since mission and vision act like a compass for a long trip to a new land, as *Information Week*’s Hajela suggests, “while traveling to your destination, acknowledge the milestones along the way. With these milestones you can monitor your progress: A strategic audit, combined with key metrics, can be used to measure progress against goals and objectives. To keep the process moving, try using an external audit team. One benefit is that an external team brings objectivity, plus a fresh perspective (Information Week, 2008).” It also helps motivate your team to stay on track.

Exercises

1. Who should be involved in the mission and vision development process?
2. What are some key content areas for mission and vision?
3. Why are organizational values important to mission and vision?
4. Why is communication important with mission and vision?
5. To which stakeholders should the mission and vision be communicated?
6. What role does monitoring play in mission and vision?

Key Takeaways

This section described some of the basic inputs into crafting mission and vision statements. It explored how mission and vision involved initiation, determination of content, communication, application, and then monitoring to be sure if and how the mission and vision were being followed and realized.

6.7 Developing Your Personal Mission and Vision

Learning Objectives

1. Identify what mission and vision mean for you.
2. Create guidelines for developing your mission and vision.

Personal mission and vision communicate the direction in which you are headed, as well as providing some explanation for why you are choosing one direction or set of objectives over others. Thinking about and writing down mission and vision statements for your life can help provide you with a compass as you work toward your own goals and objectives.

Your Mission and Vision

Note that the development of a personal mission and vision, and then a strategy for achieving them, are exactly the opposite of what most people follow. Most people do not plan further ahead than their next job or activity (if they plan their career at all). They take a job because it looks attractive, and then they see what they can do with it. We advocate looking as far into the future as you can and deciding where you want to end up and what steps will lead you there. In that way, your life and your career fit into some intelligent plan, and you are in control of the direction you are heading.

Guidelines

The first step in planning a career is obviously a long-term goal. Where do you want to end up, ultimately? Do you really want to be a CEO or prime minister of Canada, now that you know what it "costs" to be either one? There are a couple basic parts to this process.

BHAG

First, set out a bold vision—Jim Collins, author of *Good to Great*, describes this as a **BHAG** a big, hairy, audacious goal.

Five guiding criteria for good BHAGs is that they:

1. Are set with understanding, not bravado.
2. Fit squarely in the three circles of (a) what you are deeply passionate about (including your core values and purpose), (b) what drives your economic logic, and (c) what differentiates you (what you can be the best in the world at).
3. Have a long time frame—10 to 30 years.
4. Are clear, compelling, and easy to grasp.
5. Directly reflect your core values and core purpose.

Values

Second, sketch out your personal values, or "Guiding Philosophy"—a set of core values and principles like your own Declaration of Independence.

Schedule

Once the vision is set, you have to develop some long-term goal (or goals), then intermediate-term goals, and so on. If you want to be president of the United States, what jobs will you have to take first to get there, and when do you have to get these jobs? Where should you live? What training do you need? What political connections do you need? Then you have to set up an orderly plan for obtaining the connections and training that you need and getting into these steppingstone jobs.

Finally, you need to establish short-term goals to fit clearly into a coherent plan for your entire career. Your next job (if you are now a fairly young person) should be picked not only for its salary or for its opportunities for advancement but for its chances to provide you with the training and connections you need to reach your long-term goals. The job that is superficially attractive to you because it has a high salary, offers the opportunity for immediate advancement, or is located in a desirable place may be a mistake from the standpoint of your long-term career.

Five Steps

Former business school professor, entrepreneur (founder of www.quintcareers.com), and colleague Randall S. Hansen, PhD, has done a masterful job of assembling resources that aim to help your career, including an excellent five-step plan for creating personal mission statements. With his generous permission, he has allowed us to reproduce his five-step plan—adapted by us to encompass both mission and vision—in this section.

The Five-Step Plan

A large percentage of companies, including most of the *Fortune* 500, have corporate mission and vision statements (Quint Careers, 2008). Mission and vision statements are designed to provide direction and thrust to an organization, an enduring statement of purpose. A mission and vision statement act as an invisible hand that guides the people in the organization. A mission and vision statement explains the organization's reason for being and answers the question, "What business are we in?"

A personal mission and vision statement is a bit different from a company mission statement, but the fundamental principles are the same. Writing a personal mission and vision statement offers the opportunity to establish what's important and perhaps make a decision to stick to it before we even start a career. Or it enables us to chart a new course when we're at a career crossroads. Steven Covey (in *First Things First*) refers to developing a mission and vision statement as "connecting with your own unique purpose and the profound satisfaction that comes from fulfilling it (Covey, 1994)."

A personal mission and vision statement helps job seekers identify their core values and beliefs. Michael Goodman (in *The Potato Chip Difference: How to Apply Leading Edge Marketing Strategies to Landing the Job You Want*) states that a personal mission statement is "an articulation of what you're all about and what success looks like to you (Goodman, 2001)." A personal mission and vision statement also allows job seekers to identify companies that have similar values and beliefs and helps them better assess the costs and benefits of any new career opportunity.

The biggest problem most job seekers face is not in wanting to have a personal mission and vision statement but actually writing it. So, to help you get started on your personal mission and vision statement, here is a five-step mission/vision-building process. Take as much time on each step as you need, and remember to dig deeply to develop a mission and vision statement that is both authentic and honest. To help you better see the process, Professor Hansen included an example of one friend's process in developing her mission and vision statements.

Sample Personal Mission Statement Development

1. *Past success*:
    - developed new product features for stagnant product
    - part of team that developed new positioning statement for product
    - helped child's school with fundraiser that was wildly successful
    - increased turnout for the opening of a new local theater company

    Themes: Successes all relate to creative problem solving and execution of a solution.

2. *Core values*:
    - Hard working
    - Industrious
    - Creativity
    - Problem solving
    - Decision maker
    - Friendly
    - Outgoing
    - Positive
    - Family-oriented
    - Honest
    - Intelligent
    - Compassionate
    - Spiritual
    - Analytical
    - Passionate
    - Contemplative

    Most important values:

    - Problem solving
    - Creativity
    - Analytical
    - Compassionate
    - Decision maker
    - Positive

    Most important value:

    - Creativity

3. *Identify Contributions*:

    - the world in general: develop products and services that help people achieve what they want in life. To have a lasting effect on the way people live their lives.
    - my family: to be a leader in terms of personal outlook, compassion for others, and maintaining an ethical code; to be a good mother and a loving wife; to leave the world a better place for my children and their children.
    - my *employer* or future employers: to lead by example and demonstrate how innovative and problem-solving products can be both successful in terms of solving a problem and successful in terms of profitability and revenue generation for the organization.
    - my friends: to always have a hand held out for my friends; for them to know they can always come to me with any problem.
    - my community: to use my talents in such a way as to give back to my community.

4. *Identify Goals*:

    Short term: To continue my career with a progressive employer that allows me to use my skills, talent, and values to achieve success for the firm.

    Long term: To develop other outlets for my talents and develop a longer-term plan for diversifying my life and achieving both *professional* and personal success.

5. *Mission Statement*:

    To live life completely, honestly, and compassionately, with a healthy dose of realism mixed with the imagination and dreams that all things are possible if one sets their mind to finding an answer.

    Vision Statement:

    To be the CEO of a firm that I start, that provides educational exercise experiences to K–6 schools. My company will improve children's health and fitness, and create a lasting positive impact on their lives, and that of their children.

Step 1: Identify Past Successes. Spend some time identifying four or five examples where you have had personal success in recent years. These successes could be at work, in your community, or at home. Write them down. Try to identify whether there is a common theme—or themes—to these examples. Write them down.

Step 2: Identify Core Values. Develop a list of attributes that you believe identify who you are and what your priorities are. The list can be as long as you need. Once your list is complete, see whether you can narrow your values to five or six most important values. Finally, see whether you can choose the one value that is most important to you. We've added "Generating Ideas for Your Mission and Vision" to help jog your memory and brainstorm about what you do well and really like to do.

Step 3: Identify Contributions. Make a list of the ways you could make a difference. In an ideal situation, how could you contribute best to:

- the world in general
- your family
- your employer or future employers
- your friends
- your community

Generating Ideas for Your Mission and Vision

A useful mission and vision statement should include two pieces: what you wish to accomplish and contribute and who you want to be, the character strengths and qualities you wish to develop. While this sounds simple, those pieces of information are not always obvious. Try these tools for generating valuable information about yourself.

Part I

1. Describe your ideal day. This is not about being practical. It is designed to include as many sides of you and your enthusiasms as possible: creative, competent, artistic, introverted, extraverted, athletic, playful, nurturing, contemplative, and so on.
2. Imagine yourself 132 years old and surrounded by your descendants or those descendants of your friends. You are in a warm and relaxed atmosphere (such as around a fireplace). What would you say to them about what is important in life? This exercise is designed to access the values and principles that guide your life.
3. Imagine that it is your 70th birthday (or another milestone in your life). You have been asked by national print media to write a press release about your achievements. Consider what you would want your family, friends, coworkers in your profession and in your community to say about you. What difference would you like to have made in their lives? How do you want to be remembered? This is designed to inventory your actions and accomplishments in all areas of your life.

Part II

Review your notes for these three exercises. With those responses in mind, reflect on questions 1, 2, and 3 above. Then write a rough draft (a page of any length) of your mission statement. Remember that it should describe what you want to do and who you want to be. This is not a job description. Carry it with you, post copies in visible places at home and work, and revise and evaluate. Be patient with yourself. The process is as important as the outcome. After a few weeks, write another draft. Ask yourself whether your statement was based on proven principles that you believe in, if you feel direction, motivation, and inspiration when you read it. Over time, reviewing and evaluating will keep you abreast of your own development.

Step 4: Identify Goals. Spend some time thinking about your priorities in life and the goals you have for yourself. Make a list of your personal goals, perhaps in the short term (up to three years) and the long term (beyond three years).

Step 5: Write Mission and Vision Statements. On the basis of the first four steps and a better understanding of yourself, begin writing your personal mission and vision statements.

Final thoughts: A personal mission and vision statement is, of course, personal. But if you want to see whether you have been honest in developing your personal mission and vision statement, we suggest sharing the results of this process with one or more people who are close to you. Ask for their feedback. Finally, remember that mission and vision statements are not meant to be written once and blasted into stone. You should set aside some time annually to review your career, job, goals, and mission and vision statements—and make adjustments as necessary.

Exercises

1. How does a personal mission and vision statement differ from one created for an organization?
2. What time period should a personal mission and vision statement cover?
3. What are the five steps for creating a personal mission and vision statement?
4. What type of goals should you start thinking about in creating a personal mission and vision?
5. How are your strengths and weaknesses relevant to mission and vision?
6. What stakeholders seem relevant to your personal mission and vision?

Key Takeaways

In this section, you learned how to think of mission and vision in terms of your personal circumstances, whether it is your career or other aspects of your life. Just as you might do in developing an organization's vision statement, you were encouraged to think of a big, hairy audacious goal as a starting point. You also learned a five-step process for developing a personal vision statement.

6.8 Strategic Management

Learning Objectives

1. Define strategic management.
2. Identify the inputs for strategy formulation.

What Is Strategic Management?

Strategic management reflects what a firm is doing to achieve its mission and vision, as seen by its achievement of specific goals and objectives. A more formal definition tells us that the **strategic management process** "is the process by which a firm manages the formulation and implementation of its strategy" (Carpenter & Sanders, 2009). The strategic management process is "the coordinated means by which an organization achieves its goals and objectives" (Carpenter & Sanders, 2009). Others have described strategy as the pattern of resource allocation choices and organizational arrangements that result from managerial decision making (Mintzberg, 1978). Planning and **strategy formulation** sometimes called *business planning*, or *strategic planning*, have much in common, since formulation helps determine what the firm should do. **Strategy implementation** tells managers how they should go about putting the desired strategy into action.

The concept of strategy is relevant to all types of organizations, from large public companies like GE, to religious organizations and political parties.

Planning starts with vision and mission and concludes with setting goals and objectives. In-between is the critical role played by strategy. Specifically, a strategy captures and communicates how vision and mission will be achieved and which goals and objectives show that the organization is on the right path to achieving them.

At this point, even in terms of strategy formulation, there are two aspects of strategizing that you should recognize. The first, **corporate strategy** answers strategy questions related to "What business or businesses should we be in?" and "How does our business X help us compete in business Y, and vice versa?" In many ways, corporate strategy considers an organization to be a portfolio of businesses, resources, capabilities, or activities. You are probably familiar with McDonald's, for instance, and their ubiquitous golden arches fast-food outlets. However, you may be less likely to know that McDonald's owned the slightly upscale burrito vendor Chipotle for several years as well (Carpenter & Sanders, 2008).The McDonald's corporate strategy helped its managers evaluate and answer questions about whether it made sense for McDonald's set of businesses to include different restaurants such as McDonald's and Chipotle. While other food-service companies have multiple outlets—YUM! Brands, for example, owns A&W, Taco Bell, Pizza Hut, Long John Silver's, and Kentucky

Fried Chicken—McDonald's determined that one brand (McDonald's) was a better strategy for it in the future, and sold off Chipotle in 2006. The following figure provides a graphic guide to this kind of planning.

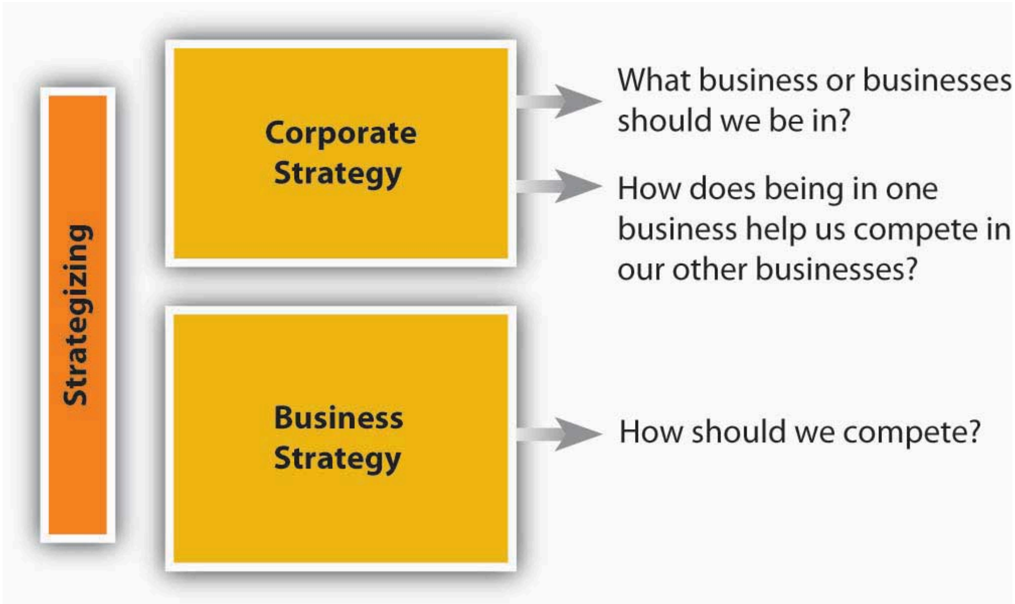

Figure 6.8.1: *Corporate and Business Strategy*

The logic behind corporate strategy is one of synergy and diversification. That is, synergies arise when each of YUM! Brands food outlets does better because they have common ownership and can share valuable inputs into their businesses. Specifically, **synergy** exists when the interaction of two or more activities (such as those in a business) create a combined effect greater than the sum of their individual effects. The idea is that the combination of certain businesses is stronger than they would be individually because they either do things more cheaply or of higher quality as a result of their coordination under a common owner.

Diversification in contrast, is where an organization participates in multiple businesses that are in some way distinct from each other, as Taco Bell is from Pizza Hut, for instance. Just as with a portfolio of stock, the purpose of diversification is to spread out risk and opportunities over a larger set of businesses. Some may be high growth, some slow growth or declining; some may perform worse during recessions, while others perform better. Sometimes the businesses can be very different.

Whereas corporate strategy looks at an organization as a portfolio of things, **business strategy** focuses on how a given business needs to compete to be effective. Again, all organizations need strategies to survive and thrive. A neighborhood church, for instance, probably wants to serve existing members, build new membership, and, at the same time, raise surplus monies to help it with outreach activities. Its strategy would answer questions surrounding the accomplishment of these key objectives. In a for-profit company such as McDonald's, its business strategy would help it keep existing customers, grow its business by moving into new markets and taking customers from competitors like Taco Bell and Burger King, and do all this at a profit level demanded by the stock market.

Strategic Inputs

So what are the inputs into strategizing? At the most basic level, you will need to gather information and conduct analysis about the internal characteristics of the organization and the external market conditions. This means an internal appraisal and an external appraisal. On the internal side, you will want to gain a sense of the organization's strengths and weaknesses; on the external side, you will want to develop some sense of the organization's opportunities and threats. Together, these four inputs into strategizing are often called **SWOT analysis** which stands for strengths, weaknesses, opportunities, and threats (see the SWOT analysis figure). It does not matter if you start this appraisal process internally or externally, but you will quickly see that the two need to mesh eventually. At the very least, the strategy should leverage strengths to take advantage of opportunities and mitigate threats, while the downside consequences of weaknesses are minimized or managed.

Figure 6.8.2: *SWOT Analysis*

SWOT was developed by Ken Andrews in the early 1970s (Andrews, 1971). An assessment of strengths and weaknesses occurs as a part of organizational analysis; that is, it is an audit of the company's internal workings, which are relatively easier to control than outside factors. Conversely, examining opportunities and threats is a part of environmental analysis—the company must look outside of the organization to determine opportunities and threats, over which it has lesser control.

Strengths and Weaknesses

A good starting point for strategizing is an assessment of what an organization does well and what it does less well. In general good strategies take advantage of ***strengths*** and minimize the disadvantages posed by any ***weaknesses***. Michael Jordan, for instance, is an excellent all-around athlete; he excels in baseball and golf, but his athletic skills show best in basketball. As with Jordan, when you can identify certain strengths that set an organization well apart from actual and potential competitors, that strength is considered a source of competitive advantage. The hardest thing for an organization to do is to develop its competitive advantage into a **sustainable competitive advantage** where the organization's strengths cannot be easily duplicated or imitated by other firms, nor made redundant or less valuable by changes in the external environment.

Opportunities and Threats

On the basis of what you just learned about competitive advantage and sustainable competitive advantage, you can see why some understanding of the external environment is a critical input into strategy. ***Opportunities*** assess the external attractive factors that represent the reason for a business to exist and prosper. These are external to the business. What opportunities exist in its market, or in the environment, from which managers might hope the organization will benefit? ***Threats*** include factors beyond your control that could place the strategy, or the business, at risk. These are also external—managers typically have no control over them, but may benefit by having contingency plans to address them if they should occur.

Internal Analysis Tools

Internal analysis tools help you identify an organization's strengths and weaknesses. The two tools that we identify here, and develop later in the chapter, are the *value chain* and *VRIO* tools. The **value chain** asks you, in effect, to take the organization apart and identify the important constituent parts. Sometimes these parts take the form of functions, like marketing or manufacturing. For instance, Disney is really good at developing and making money from its branded products, such as Cinderella or Pirates of the Caribbean. This is a marketing function (it is also a design function, which is another Disney strength).

Value chain functions are also called *capabilities*. This is where VRIO comes in. **VRIO** stands for valuable, rare, inimitable, and organization—basically, the VRIO framework suggests that a capability, or a *resource*, such as a patent or great location, is likely to yield a competitive advantage to an organization when it can be shown that it is valuable, rare, difficult to imitate, and supported by the organization. Essentially, where the value chain might suggest internal areas of strength, VRIO helps you understand whether those strengths will give it a competitive advantage. Going back to our Disney example, for instance, strong marketing and design capabilities are valuable, rare, and very difficult to imitate, and Disney is organized to take full advantage of them.

External Analysis Tools

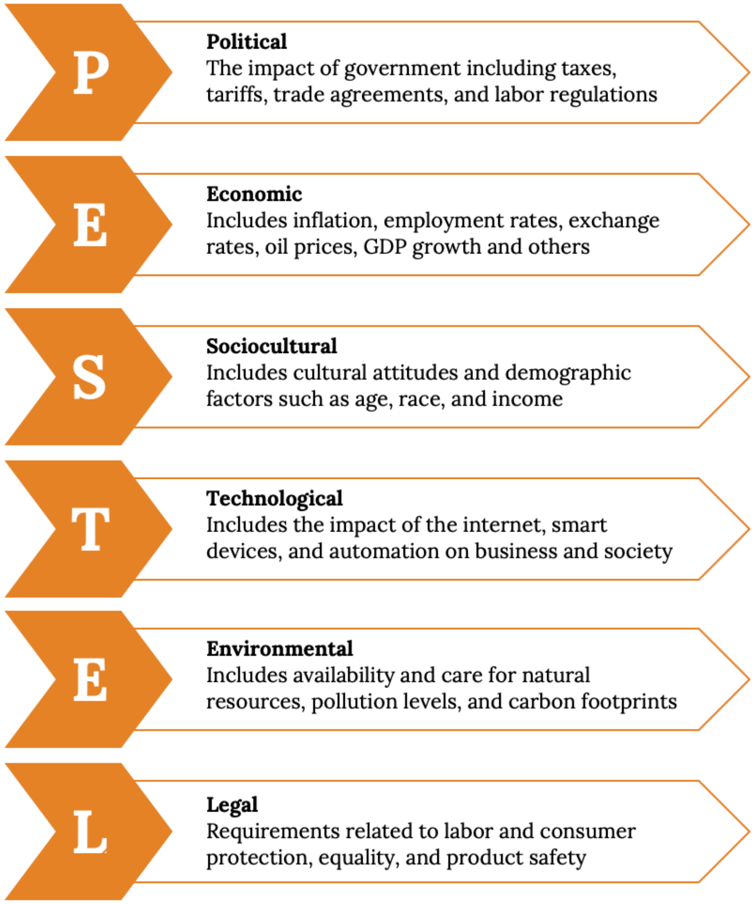

Figure 6.8.3: *Business and it's environment – PESTEL*

While there are probably hundreds of different ways for you to study an organizations' external environment, the two primary tools are *PESTEL* and *industry analysis*. **PESTEL**, as you probably guessed, is simply an acronym. It stands for *political, economic, sociocultural, technological, environmental, and legal environments*. Simply, the PESTEL framework directs you to collect information about, and analyze, each environmental dimension to identify the broad range of threats and opportunities facing the organization. Industry analysis, in contrast, asks you to map out the different relationships that the organization might have with suppliers, customers, and competitors. Whereas PESTEL provides you with a good sense of the broader macro-environment, industry analysis should tell you about the organization's competitive environment and the key industry-level factors that seem to influence performance.

Exercises

1. What is the difference between strategy formulation and strategy implementation?
2. What is the difference between business strategy and corporate strategy?
3. What do you learn from a SWOT analysis?
4. In SWOT analysis, what are some of the tools you might use to understand the internal environment (identify strengths and weaknesses)?
5. In SWOT analysis, what are some of the tools you might use to understand the external environment (identify opportunities and threats)?

Key Takeaways

Strategy formulation forms the bridge that enables the organization to progress from vision and mission to goals and objectives. Corporate strategy helps to answer questions about which businesses to compete in, while business strategy helps to answer questions about how to compete. The best strategies are based on a thorough SWOT analysis—that is, a strategy that capitalizes on an organization's strengths, weaknesses, opportunities, and threats.

6.9 How Do Strategies Emerge?

Learning Objectives

1. Compare the difference between intended and realized strategy.
2. Analyze how strategy is made.
3. Recognize the need for a balance between strategic design and emergence.

How do the strategies we see in organizations come into being? In this section, you will learn about *intended* and *realized* strategies. The section concludes with discussion of how strategies are made.

Intended and Realized Strategies

While we have been discussing strategy and strategizing as if they were the outcome of a rational, predictable, analytical process, your own experience should tell you that a fine plan does not guarantee a fine outcome. Many things can happen between the development of the plan and its realization, including, but not limited to: (1) the plan is poorly constructed, (2) competitors undermine the advantages envisioned by the plan, or (3) the plan was good but poorly executed. You can probably imagine a number of other factors that might undermine a strategic plan and the results that follow…think of what happens during a world-wide pandemic, or the effects of strategy on governments and regular citizens when fuel prices double due to war and other factors.

How organizations make strategy has emerged as an area of intense debate within the strategy field. Henry Mintzberg and his colleagues at McGill University distinguish intended, deliberate, realized, and emergent strategies (Mintzberg, 1987; Mintezberg, 1996; Mintzberg & Waters, 1985). These four different aspects of strategy are summarized in the following figure. **Intended strategy** is strategy as conceived by the top management team. Even here, rationality is limited and the intended strategy is the result of a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization. However, **realized strategy**—the actual strategy that is implemented—is only partly related to that which was intended (Mintzberg suggests only 10%–30% of intended strategy is realized).

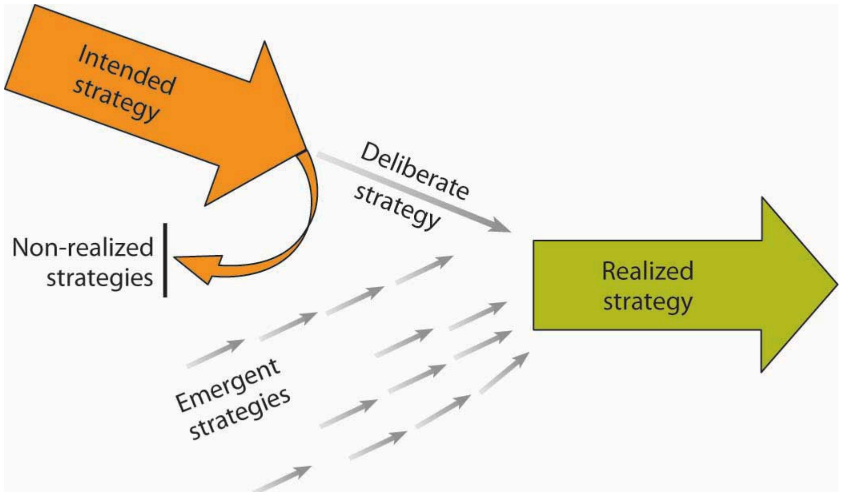

Figure 6.9.1: *Intended, Deliberate, Realized, and Emergent Strategies*

The primary determinant of realized strategy is what Mintzberg terms **emergent strategy**—the decisions that emerge from the complex processes in which individual leaders interpret the intended strategy and adapt to changing external circumstances (Mintzberg, 1978; Mintzberg, 1988; Mintzberg & Waters, 1985). Thus, the realized strategy is a consequence of **deliberate** and emerging factors. A debate exists between those who view strategy making as primarily a rational, analytical process of deliberate planning (the *design school*) and those that envisage strategy as emerging from a complex process of organizational decision making (the *emergence* or *learning school*).

Although the debate between the two schools continues (Mintzberg, et. al., 1996), we hope that it is apparent to you that the central issue is not "Which school is right?" but "How can the two views complement one another to give us a richer understanding of strategy making?" Let us explore these complementarities in relation to the factual question of how strategies are made and the normative question of how strategies should be made.

The Making of Strategy: How Is Strategy Made?

Robert Grant, author of *Contemporary Strategy Analysis*, shares his view of how strategy is made as follows (Grant, 2002). For most organizations, strategy making combines design and emergence. The deliberate design of strategy (through formal processes such as board meetings and strategic planning) has been characterized as a primarily top-down process. Emergence has been viewed as the result of multiple decisions at many levels, particularly within middle management, and has been viewed as a bottom-up process. These processes may interact in interesting ways. At Intel, the key historic decision to abandon memory chips and concentrate on microprocessors was the result of a host of decentralized decisions taken at divisional and plant level that were subsequently acknowledged by top leadership and promulgated as strategy (Burgelman & Grove, 1996).

In practice, both design and emergence occur at all levels of the organization. The strategic planning systems of large companies involve the top management team passing directives and guidelines down the organization and the businesses passing their draft plans up to corporate. Similarly, emergence occurs throughout the organization—opportunism by CEOs is probably the single most important reason why realized strategies deviate from intended strategies. What we can say for sure is that the role of emergence relative to design increases as the business environment becomes increasingly volatile and unpredictable. We can certainly see these effects at the tail end of the Covid-19 pandemic and in the midst of the war in Ukraine.

Organizations that inhabit relatively stable environments—the Roman Catholic Church and national postal services—can plan their strategies in some detail. Organizations whose environments cannot be forecast with any degree of certainty—a gang of car thieves or a construction company located in the Gaza Strip—can establish only a few strategic principles and guidelines; the rest must emerge as circumstances unfold.

What's the Best Way to Make Strategy?

Mintzberg's advocacy of strategy making as an iterative process involving experimentation and feedback is not necessarily an argument against the rational, systematic design of strategy. The critical issues are, first, determining the balance of design and emergence and, second, how to guide the process of emergence. The strategic planning systems of most companies involve a combination of design and emergence. Thus, headquarters sets guidelines in the form of vision and mission statements, business principles, performance targets, and capital expenditure budgets. However, within the strategic plans that are decided, divisional and business unit managers have considerable freedom to adjust, adapt, and experiment.

Exercises

1. What is an intended strategy?
2. What is a realized strategy?
3. Why is it important to understand the difference between intended and realized strategies?
4. Why is there not a perfect match-up between realized and intended strategies?
5. What might interfere with the realization of an intended strategy?
6. How might you manage the balance between design and emergence strategizing processes in an organization?

Key Takeaways

You learned about the processes surrounding strategy development. Specifically, you saw the difference between intended and realized strategy, where intended strategy is essentially the desired strategy, and realized strategy is what is actually put in place. You also learned how strategy is ultimately made. Ultimately, the best strategies come about when leaders are able to balance the needs for design (planning) with being flexible enough to capitalize on the benefits of emergence

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6.10 Key Terms

Key Terms

BHAG is an acronym that stands for a big, hairy, audacious goal – bold enough to ignite energy and enthusiasm but still achievable.

Business strategy focuses on how a given business needs to compete to be effective.

Controlling involves ensuring that organizations operate efficiently and effectively.

Corporate strategy answers strategy questions related to “What business or businesses should we be in?” and “How does being in one business help us compete in our other business(es), and vice versa?”

Creativity is the power or ability to invent.

Deliberate strategy is a rational, analytical process of deliberate planning.

Diversification is where an organization participates in multiple businesses that are in some way distinct from each other.

Emergent strategy is the decisions that emerge from the complex process whereby leaders interpret the intended strategy while accommodating new ideas and changing circumstances.

engagement is determined by how involved and satisfied an employee is; engaged employees perform to their peak ability and are happy to do so.

Intended strategy is conceived by the top management team through a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization – this strategy is not always implemented.

Mission statement communicates the organization’s reason for being, and how it aims to serve its key stakeholders.

Opportunities are external factors that can benefit an organization.

Organizational culture is the workplace environment formulated from the interaction of the employees in the workplace, and is defined by all of their life experiences, strengths, weaknesses, education, upbringing, and other attributes.

Organizational design is a formal, guided process for integrating the people, information, and technology of an organization.

Organizing is the function of management that involves developing an organizational structure and allocating human resources to ensure the accomplishment of objectives.

Passion refers to an intense, driving, or overmastering feeling or conviction.

PESTEL is a strategic management tool used to analyze an organization’s political, economic, sociocultural, technological, environmental, and legal environments.

Realized strategy is the strategy that is actually implemented, generally significantly different from the initial intended strategy.

Social networks are often referred to as the "invisible organization." They consist of individuals or organizations connected by one or more specific types of interdependency.

Stakeholders are individuals or groups who have an interest in an organization's ability to deliver intended results and maintain the viability of its products and services.

Stakeholder analysis refers to the range of techniques or tools used to identify and understand the needs and expectations of major interests inside and outside the organization environment.

Strategic human resources management (SHRM) reflects the aim of integrating the organization's human capital—its people—into the mission and vision.

Strategic management reflects what a firm is doing to achieve its mission and vision, as seen by its achievement of specific goals and objectives.

Strategic management process is the process whereby an organization accomplishes goals and objectives to accomplish their mission and vision.

Strategy formulation is also called business planning or strategic planning, and helps determine what the firm should do to accomplish their mission and vision.

Strategy implementation the actions taken to accomplish the organization's mission and vision.

Strengths are internal factors that are a competitive advantage to an organization.

Sustainable competitive advantage occurs when an organization's strengths cannot be easily duplicated or imitated by other firms, nor made redundant or less valuable by changes in the external environment.

SWOT analysis is a strategic planning technique to help analyze an organization's strengths, weaknesses, opportunities, and threats.

Synergy exists when the interaction of two or more activities create a combined effect greater than the sum of their individual effects.

Threats are external factors beyond your control that could place the strategy, or the business, at risk.

Value chain includes the step by step process of all the activities or parts of an organization that combine to form the product or service offered.

Values are the core beliefs of an individual, group, or organization that help determine behaviors and priorities.

Values statement states the organization's core beliefs and guiding principles.

Visionary leadership suggests that if many or most of an organization's employees understand and identify with the mission and vision, efficiency will increase because the organization's members "on the front lines" will be making decisions fully aligned with the organization's goals.

Vision statement is a future-oriented declaration of the organization's purpose and aspirations.

VRIO is a framework that suggests that a capability or a resource, such as a patent or great location, is likely to yield a competitive advantage to an organization when it can be shown that it is valuable, rare, difficult to imitate, and supported by the organization.

Weaknesses are internal factors that are disadvantageous to the organization.

6.11 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4730#h5p-6

CHAPTER 7: GOALS AND MOTIVATIONAL LEADERSHIP

Chapter Content

7.1 Case in Point: Nucor Aligns Company Goals With Employee Goals

What's In It For Me?

Reading this chapter will help you do the following:

1. Appraise the nature of goals and objectives and why they are important.
2. Determine how our thinking about goals and objectives has evolved.
3. Analyze what characterizes good goals and objectives.
4. Apply the roles of goals and objectives in employee performance reviews.
5. Determine relationships among economic, social, and environmental goals and objectives.
6. Develop and manage your own goals and objectives.
7. Compare need-based theories of motivation with process-based theories of motivation.
8. Describe how fairness perceptions are determined and their consequences.
9. Assess how performance appraisals can be used in a motivational way.
10. Analyze how to apply organizational rewards in a motivational way.
11. Develop your personal motivation skills.

As noted in the previous chapter, leaders who clearly convey the organization's vision are able to motivate employees to perform well and increase the overall effectiveness of the company. Communication and feedback are two-way streets. Leaders should be open to receiving feedback from their followers, and excel at providing helpful feedback on performance. Leaders must empower and assist individuals to create and achieve goals that align with the aims of the organization, encourage groups to achieve department targets via collaboration, and continuously communicate the values and behaviors necessary for the entire organization to accomplish its mission.

Example: Nucor Aligns Company Goals With Employee Goals

Figure 7.1.1: *"144-car ferry" by Washington State Dept of Transportation, licensed under CC BY-NC-ND 2.0.*

Manufacturing steel is not a glamorous job. The industry is beset by many problems, and more than 40 steel manufacturers have filed for bankruptcy in recent years. Most young employees do not view working at a steel mill as their dream job. Yet, one company distinguished itself from all the rest by remaining profitable for over 130 quarters and by providing an over 350% return on investment (ROI) to shareholders. The company is clearly doing well by every financial metric available and is the most profitable in its industry.

How do they achieve these amazing results? For one thing, every one of Nucor Corporation's (NYSE: NUE) 12,000 employees acts like an owner of the company. The overarching goal is "take care of our customers." Employees are encouraged to fix the things they see as wrong and have real power on their jobs. When there is a breakdown in a plant, a supervisor does not have to ask employees to work overtime; employees volunteer for it. In fact, the company is famous for its decentralized structure and for pushing authority and responsibility down to lower levels in the hierarchy. Tasks that previously belonged to management are performed by line workers. Management listens to lower level employees and routinely implements their new ideas.

The reward system in place at Nucor is also unique, and its employees may be the highest paid steelworkers in the world. In 2005, the average Nucor employee earned $79,000, followed by a $2,000 bonus decided by the company's annual earnings and $18,000 in the form of profit sharing. At the same time, a large percentage of these earnings are based on performance. People have the opportunity to earn a lot of money if the company is doing well, and there is no upward limit to how much they can make. However, they will do much worse than their counterparts in other mills if the company does poorly. Thus, it is to everyone's advantage to help the company perform well. The same incentive system exists at all levels of the company. CEO pay is clearly tied to corporate performance. The incentive system penalizes low performers while increasing commitment to the company as well as to high performance.

Nucor's formula for success seems simple: align company goals with employee goals and give employees real power to make things happen. The results seem to work for the company and its employees. Evidence of this successful method is that the company has one of the lowest employee turnover rates in the industry and remains one of the few remaining nonunionized environments in manufacturing. Nucor is the largest U.S. minimill and steel scrap recycler.

Exercises

1. What negative consequences might arise at Nucor Corporation as a result of tying pay to company performance?
2. What effects do penalizing low performers have on Nucor employees?
3. What other ways can a company motivate employees to increase productivity, in addition to monetary incentives?
4. How might the different reward systems at Nucor, individual empowerment and economic incentives, motivate people differently? Or do they have the same effect?
5. How would unionization at Nucor impact the dynamic of the organization?

7.2 The Nature of Goals and Objectives

Learning Objectives

1. Distinguish between goals and objectives.
2. Analyze the relationship between goals and objectives.

Goals and objectives are a critical component of leadership; unfortunately, because their role and importance seem obvious, they also tend to be neglected in managerial practice or poorly aligned with the organization's strategy. Often, they are just poorly communicated. You can imagine why this might be problematic, particularly since leader's need to evaluate employee performance—it would be nice if employees could be evaluated based on how their achievement of individual goals and objectives contributes to those critical to the organization's survival and success. In this section, we introduce you to the basics on goals and objectives and provide you with an understanding of how their usage has evolved. We also show you how to develop a personalized set of goals and objectives to help you achieve your personal and professional aspirations.

What Are Goals and Objectives?

Goals and objectives provide the foundation for measurement. While the terms are often used interchangeably, **goals** are outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally. Goals are usually a collection of related programs, a reflection of major actions of the organization, and provide rallying points for leaders. For example, Wal-Mart might state a financial goal of growing its revenues 20% per year or have a goal of growing the international parts of its empire. Try to think of each goal as a large umbrella with several spokes coming out from the center. The umbrella itself is a goal.

In contrast to goals, **objectives** are very precise, time-based, measurable actions that support the completion of a goal – you have likely heard of SMART goals. Objectives typically must:

1. be related directly to the goal
2. be clear, concise, and understandable
3. be stated in terms of results
4. begin with an action verb
5. specify a date for accomplishment
6. be measurable

Apply our umbrella analogy and think of each spoke as an objective. Going back to the Wal-Mart example, and in support of the company's 20% revenue growth goal, one objective might be to "open 20 new stores in the next six months." Without specific objectives, the general goal could not be accomplished—just as an umbrella cannot be put up or down without the spokes. Importantly, goals and objectives become less useful when they are unrealistic or ignored. For instance, if your university has set goals and objectives related to class sizes but is unable to ever achieve them, then their effectiveness as a management tool is significantly decreased.

Measures are the actual metrics used to gauge performance on objectives. For instance, the *objective* of improved financial performance can be *measured* using a number metrics, ranging from improvement in total sales, profitability, efficiencies, or stock price. You have probably heard the saying, "what gets measured, gets done." Measurement is critical to today's organizations. It is a fundamental requirement and an integral part of strategic planning. Without measurement, you cannot tell where you have been, where you are now, or if you are heading in the direction you are intending to go. While such statements may sound obvious, the way that most organizations have set and managed goals and objectives has generally not kept up with this commonsense view.

Goals and Objectives

One of the major challenges is that goals and objectives is that they are often not tied to strategy, and ultimately to vision and mission. Instead, you may often see a laundry list of goals and objectives that lack any larger organizing logic. Or the organization may have adopted boilerplate versions of nonfinancial measurement frameworks such as Kaplan and Norton's Balanced Scorecard, Accenture's Performance Prism, or Skandia's Intellectual Capital Navigator (Ittner & Larcker, 2003).

Broadly speaking, goals and objectives serve to:

- Gauge and report performance
- Improve performance
- Align effort
- Manage accountabilities

Goals, Objectives, and Planning

Planning typically starts with a vision and a mission. Then leaders develop a strategy for realizing the vision and mission, and must communicate this well; their success and progress in achieving vision and mission will be indicated by how well the underlying goals and objectives are achieved. A vision statement usually describes some broad set of goals—what the organization aspires to look like in the future. Mission statements too have stated goals—what the organization aspires to be for its stakeholders. For instance, Mars, Inc., the global food giant, sets out five mission statement goals in the areas of quality, responsibility, mutuality, efficiency, and freedom. Thus, goals are typically set for the organization as a whole and set the stage for a hierarchy of increasingly specific and narrowly set goals and objectives.

Unless the organization consists of only a single person, there are typically many working parts that make up the whole. Functional departments like accounting and marketing will need to have goals and objectives that, if measured and tracked, help show if and how those areas are contributing to the organization's goals and objectives. Goals and objectives can also be set for the way that departments interact. For instance, are the accounting and marketing areas interacting in a way that is productive?

Goals, Objectives, and Organizing, Leading, and Controlling

The way that the firm is organized can affect goals and objectives in a number of ways. For instance, a functional organizational structure, where departments are broken out by finance, marketing, operations, and so on, will likely want to track the performance of each department, but exactly what constitutes performance will probably vary from function to function.

In terms of leadership, it is usually top managers who set goals and objectives for the entire organization. Ideally, then, lower-level managers would set or have input into the goals and objectives relevant to their respective parts of the business. For example, a CEO might believe that the company can achieve a sales growth goal of 20% per year. With this organizational goal, the marketing manager can then set specific product sales goals, as well as pricing, volume, and other objectives, throughout the year that show how marketing is on track to deliver its part of organizational sales growth. Goal setting is thus a primary function of leadership, along with communicating the vision and holding others accountable for their respective goals and objectives that help achieve that vision.

Figure 7.2.1: *Goals and Objectives in Planning*

Finally, goals and objectives can provide a form of control since they create a feedback opportunity regarding how well or how poorly the organization executes its strategy. Goals and objectives also are a basis for reward systems and can align interests and accountability within and across business units. For instance, in an organization with several divisions, you can imagine that leaders and employees may behave differently if their compensation and promotion are tied to overall company performance, the performance of their division, or some combination of the two.

Exercises

1. What is the difference between a goal and an objective?
2. What is the relationship between a goal and an objective?
3. What characteristics should a good objective have?
4. Why are goals and objectives relevant to leadership?
5. In what ways do goals and objectives help leaders maintain control in the organization?

Key Takeaways

Although the terms goals and objectives are often used interchangeably, goals are typically outcome statements, while objectives are very precise, time-based, and measurable actions that support the completion of goals. Goals and objectives are an essential element in leadership, and serve to (1) gauge and report performance, (2) improve performance, (3) align effort and, (4) manage accountabilities.

7.3 From Management by Objectives to the Balanced Scorecard

Learning Objectives

1. Define management by objectives.
2. Describe the Balanced Scorecard and it's benefits.

As you might expect, organizations use a variety of measurement approaches—that is, how they go about setting and managing goals and objectives. If you have an understanding of how the use of these approaches has evolved, starting with **management by objectives (MBO)**, you will also have a much better view of how and why the current incarnations, as seen by variations on the **Balanced Scorecard**, have many desirable features.

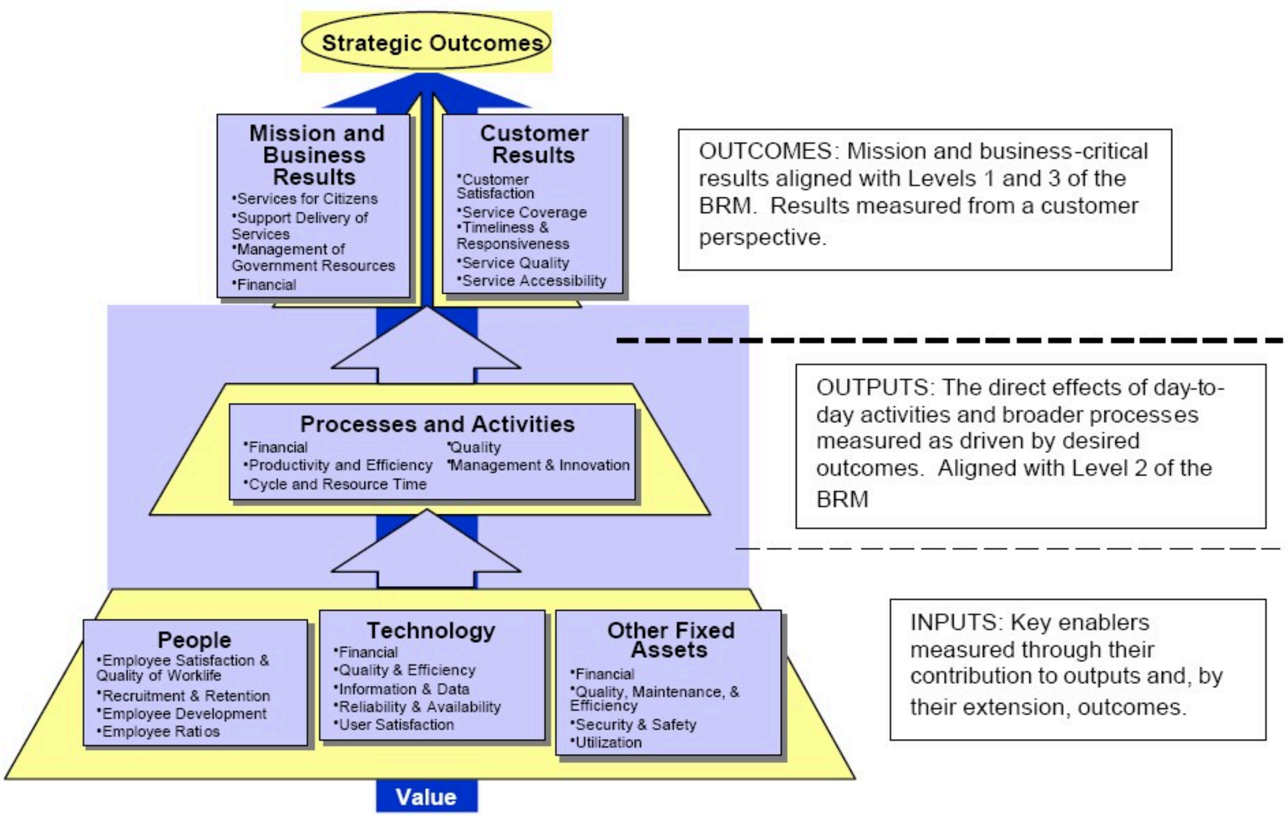

Figure 7.3.1: *Goals and objectives are an essential part of any good performance management system. "Performance Reference Model" by FEA, public domain.*

Management by Objectives

MBO is a systematic and organized approach that allows leaders to focus on achievable goals and to attain the best possible results from available resources. MBO aims to increase organizational performance by aligning the subordinate objectives throughout the organization with the overall goals that leadership has set. Ideally, employees get strong input to identify their objectives, time lines for completion, and so on. MBO includes ongoing tracking and feedback in the process to reach objectives.

MBO was first outlined by Peter Drucker in 1954 in *The Practice of Management*. One of Drucker's core ideas in MBO was where managers should focus their time and energy. According to Drucker, effective MBO managers focus on the result, not the activity. They delegate tasks by "negotiating a contract of objectives" with their subordinates and by refraining from dictating a detailed road map for implementation. MBO is about setting goals and then breaking these down into more specific objectives or key results. MBO involves:

1. Setting company-wide goals derived from corporate strategy
2. Determining team- and department-level goals
3. Collaboratively setting individual-level goals that are aligned with corporate strategy
4. Developing an action plan
5. Periodically reviewing performance and revising goals (Greenwood, 1981; Muczyk & Reimann, 1989; Reif & Bassford, 1975)

A review of the literature shows that 68 out of the 70 studies conducted on this topic showed performance gains as a result of MBO implementation (Rodgers & Hunter, 1991). It also seems that top leadership commitment to the process is the key to successful implementation of MBO programs (Rodgers et al., 1993).

The broader principle behind MBO is to make sure that everybody within the organization has a clear understanding of the organization's goals, as well as awareness of their own roles and responsibilities in achieving objectives that will help to attain those goals. The complete MBO system aims to get leaders and empowered employees acting to implement and achieve their plans, which automatically achieves the organization's goals.

Setting Objectives

In MBO systems, goals and objectives are written down for each level of the organization, and individuals are given specific aims and targets. As consultants Robert Heller and Tim Hindle explain, "The principle behind this is to ensure that people know what the organization is trying to achieve, what their part of the organization must do to meet those aims, and how, as individuals, they are expected to help. This presupposes that organization's programs and methods have been fully considered. If they have not, start by constructing team objectives and ask team members to share in the process" (Heller & Hindle, 1998).

Echoing Drucker's philosophy, "the one thing an MBO system should provide is focus; most people disobey this rule, try to focus on everything, and end up with no focus at all," says Andy Grove, who ardently practiced MBO at Intel. This implies that objectives are precise and few in effective MBO systems.

Similarly, for MBO to be effective, individual leaders must understand the specific objectives of their job and how those objectives fit in with the overall company goals set by the board of directors. As Drucker wrote, “A manager’s job should be based on a task to be performed in order to attain the company’s goals…the manager should be directed and controlled by the objectives of performance rather than by his boss (Drucker, 1974).” The leaders of an organization’s various units, subunits, or departments should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them. The review mechanism enables the organization’s leaders to measure the performance of the managers who report to them, especially in the key result areas: marketing, innovation, human organization, financial resources, physical resources, productivity, social responsibility, and profit requirements.

Seeking a Balance: The Move Away from MBO

In recent years, opinion has moved away from placing managers into a formal, rigid system of objectives. In the 1990s, Drucker decreased the significance of this organization management method when he said, “It’s just another tool. It is not the great cure for management inefficiency (Drucker, 1986).” Recall also that goals and objectives, when managed well, are tied in with compensation and promotion. In 1975, Steve Kerr published his critical management article titled, “On the Folly of Rewarding A, While Hoping for B,” in which he lambasted the rampant disconnect between reward systems and strategy (Kerr, 1975). Some of the common management reward follies suggested by Kerr and others are summarized in the following table. His criticism included the objective criteria characteristic of most MBO systems. Kerr went on to lead GE’s human resources function in the mid-1970’s and is credited with turning that massive organization’s recruiting, reward, and retention systems into one of its key sources of competitive advantage.

Table 7.3.1: Common Management Reward Follies

We hope for…	*But we often reward…*
Long-term growth; environmental responsibility	Quarterly earnings
Teamwork	Individual effort
Setting challenging “stretch” goals	Achieving objectives; “making the numbers”
Downsizing; rightsizing; restructuring	Adding staffing; adding budget
Commitment to quality	Shipping on schedule, even with defects
Commitment to customer service	Keeping customers from bothering us[1]
Candor; surfacing bad news early	Reporting good news, whether it’s true or not; agreeing with the boss, whether or not she or he is right

Even though formal MBO programs have been out of favor since the late 1980s and early 1990s, linking employee goals to company-wide goals is a powerful idea that benefits organizations. This is where the Balanced Scorecard and other performance management systems come into play.

The Balanced Scorecard

Developed by Robert Kaplan and David Norton in 1992, the Balanced Scorecard approach to management has gained popularity worldwide since the 1996 release of their text, *The Balanced Scorecard: Translating Strategy into Action*. In 2001, the Gartner Group estimated that at least 40% of all *Fortune* 1000 companies were using Balanced Scorecard; however, it can be complex to implement, so it is likely that the format of its usage varies widely across firms.

The Balanced Scorecard is a framework designed to translate an organization’s mission and vision statements and overall business strategy into specific, quantifiable goals and objectives and to monitor the organization’s performance in terms of achieving these goals. Among other criticisms of MBO, one was that it seemed disconnected from a firm’s strategy, and one of Balanced Scorecard’s innovations is explicit attention to vision and strategy in setting goals and objectives. Stemming from the idea that assessing performance through financial returns only provides information about how well the organization did prior to the assessment, the Balanced Scorecard is a comprehensive approach that analyzes an organization’s overall performance in four ways, so that future performance can be predicted and proper actions taken to create the desired future.

Four Related Areas

Balanced Scorecard shares several common features. First, as summarized in the following figure, it spells out goals and objectives for the subareas of customers, learning and growth, internal processes, and financial performance. The customer area looks at customer satisfaction and retention. Learning and growth explore the effectiveness of leadership in terms of measures of employee satisfaction and retention and information system performance. The internal area looks at production and innovation, measuring performance in terms of maximizing profit from current products and following indicators for future productivity. Finally, financial performance, the most traditionally used performance indicator, includes assessments of measures such as operating costs and return-on-investment.

Figure 7.3.2: *The Balanced Scorecard. (Kaplan et al., 2001).*

On the basis of how the organization's strategy is mapped out in terms of customer, learning, internal, and financial goals and objectives, specific measures, and the specific activities for achieving those are defined as well. This deeper Balanced Scorecard logic is summarized in the following figure. The method examines goals, objectives, measures, and activities in four areas. When performance measures for areas such as customer relationships, internal processes, and learning and growth are added to the financial metrics, proponents of the Balanced Scorecard argue that the result is not only a broader perspective on the company's health and activities, it's also a powerful organizing framework. It is a sophisticated instrument panel for coordinating and fine-tuning a company's operations and businesses so that all activities are aligned with its strategy.

As a structure, Balanced Scorecard breaks broad goals down successively into objectives, measures, and tactical activities. As an example of how the method might work, an organization might include in its mission or vision statement a goal of maintaining employee satisfaction (for instance, the mission statement might say something like "our employees are our most valuable asset"). This would be a key part of the organization's mission but would also provide an "internal" target area for that goal in the Balanced Scorecard. Importantly, this goal, when done correctly, would also be linked to the organization's total strategy where other parts of the scorecard would show how having great employees provides economic, social, and environmental returns. Strategies for achieving that human resources vision might include approaches such as increasing employee-leader communication. Tactical activities undertaken to implement the strategy could include, for example, regularly scheduled meetings with employees. Finally, metrics could include quantifications of employee suggestions or employee surveys.

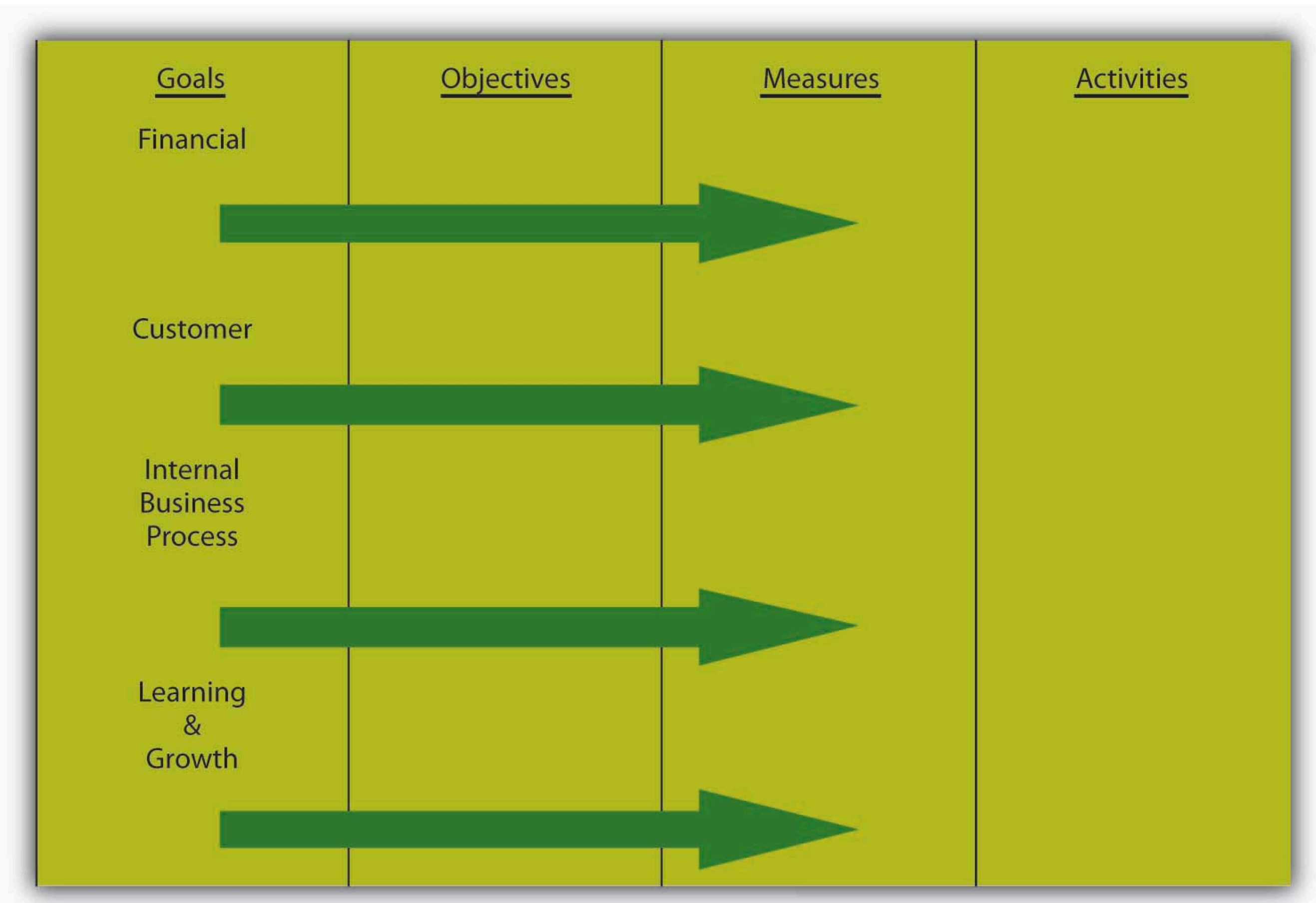

Figure 7.3.3: *Using the Balanced Scorecard to Translate Goals into Activities. (Kaplan et al., 2001).*

The Balanced Scorecard in Practice

In practice, the Balanced Scorecard is supposed to be more than simply a framework for thinking about goals and objectives, but even in that narrow sense, it is a helpful organizing framework. The Balanced Scorecard's own inventors "rightly insist that every company needs to dig deep to discover and track the activities that truly affect the frameworks' broad domains (domains such as 'financial,' 'customer,' 'internal business processes,' and 'innovation and learning')" (Ittner & Larcker, 2003). In its broadest scope, where the scorecard operates much like a map of the firm's vision, mission, and strategy, the Balanced Scorecard relies on four processes to bind short-term activities to long-term objectives:

1. ***Translating the vision.*** By relying on measurement, the scorecard forces leaders to come to agreement on the metrics they will use to translate their lofty visions into everyday realities.
2. ***Communicating and linking.*** When a scorecard is disseminated up and down the organizational chart, strategy becomes a tool available to everyone. As the high-level scorecard cascades down to individual business units, overarching strategic objectives and measures are translated into objectives and measures appropriate to each particular group. Tying these targets to individual performance and compensation systems yields "personal scorecards." Thus, individual employees understand how their own productivity supports the overall strategy.
3. ***Business planning.*** Most companies have separate procedures (and sometimes units) for strategic planning and budgeting. Little wonder, then, that typical long-term planning is, in the words of one executive, where "the rubber meets the sky." The discipline of creating a Balanced Scorecard forces companies to integrate the two functions, thereby ensuring that financial budgets indeed support strategic goals. After agreeing on performance measures for the four scorecard perspectives, companies identify the most influential "drivers" of the desired outcomes and then set milestones for gauging the progress they make with these drivers.
4. ***Feedback and learning.*** By supplying a mechanism for strategic feedback and review, the Balanced Scorecard helps an organization foster a kind of learning often missing in companies: the ability to reflect on inferences and adjust theories about cause-and-effect relationships.

Other Performance Measurement Systems

You can imagine that it might be difficult for organizations to change quickly from something like MBO to a Balanced Scorecard approach. Indeed, both MBO and the Balanced Scorecard fit in the larger collection of tools called **performance management systems**. Such systems outline "the process through which companies ensure that employees are working towards organizational goals" (Ghorpade & Chen, 1995).

Performance management begins with a senior leader linking her or his goals and objectives to the strategic goals of the organization. That leader then ensures that direct reports develop their goals in relation to the organization's overall goals. In a multidivisional or multilocation organization, lower-level leaders develop their goals, and thus their departmental goals, to correspond to the organizational goals. Staff members within each department then develop their objectives for the year, in cooperation with their leaders. Using this pattern for planning, all activities, goals, and objectives for all employees should be directly related to the overall objectives of the larger organization.

Performance management systems are more than the performance review because reviews typically are the final event in an entire year of activity. At the beginning of the year, the leader and employee discuss the employee's goals or objectives for the year. This will form the basis for ongoing discussion recorded in a document called the performance plan. The leader assists employees in developing their objectives by helping them to understand how their work relates to the department goals and the overall goals of the organization. The employee and leader also should work together to determine the measurements for evaluating each of the objectives. It is important that both the leader and employee agree what the objectives are and how they are to be measured.

Employees should not be set up with unrealistic expectations, which will only lead to a sense of failure. If additional support or education is required during the year to help employees meet their objectives, those can also be identified and planned for at this time.

The performance plan will contain the section on goals or objectives. It also should include a section that identifies the organization's expectations of employee competencies. The set of expectations will involve a range of competencies applicable to employees based on their level in the organization. These competencies include expectations of how employees deal with problems, how proactive they are with respect to changing work, and how they interact with internal and external customers. While less complex than the Balanced Scorecard, you can see how the essential components are related. In addition to basic behavioral traits, supervisors and managers are expected to exhibit leadership, communicate vision, and provide strategic direction. It is important to ensure that employees understand expected competencies in respect to themselves.

Throughout the year, leaders must participate actively in coaching and assisting all employees to meet their individual goals and objectives. Should a problem arise—either in the way that success is being measured or in the nature of the objectives set at the beginning of the year—it can be identified well in advance of any review, feedback can be offered, and adjustments to the goals or support for the employee can be provided. This is referred to as continual assessment.

For example, suppose a staff member predicted that he or she would complete a particular project by a particular date, yet they have encountered problems in receiving vital information from another department. Through active involvement in staff activities, the leader is made aware of the situation and understands that the employee is intimidated by the supervisor of the other department. With coaching, the employee develops a method for initiating contact with the other department and receives the vital information she requires to meet her objective.

Exercises

1. What is Management by objectives (MBO)?
2. What are some of the advantages of MBO?
3. What are some of the disadvantages and criticisms of MBO?
4. What is a Balanced Scorecard?
5. What are some of the advantages of a Balanced Scorecard?

6. What are some of the disadvantages of a Balanced Scorecard?

Key Takeaways

The way that goals and objectives are managed has evolved over time. While organizations can have very simple performance measurement systems, these systems typically track multiple goals and objectives. The management by objectives (MBO) approach is perhaps one of the earliest systematic approaches to working with goals and objectives. The Balanced Scorecard is aimed to make key improvements on a simple MBO system, particularly by more clearly tying goals and objectives to vision, mission, and strategy and branching out beyond purely financial goals and objectives. MBO and the Balanced Scorecard belong to the larger family of systems called performance management systems.

7.4 Characteristics of Effective Goals and Objectives

Learning Objectives

1. Determine and set appropriate goals.
2. Troubleshoot an existing set of goals and objectives.
3. Appraise the characteristics of good goals and objectives.

To be clear, this section does not outline which goals or objectives are appropriate or inappropriate, economically, ethically, morally, or otherwise. Instead, you will learn many of the characteristics of good goals and objectives, with the aim of becoming a better organizational goal setter (in the last section of this chapter, we remind you about SMART criteria, which is the application of many of this section's takeaways to the development of your personal and professional goals and objectives). At the same time, you should be able to look at a set of goals and objectives and critique them effectively, such that more appropriate goals and objectives can be developed to replace them.

Eight Characteristics of Appropriate Goals and Objectives

1. Less is more
2. Tie measures to drivers
3. Don't just measure the past
4. Take stakeholders into account
5. Cascade goals into objectives
6. Simplify
7. Adapt
8. Base objectives on facts.

We tend to think that goals and objectives are easy to set, and yet, this intuition is often wrong in the organizational context. Goals and objectives are difficult to set because we might not know what they should cover or because we lay out too many of them with the hope that we are covering all the bases. Similarly, goals and objectives can proliferate in organizations because new ones are set, while old ones are not discarded. Stanford University management professor Kathleen Eisenhardt noted that there must be a certain balance to the number and type of goals and objectives: too many goals and objectives are paralyzing; too few, confusing (Eisenhardt & Sull, 2001). In his popular book, *Keeping Score*, Mark Graham Brown lists several important factors to aid leaders in “rethinking” their approach to setting and managing goals and objectives, what we might call the organization’s *measurement system* more broadly (Brown, 1996).

Let’s walk through each of these criteria to gain a better understanding of these desirable characteristics of organizational goals and objectives. It is useful here to start by recognizing that goals, objectives, and measures are different animals. As explained at the beginning of this chapter, goals tend to be general statements, whereas objectives are specific and time bound. Measures are the indicators used to assess achievement of the objective. In some cases, a goal, an objective, and a measure can be the same thing, but more often you will set a goal, have a few objectives underlying that goal, and then one or more measures for each of the objectives.

Less Is More

Less is more, fewer is better, and simple rules are the common mantra here. Eisenhardt suggests that organizations should have two to seven key goals, or *rules*, using her vocabulary (Eisenhardt & Sull, 2001). Such goals guide how the firm operates, identify which opportunities to pursue, set priorities, manage timing of actions, and even inform business exit decisions.

If the organization should have only two to seven key goals, what about objectives and measures? Metric guru Graham Brown suggests that leaders should not try to follow any more than 20 measures of performance in terms of performance on objectives. Thus, with two to seven goals, and 20 performance measures, this means that you will likely have a number of objectives somewhere between the number of set goals and the number of measures. Why this limit? “No individual can monitor and control more than twenty variables on a regular basis,” says Graham Brown (Brown, 1996).

Tie Measures to Drivers of Success

One of the key litmus tests for setting goals, objectives, and measures is whether they are linked in some way to the key factors driving an organization’s success or competitive advantage. This means that they must provide a verified path to the achievement of a firm’s strategy, mission, and vision. This characteristic of effective goals, objectives, and measures is one reason that many leaders use some form of Balanced Scorecard in their businesses. The Balanced Scorecard process provides a framework for evaluating the overall measurement system in terms of what strategic objectives it contributes to. The big challenge, however, is to verify and validate the link to success factors. Leaders who do not scrupulously uncover the fundamental drivers of their units’ performance face several potential problems. They often end up measuring too many things, trying to fill every perceived gap in the measurement system.

Don’t Just Measure the Past

For a variety of reasons it is important to capture past performance. After all, many stakeholders such as investors, owners, customers, and regulators have an interest in how the firm has lived up to it obligations. However, particularly in the area of objectives and measurement, the best systems track the past, present, and future. Echoing this observation, Robert Kaplan, co-originator of the Balanced Scorecard framework, published another book on the subject called *The Balanced Scorecard: You Can’t Drive a Car Solely Relying on a Rearview Mirror*. A combination of goals, objectives, and measures that provides such information is sometimes referred to as a dashboard—like the analogy that a dashboard tells you how the car is running, and through the windshield you can see where you are going. Indicators on how well the economy is doing, for instance, can suggest whether your business can experience growing or declining sales. Another leading indicator is customer satisfaction. General Electric, for instance, asks its customers whether they will refer other customers to GE. GE’s leaders have found that the higher this likelihood of referral, the greater the next quarter’s sales demands. As a result, GE uses this measure to help it forecast future growth, as well as evaluate the performance of each business unit.

Take Stakeholders Into Account

While it is important to track the goals and objectives most relevant to the needs of the business, relevance is subjective. This is why it is valuable to understand who the organization’s key stakeholders are, and set the goals, objectives, and measures in such a way that stakeholders can be satisfied. Or, at the very least, stakeholders can gain information relevant to their particular interests. Some stakeholders may never be entirely satisfied with companies’ performance—for example, some environmental groups may continue to criticize a company’s environmental impact, but they can be somewhat placated with more transparent reporting of what the company is doing on the environmental front. Similarly, stakeholders with social concerns will appreciate transparency in reporting on the organization’s corporate social responsibility efforts.

Cascade Goals Into Objectives

The less-is-more concept can apply to the way that goals cascade into objectives, which cascade into measures. Tying goals and objectives to drivers of success means that vision, mission, and strategy cascade down to goals, and so on. The first benefit of this cascade approach is that goals and objectives are consistent with the strategy, vision, and mission. A second benefit is that goals and objectives in lower levels of the organization are more likely to be vertically and horizontally consistent since they should be designed to achieve the higher-level goals and objectives and, ultimately, the overarching strategy of the organization.

Simplify

Information overload is a challenge facing all leaders (and students and teachers!), and simplification builds on the idea that leaders can attend to a few things well but many things poorly. Simplification refers both to the use of fewer, not more, metrics, objectives and goals, and the idea that multiple measures should be distilled down into single measures like an index or a simple catch-all question. For instance, GE's use of the single question about referring customers is a powerful but effective leading metric and a metric that it can reinforce with its rewards system. When metrics involve multiple dimensions, in areas where the organization wants to gauge customer satisfaction, for example, a survey can have 10 or more questions. Think about the many customer satisfaction surveys you are asked to complete after making an online purchase. Which question is the most important? The challenge, of course, is that a simple average of the customer survey scores, while providing a simpler indicator, also may hide some key indicator that is now buried in the average score. Therefore, the organization might need to experiment a bit with different ways of simplifying the measures with the aim of providing one that best reflects achievement of the key objective.

Adapt

An organization's circumstances and strategies tend to change over time. Since goals, objectives, and measures need to tie directly to the organization's strategy, they should be changed as well when the strategy changes. For example, many U.S. automakers set out to dominate certain car and truck segments on the basis of vehicle features and price, not fuel efficiency. However, the recent fluctuations in oil prices gave rise to a market for more fuel-efficient vehicles. Unless the automakers set some aggressive fuel efficiency objectives for their new models, however, that is unlikely to be a differentiating feature of their cars and trucks. Adaptation of metrics is not the same as adding more or other metrics. In the spirit of fewer and simpler measures, leaders should be asked to take a measure away if they plan to introduce a new one.

Base Objectives on Facts

Finally, while goals may sometimes be general (such as performance goals in which leaders simply state, *grow profits 10%*), the objectives and the metrics that gauge them should be quite specific and set based on facts and information, not intuition. A fact-based decision-making process starts with the compilation of relevant data about the particular goal. This in turn typically requires that the organization invest in information and in information-gathering capabilities.

For example, early in Jack Welch's tenure as CEO of GE, he set out a financial goal for the company of improving its *return on assets* (ROA), a measure of financial efficiency. One of the underlying determinants of ROA is inventory-turn, that is, how many times a firm can sell its stock of inventory in a given year. So, to improve ROA, a firm will likely have to also improve its inventory turns. One of GE's divisions manufactured refrigerators and turned its inventory seven times per year. What objective should Welch set for the refrigerator division's inventory turn? Instead of simply guessing, Welch sent a team of leaders into another manufacturing firm (with permission of the firm's owners and top leadership) in a different industry and learned that it was achieving turns of 12 to 17 times per year! Armed with this information, Welch could then set a clear and fact-based inventory-turn objective for that division, which in turn supported one of the overarching financial goals he had set for GE.

Fact-based objectives typically can be clearer and more precise the shorter the relative time to their achievement. For instance, a firm can likely predict next week's sales better than next year's sales. This means that goals and objectives for the future will likely need to be more specific when they are fairly current but will necessarily be less precise down the road.

The main challenge with fact-based objectives is that many firms find future opportunities in markets where there is not an existing set of customers today. For instance, before Apple released the iPhone, how big would you expect that market to be? There certainly were no facts, aside from general demographics and the technology, to set fact-based goals and objectives. In such cases, firms will need to conduct "experiments" where they learn about production and market characteristics, such that the first goals and objectives will be related to learning and growth, with more specific fact-based objectives to follow. Otherwise, firms will only take action in areas where there are data and facts, which clearly creates a paradox for leaders if the future is uncertain in their particular industry.

Exercises

1. Why might fewer goals be better than more goals and objectives?
2. Why should leaders strive for a balance of history-based, present, and future-oriented metrics of performance?
3. What is meant by cascading goals and objectives?
4. What roles do strategy, vision, and mission play with respect to goals and objectives?
5. What are some ways to simplify goals and objectives?
6. When might fact-based objective setting be difficult or inappropriate?

Key Takeaways

This section described eight general characteristics of good goals, objectives, and measures. Fewer and simpler goals and objectives are better than more and complex ones. Similarly, goals and objectives should be tied to strategy and, ultimately, to vision and mission, in a cascading pattern so that objectives and measures support the goals they are aiming to help achieve. Goals and objectives must also change with the times and, wherever possible, be anchored in facts or fact-finding and learning.

7.5 Using Goals, Objectives and Feedback in Employee Performance Evaluation

Learning Objectives

1. Determine where goals and objectives fit in employee development.
2. Demonstrate how goals and objectives are part of an effective employee performance evaluation process.
3. Outline the steps to providing effective feedback.

Goals, Objectives, and Performance Reviews

Since leadership is tasked with accomplishing things through the efforts of others, an important part of your principles of management tool kit is the development and performance evaluation of people. A **performance evaluation** is a constructive process to acknowledge and provide feedback on an employee's performance. Goals and objectives are a critical component of effective performance evaluations, so we need to cover the relationship among them briefly in this section. For instance, the example evaluation form needs to have a set of measurable goals and objectives spelled out for each area. Some of these, such as *attendance*, are more easy to describe and quantify than others, such as *knowledge*. Moreover, research suggests that individual and organizational performance increase 16% when an evaluation system based on specific goals and objectives is implemented (Rynes et al., 2002).

Role and Limitations of Performance Evaluations

Most organizations conduct employee performance evaluations at least once a year, but they can occur more frequently when there is a clear rationale for doing so—for instance, at the end of a project, at the end of each month, and so on. For example, McKinsey, a leading strategy consulting firm, has managers evaluate employees at the end of every consulting engagement. So, in addition to the annual performance evaluation, consultants can receive up to 20 mini-evaluations in a year. Importantly, the timing should coincide with the needs of the organization and the development needs of the employee.

Performance evaluations and feedback are critical. Organizations are hard-pressed to find good reasons why they can't dedicate an hour-long meeting at least once a year to ensure the mutual needs of the employee and organization are being met. Performance reviews help leaders feel more honest in their relationships with their subordinates and feel better about themselves in their supervisory roles. Subordinates are assured clear understanding of what goals and objectives are expected from them, their own personal strengths and areas for development, and a solid sense of their relationship with their supervisor. Avoiding feedback about performance issues ultimately decreases morale, decreases credibility of management, decreases the organization's overall effectiveness, and wastes more of management's time to do what isn't being done properly.

Finally, it is important to recognize that performance evaluations are a not a panacea for individual and organizational performance problems. Studies show that performance-appraisal errors are extremely difficult to eliminate (Rynes et al., 2002). Training to eliminate certain types of errors often introduces other types of errors and sometimes reduces accuracy. The most common appraisal error is leniency, and leaders often realize they are committing it. Mere training is insufficient to eliminate these kinds of errors: action that is more systematic is required, such as intensive monitoring or forced rankings.

EMPLOYEE INFORMATION

Name:	Employee ID:
Department:	Employee Job Title:
Supervisor:	Supervisor Job:

RATINGS

	Poor	Fair	Satisfactory	Good	Excellent
Job Knowledge—Understands duties, responsibilities, has ability to use materials needed, and has the level of proficiency required to accomplish the work.	☐	☐	☐	☐	☐
Comments					
Work Quality—Accuracy, thoroughness, dependability of results.	☐	☐	☐	☐	☐
Comments					
Attendance—Reports to work as scheduled. Follows established procedures for breaks. Notifies supervisor in advance of scheduling changes.	☐	☐	☐	☐	☐
Comments					
Initiative—Ability to be self-directed, efficient, creative, and resourceful. Assumes extra work on own initiative, adapts quickly to new responsibilities.	☐	☐	☐	☐	☐
Comments					
Work Attitude and Cooperation—Extent to which employee demonstrates a positive attitude, and promotes cooperation with supervisors, peers and others.	☐	☐	☐	☐	☐
Comments					
Dependability—Extent to which employee can be counted on to carry out instructions and fulfill job responsibilities accurately and efficiently.	☐	☐	☐	☐	☐
Comments					
Overall Rating					

Figure 7.5.1: *Example Employee Evaluation Form*

Providing Effective Feedback

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=187#oembed-1

Watch this video: THE ART OF FEEDBACK: how to give and receive feedback by MotivationHouse [4:57] (Transcript Available).

Feedback is communication about our behavior and its effects on others, including ourselves, colleagues, clients and the organization itself. Individuals require feedback to understand whether or not their performance measures up to expectations. Many people have been in the situation where they are not sure if they are meeting the targets set for them – sometimes they have no idea what those targets are because nobody has provided that information. There are times when employees are shocked to hear they are falling short in an annual performance review; this is particularly troubling if their performance has not met expectations for months and they are only hearing about it at an annual review. This is not helpful for individuals or their organizations. Of course, it is not easy to give constructive (what might be considered negative) feedback, so many people avoid it if possible. Most leaders have less hesitation about providing positive feedback. Both are essential however. Good feedback can maximize performance and goal attainment organization-wide, and indeed, *providing* effective feedback is a fundamental life skill both personally and professionally. Thinking back to SMART goals can help leaders provide feedback as they have much in common: effective feedback is specific (as opposed to general), measurable in that the person is provided examples/incidences of the behavior, achievable in that it focus on controllable behaviors, realistic in that it is descriptive and non-judgmental as well as accurate, and timely in that it is delivered close to the time that the behavior occurred. The feedback should not be personal but should focus on goals. It is important to ask questions to ensure the employee understands exactly what they have done well or where they need to make changes, and to have their input as to how to proceed going forward.

Shari Harley has a great short YouTube video explaining details around feedback and its importance.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=187#oembed-2

Watch this video: Why is Feedback important? by Shari Harley [2:40] (Transcript Available).

Shari Harley also has three somewhat humorous (sometimes abrasive – please try to push past that because the content is excellent) examples of how to provide difficult feedback and teaches you an 8-step process to deliver a really difficult message in a clear, effective and (almost) painless fashion!

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=187#oembed-3

Watch this video: Giving Feedback – 3 Funny Examples of Giving Employee Feedback by Shari Harley [14:39] (Transcript Available).

An Example of the Performance Review Process

For the purpose of this example, let's assume that the organization has determined that annual performance evaluations fit the strategic needs of the organization and the developmental needs of employees. This does not mean however that leadership and employees discuss goals, objectives, and performance only once a year. In our example, the organization has opted to have a midyear information meeting and then an end-of-year performance evaluation meeting.

At some point in the year, the supervisor should hold a formal discussion with each staff member to review individual activities to date and to modify the goals and objectives that employee is accountable for. This agreed-upon set of goals and objectives is sometimes called an employee performance plan. There should be no surprises at this meeting. The supervisor should have been actively involved in continual assessment of his or her staff through regular contact and coaching. If major concerns arise, the performance plan can be modified or the employees can receive development in areas in which they may be weak. This also is a time for the employee to provide formal feedback to the supervisor on the coaching, on the planning, and on how the process seems to be working.

At the end of the year, a final review of the activities and plans for developing the next year's objectives begin. Again, this is a chance to provide constructive and positive feedback and to address any ongoing concerns about the employee's activities and competencies. Continuing education opportunities can be identified, and for those systems linked to compensation, salary raises will be linked to the employee's performance during the year. Again, there should be no surprises to either employee or supervisor, as continual assessment and coaching should take place throughout the year. Supervisors and managers are involved in the same series of activities with their own leaders to ensure that the entire organization is developing and focused on the same common objectives.

There are many varieties of performance management systems available, but you must be aware that you will need to tailor any system to suit the needs of the organization and the staff. As the organization and its competitive environment change over time, the system will also need to develop to reflect changes to employee competencies, ranking systems, and rewards linked to the plan.

How do you handle your reviews, that is, when you are the focus of the review process? "Your Performance Review" summarizes some key ideas you might keep in mind for your next review.

Your Performance Review

There are typically three areas you should think about when having your own performance reviewed:

(1) Preparation for the review
(2) What to do if the feedback is negative
(3) What should you ultimately take away from the review

Prepare for an upcoming review. Document your achievements and list anything you want to discuss at the review. If you haven't kept track of your achievements, you may have to spend some time figuring out what you have accomplished since your last review and, most importantly, how your employer has benefited, such as increased profits, grown the client roster, maintained older clients, and so on. These are easier to document when you have had clear goals and objectives.

What should you do if you get a poor review? If you feel you have received an unfair review, you should consider responding to it. You should first try to discuss the review with the person who prepared it. Heed this warning, however. Wait until you can look at the review objectively. Was the criticism you received really that off the mark or are you just offended that you were criticized in the first place? If you eventually reach the conclusion that the review was truly unjust, then set an appointment to meet with your reviewer. If there are any points that were correct, acknowledge those. Use clear examples that counteract the criticisms made. A paper trail is always helpful. Present anything you have in writing that can back you up. If you didn't leave a paper trail, remember to do this in the future.

What should you take away from a performance review? Ultimately, you should regard your review as a learning opportunity. For instance, did you have clear goals and objectives such that your performance was easy to document? You should be able to take away valuable information, whether it is about yourself or your reviewer.

Best Practices

While there is no single "best way" to manage performance evaluations, the collective actions across a number of high-performing firms suggests a set of best practices.

1. Decide what you are hoping to achieve from the system. Is it to reward the stars and to correct problems? Or is its primary function to be a tool in focusing all staff activities through better planning?
2. Develop goals and objectives that inspire, challenge, and stretch people's capabilities. Once goals and objectives are clearly communicated and accepted, enlist broad participation, and do not shut down ideas. Support participation and goal attainment through the reward system, such as with gainsharing or other group incentive programs.
3. Ensure you have commitment from the top. Planning must begin at the executive level and be filtered down through the organization to ensure that employees' plans are meaningful in the context of the organization's direction. Leaders should serve as strong role models for the performance evaluation process and attach leadership consequences to the quality of performance reviews (for instance, McKinsey partners are evaluated on how well they develop their consultants, not just the profitability of their particular practice).
4. Ensure that all key staff are involved in the development of the performance management processes from the early phases. Provide group orientations to the program to decrease anxiety over the implementation of a new system. It will ensure a consistent message communicated about the performance management system.
5. If the performance management system is not linked to salary, be sure employees are aware of it. For example, university business school professors are paid salaries based on highly competitive external labor markets, not necessarily the internal goals and objectives of the school such as high teaching evaluations, and so on. Make sure employees know the purpose of the system and what they get out of it.
6. Provide additional training for supervisors on how to conduct the midyear and year-end performance reviews. Ensure that supervisors are proficient at coaching staff. Training, practice, and feedback about how to avoid appraisal errors are necessary, but often insufficient, for eliminating appraisal errors. Eliminating errors may require alternative approaches to evaluation, such as forced distribution (for instance, General Electric must rank the lowest 10% of performers and often ask them to find work with another employer).
7. Plan to modify the performance management system over time, starting with goals and objectives, to meet your organization's changing needs. Wherever possible, study employee behaviors in addition to attitudes; the two do not always converge.

Exercises

1. How are goals and objectives related to employee performance evaluation?
2. How often should performance evaluations be performed?
3. What kinds of goals and objectives might be best for performance evaluation to be most effective?
4. What should be included in an employee performance plan?
5. How can managers provide effective feedback?

6. What performance evaluation best practices appear to most directly involve goals and objectives?

Key Takeaways

This section outlined the relationship between goals and objectives and employee performance evaluation. Performance evaluation is a tool that helps leaders align individual performance with organizational goals and objectives. You saw that the tool is most effective when evaluation includes well-developed goals and objectives that are developed with the needs of both the organization and employee in mind. The section concluded with a range of best practices for the performance evaluation process, including the revision of goals and objectives when the needs of the organization change.

7.6 Integrating Goals and Objectives with Corporate Social Responsibility

Learning Objectives

1. Review the nature of corporate social responsibility.
2. Appraise corporate social responsibility, like other goals and objectives, can be incorporated using the Balanced Scorecard.
3. Examine how corporate social responsibility, like any other goal and objective, helps the firm only when aligned with its strategy, vision, and mission.

One of the overarching lessons of this section is that goals and objectives are only effective to the extent that they reinforce the organization's strategy and therefore the realization of its vision and mission. This section is somewhat integrative in that it provides knowledge about the ways that goals and objectives related to social and environmental issues can be tied back into strategy using a Balanced Scorecard approach.

Corporate Social Responsibility

The **corporate social responsibility (CSR)** movement is not new and has been gathering momentum for well over a decade (Crawford & Scaletta, 2005). CSR is about how companies manage their business processes to produce an overall positive effect on society. This growth has raised questions—how to define the concept and how to integrate it into the larger body of an organization's goals and objectives. The Dow Jones Sustainability Index created a commonly accepted definition of CSR: "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments" (Dyllick, & Muff, 2015) Specifically, the Dow Jones Sustainability Index looks at competence in five areas:

- ***Strategy*:** Integrating long-term economic, environmental, and social aspects in their business strategies while maintaining global competitiveness and brand reputation.
- ***Financial*:** Meeting shareholders' demands for sound financial returns, long-term economic growth, open communication, and transparent financial accounting.
- ***Customer and Product*:** Fostering loyalty by investing in customer relationship management, and product and service innovation that focuses on technologies and systems, which use financial, natural, and social resources in an efficient, effective, and economic manner over the long term.
- ***Governance and Stakeholder*:** Setting the highest standards of corporate governance and stakeholder

engagement, including corporate codes of conduct and public reporting.
- ***Human*****:** Managing human resources to maintain workforce capabilities and employee satisfaction through best-in-class organizational learning and knowledge management practices and remuneration and benefit programs.

CSR and the Balanced Scorecard

Since you are already familiar with the Balanced Scorecard from the previous section, you will probably already see how it can be used for CSR (a brief summary of the Balanced Scorecard concept is found in "The Balanced Scorecard at a Glance").

The Balanced Scorecard at a Glance

As you know, the Balanced Scorecard is a focused set of key financial and nonfinancial indicators. These indicators include leading, pacing, and lagging measures. The term "balanced" does not mean equivalence among the measures but rather an acknowledgment of other key performance metrics that are not financial. The now classic scorecard, as outlined by Robert Kaplan and David Norton, has four quadrants or perspectives: (1) learning and growth, (2) internal, (3) customer, and (4) financial. Moreover, the idea is that each of these perspectives should be linked. For example, increased training for employees (learning and growth) can lead to enhanced operations or processes (internal), which leads to more satisfied customers through either improved delivery time and/or lower prices (customers), which finally leads to higher financial performance for the organization (financial).

> "One of the fundamental opportunities for the CSR movement is how to effectively align consumer and employee values with strategy to generate long-term benefits—a better understanding of precisely with whom, what, when, where, how and why an enterprise makes a profit or surplus. CSR requires more holistic strategic thinking and a wider stakeholder perspective. Because the Balanced Scorecard is a recognized and established management tool, it is well positioned to support a knowledge-building effort to help organizations make their CSR values and visions a reality. The Balanced Scorecard enables individuals to make daily decisions based upon values and metrics that can be designed to support these long-term cognizant benefits" *(Crawford & Scaletta, 2005).*

Thus, the Balanced Scorecard is an ideal vehicle for integrating CSR concerns with the organization's mission, vision, and strategy. By creatively responding to these market forces, and others generated by the CSR movement, organizations can reap considerable benefits.

Measures and CSR

One of the organizational challenges with CSR is that it requires firms to measure and report on aspects of their operations that were either previously unmonitored or don't clearly map into the firm's strategy. Thus, goals and objectives related to growing revenues through green consumers in the Lifestyles of Health and Sustainability (**LOHAS**) marketplace comes with the price of increased transparency—this customer group demands the necessary data to make informed decisions. Ethical considerations, KPMG's second driver, are directly linked to the LOHAS market. LOHAS describes a $226.8 billion marketplace for goods and services focused on health, the environment, social justice, personal development, and sustainable living. The consumers attracted to this market have been collectively referred to as "cultural creatives" and represent a sizable group in the United States (Florida, 2005). Interested stakeholders, such as employees, regulators, investors, and nongovernmental organizations (NGOs), pressure organizations to disclose more CSR information. Companies in particular are increasingly expected to generate annual CSR reports in addition to their annual financial reports.

CSR reporting measures an organization's economic, social, and environmental performance and impacts. The measurement of CSR's three dimensions is commonly called the **triple bottom line** (TBL). The Global Reporting Initiative (GRI), mentioned in the case of PEMEX, is the internationally accepted standard for TBL reporting. The GRI was created in 1997 to bring consistency to the TBL reporting process by enhancing the quality, rigor, and utility of sustainability reporting. GRI issued its first comprehensive reporting guidelines in 2002 and its G3 Reporting Framework in October 2006. Since GRI was established, more than 1,000 international companies had registered with the GRI and issued corporate sustainability reports using its standards (Global Reporting, n.d.).

Representatives from business, accounting societies, organized labor, investors, and other stakeholders all participated in the development of what are now known as the GRI Sustainability Guidelines. The guidelines are composed of both qualitative and quantitative indicators. The guidelines and indicators were not designed, nor intended, to replace Generally Accepted Accounting Principles (GAAP) or other mandatory financial reporting requirements. Rather, the guidelines are intended to complement GAAP by providing the basis for credibility and precision in non-financial reporting. Some firms develop and apply their own sets of metrics.

One of the key benefits for an organization using a Balanced Scorecard is improved strategic alignment. The Balanced Scorecard can be an effective format for reporting TBL indicators, as it illustrates the cause-and-effect relationship between good corporate citizenship and a successful business. Enterprises can use the combination of the Balanced Scorecard and CSR to help create a competitive advantage by letting decision makers know whether they are truly entering into a CSR virtuous cycle in which economic and environmental performance, coupled with social impacts, combine to improve organizational performance exponentially.

What do we mean by virtuous cycle? A company could begin to compete on cost leadership as a result of improved technology and effective and efficient processes, which leads to improved ecological protection, which results in better risk management and a lower cost of capital. Alternatively, a company could differentiate from its competitors' values and performance as a result of its community-building activities, which can improve corporate reputation, result in improved brand equity, creating customer satisfaction, which increases sales. The move to a broad differentiation strategy can also be achieved through extensive knowledge of green consumers and leveraging their information needs through appropriate CSR reporting to improve brand equity and reputation. These examples are designed to illustrate the interrelationships in an organization's triple bottom line.

Several organizations have already recognized this powerful combination and have adapted or introduced a Balanced Scorecard that includes CSR elements to successfully implement strategy reflective of evolving societal values. Many leaders are familiar with the Balanced Scorecard and thus have a tool at their disposal to help them navigate the sometimes foggy worlds of strategy and CSR. The Balanced Scorecard can help organizations strategically manage the alignment of cause-and-effect relationships of external market forces and impacts with internal CSR drivers, values, and behavior. It is this alignment combined with CSR reporting that can enable enterprises to implement either broad differentiation or cost leadership strategies. If managers believe there will be resistance to stand-alone CSR initiatives, they can use the Balanced Scorecard to address CSR opportunities and challenges. If you are so motivated, the managerial skills and tools you gain through an understanding of P-O-L-C will help you to lead your organization toward a CSR virtuous cycle of cognizant benefits, understanding precisely how and why their company's profits are made.

Exercises

1. What does corporate social responsibility mean?
2. Why might it be challenging for organizations to effectively set and achieve social and environmental goals and objectives, in addition to their operating goals and objectives?
3. Why might an organization pay greater attention to adding social and environmental goals and objectives today than, say, 10 years ago?
4. What is meant by "virtuous cycle" with respect to CSR?
5. How does a Balanced Scorecard help leaders develop social and environmental goals and objectives?
6. In what ways does achievement of CSR goals and objectives strategically differentiate an organization?

Key Takeaways

Social and environmental activities in organizations are often referred to as corporate social responsibility (CSR). For many firms, general operating goals and objectives have not been well integrated with strategy, vision, and mission, so it may not be surprising that social and environmental goals, in particular, have not gained much traction. However, when an organization uses tools such as the Balanced Scorecard to manage goals and objectives, then there is a coherent vehicle for incorporating social and environmental objectives in the mix as well.

7.7 Your Personal Balanced Scorecard

Learning Objectives

1. Apply a more personalized understanding of the Balanced Scorecard concept.
2. Analyze your vision and mission to link to your goals and objectives.
3. Create S-M-A-R-T goals and objectives.

One of the powerful tools in a leader's tool kit is the Balanced Scorecard, a model that groups goals, objectives, and metrics into the areas of financial, customer, internal business process, and learning and growth. As you know, the scorecard is effective because it helps leaders link vision, mission, and strategy to the goals and objectives that employees strive to achieve. What you may not know, however, is that you can apply the scorecard to your personal and professional objectives. Through this process you might also learn more about where and how a Balanced Scorecard can be applied in an organizational context in your role as a manager or employee. That is the purpose of this section.

From an Organizational Scorecard to a Personal One

The Balanced Scorecard, championed by Kaplan and Norton, can be translated into your own individual scorecard, one that helps you achieve your personal and professional goals and objectives. Recall that the scorecard for an organization starts with vision and mission, followed by goals (financial, internal business processes, customer, and learning and growth), which have corresponding objectives, metrics, and tactical activities. When these components are applied to you as an individual, you might see the pieces of the scorecard labeled as shown in the following figure. Let's review each piece together.

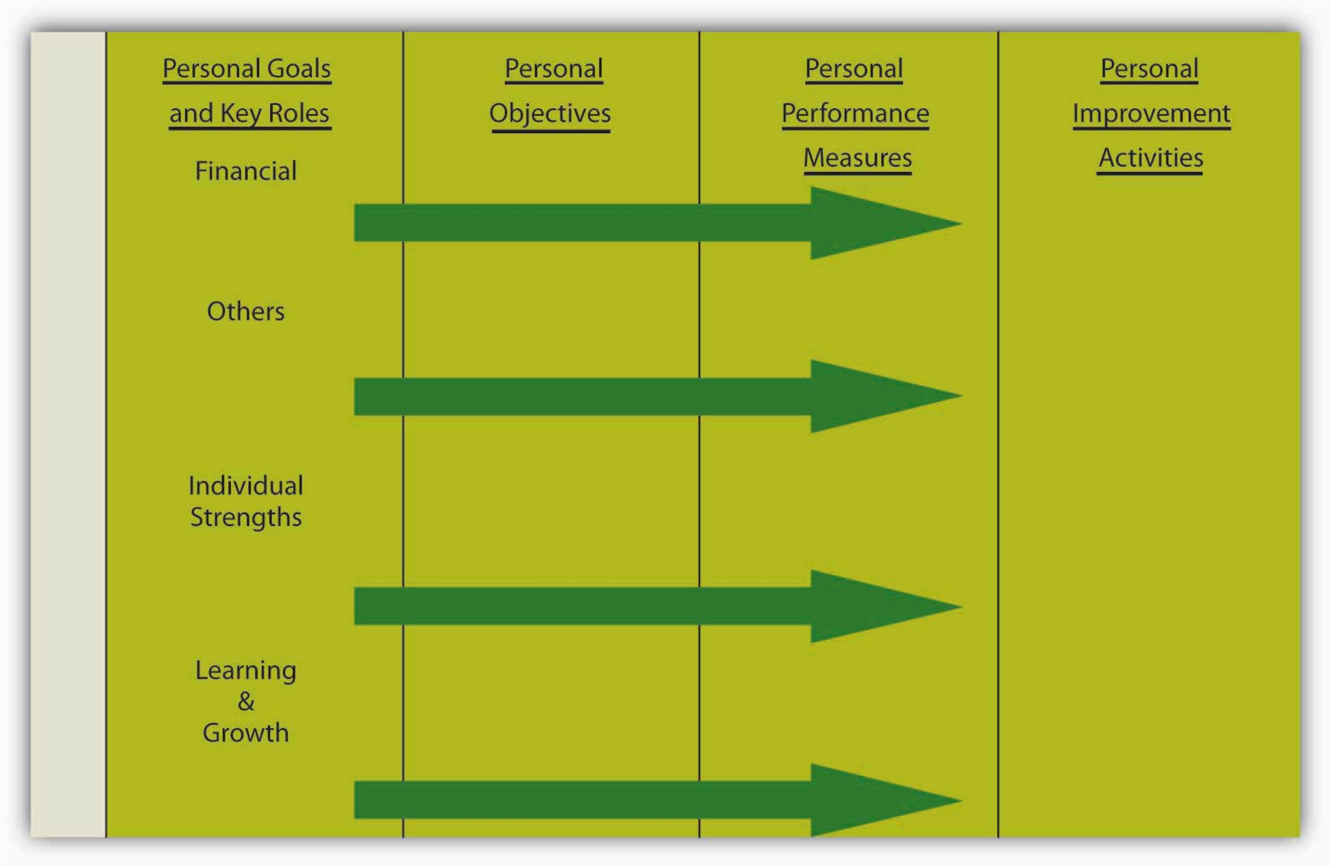

Figure 7.7.1: *My Balanced Scorecard*

Personal Mission, Vision, and Strategy

As with an organization's mission and vision, your personal mission and vision reflect who you are and where you want to go. Mission reflects your values and philosophy of life. Vision captures what you want to achieve. Which values and principles guide your way? What are your most deeply cherished aspirations? What do you want to achieve? How do you distinguish yourself in society and among your peers and family? If you were to read your biography in 20 years, what would you want it to say about you?

Personal Goals and Key Roles

Goals and roles are set out with respect to the areas of financial, others, individual strengths, and learning and growth. Financial, for instance, captures your needs and aspirations about money, as well as the financial obligations that you might have as a result of your role of caring for a parent, sibling, or child. Others reflect goals that you have in relation to other individuals or society at large. How do you want to be seen? Also, in terms of roles, what do relations with your partner, children, friends, employer, colleagues, and others imply for your goals? Individual strengths represent the internal perspective, reflecting goals related to your health and well-being. This category also reflects those strengths that you wish to be distinguishing features. Finally, learning and growth refer to your skills, abilities, and aims with regard to personal and professional learning and growth. How can you learn and remain successful in the future? What type of skills and learning are required now, for future aspired roles?

Using SMART Criteria

These portions of the scorecard get more specific in terms of which measurable short-term personal results you want to achieve. What are the most important changes you want to tackle in your career? Similarly, you will want to answer how you can measure your personal results. What values do you have to obtain, and what are your specific targets?

For personal objectives and performance measures to be most effective, you might try seeing how they measure up to **SMART** criteria. These characteristics, based on specific, measurable, attainable, realistic, and time bound yield the acronym SMART (Drucker, 1954). Here is how to tell if your objectives, measures, and targets are SMART.

Specific

A specific objective has a much greater chance of being accomplished than a general one. To set a specific objective, you must answer the six "W" questions:

- **Who:** Who is involved?
- **What:** What do I want to accomplish?
- **Where:** Identify a location.
- **When:** Establish a time frame.
- **Which:** Identify requirements and constraints.
- **Why:** Specific reasons, purpose or benefits of accomplishing the objective

Measurable

Establish concrete criteria for measuring progress toward the attainment of each objective you set. When you measure your progress, you stay on track, reach your target dates, and experience the exhilaration of achievement that spurs you on to continued effort required to reach your objective.

To determine whether your objective is measurable, ask questions such as: How much? How many? How will I know when it is accomplished? Notice that the specific version of the “get in shape” objective includes metrics of time and distance.

Attainable

When you identify objectives that are most important to you, you begin to figure out ways you can make them come true. You develop the attitudes, abilities, skills, and financial capacity to reach them. You begin seeing previously overlooked opportunities to bring yourself closer to the achievement of your goals and objectives.

You can attain most any objective you set when you plan your steps wisely and establish a time frame that allows you to carry out those steps. Goals that may have seemed far away and out of reach eventually move closer and become attainable, not because your goals shrink but because you grow and expand to match them through the achievement of nearer-term objectives. When you list your objectives, you build your self-image. You see yourself as worthy of these goals and objectives and develop the traits and personality that allow you to possess them.

Notice that the “get in shape” example outlines steps toward being able to climb the mountain.

Realistic

To be realistic, an objective must represent an objective toward which you are both willing and able to work. An objective can be both high and realistic; you are the only one who can decide just how high your objective should be. But be sure that every objective represents substantial progress. A high objective is frequently easier to reach than a low one because a low objective exerts low motivational force. Some of the hardest jobs you ever accomplished actually seem easy simply because they were a labor of love.

Your objective is probably realistic if you truly believe that it can be accomplished. Additional ways to know whether your objective is realistic is to determine whether you have accomplished anything similar in the past or ask yourself what conditions would have to exist to accomplish this objective.

You might decide whether an objective to climb a 14,000-foot mountain is realistic by considering whether people of your age and ability have been able to do it.

Timely

An objective should be grounded within a time frame. With no time frame tied to it, there's no sense of urgency. If you want to lose 10 pounds, when do you want to lose it by? "Someday" won't work. But if you anchor it within a time frame, "by May 1st," then you've set your unconscious mind into motion to begin working on the objective.

T can also stand for ***Tangible***.

An objective is tangible when you can experience it with one of the senses, that is, taste, touch, smell, sight, or hearing. When your objective is tangible, you have a better chance of making it specific and measurable and thus attainable.

The objective of climbing the mountain is both grounded in a time frame—six months from now—and tangible, in that you will either experience climbing the mountain successfully or not.

Personal Improvement Activities

The next step is implementation. One way to think about implementation of your Balanced Scorecard is through the plan-do-act-dare cycle (**PDAD cycle**), to be followed continuously (Rampersad, 2005). As summarized in the following figure, the PDAD cycle consists of the following four phases:

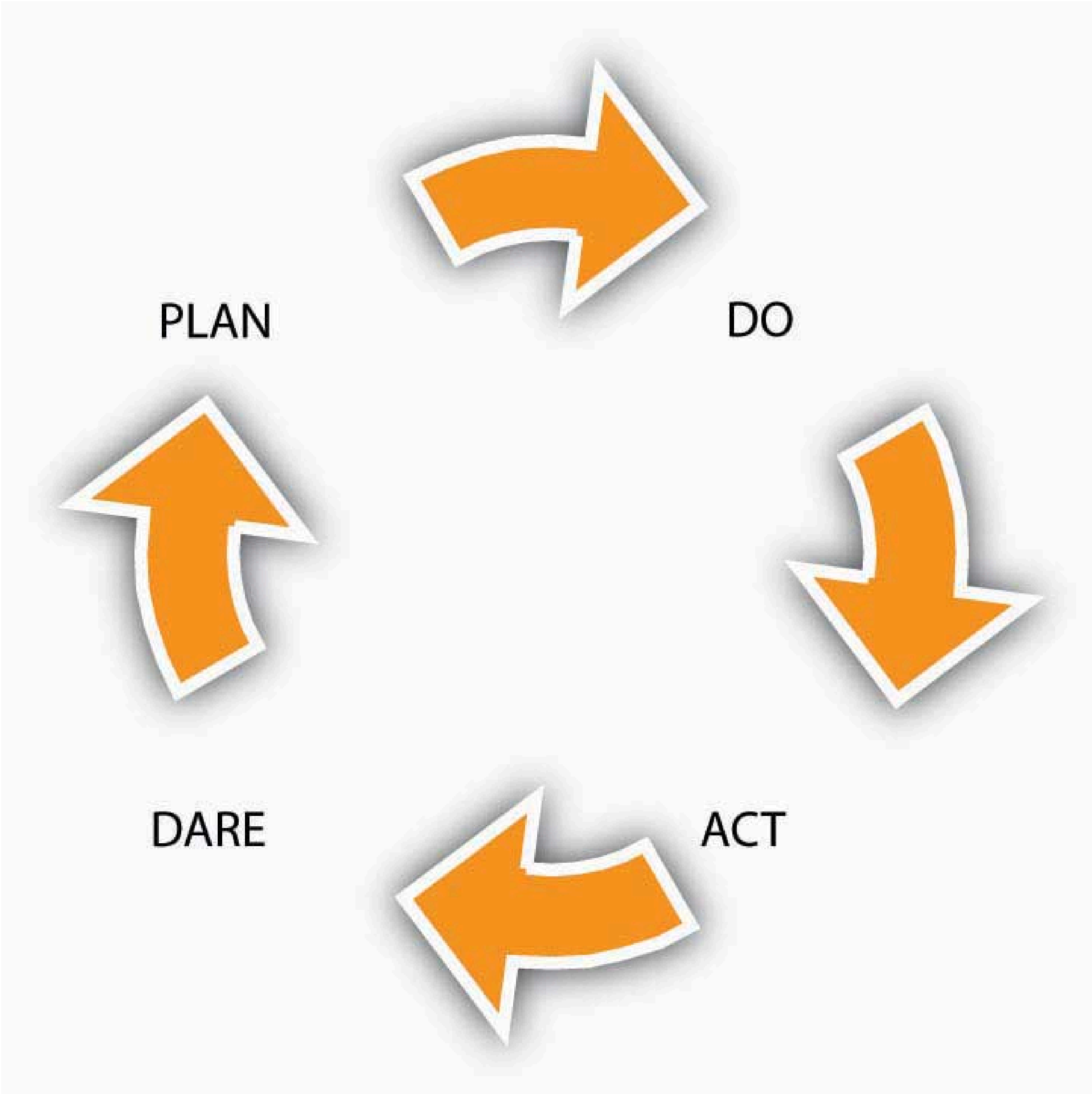

Figure 7.7.2: *The PDAD Cycle*

Plan

Formulate or update your scorecard, which focuses on your work as well as on your spare time. This spans vision and mission through personal objectives and performance metrics.

Do

Start with a simple objective from your scorecard with corresponding improvement activity, keeping in mind the priorities that have been identified. Each morning, focus on a selected improvement action that you will strive to implement during the day. Execute the improvement activity with emotional dedication, self-confidence, and willpower and concentrate on the action. This must be in concordance with your present skills. Share your good intentions with a trusted person (spouse, friend, colleague, or manager), who will ask questions and give you honest feedback. Doing is related to acting with purpose and to deliver efforts to realize your objective. Ask often for feedback from the trusted person. This gives you the opportunity to measure the progress you have made. Start with habits, which restrict you, influence your life unfavorably, and deliver poor results.

Act

Check whether the improvement activity is working and take action when it is not. Review the results according to the defined personal performance measures and targets, measure your progress, and check to what extent you have realized your personal objectives—as suggested by the "assess my progress" portion of the mountain-climbing goal. If you have not been able to realize your objective, start again. You will improve steadily as it becomes a habit to do good things right the first time and evaluate your scorecard each month with your trusted person. Think of three people who can act as your trusted person, who provide you with inspiration and motivation support for realizing your objectives and improvement actions. Plan to meet with each one of them regularly. Listen enthusiastically to them, brainstorm with them, and take their wise counsel. Develop your skills and competencies to achieve the objectives you selected. Recognize your responsibility to constantly develop yourself. Implement the proven personal improvements, assess the personal results, document the lessons learned, and improve and monitor your actions and thinking continuously. Also think about bringing your personal ambition and your personal behavior into balance, which will result in influencing your ethical behavior. According to Steven Covey, author of *The Seven Habits of Highly Effective People*, after a few weeks, you will notice small differences in yourself. In two months, the behavioral change will become firmly embedded. After five months, the important personal quality will be yours.

Dare

Accept larger challenges by daring to take on a more difficult objective and corresponding improvement action from your scorecard and get on with it. Take a chance and be conscientious to choose a more challenging objective in line with your improved skills when the current improvement action becomes boring. Enjoy the pleasant experience, and document what you have learned and unlearned during the execution of the improvement action. Refine it, and review your scorecard regularly.

Further Application of the Balanced Scorecard Method to Yourself

Let's translate the HR scorecard to your own Balanced Scorecard of human capital to better understand why you may or may not be effective in your current work setting. Your scorecard will comprise four sets of answers and activities.

1. **What is your mind-set and values**? Do you understand the organization's strategy and embrace it, and do you know what to do in order to implement the strategy? If you answered "no" to either of these questions, then you should consider investing some time in learning about your firm's strategy. For the second half of this question, you may need additional coursework or mentoring to understand what it takes to move the firm's strategy forward.
2. **What are your work-related competencies**? Do you have the skills and abilities to get your job done? If you have aspirations to key positions in the organization, do you have the skills and abilities for those higher roles?
3. **What are the leadership and workforce behaviors**? If you are not currently in a leadership position, do you know how consistently your leaders are behaving with regard to the achievement of strategic objectives? If you are one of the leaders, are you behaving strategically?
4. **Your success**? Can you tie your mind-set, values, competencies, and behaviors to the organization's performance and success?

This simple scorecard assessment will help you understand why your human capital is helping the organization or needs additional development itself. With such an assessment in hand, you can act to help the firm succeed and identify priority areas for personal growth, learning, and development.

Exercises

1. What can you achieve by applying the concept of a Balanced Scorecard to your personal situation?
2. How similar or different does the scorecard seem to function at an individual level as opposed to an organizational level?
3. What are key characteristics of effective objectives?
4. Why should personal objectives and measures of performance be specific?
5. What are some of the activities you can undertake to implement your scorecard?
6. When is the implementation of a personal Balanced Scorecard completed?

Key Takeaways

The purpose of this section was to help you translate the Balanced Scorecard to your own personal and professional situation. You learned how you might construct the scorecard, take action to achieve personal results, and how your human capital can help your organization. Through this process, you might also learn more about where and how a Balanced Scorecard can be applied in an organizational context in your role as a manager or employee.

7.8 Motivation

Motivation is defined as *"the intention of achieving a goal, leading to goal-directed behavior"* (2021). When we refer to someone as being motivated, we mean that the person is trying hard to accomplish a certain task. Motivation is clearly important for someone to perform well. However, motivation alone is not sufficient. Ability—having the skills and knowledge required to perform the job—is also important and is sometimes the key determinant of effectiveness. Finally, environmental factors—having the resources, information, and support one needs to perform well—are also critical to determine performance.

What makes employees willing to "go the extra mile" to provide excellent service, market a company's products effectively, or achieve the goals set for them? Answering questions like this is of utmost importance to understand and manage the work behavior of our peers, subordinates, and even supervisors. As with many questions involving human beings, the answers are anything but simple. Instead, there are several theories explaining the concept of motivation.

$$\text{Performance} = \text{Motivation} \times \text{Ability} \times \text{Environment}$$

Figure 7.8.1: *According to this equation, motivation, ability, and environment are the major influences over employee performance. (Mitchell et al., 1982; Porter et al., 1968).*

Example: Zappos Creates a Motivating Place to Work

Figure 7.8.2: *"Vegas 2014 Winter Zappos Pop Up Store" by Thomas Bunton, licensed under CC BY-NC 2.0.*

It is unique to hear about a CEO who studies happiness and motivation and builds those principles into the company's core values or about a company with a 5-week training course and an offer of $2,000 to quit anytime during that 5 weeks if you feel the company is not a good fit. Top that off with an on-site life coach who also happens to be a chiropractor, and you are really talking about something you don't hear about every day. Zappos is known as much for its 365-day return policy and free shipping as it is for its innovative corporate culture. Although acquired in 2009 by Amazon (NASDAQ: AMZN), Zappos managed to move from number 23 in 2009 on *Fortune* magazine's "100 Best Companies to Work For" list to 15 in 2010.

Performance is a function of motivation, ability, and the environment in which you work. Zappos seems to be creating an environment that encourages motivation and builds inclusiveness. The company delivers above and beyond basic workplace needs and addresses the self-actualization needs that most individuals desire from their work experience. CEO Tony Hsieh believes that the secret to customer loyalty is to make a corporate culture of caring a priority. This is reflected in the company's 10 core values and its emphasis on building a team and a family. During the interview process, applicants are asked questions relating to the company's values, such as gauging their own weirdness, open-mindedness, and sense of family. Although the offer to be paid to quit during the training process has increased from its original number of $400, only 1% of trainees take the offer. Work is structured differently at Zappos as well. For example, there is no limit to the time customer service representatives spend on a phone call, and they are encouraged to make personal connections with the individuals on the other end rather than try to get rid of them.

Although Zappos has over 1,300 employees, the company has been able to maintain a relatively flat organizational structure and prides itself on its extreme transparency. In an exceptionally detailed and lengthy letter to employees, Hsieh spelled out what the new partnership with Amazon would mean for the company, what would change, and more important, what would remain the same. As a result of this type of company structure, individuals have more freedom, which can lead to greater satisfaction.

Although Zappos pays its employees well and offers attractive benefits such as employees receiving full health-care coverage and a compressed workweek, the desire to work at Zappos seems to go beyond that. As Hsieh would say, happiness is the driving force behind almost any action an individual takes. Whether your goals are for achievement, affiliation, or simply to find an enjoyable environment in which to work, Zappos strives to address these needs.

Exercises

1. Explain the Performance Equation.
2. Motivation is an essential element of leadership. What are other means that organizations use to motivate employees besides those used by Zappos?
3. What potential organizational changes might result from the acquisition by Amazon?
4. Why do you think Zappos' approach is not utilized more often? In other words, what are the challenges to these techniques?
5. Why do you think Zappos offers a $2,000 incentive to quit?
6. Would you be motivated to work at Zappos? Why or why not?

7.9 Need-Based Theories of Motivation

Learning Objectives

1. Explain how employees are motivated according to Maslow's hierarchy of needs.
2. Explain how ERG theory addresses the limitations of Maslow's hierarchy.
3. Describe the difference between factors contributing to employee motivation and how these differ from factors contributing to dissatisfaction.
4. Describe the needs for achievement, power, and affiliation, and how these needs affect work behavior.

The earliest answer to motivation involved understanding individual needs. Specifically, early researchers thought that employees try hard and demonstrate goal-driven behavior to satisfy needs. For example, an employee who is always walking around the office talking to people may have a need for companionship and his behavior may be a way of satisfying this need. There are four major theories in the need-based category: Maslow's hierarchy of needs, ERG theory, Herzberg's dual factor theory, and McClelland's acquired needs theory.

Maslow's Hierarchy of Needs

Abraham Maslow is among the most prominent psychologists of the 20th century and the hierarchy of needs, accompanied by the pyramid representing how human needs are ranked, is an image familiar to most business students and managers. Maslow's theory is based on a simple premise: Human beings have needs that are hierarchically ranked (Maslow, 1943; Maslow, 1954). There are some needs that are basic to all human beings, and in their absence, nothing else matters. As we satisfy these basic needs, we start looking to satisfy higher-order needs. Once a lower-level need is satisfied, it no longer serves as a motivator.

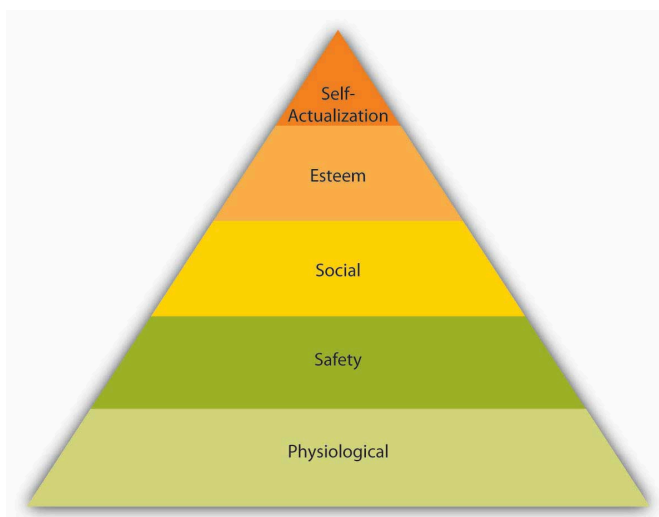

Figure 7.9.1: *Maslow's Hierarchy of Needs. (Maslow, 1954).*

The most basic of Maslow's needs are **physiological needs**. Physiological needs refer to the need for air, food, and water. Imagine being very hungry. At that point, all your behavior may be directed at finding food. Once you eat, though, the search for food ceases and the promise of food no longer serves as a motivator. Once physiological needs are satisfied, people tend to become concerned about **safety**. Are they safe from danger, pain, or an uncertain future? One level up, **social needs** refer to the need to bond with other human beings, to be loved, and to form lasting attachments. In fact, having no attachments can negatively affect health and well-being (Baumeister & Leary, 1995). The satisfaction of social needs makes **esteem needs** more salient. Esteem needs refer to the desire to be respected by one's peers, feeling important, and being appreciated. Finally, at the highest level of the hierarchy, the need for **self-actualization** refers to "becoming all you are capable of becoming." This need manifests itself by acquiring new skills, taking on new challenges, and behaving in a way that will lead to the satisfaction of one's life goals.

Maslow's hierarchy is a systematic way of thinking about the different needs employees may have at any given point and explains different reactions they may have to similar treatment. An employee who is trying to satisfy her esteem needs may feel gratified when her supervisor praises her. However, another employee who is trying to satisfy his social needs may resent being praised by upper management in front of peers if the praise sets him apart from the rest of the group.

So, how can organizations satisfy their employees' various needs? In the long run, physiological needs may be satisfied by the person's paycheck, but it is important to remember that pay may satisfy other needs such as safety and esteem as well. Providing generous benefits, including health insurance and company-sponsored retirement plans, as well as offering a measure of job security, will help satisfy safety needs. Social needs may be satisfied by having a friendly environment, providing a workplace conducive to collaboration and communication with others. Company picnics and other social get-togethers may also be helpful if the majority of employees are motivated primarily by social needs (but may cause resentment if they are not and if they have to sacrifice a Sunday afternoon for a company picnic). Providing promotion opportunities at work, recognizing a person's accomplishments verbally or through more formal reward systems, job titles that communicate to the employee that one has achieved high status within the organization are among the ways of satisfying esteem needs. Finally, self-actualization needs may be satisfied by providing development and growth opportunities on or off the job, as well as by assigning interesting and challenging work. By making the effort to satisfy the different needs each employee may have at a given time, organizations may ensure a more highly motivated workforce.

ERG Theory

ERG theory of Clayton Alderfer is a modification of Maslow's hierarchy of needs (Alderfer, 1969). Instead of the five needs that are hierarchically organized, Alderfer proposed that basic human needs may be grouped under three categories, namely, **Existence**, **Relatedness**, and **Growth** (see the following figure). Existence need corresponds to Maslow's physiological and safety needs, relatedness corresponds to social needs, and growth need refers to Maslow's esteem and self actualization.

ERG theory's main contribution to the literature is its relaxation of Maslow's assumptions. For example, ERG theory does not rank needs in any particular order and explicitly recognizes that more than one need may operate at a given time. Moreover, the theory has a "frustration-regression" hypothesis, suggesting that individuals who are frustrated in their attempts to satisfy one need may regress to another one. For example, someone who is frustrated by the lack of growth opportunities in his job and slow progress toward career goals may regress to relatedness needs and start spending more time socializing with one's coworkers. The implication of this theory is that we need to recognize the multiple needs that may be driving an individual at a given point to understand his behavior and to motivate him.

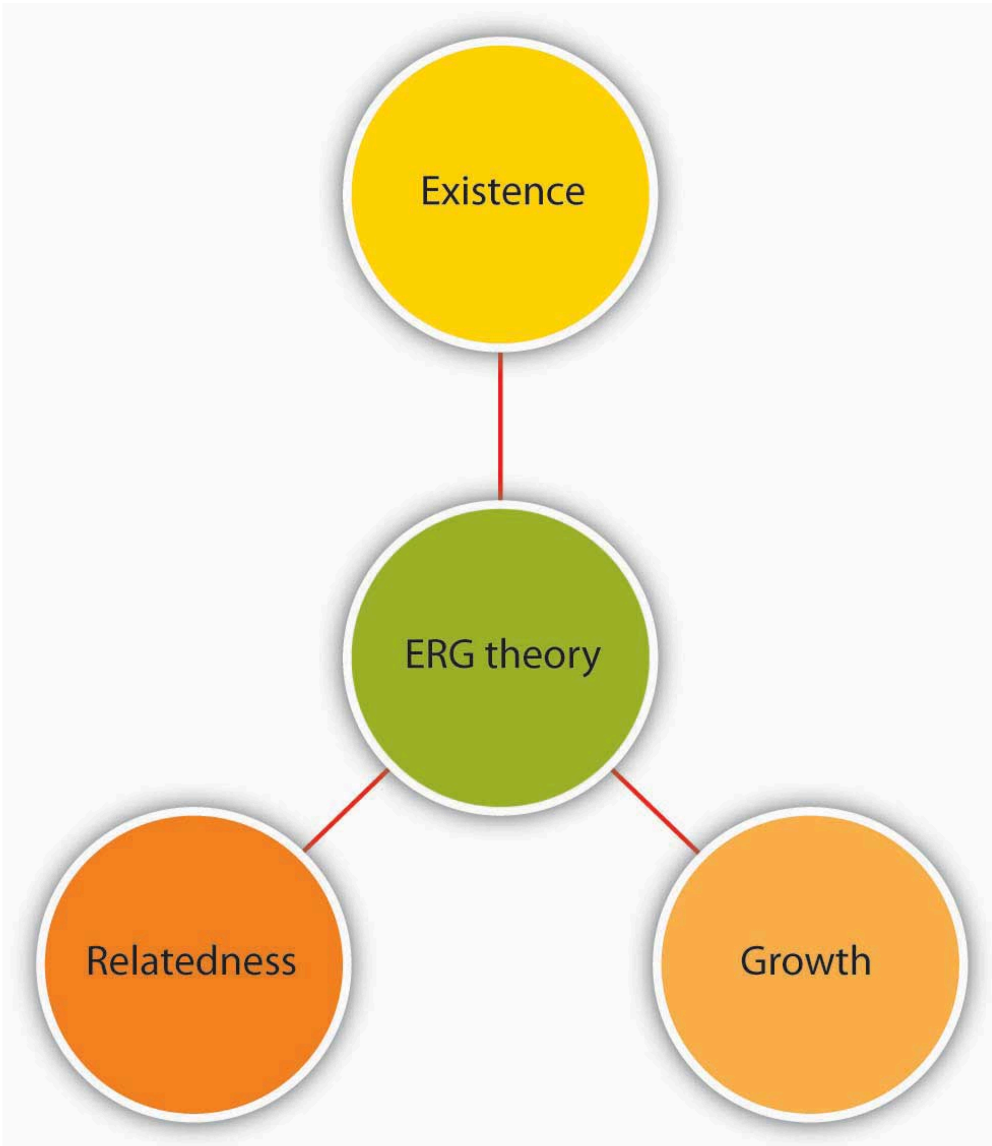

Figure 7.9.2: *ERG Theory. (Alderfer, 1969).*

Two-Factor Theory

Frederick Herzberg approached the question of motivation in a different way. By asking individuals what satisfies them on the job and what dissatisfies them, Herzberg came to the conclusion that aspects of the work environment that satisfy employees are very different from aspects that dissatisfy them (Herzberg, et. al., 1959;

Herzberg, 1965). Herzberg labeled factors causing dissatisfaction of workers as “hygiene” factors because these factors were part of the context in which the job was performed, as opposed to the job itself. **Hygiene factors** included company policies, supervision, working conditions, salary, safety, and security on the job. To illustrate, imagine that you are working in an unpleasant work environment. Your office is too hot in the summer and too cold in the winter. You are being harassed and mistreated. You would certainly be miserable in such a work environment. However, if these problems were solved (your office temperature is just right and you are not harassed at all), would you be motivated? Most likely, you would take the situation for granted. In fact, many factors in our work environment are things that we miss when they are absent, but take for granted if they are present.

In contrast, **motivators** are factors that are intrinsic to the job, such as achievement, recognition, interesting work, increased responsibilities, advancement, and growth opportunities. According to Herzberg's research, motivators are the conditions that truly encourage employees to try harder.

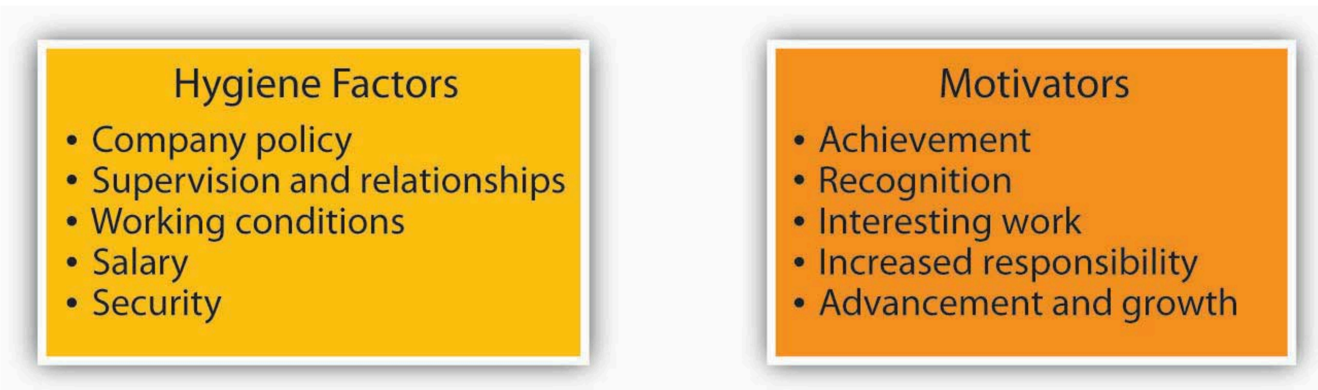

Figure 7.9.3: *Two-Factor Theory of Motivation. (Herzberg et al., 1965).*

Herzberg's research, which is summarized in the figure above, has received its share of criticism (Cummings & Elsalmi, 1968; House & Wigdor, 1967). One criticism relates to the classification of the factors as hygiene or motivator. For example, pay is viewed as a hygiene factor. However, pay is not necessarily a contextual factor and may have symbolic value by showing employees that they are being recognized for their contributions as well as communicating to them that they are advancing within the company. Similarly, quality of supervision or relationships employees form with their supervisors may determine whether they are assigned interesting work, whether they are recognized for their potential, and whether they take on more responsibilities. Despite its limitations, the two-factor theory can be a valuable aid to leaders because it points out that improving the environment in which the job is performed goes only so far in motivating employees.

Acquired Needs Theory

Among the need-based approaches to motivation, Douglas McClelland's acquired needs theory is the one that has received the greatest amount of support. According to this theory, individuals acquire three types of needs as a result of their life experiences. These needs are need for achievement, need for affiliation, and need for power. All individuals possess a combination of these needs.

Those who have high **need for achievement** have a strong need to be successful. A worker who derives great satisfaction from meeting deadlines, coming up with brilliant ideas, and planning his or her next career move may be high in need for achievement. Individuals high on need for achievement are well suited to positions such as sales where there are explicit goals, feedback is immediately available, and their effort often leads to success (Harrell & Stahl, 1981; Trevis & Certo, 2005; Turban & Keon, 1993). Because of their success in lower-level jobs, those in high need for achievement are often promoted to higher-level positions (McClelland & Boyatzis, 1982). However, a high need for achievement has important disadvantages in management. Management involves getting work done by motivating others. When a salesperson is promoted to be a sales manager, the job description changes from actively selling to recruiting, motivating, and training salespeople. Those who are high in need for achievement may view managerial activities such as coaching, communicating, and meeting with subordinates as a waste of time. Moreover, they enjoy doing things themselves and may find it difficult to delegate authority. They may become overbearing or micromanaging bosses, expecting everyone to be as dedicated to work as they are, and expecting subordinates to do things exactly the way they are used to doing (McClelland & Burnham, 1976).

Individuals who have a **high need for affiliation** want to be liked and accepted by others. When given a choice, they prefer to interact with others and be with friends (Wong & Csikszentmihalyi, 1991). Their emphasis on harmonious interpersonal relationships may be an advantage in jobs and occupations requiring frequent interpersonal interaction, such as social worker or teacher. In managerial positions, a high need for affiliation may again serve as a disadvantage because these individuals tend to be overly concerned about how they are perceived by others. Thus, they may find it difficult to perform some aspects of a manager's job such as giving employees critical feedback or disciplining poor performers.

Finally, those with high **need for power** want to influence others and control their environment. Need for power may be destructive of one's relationships if it takes the form of seeking and using power for one's own good and prestige. However, when it manifests itself in more altruistic forms, such as changing the way things are done so that the work environment is more positive or negotiating more resources for one's department, it tends to lead to positive outcomes. In fact, need for power is viewed as important for effectiveness in managerial and leadership positions (Mcclelland & Burnham, 1976; Spangler & House, 1991; Spreier, 2006).

McClelland's theory of acquired needs has important implications for motivating employees. While someone who has high need for achievement may respond to goals, those with high need for affiliation may be motivated to gain the approval of their peers and supervisors, whereas those who have high need for power may value gaining influence over the supervisor or acquiring a position that has decision-making authority. And, when it comes to succeeding in managerial positions, individuals who are aware of the drawbacks of their need orientation can take steps to overcome these drawbacks.

Exercises

1. Many managers assume that if an employee is not performing well, the reason must be lack of motivation. What is the problem with this assumption?
2. Review Maslow's hierarchy of needs. Do you agree with the particular ranking of employee needs?

3. Review the hygiene and motivators in the two-factor theory. Are there any hygiene factors that you would consider to be motivators and vice versa?
4. A friend of yours is competitive, requires frequent and immediate feedback, and enjoys accomplishing things. She has recently been promoted to a managerial position and seeks your advice. What would you tell her?
5. Which motivation theory have you found to be most useful in explaining why people behave in a certain way? Why?

Key Takeaways

Need-based theories describe motivated behavior as individual efforts to meet needs. According to this perspective, the manager's job is to identify what people need and then to make sure that the work environment becomes a means of satisfying these needs. Maslow's hierarchy categorizes human needs into physiological, safety, social, esteem, and self-actualization needs. ERG theory is a modification of Maslow's hierarchy, where the five needs are collapsed into three categories (existence, relatedness, and growth). The two-factor theory differentiates between factors that make people dissatisfied on the job (hygiene factors) and factors that truly motivate employees. Finally, acquired-needs theory argues that individuals possess stable and dominant motives to achieve, acquire power, or affiliate with others. Each of these theories explains characteristics of a work environment that motivate employees.

7.10 Process-Based Theories

Learning Objectives

1. Explain how employees evaluate the fairness of reward distributions.
2. List the three questions individuals consider when deciding whether to put forth effort at work.
3. Describe how managers can use learning and reinforcement principles to motivate employees.
4. Analyze the role that job design plays in motivating employees.
5. Describe why goal setting motivates employees.

In contrast to the need-based theories we have covered so far, process-based theories view motivation as a rational process. Individuals analyze their environment, develop reactions and feelings, and react in certain ways. Under this category, we will review equity theory, expectancy theory, and reinforcement theory. We will also discuss the concepts of job design and goal setting as motivational strategies.

Equity Theory

Imagine that your friend Marie is paid $10 an hour working as an office assistant. She has held this job for six months. She is very good at what she does, she comes up with creative ways to make things easier in the workplace, and she is a good colleague who is willing to help others. She stays late when necessary and is flexible if asked to rearrange her priorities or her work hours. Now imagine that Marie finds out her manager is hiring another employee, Spencer, who is going to work with her, who will hold the same job title and will perform the same type of tasks. Spencer has more advanced computer skills, but it is unclear whether these will be used on the job. The starting pay for Spencer will be $14 an hour. How would Marie feel? Would she be as motivated as before, going above and beyond her duties?

If your reaction to this scenario was along the lines of "Marie would think it's unfair," your feelings may be explained using equity theory (Adams, 1965). According to this theory, individuals are motivated by a sense of fairness in their interactions. Moreover, our sense of fairness is a result of the social comparisons we make. Specifically, we compare our inputs and outputs with someone else's inputs and outputs. We perceive fairness if we believe that the input-to-output ratio we are bringing into the situation is similar to the input/output ratio of a comparison person, or a **referent**. Perceptions of inequity create tension within us and drive us to action that will reduce perceived inequity. This process is illustrated in the Equity Formula.

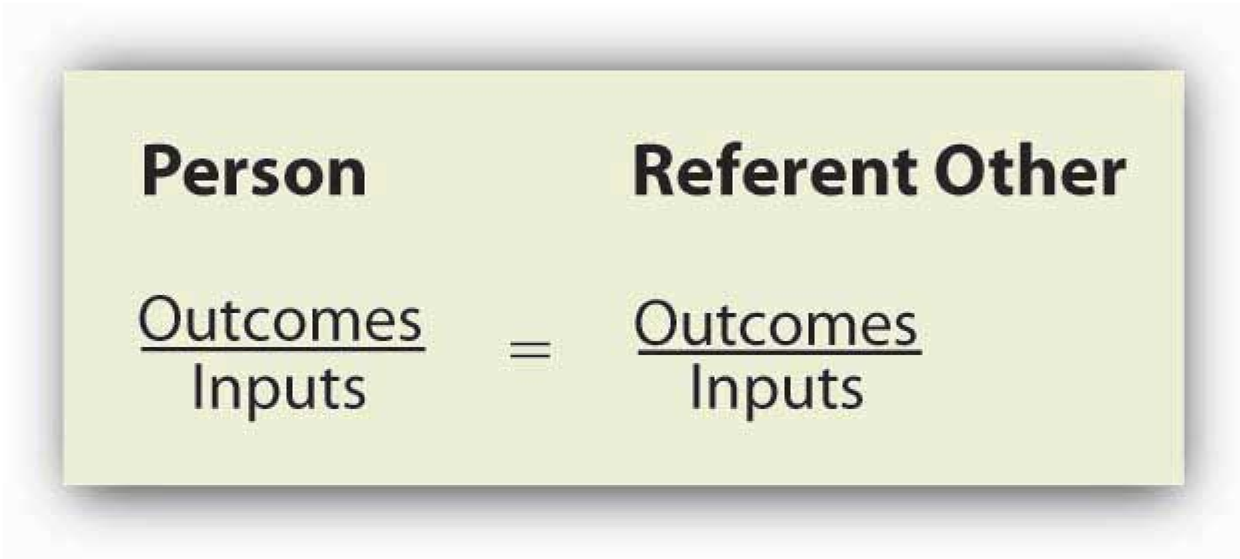

Figure 7.10.1: *The Equity Formula. (Adams, 1965).*

What Are Inputs and Outputs?

Inputs are the contributions the person feels he or she is making to the environment. In the previous example, the hard work Marie was providing, loyalty to the organization, the number of months she has worked there, level of education, training, and her skills may have been relevant inputs. Outputs are the rewards the person feels he or she is receiving from the situation. The $10 an hour Marie is receiving was a salient output. There may be other outputs, such as the benefits received or the treatment one gets from the boss. In the prior example, Marie may reason as follows: "I have been working here for six months. I am loyal and I perform well (inputs). I am paid $10 an hour for this (outputs). The new guy, Spencer, does not have any experience here (referent's inputs) but will be paid $14 (referent's outcomes). This situation is unfair."

We should emphasize that equity perceptions develop as a result of a subjective process. Different people may look at exactly the same situation and perceive different levels of equity. For example, another person may look at the same scenario and decide that the situation is fair because Spencer has computer skills and the company is paying extra for these skills.

Who Is the Referent?

The referent other may be a specific person or an entire category of people. For example, Marie might look at want ads for entry-level clerical workers and see whether the pay offered is in the $10 per hour range; in this case, the referent other is the category of entry-level clerical workers, including office assistants, in Marie's local area. Referents should be comparable to us—otherwise the comparison is not meaningful. It would be illogical for Marie to compare herself to the CEO of the company, given the differences in the nature of inputs and outcomes. Instead, she would logically compare herself to those performing similar tasks within the same organization or a different organization.

Reactions to Unfairness

The theory outlines several potential reactions to perceived inequity, which are summarized in Table 14.1 "Potential Responses to Inequity". Oftentimes, the situation may be dealt with perceptually, by *distorting our perceptions of our own or referent's inputs and outputs*. For example, Marie may justify the situation by downplaying her own inputs ("I don't really work very hard on this job"), valuing the outputs more highly ("I am gaining valuable work experience, so the situation is not that bad"), distorting the other person's inputs ("Spencer really is more competent than I am and deserves to be paid more") or distorting the other person's outputs ("Spencer gets $14 but will have to work with a lousy manager, so the situation is not unfair").

Table 7.10.1: Potential Responses to Inequity (Carrell et al., 1978 & Goodman, et al., 1971 & Greenburg, 1993 & Schmidt et al., 1972)

Reactions to inequity	Example
Distort perceptions	Changing one's thinking to believe that the referent actually is more skilled than previously thought
Increase referent's inputs	Encouraging the referent to work harder
Reduce own input	Deliberately putting forth less effort at work. Reducing the quality of one's work
Increase own outcomes	Negotiating a raise for oneself or using unethical ways of increasing rewards such as stealing from the company
Change referent	Comparing oneself to someone who is worse off
Leave the situation	Quitting one's job
Seek legal action	Suing the company or filing a complaint if the unfairness in question is under legal protection

Another way of addressing perceived inequity is to *reduce one's own inputs or increase one's own outputs*. If Marie works less hard, perceived inequity would be reduced. And, indeed, research shows that people who perceive inequity tend to reduce their work performance or reduce the quality of their inputs (Carrell & Dittrich, 1978; Goodman & Friedman, 1971). Increasing one's outputs can be achieved through legitimate means such as negotiating a pay raise. At the same time, research shows that those feeling inequity sometimes resort to stealing to balance the scales (Greenberg, 1993). Other options include *changing the comparison person* (for example, Marie may learn that others doing similar work in different organizations are paid only minimum wage) and *leaving the situation* by quitting one's job (Schmidt & Marwell, 1972). We might even consider taking legal action as a potential outcome of perceived inequity. For example, if Marie finds out that the main reason behind the pay gap is gender, she may react to the situation by taking legal action because sex discrimination in pay is illegal in Canada and the United States.

Overpayment Inequity

What would you do if you felt you were overrewarded? In other words, how would you feel if you were the new employee, Spencer (and you knew that your coworker Marie was being paid $4 per hour less than you)? Originally, equity theory proposed that overrewarded individuals would experience guilt and would increase their effort to restore perceptions of equity. However, research does not provide support for this argument. Instead, it seems that individuals experience less distress as a result of being overrewarded (Austin & Walster, 1974). It is not hard to imagine that individuals find perceptual ways to deal with a situation like this, such as believing that they have more skills and bring more to the situation compared with the referent person. Therefore, research does not support equity theory's predictions with respect to people who are overpaid (Evan & Simmons, 1969).

Individual Differences in Reactions to Inequity

So far, we have assumed that once people feel that the situation is inequitable, they will be motivated to react. However, does inequity disturb everyone equally? Researchers identified a personality trait that explains different reactions to inequity and named this trait **equity sensitivity** (Huseman et al., 1987). Equity sensitive individuals experience distress when they feel they are overrewarded or under rewarded and expect to maintain equitable relationships. At the same time, there are some individuals who are **benevolents** who give without waiting to receive much in return and **entitleds** who expect to receive a lot without giving much in return. Thus, the theory is more useful in explaining the behavior of equity sensitive individuals, and organizations will need to pay particular attention to how these individuals view their relationships.

Fairness Beyond Equity: Procedural and Interactional Justice

Equity theory looks at perceived fairness as a motivator. However, the way equity theory defines fairness is limited to fairness regarding rewards. Starting in the 1970s, researchers of workplace fairness began taking a broader view of justice. Equity theory deals with outcome fairness, and therefore, it is considered to be a distributive justice theory. **Distributive justice** refers to the degree to which the outputs received from the organization are fair. Two other types of fairness have been identified: Procedural justice and interactional justice.

Let's assume that Marie found out she is getting a promotion that will include a pay raise, increased responsibilities, and prestige. If Marie feels she deserves to be promoted, she would perceive high distributive justice ("getting the promotion is fair"). However, Marie later found out that the department manager picked her name out of a hat! What would she feel? She might still like the outcome but feel that the decision-making process was unfair since it wasn't based on performance. This response would involve feelings of procedural injustice. **Procedural justice** refers to the degree to which fair decision-making procedures are used. Research shows that employees care about procedural justice for many organizational decisions, including layoffs, employee selection, surveillance of employees, performance appraisals, and pay decisions (Alge, 2001; Bauer et al., 1998; Kidwell, 1995). They tend to care about procedural justice particularly when they do not get the outcome they feel they deserve (Brockner & Wiesenfeld, 1996). If Marie does not get the promotion and finds out that management chose the candidate by picking a name out of a hat, she may view this as adding insult to injury. When people do not get the rewards they want, they tend to hold management responsible if procedures are not fair (Brockner et al., 2007).

Research has identified many ways of achieving procedural justice. For example, giving employees *advance notice* before laying them off, firing them, or disciplining them is perceived as fairer (Kidwell, 1995). *Allowing employees voice into decision making* is also important (Alge, 2001; Kernan & Hanges, 2002; Lind, et. al., 1990). When designing a performance appraisal system or implementing a reorganization, asking employees for their input may be a good idea because it increases perceptions of fairness. Even when it is not possible to have employees participate, providing *explanations* is helpful in fostering procedural justice (Schaubroeck et al., 1994). Finally, people expect *consistency* in treatment (Bauer et al., 1998). If one person is given extra time when taking a test while another is not, individuals would perceive decision making as unfair.

Now let's imagine Marie's boss telling her she is getting the promotion. The manager's exact words: "Yes, Marie, we are giving you the promotion. The job is so simple that we thought even you can handle it." Now what is Marie's reaction? The unpleasant feelings she may now experience are explained by interactional justice. **Interactional justice** refers to the degree to which people are treated with respect, kindness, and dignity in interpersonal interactions. We expect to be treated with dignity by our peers, supervisors, and customers. When the opposite happens, we feel angry. Even when faced with negative outcomes such as a pay cut, being treated with dignity and respect serves as a buffer and alleviates our stress (Greenberg, 2006).

Employers would benefit from paying attention to all three types of justice perceptions. In addition to being the right thing to do, justice perceptions lead to outcomes companies care about. Injustice is directly harmful to employee psychological health and well-being and contributes to stress (Greenberg, 2004; Tepper, 2001). High levels of justice create higher levels of employee commitment to organizations, are related to higher job performance, higher levels of organizational citizenship (behaviors that are not part of one's job description but help the organization in other ways such as speaking positively about the company and helping others), and higher levels of customer satisfaction, whereas low levels of justice lead to retaliation and supporting union certification movements (Blader, 2007; Cohen-Charash & Spector, 2001; Colquitt et al., 2001; Cropanzano et al., 2001; Masterson et al., 2000; Moorman, 1991; Skarlicki & Folger, 1997).

Expectancy Theory

According to expectancy theory, individual motivation to put forth more or less effort is determined by a rational calculation (Porter & Lawler, 1968; Vroom, 1964). According to this theory, individuals ask themselves three questions.

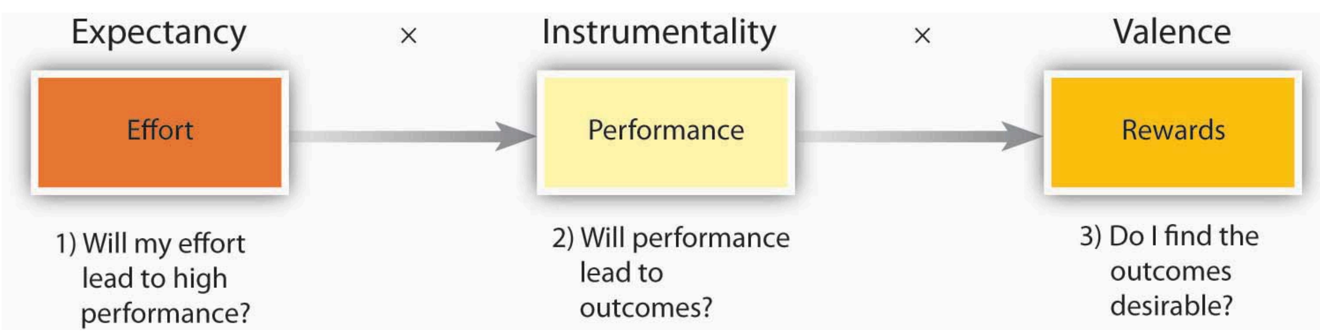

Figure 7.10.2: *Summary of Expectancy Theory. (Homewood et al., 1964; Porter et al., 1968).*

The first question is whether the person believes that high levels of effort will lead to desired outcomes. This perception is labeled as **expectancy**. For example, do you believe that the effort you put forth in a class is related to learning worthwhile material and receiving a good grade? If you do, you are more likely to put forth effort.

The second question is the degree to which the person believes that performance is related to secondary outcomes such as rewards. This perception is labeled as **instrumentality**. For example, do you believe that passing the class is related to rewards such as getting a better job, or gaining approval from your instructor, from your friends, or parents? If you do, you are more likely to put forth effort.

Finally, individuals are also concerned about the value of the rewards awaiting them as a result of performance. The anticipated satisfaction that will result from an outcome is labeled as **valence**. For example, do you value getting a better job or gaining approval from your instructor, friends, or parents? If these outcomes are desirable to you, you are more likely to put forth effort.

As a manager, how can you influence these perceptions to motivate employees? In fact, managers can influence all three perceptions (Cook, 1980). To influence their expectancy perceptions, managers may train their employees, or hire people who are qualified for the jobs in question. Low expectancy may also be due to employees feeling that something other than effort predicts performance, such as political behaviors on the part of employees. In this case, clearing the way to performance and creating an environment in which employees do not feel blocked will be helpful. The first step in influencing instrumentality is to connect pay and other rewards to performance using bonuses, award systems, and merit pay. Publicizing any contests or award programs is helpful in bringing rewards to the awareness of employees. It is also important to highlight that performance and not something else is being rewarded. For example, if a company has an employee-of-the-month award that is rotated among employees, employees are unlikely to believe that performance is being rewarded. In the name of being egalitarian, such a reward system may actually hamper the motivation of highest performing employees by eroding instrumentality. Finally, to influence valence, managers will need to find out what their employees value. This can be done by talking to employees, or surveying them about what rewards they find valuable.

Reinforcement Theory

Reinforcement theory is based on the work of Ivan Pavlov in behavioral conditioning and the later work B. F. Skinner did on operant conditioning (Skinner, 1953). According to this theory, behavior is a function of its consequences. Imagine that even though no one asked you to, you stayed late and drafted a report. When the manager found out, she was ecstatic and took you out to lunch and thanked you genuinely. The consequences following your good deed were favorable, and therefore you are more likely to do similar good deeds in the future. In contrast, if your manager had said nothing about it and ignored the sacrifice you made, you would be less likely to demonstrate similar behaviors in the future, or your behavior would likely become extinct.

Despite the simplicity of reinforcement theory, how many times have you seen positive behavior ignored or, worse, negative behavior rewarded? In many organizations, this is a familiar scenario. People go above and beyond the call of duty, and yet their behaviors are ignored or criticized. People with disruptive habits may receive no punishments because the manager is afraid of the reaction the person will give when confronted. They may even receive rewards such as promotions so that the person is transferred to a different location and becomes someone else's problem! Moreover, it is common for people to be rewarded for the wrong kind of behavior. Steven Kerr labeled this phenomenon as "the folly of rewarding A while hoping for B (Kerr, 1995)." For example, a company may make public statements about the importance of quality. Yet, they choose to reward shipments on time regardless of the number of known defects contained in the shipments. As a result, employees are more likely to ignore quality and focus on hurrying the delivery process.

Reinforcement Interventions

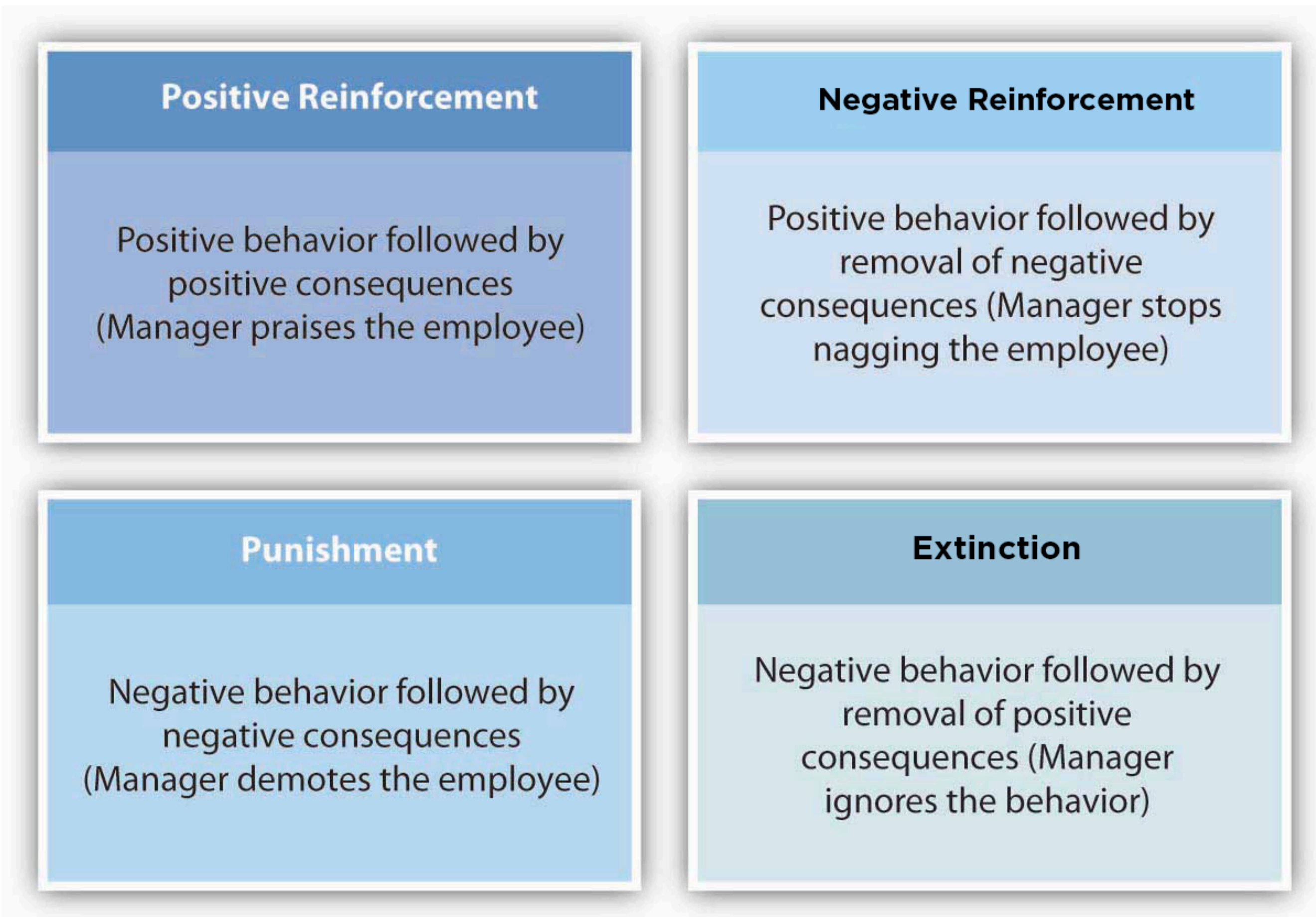

Figure 7.10.3: *Reinforcement Methods*

Reinforcement theory describes four interventions to modify employee behavior. Two of these are methods of increasing the frequency of desired behaviors while the remaining two are methods of reducing the frequency of undesired behaviors.

Positive reinforcement is a method of increasing the desired behavior (Beatty & Schneier, 1975). Positive reinforcement involves making sure that behavior is met with positive consequences. Praising an employee for treating a customer respectfully is an example of positive reinforcement. If the praise immediately follows the positive behavior, the employee will see a link between behavior and positive consequences and will be motivated to repeat similar behaviors.

Negative reinforcement is also used to increase the desired behavior. Negative reinforcement involves removal of unpleasant outcomes once desired behavior is demonstrated. Nagging an employee to complete a report is an example of negative reinforcement. The negative stimulus in the environment will remain present until positive behavior is demonstrated. The problem with negative reinforcement may be that the negative stimulus may lead to unexpected behaviors and may fail to stimulate the desired behavior. For example, the person may start avoiding the manager to avoid being nagged.

Extinction occurs when a behavior ceases as a result of receiving no reinforcement. For example, suppose an employee has an annoying habit of forwarding e-mail jokes to everyone in the department, cluttering up people's in-boxes and distracting them from their work. Commenting about the jokes, whether in favorable or unfavorable terms, may be encouraging the person to keep forwarding them. Completely ignoring the jokes may reduce their frequency.

Punishment is another method of reducing the frequency of undesirable behaviors. Punishment involves presenting negative consequences following unwanted behaviors. Giving an employee a warning for consistently being late to work is an example of punishment.

Reinforcement Schedules

In addition to types of reinforcements, the timing or schedule on which reinforcement is delivered has a bearing on behavior (Beatty & Schneier, 1975). Reinforcement is presented on a **continuous schedule** if reinforcers follow all instances of positive behavior. An example of a continuous schedule would be giving an employee a sales commission every time he makes a sale. **Fixed ratio schedules** involve providing rewards every *n*th time the right behavior is demonstrated, for example, giving the employee a bonus for every 10th sale he makes. **Fixed interval schedules** involve providing a reward after a specified period of time, such as giving a sales bonus once a month regardless of how many sales have been made. **Variable ratio** involves a random pattern, such as giving a sales bonus every time the manager is in a good mood.

A systematic way in which reinforcement theory principles are applied is called Organizational Behavior Modification (or **OB Mod**) (Luthans & Stajkovic, 1999). This is a systematic application of reinforcement theory to modify employee behaviors. The model consists of five stages. The process starts with identifying the behavior that will be modified. Let's assume that we are interested in reducing absenteeism among employees. In step 2, we need to measure the baseline level of absenteeism. In step 3, the behavior's antecedents and consequences are determined. Why are employees absent? More importantly, what is happening when an employee is absent? If the behavior is being unintentionally rewarded, we may expect these to reinforce absenteeism behavior. For example, suppose that absences peak each month on the days when a departmental monthly report is due, meaning that coworkers and supervisors must do extra work to prepare the report. To reduce the frequency of absenteeism, it will be necessary to think of financial or social incentives to follow positive behavior and negative consequences to follow negative behavior. In step 4, an intervention is implemented. Removing the positive consequences of negative behavior may be an effective way of dealing with the situation, for example, starting the monthly report preparation a few days earlier, or letting employees know that if they are absent when the monthly report is being prepared, their contribution to the report will be submitted as incomplete until they finish it. Punishments may be used in persistent cases. Finally, in step 5 the behavior is measured periodically and maintained. Studies examining the effectiveness of OB Mod have been supportive of the model in general. A review of the literature found that OB Mod interventions resulted in an average of 17% improvement in performance (stajkovic & Luthans, 1997).

Figure 7.10.4: *Properly designed sales commissions are widely used to motivate sales employees. The blend of straight salary and commissions should be carefully balanced to achieve optimum sales volume, profitability, and customer satisfaction. "Salesman & New Owner" by Laura Cummins, licensed under CC BY-ND 2.0.*

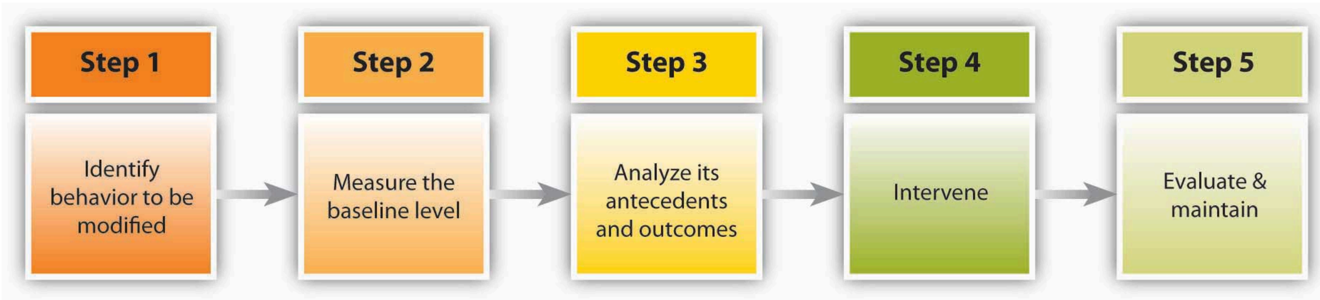

Figure 7.10.5: *Stages of OB Modification. (Stajkovic et al., 1997).*

Job Design

Many of us assume that the most important motivator at work would be pay. Yet, studies point to a different factor as the major influence over worker motivation: Job design. How a job is designed has a major impact on employee motivation, job satisfaction, commitment to organization, as well as absenteeism and turnover. Job design is just one of the many organizational design decisions managers must make when engaged in the organizing function.

The question of how to properly design jobs so that employees are more productive and more satisfied has received managerial and research attention since the beginning of the 20th century.

Scientific Management and Job Specialization

Perhaps the earliest attempt to design jobs was presented by Frederick Taylor in his 1911 book *Principles of Scientific Management*. Scientific management proposed a number of ideas that have been influential in job design. One idea was to minimize waste by identifying the best method to perform the job to ensure maximum efficiency. Another one of the major advances of scientific management was **job specialization**, which entails breaking down tasks to their simplest components and assigning them to employees so that each person would perform few tasks in a repetitive manner. While this technique may be very efficient in terms of automation and standardization, from a motivational perspective, these jobs will be boring and repetitive and therefore associated with negative outcomes such as absenteeism (Campion & Thayer, 1987). Job specialization is also an ineffective way of organizing jobs in rapidly changing environments where employees close to the problem should modify their approach based on the demands of the situation (Wilson, 1999).

Rotation, Job Enlargement, and Enrichment

One of the early alternatives to job specialization was **job rotation**, which involves moving employees from job to job at regular intervals, thereby relieving the monotony and boredom typical in repetitive jobs. For example, Maids International, a company that provides cleaning services to households and businesses, uses job rotation such that maids cleaning the kitchen in one house would clean the bedroom in another house (Denton, 1994). Using this technique, among others, the company was able to reduce its turnover level. In a study conducted in a supermarket, cashiers were rotated to work in different departments. As a result of the rotation, employee stress level was reduced as measured by their blood pressure. Moreover, they reported fewer pain symptoms in their neck and shoulders (Rissen et al., 2002).

Job rotation has a number of advantages for organizations. It is an effective way for employees to acquire new skills, as the rotation involves cross-training to new tasks; this means that organizations increase the overall skill level of their employees (Campion, et. al., 1994). In addition, job rotation is a means of knowledge transfer between departments (Kane et al., 2005). For the employees, rotation is a benefit because they acquire new skills, which keeps them marketable in the long run.

Anecdotal evidence suggests that companies successfully rotate high-level employees to train their managers and increase innovativeness in the company. For example, Nokia uses rotation at all levels, such as assigning lawyers to act as country managers or moving network engineers to handset design. These approaches are thought to bring a fresh perspective to old problems (Wylie, 2003). India's information technology giant Wipro, which employs about 80,000 employees, uses a 3-year plan to groom future leaders of the company by rotating them through different jobs (Ramamurti, 2001).

Job enlargement refers to expanding the tasks performed by employees to add more variety. Like job rotation, job enlargement can reduce boredom and monotony as well as use human resources more effectively. When jobs are enlarged, employees view themselves as being capable of performing a broader set of tasks (Parker, 1998). Job enlargement is positively related to employee satisfaction and higher-quality customer services, and it increases the chances of catching mistakes (Campion & McClelland, 1991). At the same time, the effects of job enlargement may depend on the *type* of enlargement. For example, exclusively giving employees simpler tasks had negative consequences on employee satisfaction with the job of catching errors, whereas giving employees more tasks that require them to be knowledgeable in different areas seemed to have more positive effects (Campion & McClelland, 1993).

Job enrichment is a job redesign technique that allows workers more control over how they perform their own tasks, giving them more responsibility. As an alternative to job specialization, companies using job enrichment may experience positive outcomes such as reduced turnover, increased productivity, and reduced absences (McEvoy & Cascio, 1985; Locke et al., 1976). This may be because employees who have the authority and responsibility over their own work can be more efficient, eliminate unnecessary tasks, take shortcuts, and overall increase their own performance. At the same time, there is some evidence that job enrichment may sometimes cause employees to be dissatisfied (Locke et al., 1976). The reason may be that employees who are given additional autonomy and responsibility may expect greater levels of pay or other types of compensation, and if this expectation is not met, they may feel frustrated. One more thing to remember is that job enrichment may not be suitable for all employees (Cherrington & Lynn, 1980; Hulin & Blood, 1968). Not all employees desire to have control over how they work, and if they do not have this desire, they may feel dissatisfied in an enriched job.

Job Characteristics Model

The **job characteristics model** is one of the most influential attempts to design jobs to increase their motivational properties (Hackman & Oldham, 1975). Proposed in the 1970s by Hackman and Oldham, the model describes five core job dimensions, leading to three critical psychological states, which lead to work-related outcomes. In this model, shown in the following figure, there are five core job dimensions.

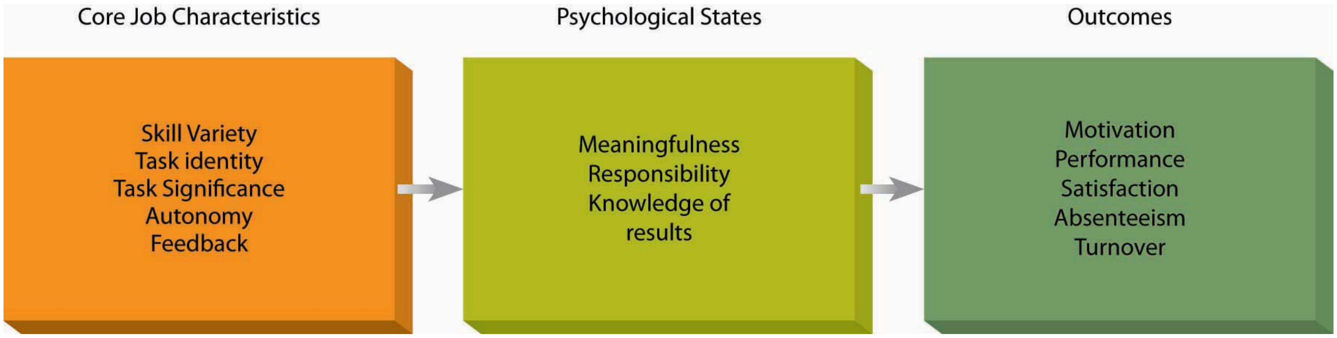

Figure 7.10.6: *Job Characteristics Model. (Hackman et al., 1975).*

Skill variety refers to the extent to which the job requires the person to use multiple high-level skills. A car wash employee whose job consists of directing employees into the automated carwash demonstrates low levels of skill variety, whereas a car wash employee who acts as a cashier, maintains carwash equipment, and manages the inventory of chemicals demonstrates high skill variety.

Task identity refers to the degree to which the person completes a piece of work from start to finish. A Web designer who designs parts of a Web site will have low task identity because the work blends in with other Web designers' work, and in the end, it will be hard for the person to claim responsibility for the final output. The Webmaster who designs the entire Web site will have high task identity.

Task significance refers to whether the person's job substantially affects other people's work, health, or well-being. A janitor who cleans the floor at an office building may find the job low in significance, thinking it is not an important job. However, janitors cleaning the floors at a hospital may see their role as essential in helping patients recover in a healthy environment. When they see their tasks as significant, employees tend to feel that they are making an impact on their environment and their feelings of self worth are boosted (Grant, 2008).

Autonomy is the degree to which the person has the freedom to decide how to perform tasks. As an example, a teacher who is required to follow a predetermined textbook, cover a given list of topics, and use a specified list of classroom activities has low autonomy, whereas a teacher who is free to choose the textbook, design the course content, and use any materials she sees fit has higher levels of autonomy. Autonomy increases motivation at work, but it also has other benefits. Autonomous workers are less likely to adopt a "this is not my job" attitude and instead be proactive and creative (Morgeson et al., 2005; Parker et al., 1997; Parker et al., 2006; Zhou, 1998). Giving employees autonomy is also a great way to train them on the job. For example, Gucci's CEO Robert Polet describes autonomy he received while working at Unilever as the key to his development of leadership talents (Gumbel, 2008).

Feedback refers to the degree to which the person learns how effective he or she is at work. Feedback may come from other people such as supervisors, peers, subordinates, customers, or from the job. A salesperson who makes informational presentations to potential clients but is not informed whether they sign up has low feedback. If this salesperson receives a notification whenever someone who has heard his presentation becomes a client, feedback will be high.

The mere presence of feedback is not sufficient for employees to feel motivated to perform better, however. In fact, in about one-third of the cases, feedback was detrimental to performance (Kluger & DeNisi, 1996). In addition to whether feedback is present, the character of the feedback (positive or negative), whether the person is ready to receive the feedback, and the manner in which feedback was given will all determine whether employees feel motivated or demotivated as a result of feedback.

Goal Setting Theory

Goal setting theory (Locke & Latham, 1990) is one of the most influential and practical theories of motivation. It has been supported in over 1,000 studies with employees, ranging from blue-collar workers to research and development employees, and there is strong evidence that setting goals is related to performance improvements (Ivancevich & McMahon, 1982; Latham & Locke, 2006; Umstot et al., 1976). In fact, according to one estimate, goal setting improves performance between 10% and 25% or more (Pritchard et al., 1988). On the basis of evidence such as this, thousands of companies around the world are using goal setting in some form, including companies such as Coca-Cola, PricewaterhouseCoopers, Nike, Intel, and Microsoft to name a few.

Setting SMART Goals

The mere presence of a goal does not motivate individuals. Think about New Year's resolutions that you may have made and failed to keep. Maybe you decided that you should lose some weight but then never put a concrete plan in action. Maybe you decided that you would read more but didn't. Why did you, like 97% of those who set New Year's resolutions, fail to meet your goal?

Accumulating research evidence indicates that effective goals are **SMART**. SMART goals are specific, measurable, achievable, realistic, and timely. Here is a sample SMART goal: Wal-Mart recently set a goal to eliminate 25% of the solid waste from its U.S. stores by the year 2009. This goal meets all the conditions of being SMART if we assume that it is an achievable goal (Heath & Heath, 2008). Even though it seems like a simple concept, in reality many goals that are set within organizations may not be SMART. For example, Microsoft recently conducted an audit of its goal-setting and performance review system and found that only about 40% of the goals were specific and measurable (Shaw, 2004).

Why Do SMART Goals Motivate?

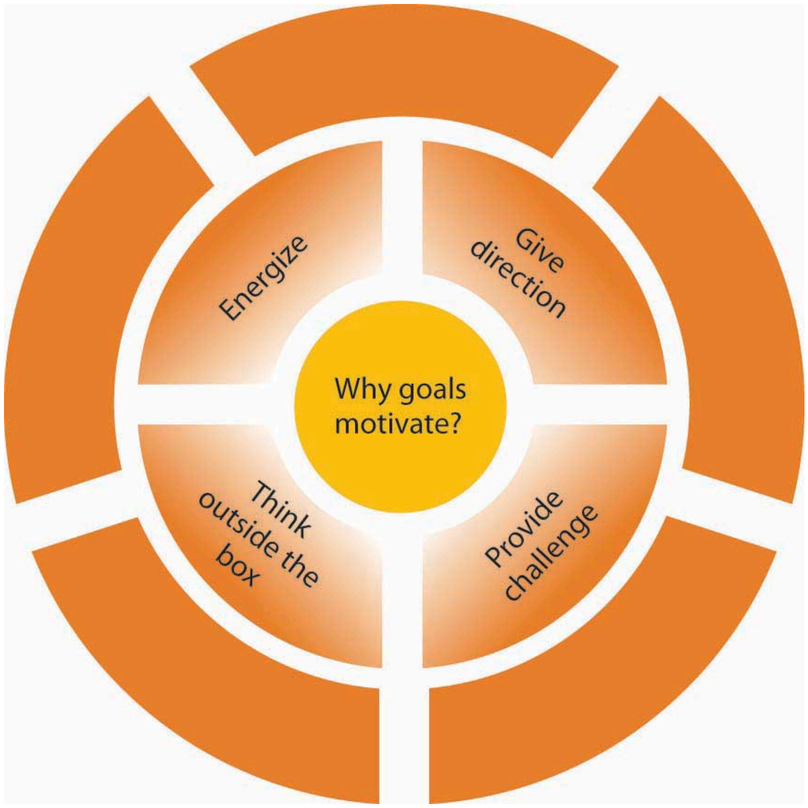

Figure 7.10.7: *Why do SMART goals motivate? (Latham, 2004; Seijts et al., 2005; Shaw, 2004)*

There are at least four reasons why goals motivate (Latham, 2004; Seijts & Latham, 2005; Shaw, 2004). First, goals give us direction; therefore, goals should be set carefully. Giving employees goals that are not aligned with company goals will be a problem because goals will direct employee's energy to a certain end. Second, goals energize people and tell them not to stop until they reach that point. Third, having a goal provides a challenge. When people have goals and when they reach them, they feel a sense of accomplishment. Finally, SMART goals urge people to think outside the box and rethink how they are working. If a goal is substantially difficult, merely working harder will not get you the results. Instead, you will need to rethink the way you usually work and devise a creative way of working. It has been argued that this is how designers and engineers in Japan came up with the bullet train. Having a goal that went way beyond the current speed of trains prevented engineers from making minor improvements and urged them to come up with a radically different concept (Kerr & Landauer, 2004).

Are There Downsides to Goal Setting?

As with any management technique, there may be some downsides to goal setting (Locke, 2004; Pritchard et al., 1988; Seijts & Latham, 2005). First, setting goals for specific outcomes may hamper employee performance if employees lack skills and abilities to reach the goals. In these situations, setting goals for behaviors and for learning may be more effective than setting goals for outcomes. Second, goal setting may motivate employees to focus on a goal and ignore the need to respond to new challenges. For example, one study found that when teams had difficult goals and when employees within the team had high levels of performance orientation, teams had difficulty adapting to unforeseen circumstances (Lepine, 2005). Third, goals focus employee attention on the activities that are measured, which may lead to sacrificing other important elements of performance. When goals are set for production numbers, quality may suffer. As a result, it is important to set goals touching on all critical aspects of performance. Finally, aggressive pursuit of goals may lead to unethical behaviors. Particularly when employees are rewarded for goal accomplishment but there are no rewards whatsoever for coming very close to reaching the goal, employees may be tempted to cheat.

None of these theories are complete by themselves, but each theory provides us with a framework we can use to analyze, interpret, and manage employee behaviors in the workplace, which are important skills managers use when conducting their leading function. In fact, motivation is important throughout the entire P-O-L-C framework because most managerial functions involve accomplishing tasks and goals through others.

Exercises

1. Your manager tells you that the best way of ensuring fairness in reward distribution is to keep the pay a secret. How would you respond to this assertion?
2. What are the distinctions among procedural, interactional, and distributive justice? List ways in which you could increase each of these justice perceptions.
3. Using an example from your own experience in school or at work, explain the concepts of expectancy, instrumentality, and valence.
4. Some practitioners and researchers consider OB Mod as unethical because it may be viewed as employee manipulation. What would be your reaction to this criticism?
5. Consider a job you held in the past. Analyze the job using the framework of job characteristics model.
6. If a manager tells you to "sell as much as you can," is this goal likely to be effective? Why or why not?

Key Takeaways

Process-based theories use the mental processes of employees as the key to understanding employee motivation. According to equity theory, employees are demotivated when they view reward distribution as unfair. In addition to distributive justice, research identified two other types of fairness (procedural and interactional), which also affect worker reactions and motivation. According to expectancy theory, employees are motivated when they believe that their effort will lead to high performance (expectancy), that their performance will lead to outcomes (instrumentality), and that the outcomes following performance are desirable (valence). Reinforcement theory argues that behavior is a function of its consequences. By properly tying rewards to positive behaviors, eliminating rewards following negative behaviors and punishing negative behaviors, leaders can increase the frequency of desired behaviors. In job design, there are five components that increase the motivating potential of a job: Skill variety, task identity, task significance, autonomy, and feedback. These theories are particularly useful in designing reward systems within a company. Goal-setting theory is one of the most influential theories of motivation. To motivate employees, goals should be SMART (specific, measurable, achievable, realistic, and timely). Setting goals and objectives is a task managers undertake when involved in the planning portion of the P-O-L-C function.

7.11 Developing Motivation Skills

Learning Objectives

1. Review what you can do to give feedback through an effective performance appraisal.
2. Examine guidelines for proactively seeking feedback.

Guidelines for Giving Feedback in a Performance Appraisal Meeting

Before the meeting, ask the person to complete a self-appraisal. This is a great way of making sure that employees become active participants in the process and are heard. Complete the performance appraisal form and document your rating using several examples. Be sure that your review covers the entire time since the last review, not just recent events. Handle the logistics. Be sure that you devote sufficient time to each meeting. If you schedule them tightly back to back, you may lose your energy in later meetings. Be sure that the physical location is conducive to a private conversation.

During the meeting, be sure to recognize effective performance through specific praise. Do not start the meeting with a criticism. Starting with positive instances of performance helps establish a better mood and shows that you recognize what the employee is doing right. Give employees opportunities to talk. Ask them about their greatest accomplishments, as well as opportunities for improvement. Show empathy and support. Remember: your job as a leader is to help the person solve performance problems. Identify areas where you can help. Conclude by setting goals and creating an action plan for the future.

After the meeting, continue to give the employee periodic and frequent feedback. Follow through on the goals that were set.
(Ryan, 2007; Stone, 1984; Sulkowicz, 2007)

Five Guidelines for Seeking Feedback

Research shows that receiving feedback is a key to performing well. If you are not receiving enough feedback on the job, it is better to seek it instead of trying to guess how well you are doing.

1. **Consider seeking regular feedback from your boss.** This also has the added benefit of signaling to the manager that you care about your performance and want to be successful.
2. **Be genuine in your desire to learn.** When seeking feedback, your aim should be improving yourself as opposed to creating the impression that you are a motivated employee. If your manager thinks that you are managing impressions rather than genuinely trying to improve your performance, feedback seeking may hurt you.
3. **Develop a good relationship with your manager as well as the employees you manage.** This would have the benefit of giving you more feedback in the first place. It also has the upside of making it easier to ask direct questions about your own performance.
4. **Consider finding trustworthy peers who can share information with you regarding your performance.** Your manager is not the only helpful source of feedback.
5. **Be gracious when you receive unfavorable feedback.** If you go on the defensive, there may not be a next time. Remember, even if it may not feel like it sometimes, feedback is a gift. You can improve your performance by using feedback constructively. Consider that the negative feedback giver probably risked your goodwill by being honest. Unless there are factual mistakes in the feedback, do not try to convince the person that the feedback is inaccurate.

(Jackman & Strober, 2003; Wing et al., 2007; Lee et al., 2007)

Exercises

1. Why can discussing performance feedback with employees be so hard?
2. What barriers do you perceive in asking for feedback?
3. How would you react if one of your employees came to you for feedback?
4. Imagine that your good friend is starting a new job next week. What recommendations would you give to help your friend do a great job seeking feedback?

Key Takeaways

Giving effective feedback is a key part of a leader's job. To do so, plan the delivery of feedback before, during, and after the meeting. In addition, there are a number of ways to learn about your own performance. Take the time to seek feedback and act on it. With this information, you can do key things to maximize your success and the success of those you lead.

7.12 Key Terms

Key Terms

Autonomy is the degree to which the person has the freedom to decide how to perform tasks.

Balanced Scorecard is a focused set of key financial and nonfinancial indicators. These indicators include leading, pacing, and lagging measures.

Benevolents are individuals who give the expectation of something in return.

Corporate social responsibility (CSR) is the manner by which companies manage their business processes to produce an overall positive effect on society.

Continuous schedules describe reinforcement that occurs when rewards are provided following all instances of positive behavior, such as providing a sales commission every time a sale is made.

Distributive justice refers to the degree to which the outputs received from the organization are fair.

Esteem needs refer to the desire to be respected by one's peers, feeling important, and being appreciated.

ERG theory modifies Maslow's hierarchy of five needs into three categories that can impact an individual at the same time, namely existence, relatedness and growth.

Existence needs as part of ERG theory correspond with Maslow's physiological and safety needs.

Equity theory is based on the idea that individuals are motivated by a sense of fairness determined by comparisons; specifically, we compare our inputs and outputs with those of a referent (someone else's inputs and outputs). Perceptions of inequity create tension within us and drive us to action that will reduce perceived inequity.

Equity sensitivity individuals expect to maintain equitable relationships so experience distress when they feel they are over rewarded or under rewarded.

Entitleds who expect to receive a lot without giving much in return.

Expectancy is the perception that high levels of effort will lead to desired outcomes.

Extinction is a method of reducing the frequency of undesired behaviors by ignoring the behavior with the expectation that the behavior will cease as a result of receiving no reinforcement.

Feedback is communication about our behavior and its effects on others, including ourselves, colleagues, clients and the organization itself.

Fixed ratio schedules describe reinforcement that occurs when rewards are provided after a specific number of times that the right behavior is demonstrated, such as giving a sales bonus once sales hit a $10,000.

Fixed interval schedules describe reinforcement that occurs when rewards are provided after a specified period of time, such as a monthly sales bonus.

Feedback refers to the degree to which the person learns how effective he or she is at work and may come from other people such as supervisors, peers, subordinates, customers, or from the job itself.

Goals are outcome statements that define what an organization is trying to accomplish, both programmatically and organizationally.

Growth needs as part of ERG theory correspond with Maslow's esteem and self actualization.

Hygiene factors are elements of a job causing dissatisfaction of workers and include company policies, supervision, working conditions, salary, safety, and security on the job.

High need for affiliation is an individual who wants to be liked and accepted by others.

Interactional justice refers to the degree to which people are treated with respect, kindness, and dignity in interpersonal interactions.

Instrumentality is the degree to which the person believes that performance is related to secondary outcomes such as rewards.

Job specialization entails breaking down tasks to their simplest components and assigning them to employees so that each person would perform few tasks in a repetitive manner.

Job rotation involves moving employees from job to job at regular intervals to build skills, crosstrain, and relieve the monotony and boredom prevalent in repetitive jobs.

Job enlargement refers to expanding the tasks performed by employees to add more variety.

Job enrichment is a job redesign technique that allows workers more control over how they perform their own tasks, giving them more experience and responsibility.

Job characteristics model describes five core job dimensions (skill variety, task identity, task significance, autonomy and feedback) leading to three critical psychological states (meaningfulness, responsibility and knowledge of results), which can result in positive work-related outcomes related to motivation, performance, satisfaction, absenteeism and turnover.

Lifestyles of Health and Sustainability (LOHAS) is a group of ethical consumers of goods and services focused on health, the environment, social justice, personal development, and sustainable living and demand the necessary data to make informed decisions.

Measures are the actual metrics used to gauge performance on objectives.

Motivation is the process whereby an individual is moved to action to accomplish their goals.

Motivators are elements of a job causing satisfaction of workers and encouraging them to increase their performance such as achievement, recognition, interesting work, increased responsibilities, advancement, and growth opportunities.

Need for power is an individual with the desire to influence others and control their environment.

Negative reinforcement is a method of increasing the frequency of desired behaviors by removing negative consequences.

Objectives are very precise, time-based, measurable actions that support the completion of a goal.

Organizational Behavior Modification (or OB Mod) is a systematic application of reinforcement theory to modify employee behaviors consisting of five stages: (1) identifying the behavior that will be modified(2) measuring the baseline level of behavior, (3) determining the behavior's antecedents and outcomes, (4) implementing an intervention, and (5) evaluating and maintaining the behavior.

Performance management systems include a continual process of improvement through which organizations assist employees to create performance plans and assist them in achieving their goals.

Performance evaluation is a constructive process to acknowledge and provide feedback on an employee's performance.

Physiological needs refer to the need for air, food, and water.

Procedural justice refers to the degree to which fair decision-making procedures are used.

Positive reinforcement is a method of increasing the frequency of desired behaviors by rewarding positive behavior with positive consequences.

Punishment is a method of reducing the frequency of undesired behaviors by presenting negative consequences (imposing a penalty and taking away something desirable) following unwanted behaviors.

Reinforcement Schedules is the idea that the timing or schedule on which reinforcement is delivered has a bearing on behavior.

Relatedness needs as part of ERG theory correspond with Maslow's social needs.

Referent in terms of equity theory, is the comparison person or group of people used to determine the input-to-output ratio in a given situation.

Reinforcement theory is based on the idea that behavior is a function of its consequences and describes four interventions to modify employee behavior: positive reinforcement, negative reinforcement, extinction and punishment. Two of these are methods of increasing the frequency of desired behaviors while the remaining two are methods of reducing the frequency of undesired behaviors.

Safety needs refer to feeling safe from anything that would threaten one's security.

Social needs refer to the need to bond with other human beings, to be loved, and to form lasting attachments.

Self-actualization refers to "becoming all you are capable of becoming."

SMART goals are considered most effective because they ensure that goals are "S" specific, "M" measurable, "A" achievable, "R" realistic, and "T" timely.

Skill variety refers to the extent to which the job requires the person to use multiple high-level skills.

Triple bottom line (TBL) measures an organization's economic, social, and environmental performance (people, planet, profit) and is related to its corporate social responsibility.

Task identity refers to the degree to which the person completes a piece of work from start to finish.

Task significance refers to whether the person's job substantially affects other people's work, health, or well-being.

Valence the anticipated satisfaction of the value of the rewards that will result from an outcome.

Variable ratios describe reinforcement that occurs when rewards are provided in a random pattern, such as giving a sales bonus every time the manager is in a good mood.

7.13 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4732#h5p-7

CHAPTER 8: LEADERSHIP AND THE ORGANIZATION

Chapter Content

8.1 Organizational Environment and Culture

What's in it for Me?

Reading this chapter will help you do the following:

1. Describe what organizational culture is and why it is important for an organization.
2. Identify the dimensions that make up a company's culture.
3. Appraise the creation and maintenance of organizational culture.
4. Evaluate the factors that create cultural change.
5. Identify environmental trends, demands, and opportunities facing organizations.
6. Develop personal culture management skills.

Water is invisible to the fish swimming in it, yet it affects their actions; culture consists of unseen elements in organizations, such as assumptions and values, but these aspects affect the behavior of those who exist in that environment. Just as fish must scan their internal and external environments to be aware of what is occurring and to stay on track, businesses must continually do the same.

Example: Exploring Leadership – Jeff Bezos of Amazon

Figure 8.1.1: *"Jeff Bezos" by Daniel Oberhaus, CC-BY-2.0*

Amazon's market value was estimated at $1 trillion USD dollars in 2018. The company was recognized as the most innovative company in Fast Company's 2017 list, accounting for 44 percent of all U.S. e-commerce that year—approximately 4 percent of the U.S.'s total retail sales. Amazon market value is greater than the sum of the market capitalizations of Walmart, Target, Best Buy, Nordstrom, Kohl's, JCPenney, Sears, and Macy's. Jeff Bezos, founder and leader, has creatively accomplished what most large companies fail at: meshing size, scale, and external opportunities with agility. Sales figures reached $100 billion in 2015 while the stock price climbed over 300% in the past five years. The company plans on creating over 50,000 new jobs starting in 2018. Bezos has blended his strategy of virtually reaching unlimited numbers of online customers while maintaining land-based distribution centers using Prime's $99-per-year—$119 in 2018—membership. Stephenie Landry, an Amazon's vice president, stated that Prime has reached 49 cities in seven countries. Over 100 million people in 2018 subscribe to the Prime service. She noted that the business has only to answer two questions from customers: "Do you have what I want, and can you get it to me when I need it?" The answer seems to be yes, especially with Bezos's strategy of having high-tech robots already working side by side with human employees—resembling a "factory of the future."

Bezos's digital commerce strategy has led the firm to become the leader of retail commerce. Amazon's digital strategy uses Prime memberships that are supplied and supported by land-based distribution centers; Prime takes in reaching about 60% of the total dollar value of all merchandise sold on the site. That accounts for 60 million customers in the United States who use Prime and who spend $2,500 on Amazon annually. A study of 3,000 independent businesses, half of whom were retailers, listed competition from Amazon as their primary concern. Industry after industry is being disrupted, some replaced, by Bezos's strategy. He has said, "Everybody wants fast delivery. Low prices. I'm serious about this. Our job is to provide a great customer experience, and that is something that is universally desired all over the world".

Still, Amazon faces such challenges as high shipping cost (over $11 billion annually), pressures on employees (especially those working in warehouses that have been criticized for poor working conditions), shipping contractors who go on strike demanding higher wages and reduced workloads, and the possibilities of more governmental regulation (especially with regard to adding drones as a delivery method), as well as pressures to pay more taxes. Bezos has countered these arguments by adding more full-time jobs in different cities, promising to improve working conditions, supporting public spaces for the public, and most importantly, contributing to the U.S. economy.

8.2 External Environments and Internal Structures

Learning Objectives

1. Define the external environment of organizations.
2. Identify different types of organizational structures and their strengths and weaknesses.

To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are organized and structured internally to meet both external and internal demands and opportunities.

External Forces that Influence Business Activities

Businesses don’t operate in a vacuum – they are influenced by a number of external factors. These include the economy, government, consumer trends, technological developments, public pressure to act as good corporate citizens, and a variety of other elements. Collectively, these forces constitute what is known as the **macro or general environment** – essentially the big picture world outside over which the business exerts very little if any control.

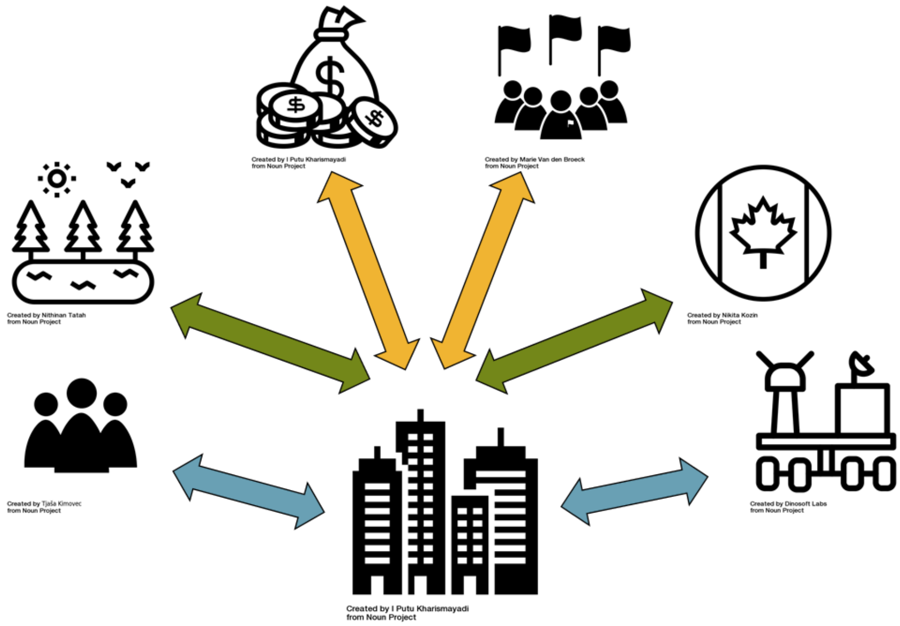

Figure 8.2.1: *The company surrounded by its environmental forces: demographic, natural, economic, political, cultural, and technological. "External Forces" by Business Faculty from Ontario Colleges and eCampusOntario Program Managers CC-BY-NC-SA 4.0.*

"Business and Its Environment" sums up the relationship between a business and the external forces that influence its activities. One industry that's clearly affected by all these factors is the fast-food industry. Companies such as Taco Bell, McDonald's, Tim Hortons and others all compete in this industry. Here are a few statements to show the way external factors impact business. For instance, a strong economy means people have more money to eat out. Food standards are monitored by a government agency, the Canadian Food and Drug Inspection Agency at the federal level with entities at both the provincial and municipal levels following through with adherence. Preferences for certain types of foods are influenced by consumer trends (fast food companies are being pressured to make their menus healthier).

While the type, size, scope, location, purpose, and mission of an organization all help determine the external environment in which it operates, it still must meet the requirements and contingencies of that environment to survive and prosper. It is important to consider how organizations fit with their external environments and how organizations are structured to meet challenges and opportunities of these environments.

The big picture of an organization's **external environment**, also referred to as the *general environment*, is an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations (Johns & Cena, 2016). **Figure 8.2.2** illustrates types of general macro environments and forces that are interrelated and affect organizations: sociocultural, technological, economic, government and political, natural disasters, and human-induced problems that affect industries and organizations.

For example, economic environmental forces generally include such elements in the economy as exchange rates and wages, employment statistics, and related factors such as inflation, recessions, and other shocks—negative and positive. Hiring and unemployment, employee benefits, factors affecting organizational operating costs, revenues, and profits are affected by global, national, regional, and local economies. Other factors that interact with economic forces include politics and governmental policies, international wars, natural disasters, technological inventions, and sociocultural forces. It is important to keep these dimensions in mind when studying organizations since many if not most or all changes that affect organizations originate from one or more of these sources—many of which are interrelated.

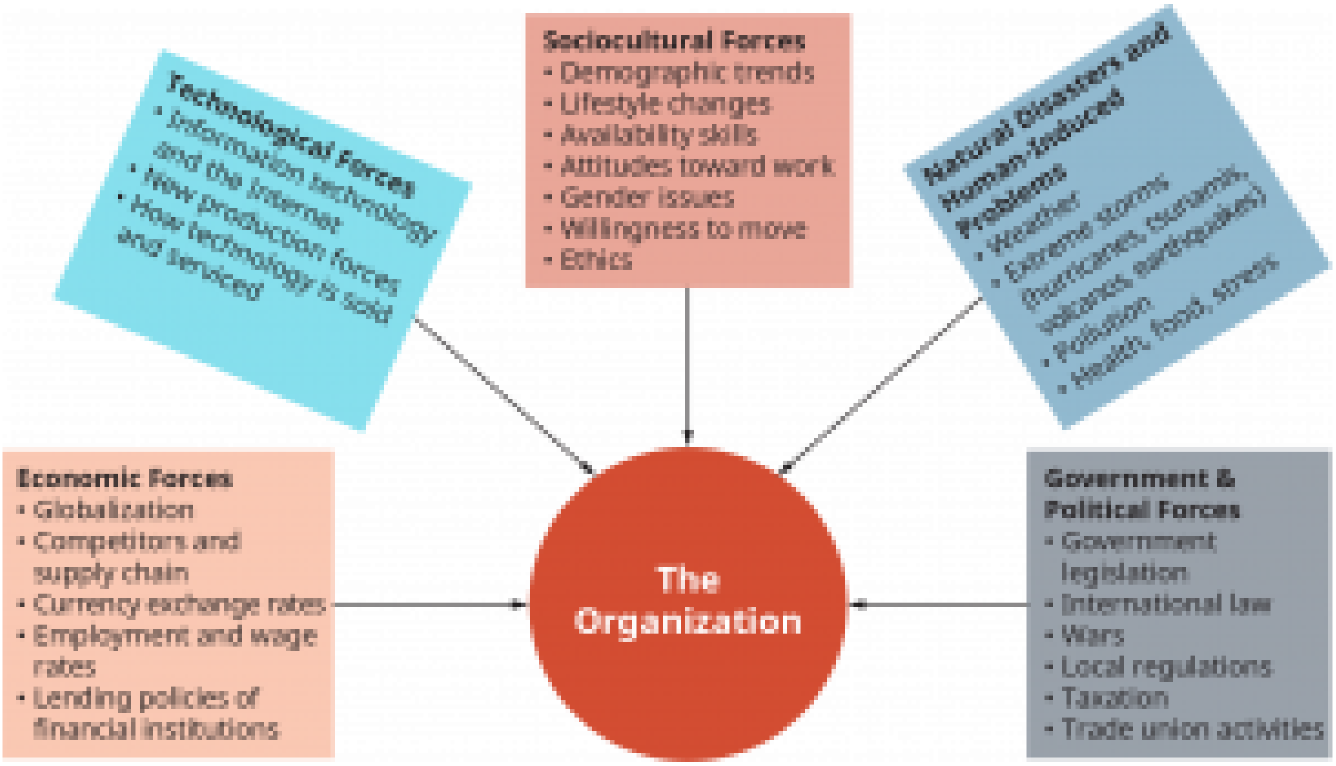

Figure 8.2.2: *"Macro Forces and Environments" by Rice University & OpenStax, licensed under CC BY 4.0.*

Globalization is a combination of external forces shaping environments of organizations. This dimension continues to present opportunities and pressures for companies operating locally as well as globally.

Organizations and industries are continuously facing new and challenging external environmental demands. Exceptional companies such as Amazon, Spotify, and Google/Alphabet Inc. exemplify evolving business models that combine strategic innovation, technological prowess, and organizational cultural agility that not only meet external environmental demands, but also shape them.

Many businesses with traditional business models, however, have failed or are not succeeding strategically, operationally, and organizationally by not realizing and/or adapting to changing external environments. Such firms that were once successful but did not anticipate and adapt to such changes include Blockbuster, Toys R Us, Borders, Sun Microsystems, Motorola, Digital Equipment Corporation, Polaroid, and Kodak, to name only a few. We have seen the demise of numerous organizations during the Covid-19 pandemic; retailers in particular that did not have an online presence were generally forced to convert, or suffer dire consequences. Technology came to the rescue of many restauranteurs when customers were unable to visit their establishments – companies such as UberEats, SkipTheDishes, and DoorDash found the upside of the pandemic. We are now dealing with challenges brought on by Russia's war on Ukraine – the repercussions of which have impacted many sectors.

A sample of additional external environmental forces that currently challenge organizations' survival includes:

- ***Digital technologies and artificial intelligence (AI):*** Extensions of AI help automate a firm's value chain, thus speeding up and increasing efficient operations and service to customers—as Amazon exemplifies. Recent events involving cyberattacks and large-scale manipulation show the security risks to stakeholders, and offer a reminder that environments must be scanned and threats minimized when firms incorporate new digital and online technologies.
- ***Sharing-economy business models.*** These organizations use information technologies to gain competitive advantage. Companies such as Airbnb and Uber have ushered in new business models that have already disrupted real estate, hotel, taxi, and other industries. This trend has already had both positive and disruptive effects on companies.
- ***Shifts in learning and learning credentials.*** Identifying, recruiting, and retaining talent is crucial to organizations. An evolving crisis for the current generation, our future talent, is the continued rise in higher educational institutions' tuitions, student debt, and the changing nature of jobs. While bachelor's degrees remain a requirement for many companies hiring needed higher-level talent, online resources such as Khan Academy, Udacity, and Coursera are gaining recognition and legitimacy toward providing financially challenged students opportunities for entry-level jobs. While many higher-skilled students and professionals may not presently be included in this trend, companies seeking to pay lower wages while offering flexible working conditions are attracting students (Young Entrepreneurship Council, 2018).
- ***Ethics, corporate social responsibility (CSR), and sustainability.*** Corruption, lying, and fraud have been and continue to be part of the landscape of governments and public- and private-sector corporations. Public awareness through social and online media has awakened consumers and corporations to the impending dangers and drawbacks of illegal and unethical business activities. Environmental problems such as pollution and climate change pressure companies to be responsible for their share of the costs associated with these problems.

This small sample of powerful external forces illustrates the continuing pressure companies encounter to innovate in their industries. Basic theories, concepts, and principles are presented in this chapter to help explain elements of external environments and how organizations and corporations can organize and are organizing to survive and thrive in the 21st century.

Internal Structures

A 2017 Deloitte source asked, before answering, "Why has organizational design zoomed to the top of the list as the most important trend in the Global Human Capital Trends survey for two years in a row?" (Rahnema & Van Durme, 2017). The source continued, "The answer is simple: The way high-performing organizations operate today is radically different from how they operated 10 years ago. Yet many other organizations continue to operate according to industrial-age models that are 100 years old or more" (ibid).

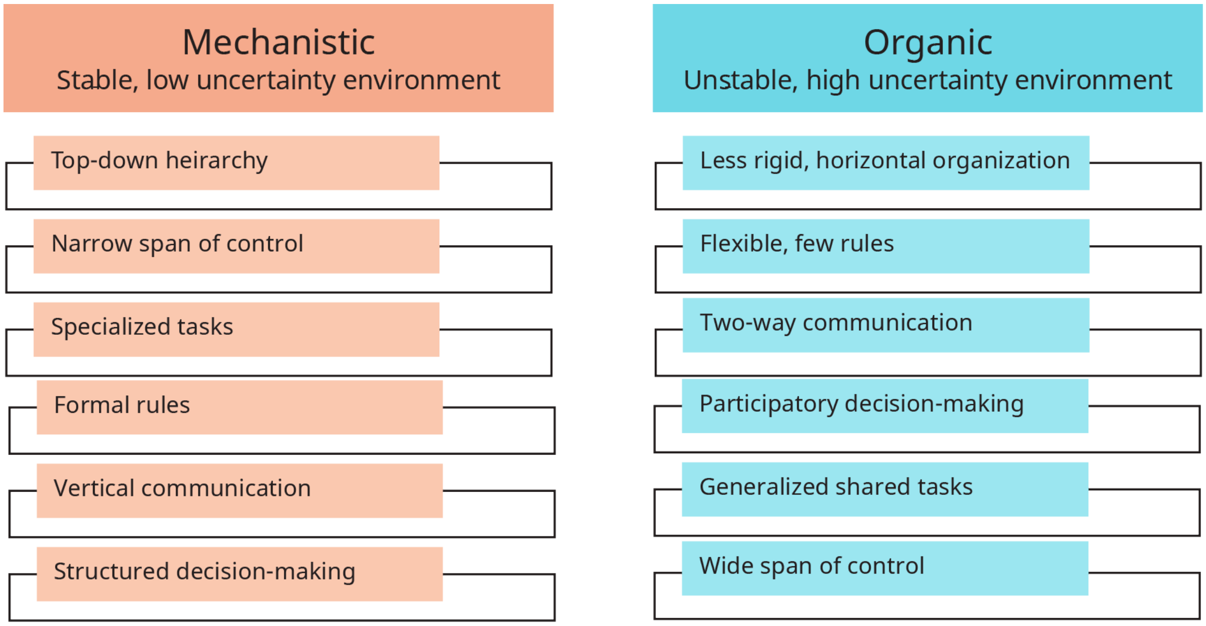

Figure 8.2.3: *"Mechanistic and Organic Organizations" by Rice University & OpenStax, Licensed under CC BY 4.0.*

Early organizational theorists broadly categorized organizational structures and systems as either mechanistic or organic (Burns & Stalker, 1961). This broad, generalized characterization of organizations remains relevant. Mechanistic organizational structures (**Figure 8.2.3**) are best suited for environments that range from stable and simple to low-moderate uncertainty (and are characterized by top-down hierarchies of control that are rule-based. The chain of command is highly centralized and uses formal authority; tasks are clearly defined and differentiated to be executed by specific specialized experts. Bosses and supervisors have fewer people working directly under them (i.e., a narrow span of control), and the organization is governed by rigid departmentalization (i.e., an organization is divided into different departments that perform specialized tasks according to the departments' expertise). This form of organization represents a traditional type of structure that evolved in environments that were, as noted above, stable with low complexity. Historically, the U.S. Postal Service and other manufacturing types of industries were mechanistic. Again, this type of organizational design may still be relevant, in simple, stable, low-uncertainty environments.

Organic organizational structures and systems, however, have opposite characteristics from mechanistic ones. These organizational forms work best in unstable, complex, changing environments. Their structures are flatter, with participatory communication and decision-making flowing in different directions. There is more fluidity and less-rigid ways of performing tasks; there may also be fewer rules. Tasks are more generalized and shared; there is a wider span of control (i.e., more people reporting to managers). **Figure 8.2.3** offers examples of organically structured industries, such as high tech, computer, aerospace, and telecommunications industries, that must deal with change and uncertainty. Contemporary corporations and firms engaged in fast-paced, highly competitive, rapidly changing, and turbulent environments are becoming more organic in different ways, as we will discuss in this chapter. However, not every organization or every part of most organizations may require an organic type of structure. Understanding different organizational designs and structures is important to discern when, where, and under what circumstances a type of mechanistic system or part of an organization would be needed. The following section discusses five types of structures with variations.

Types of Organizational Structures

The six types of organizational structures discussed here include functional, divisional, geographic, matrix, networked/team, and virtual (Burton & Obel, 2018; Daft, 2016; Rahnema & Van Durme, 2017).

Functional Structure

The **functional structure**, shown in **Figure 8.2.4**, is among the earliest and most used organizational designs. This structure is organized by departments and expertise areas, such as R&D (research & development), production, accounting, and human resources. Functional organizations are referred to as pyramid structures since they are governed as a hierarchical, top-down control system. Small companies, start-ups, and organizations working in simple, stable environments use this structure, as do many large government organizations and divisions of large companies for certain tasks.

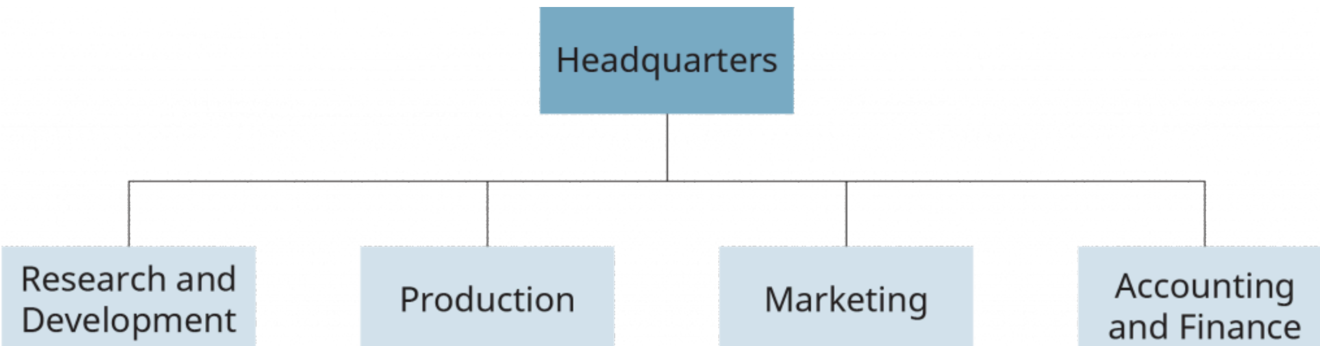

Figure 8.2.4: *"Functional Structure" by Rice University & OpenStax, licensed under CC BY 4.0.*

The functional structure excels in providing for a high degree of specialization and a simple and straightforward reporting system within departments, offers economies of scale, and is not difficult to scale if and when the organization grows. Disadvantages of this structure include isolation of departments from each other since they tend to form "silos," which are characterized by closed mindsets that are not open to communicating across departments, lack of quick decision-making and coordination of tasks across departments, and competition for power and resources.

Divisional Structure

Divisional structures are, in effect, many functional departments grouped under a division head. Each functional group in a division has its own marketing, sales, accounting, manufacturing, and production team. This structure resembles a product structure that also has profit centers. These smaller functional areas or departments can also be grouped by different markets, geographies, products, services, or other whatever is required by the company's business. The market-based structure is ideal for an organization that has products or services that are unique to specific market segments and is particularly effective if that organization has advanced knowledge of those segments.

The advantages of a divisional structure include the following: each specialty area can be more focused on the business segment and budget that it manages; everyone can more easily know their responsibilities and accountability expectations; customer contact and service can be quicker; and coordination within a divisional grouping is easier, since all the functions are accessible. The divisional structure is also helpful for large companies since decentralized decision-making means that headquarters does not have to micromanage all the divisions. The disadvantages of this structure from a headquarters perspective are that divisions can easily become isolated and insular from one another and that different systems, such as accounting, finance, sales, and so on, may suffer from poor and infrequent communication and coordination of enterprise mission, direction, and values. Moreover, incompatibility of systems (technology, accounting, advertising, budgets) can occur, which creates a strain on company strategic goals and objectives.

Geographic Structure

A **geographic structure**, **Figure 8.2.5**, is another option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure.

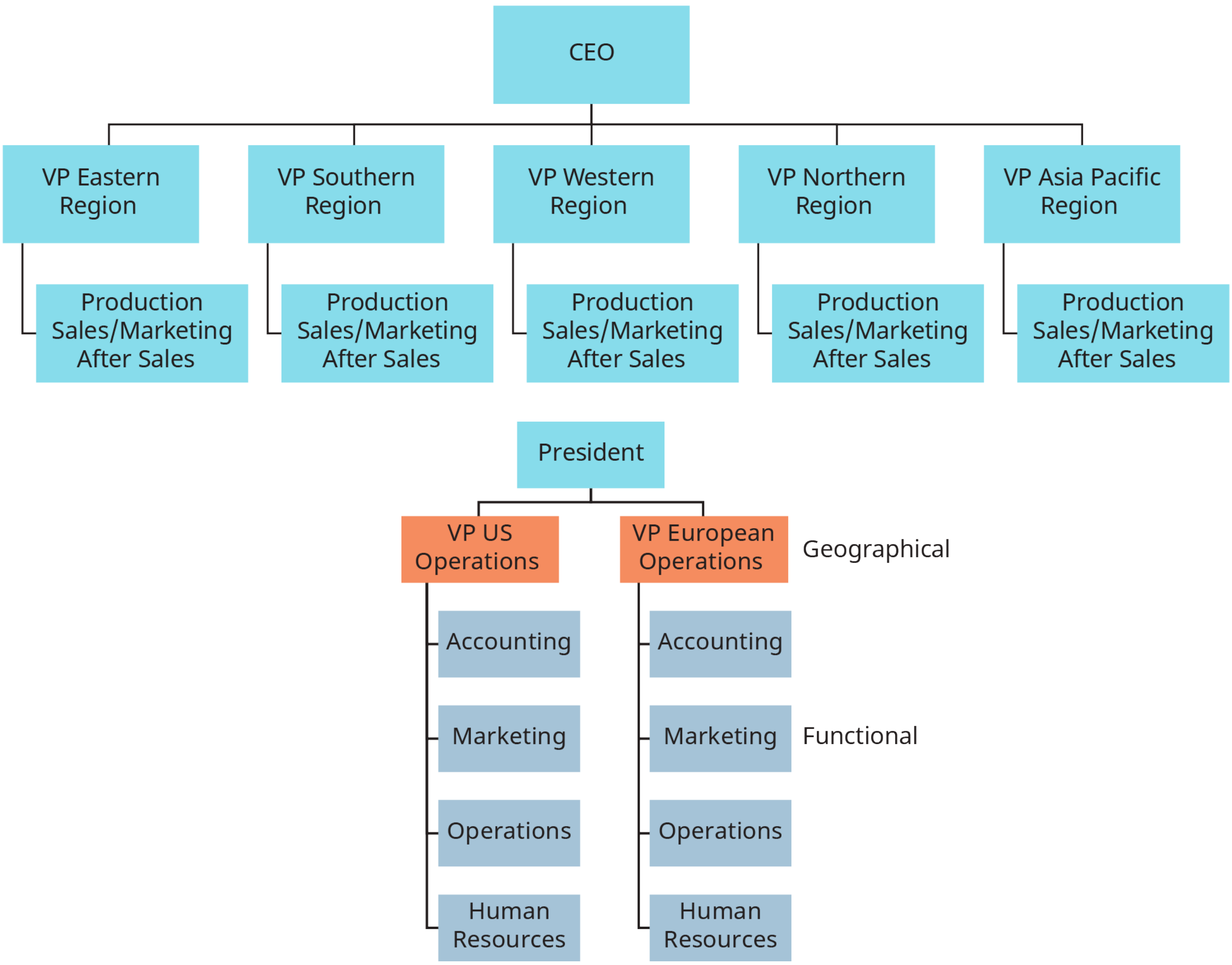

Figure 8.2.5: *"Geographic Structure" by Rice University & OpenStax, licensed under CC BY 4.0.*

Organizing geographically enables each geographic organizational unit (like a division) the ability to understand, research, and design products and/or services with the knowledge of customer needs, tastes, and cultural differences. The advantages and disadvantages of the geographic structure are similar to those of the divisional structure. Headquarters must ensure effective coordination and control over each somewhat autonomous geographically self-contained structure.

The main downside of a geographical organizational structure is that it can be easy for decision-making to become decentralized, as geographic divisions (which can be hundreds if not thousands of miles away from corporate headquarters) often have a great deal of autonomy.

Matrix Structure

Matrix structures, depicted in **Figure 8.2.6**, move closer to organic systems in an attempt to respond to environmental uncertainty, complexity, and instability. The matrix structure actually originated at a time in the 1960s when U.S. aerospace firms contracted with the government. Aerospace firms were required to "develop charts showing the structure of the project management team that would be executing the contract and how this team was related to the overall leadership structure of the organization." As such, employees would be required to have dual reporting relationships—with the government and the aerospace company (Durbin, 2016). Since that time, this structure has been imitated and used by other industries and companies since it provides flexibility and helps integrate decision-making in functionally organized companies.

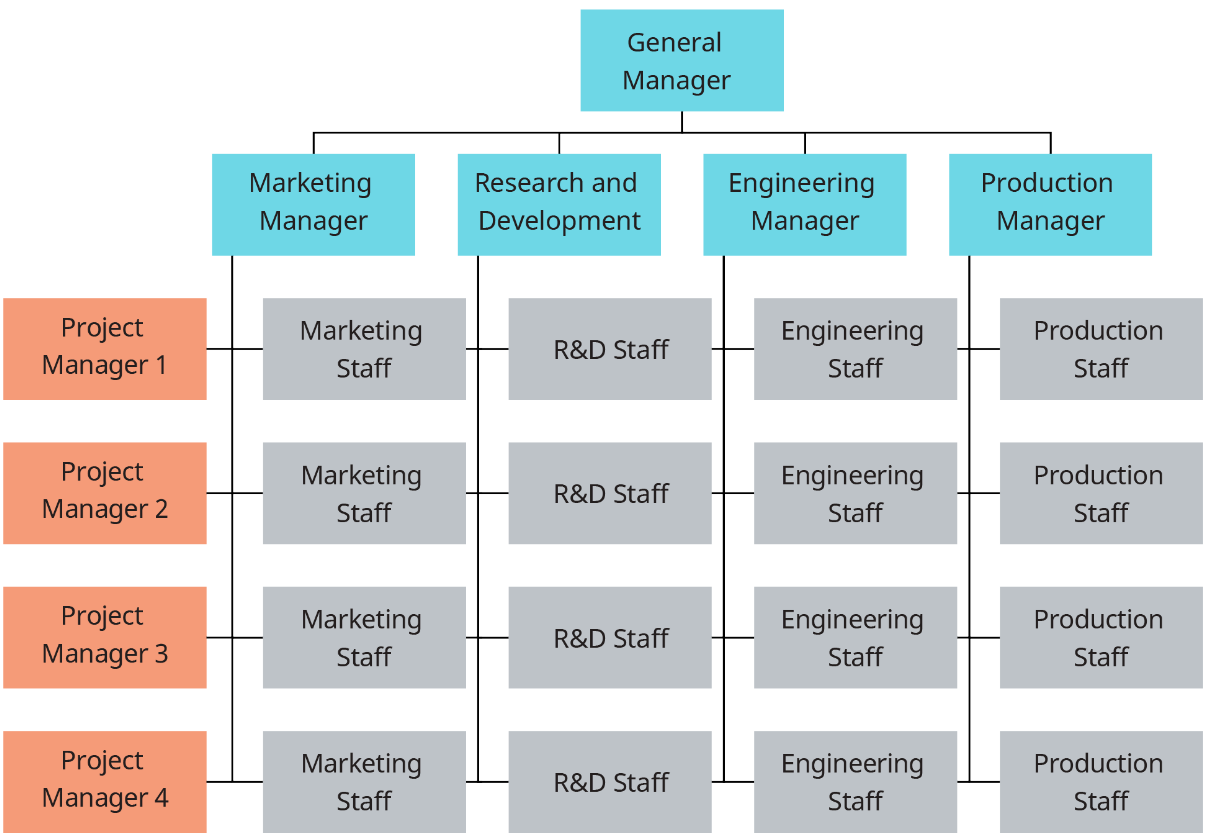

Figure 8.2.6: *"Matrix Structure" by Rice University & OpenStax, licensed under CC BY 4.0.*

Matrix designs use teams to combine vertical with horizontal structures. The traditional functional or vertical structure and chain of command maintains control over employees who work on teams that cut across functional areas, creating horizontal coordination that focuses projects that have deadlines and goals to meet within and often times in addition to those of departments. In effect, matrix structures initiated horizontal team-based structures that provided faster information sharing, coordination, and integration between the formal organization and profit-oriented projects and programs.

As **Figure 8.2.6** illustrates, this structure has lines of formal authority along two dimensions: employees report to a functional, departmental boss and simultaneously to a product or project team boss. One of the weaknesses of matrix structures is the confusion and conflicts employees experience in reporting to two bosses. To work effectively, employees (including their bosses and project leaders) who work in dual-authority matrix structures require good interpersonal communication, conflict management, and political skills to manage up and down the organization.

Different types of matrix structures, some resembling virtual team designs, are used in more complex environments (n.a., 2018). For example, there are cross-functional matrix teams in which team members from other organizational departments report to an "activity leader" who is not their formal supervisor or boss. There are also functional matrix teams where employees from the same department coordinate across another internal matrix team consisting of, for example, HR or other functional area specialists, who come together to develop a limited but focused common short-term goal. There are also global matrix teams consisting of employees from different regions, countries, time zones, and cultures who are assembled to achieve a short-term project goal of a particular customer. Matrix team members have been and are a growing part of horizontal organizations that cut across geographies, time zones, skills, and traditional authority structures to solve customer and even enterprise organizational needs and demands.

As part of the next discussed organizational type of structure, networked teams, organizational members in matrix structures must "learn how to collaborate with colleagues across distance, cultures and other barriers. Matrix team members often suffer from the problem of divided loyalties where they have both team and functional goals that compete for their time and attention, they have multiple bosses and often work on multiple teams at the same time. For some matrix team members this may be the first time they have been given accountability for results that are broader than delivery of their functional goals. Some individuals relish the breath and development that the matrix team offers and others feel exposed and out of control." To succeed in these types of horizontal organizational structures, organizational members "should focus less on the structure and more on behaviors" (ibid).

Network Structure

Networked team structures are another form of the horizontal organization. Moving beyond the matrix structure, networked teams are more informal and flexible. "[N]etworks have two salient characteristics: clustering and path length. Clustering refers to the degree to which a network is made up of tightly knit groups while path lengths is a measure of distance—the average number of links separating any two nodes in the network" (Satell, 2015).A more technical explanation can be found in this footnote source (Satell, 2010). For our purposes here, a networked organizational structure is one that naturally forms after being initially assigned. Based on the vision, mission, and needs of a problem or opportunity, team members will find others who can help—if the larger organization and leaders do not prevent or obstruct that process.

There is not one classical depiction of this structure, since different companies initially design teams to solve problems, find opportunities, and discover resources to do so. Stated another way, "The networked organization is one that is connected together by informal networks and the demands of the task, rather than a formal organizational structure. The network organization prioritizes its 'soft structure' of relationships, networks, teams, groups and communities rather than reporting lines" (Rahnema & Van Durme, 2017). **Figure 8.2.7** is a suggested illustration of this structure.

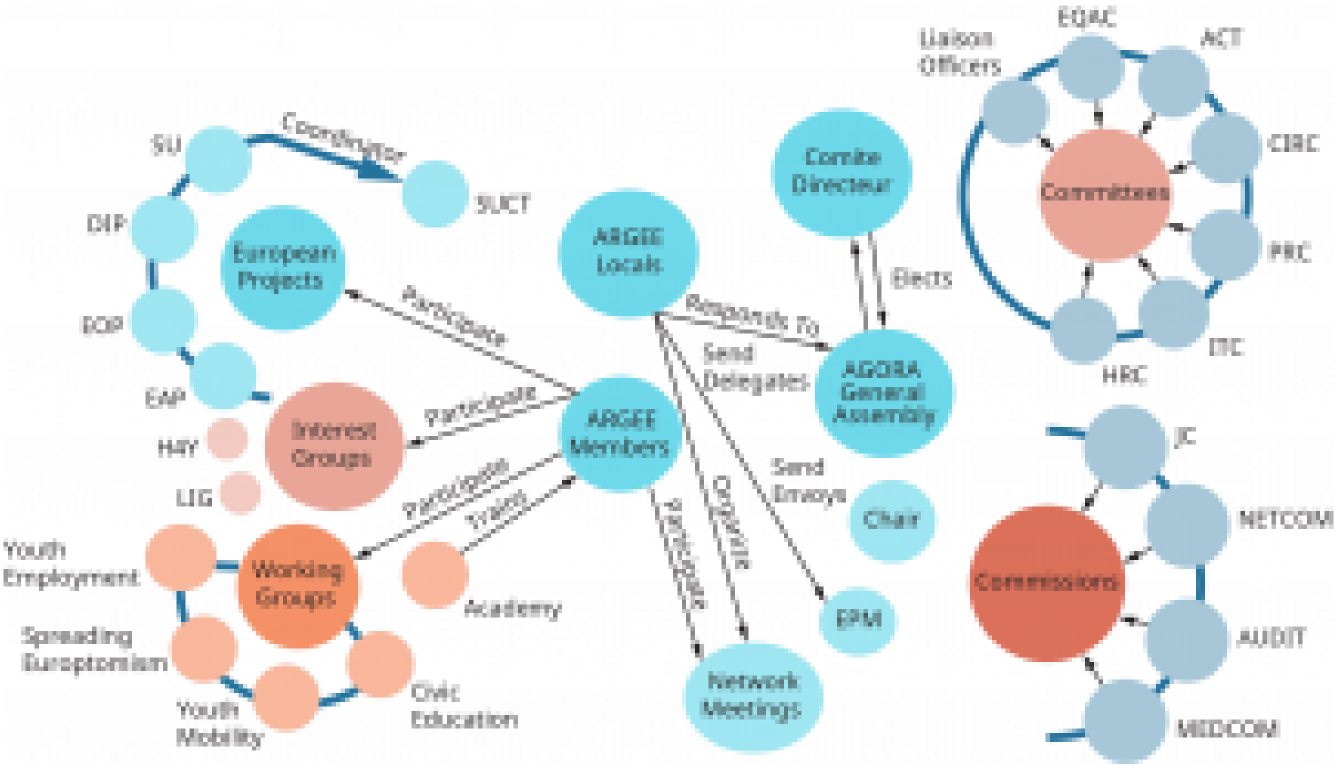

Figure 8.2.7: *"Network Structure" by Rice University & OpenStax, licensed under CC BY 4.0.*

A Deloitte source based on the 2017 Global Human Capital Trend study stated that as organizations continue to transition from vertical structures to more organic ones, networked global designs are being adapted to larger companies that require more reach and scope and quicker response time with customers: "Research shows that we spend two orders of magnitude more time with people near our desk than with those more than 50 meters away. Whatever a hierarchical organization chart says, real, day-to-day work gets done in networks. This is why the organization of the future is a 'network of teams" (Chron, 2018).

Advantages of networked organizations are similar to those stated earlier with regard to organic, horizontal, and matrix structures. Weaknesses of the networked structure include the following:

> (1) Establishing clear lines of communication to produce project assignments and due dates to employees is needed.
>
> (2) Dependence on technology—Internet connections and phone lines in particular—is necessary. Delays in communication result from computer crashes, network traffic errors and problems; electronic information sharing across country borders can also be difficult.
>
> (3) Not having a central physical location where all employees work, or can assemble occasionally to have face-to-face meetings and check results, can result in errors, strained relationships, and lack of on-time project deliverables (Handy, 1995; Ahuja & Carley, 1998).

Virtual Structure

Virtual structures and organizations emerged in the 1990s as a response to requiring more flexibility, solution-based tasks on demand, fewer geographical constraints, and accessibility to dispersed expertise (Onley, 2015). Virtual structures are depicted in **Figure 8.2.8**. Related to so-called modular and digital organizations, virtual structures are dependent on information communication technologies (ICTs).

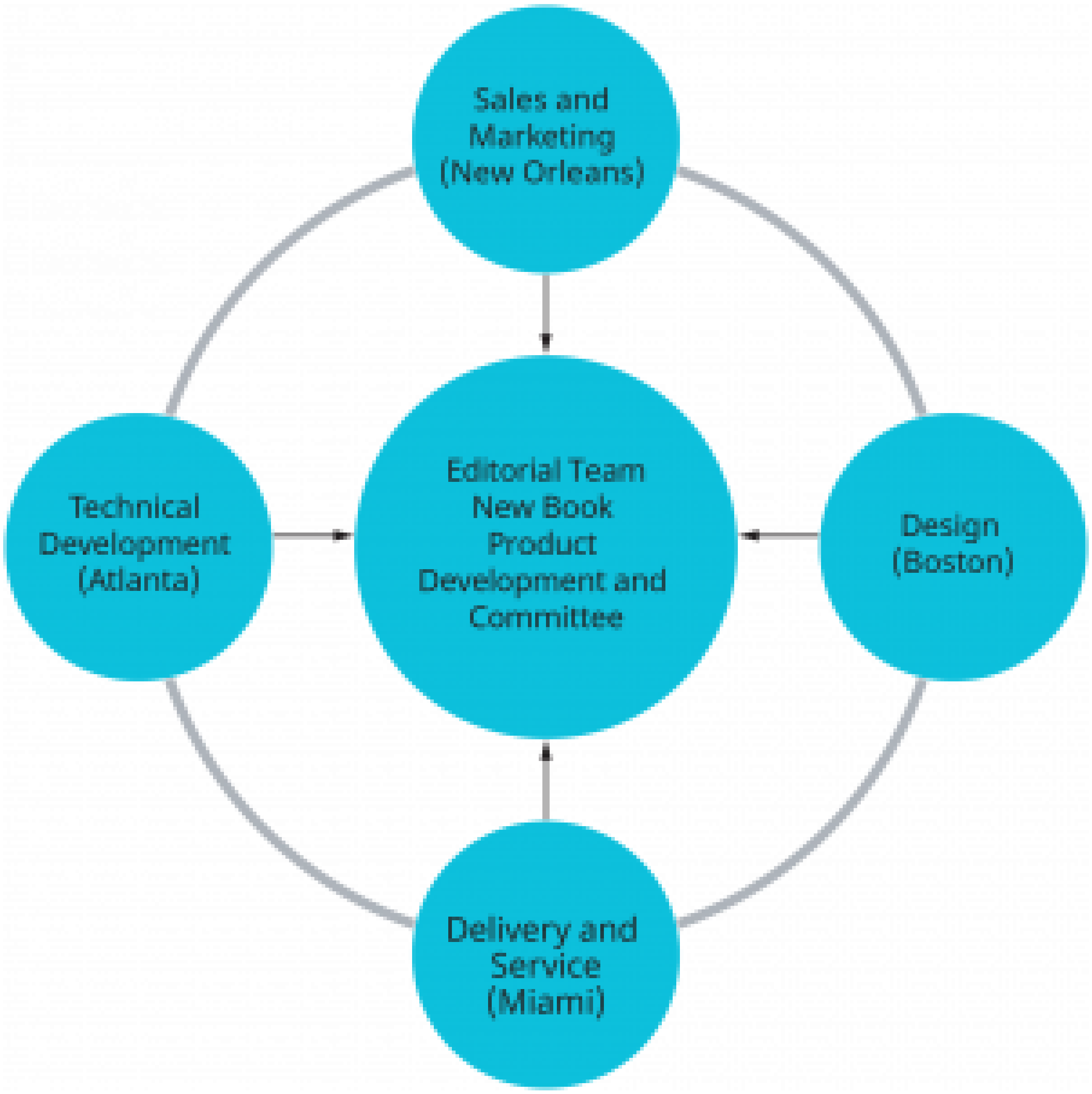

Figure 8.2.8: *"Virtual Structure" by Rice University & OpenStax, licensed under CC BY 4.0.*

These organizations move beyond network team structures in that the headquarters or home base may be the only or part of part of a stable organizational base. Otherwise, this is a "boundary-less organization." Examples of organizations that use virtual teams are Uber, Airbnb, Amazon, Reebok, Nike, Puma, and Dell. Increasingly, organizations are using different variations of virtual structures with call centers and other outsourced tasks, positions, and even projects.

Advantages of virtual teams and organizations include cost savings, decreased response time to customers, greater access to a diverse labor force not encumbered by 8-hour workdays, and less harmful effects on the environment. “The telecommuting policies of Dell, Aetna, and Xerox cumulatively saved 95,294 metric tons of greenhouse gas emissions last year, which is the equivalent of taking 20,000 passenger vehicles off of the road” (McCarthy et al., 2010). Disadvantages are social isolation of employees who work virtually, potential for lack of trust among employees and between the company and employees when communication is limited, and reduced collaboration among separated employees and the organization’s officers due to lack of social interaction.

Next, we turn to internal organizational dimensions that complement structure, and are affected by and affect external environments.

8.3 Organizational Culture

Learning Objectives

1. Identify the fit between organizational cultures and the external environment.
2. Define organizational culture.
3. Describe why organizational culture is important.
4. Identify the different levels of organizational culture.

Organizational culture is considered one of the most important internal dimensions of an organization's effectiveness criteria. Peter Drucker, an influential management guru, once stated, "Culture eats strategy for breakfast" (Hyken, 2015). He meant that corporate culture is more influential than strategy in terms of motivating employees' beliefs, behaviors, relationships, and ways they work since culture is based on values. Strategy and other internal dimensions of organization are also very important, but organizational culture serves two crucial purposes: first, culture helps an organization adapt to and integrate with its external environment by adopting the right values to respond to external threats and opportunities; and secondly, culture creates internal unity by bringing members together so they work more cohesively to achieve common goals (Schein, 2010 & Weiss, 2014). Culture is both the personality and glue that binds an organization. It is also important to note that organizational cultures are generally framed and influenced by the top-level leader or founder. This individual's vision, values, and mission set the "tone at the top," which influences both the ethics and legal foundations, modeling how other officers and employees work and behave.

What Is Organizational Culture?

Organizational culture refers to a system of shared assumptions, values, and beliefs that show people what is appropriate and inappropriate behavior (Chatman & Eunyoung, 2003; Kerr & Slocum, 2005). These values have a strong influence on employee behavior as well as organizational performance. In fact, the term organizational culture was made popular in the 1980s when Peters and Waterman's best-selling book *In Search of Excellence* made the argument that company success could be attributed to an organizational culture that was decisive, customer-oriented, empowering, and people-oriented.

Culture is largely invisible to individuals just as the sea is invisible to the fish swimming in it. Even though it affects all employee behaviors, thinking, and behavioral patterns, individuals tend to become more aware of their organization's culture when they have the opportunity to compare it to other organizations. The culture of the organization is closely linked to organizational design. For instance, a culture that empowers employees to make decisions could prove extremely resistant to a centralized organizational design, hampering the manager's ability to enact such a design. However, a culture that supports the organizational structure (and vice versa) can be very powerful.

Why Does Organizational Culture Matter?

An organization's culture may be one of its strongest assets or its biggest liability. In fact, it has been argued that organizations that have a rare and hard-to-imitate culture enjoy a competitive advantage (Barney, 1986). In a survey conducted by the management consulting firm Bain & Company in 2007, worldwide business leaders identified corporate culture to be as important as corporate strategy for business success (Hannaway, 1989). This comes as no surprise to leaders of successful businesses, who are quick to attribute their company's success to their organization's culture.

Culture, or shared values within the organization, may be related to increased performance. Researchers found a relationship between organizational cultures and company performance, with respect to success indicators such as revenues, sales volume, market share, and stock prices (Kotter & Heskett, 1992; Marcoulides & heck, 1993). At the same time, it is important to have a culture that fits with the demands of the company's environment. To the extent that shared values are proper for the company in question, company performance may benefit from culture (Arogyaswamy & Byles, 1987). For example, if a company is in the high-tech industry, having a culture that encourages innovativeness and adaptability will support its performance. However, if a company in the same industry has a culture characterized by stability, a high respect for tradition, and a strong preference for upholding rules and procedures, the company may suffer because of its culture. In other words, just as having the "right" culture may be a competitive advantage for an organization, having the "wrong" culture may lead to performance difficulties, may be responsible for organizational failure, and may act as a barrier preventing the company from changing and taking risks.

In addition to having implications for organizational performance, *organizational culture is an effective control mechanism dictating employee behavior*. Culture is a more powerful way of controlling and managing employee behaviors than organizational rules and regulations. For example, when a company is trying to improve the quality of its customer service, rules may not be helpful, particularly when the problems customers present are unique. Instead, creating a culture of customer service may achieve better results by encouraging employees to think like customers, knowing that the company priorities in this case are clear: Keeping the customer happy is preferable to other concerns, such as saving the cost of a refund. The ability to understand and influence organizational culture is a key item for leaders to have in their tool kit.

Levels of Organizational Culture

Organizational culture consists of some aspects that are relatively more visible, as well as aspects that may lie below one's conscious awareness. Organizational culture can be thought of as consisting of three interrelated levels (Schein, 1992).

At the deepest level, below our awareness, lie basic **assumptions**. These assumptions are taken for granted and reflect beliefs about human nature and reality. At the second level, **values** exist. Values are shared principles, standards, and goals. Finally, at the surface, we have **artifacts**, or visible, tangible aspects of organizational culture. For example, in an organization, a basic assumption employees and managers share might be that happy employees benefit their organizations. This might be translated into values such as egalitarianism, high-quality relationships, and having fun. The artifacts reflecting such values might be an executive "open door" policy, an office layout that includes open spaces and gathering areas equipped with pool tables, and frequent company picnics.

Understanding the organization's culture may start from observing its artifacts: its physical environment, employee interactions, company policies, reward systems, and other observable characteristics. When you are interviewing for a position, observing the physical environment, how people dress, where they relax, and how they talk to others is definitely a good start to understanding the company's culture. However, simply looking at these tangible aspects is unlikely to give a full picture of the organization, since an important chunk of what makes up culture exists below one's degree of awareness. The values and, deeper, the assumptions that shape the organization's culture can be uncovered by observing how employees interact and the choices they make, as well as by inquiring about their beliefs and perceptions regarding what is right and appropriate behavior.

Exercises

1. Why do companies need culture?
2. What does a company's internal corporate culture have to do with its external environment?
3. Give an example of a company culture being a strength and a weakness.
4. In what ways does culture serve as a controlling mechanism?
5. If assumptions are below the surface, why do they matter?
6. Share examples of artifacts you have noticed at different organizations.

Key Takeaways

Organizational culture is a system of shared assumptions, values, and beliefs that helps individuals understand which behaviors are and are not appropriate within an organization. Cultures can be a source of competitive advantage for organizations. Strong organizational cultures can be an organizing as well as a controlling mechanism for organizations. And finally, organizational culture consists of three levels: assumptions that are below the surface, values, and artifacts.

8.4 Case in Point: Google Creates Unique Culture

Case in Point: Google Creates Unique Culture

Figure 8.4.1: *"Googleplex Welcome Sign" by Ardo191, public domain.*

Google (NASDAQ: GOOG) is one of the best-known and most admired companies around the world, so much so that "googling" is the term many use to refer to searching information on the Web. What started out as a student project by two Stanford University graduates—Larry Page and Sergey Brin—in 1996, Google became the most frequently used Web search engine on the Internet with 1 billion searches per day in 2009, as well as other innovative applications such as Gmail, Google Earth, Google Maps, and Picasa. Google grew from 10 employees working in a garage in Palo Alto to 10,000 employees operating around the world by 2009. What is the formula behind this success?

Google strives to operate based on solid principles that may be traced back to its founders. In a world crowded with search engines, they were probably the first company that put users first. Their mission statement summarizes their commitment to end-user needs: "To organize the world's information and to make it universally accessible and useful." While other companies were focused on marketing their sites and increasing advertising revenues, Google stripped the search page of all distractions and presented users with a blank page consisting only of a company logo and a search box. Google resisted pop-up advertising, because the company felt that it was annoying to end-users. They insisted that all their advertisements would be clearly marked as "sponsored links." This emphasis on improving user experience and always putting it before making more money in the short term seems to have been critical to their success.

Keeping their employees happy is also a value they take to heart. Google created a unique work environment that attracts, motivates, and retains the best players in the field. Google was ranked as the number 1 "Best Place to Work For" by *Fortune* magazine in 2007 and number 4 in 2010. This is not surprising if one looks closer to how Google treats employees. On their Mountain View, California, campus called the "Googleplex," employees are treated to free gourmet food options including sushi bars and espresso stations. In fact, many employees complain that once they started working for Google, they tend to gain 10 to 15 pounds! Employees have access to gyms, shower facilities, video games, on-site child care, and doctors. Google provides 4 months of paternal leave with 75% of full pay and offers $500 for take-out meals for families with a newborn. These perks create a place where employees feel that they are treated well and their needs are taken care of. Moreover, they contribute to the feeling that they are working at a unique and cool place that is different from everywhere else they may have worked.

In addition, Google encourages employee risk taking and innovation. How is this done? When a vice president in charge of the company's advertising system made a mistake costing the company millions of dollars and apologized for the mistake, she was commended by Larry Page, who congratulated her for making the mistake and noting that he would rather run a company where they are moving quickly and doing too much, as opposed to being too cautious and doing too little. This attitude toward acting fast and accepting the cost of resulting mistakes as a natural consequence of working on the cutting edge may explain why the company is performing much ahead of competitors such as Microsoft and Yahoo! One of the current challenges for Google is to expand to new fields outside of their Web search engine business. To promote new ideas, Google encourages all engineers to spend 20% of their time working on their own ideas.

Google's culture is reflected in their decision making as well. Decisions at Google are made in teams. Even the company management is in the hands of a triad: Larry Page and Sergey Brin hired Eric Schmidt to act as the CEO of the company, and they are reportedly leading the company by consensus. In other words, this is not a company where decisions are made by the senior person in charge and then implemented top down. It is common for several small teams to attack each problem and for employees to try to influence each other using rational persuasion and data. Gut feeling has little impact on how decisions are made. In some meetings, people reportedly are not allowed to say "I think…" but instead must say "the data suggest…." To facilitate teamwork, employees work in open office environments where private offices are assigned only to a select few. Even Kai-Fu Lee, the famous employee whose defection from Microsoft was the target of a lawsuit, did not get his own office and shared a cubicle with two other employees.

How do they maintain these unique values? In a company emphasizing hiring the smartest people, it is very likely that they will attract big egos that may be difficult to work with. Google realizes that its strength comes from its "small company" values that emphasize risk taking, agility, and cooperation. Therefore, they take their hiring process very seriously. Hiring is extremely competitive and getting to work at Google is not unlike applying to a college. Candidates may be asked to write essays about how they will perform their future jobs. Recently, they targeted potential new employees using billboards featuring brain teasers directing potential candidates to a Web site where they were subjected to more brain teasers. Each candidate may be interviewed by as many as eight people on several occasions. Through this scrutiny, they are trying to select "Googley" employees who will share the company's values, perform at high levels, and be liked by others within the company.

Will this culture survive in the long run? It may be too early to tell, given that the company was only founded in 1998. The founders emphasized that their initial public offering (IPO) would not change their culture and they would not introduce more rules or change the way things are done in Google to please Wall Street. But can a public corporation really act like a start-up? Can a global giant facing scrutiny on issues including privacy, copyright, and censorship maintain its culture rooted in its days in a Palo Alto garage? Larry Page is quoted as saying, "We have a mantra: don't be evil, which is to do the best things we know how for our users, for our customers, for everyone. So I think if we were known for that, it would be a wonderful thing."

Exercises

1. Do you think Google has a strong culture? What would it take to make changes in that culture, for better or for worse?
2. Do you think Google's unique culture will help or hurt Google in the long run?
3. What are the factors responsible for the specific culture that exists in Google?
4. What type of decision-making approach has Google taken? Do you think this will remain the same over time? Why or why not?
5. Do you see any challenges Google may face in the future because of its emphasis on having a risk-taking culture

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8.5 Measuring Organizational Culture

Learning Objectives

1. Identify different dimensions of organizational culture.
2. Define the role of culture strength.
3. Differentiate between subcultures within organizations.

Dimensions of Culture

Which values characterize an organization's culture? Even though culture may not be immediately observable, identifying a set of values that might be used to describe an organization's culture helps us identify, measure, and manage culture more effectively. For this purpose, several researchers have proposed various culture typologies. One typology that has received a lot of research attention is the Organizational Culture Profile (OCP) where culture is represented by seven distinct values (Chatman & Jehn, 1991; O'Reilly, et. al., 1991).

Figure 8.5.1: *"Dimensions of Organizational Culture Profile (OCP)" by University of Minnesota CC BY-NC-SA 4.0 (O'Riley, 1991).*

Innovative Cultures

According to the OCP framework, companies that have **innovative cultures** are flexible, adaptable, and experiment with new ideas. These companies are characterized by a flat hierarchy and titles and other status distinctions tend to be downplayed. For example, W. L. Gore & Associates is a company with innovative products such as GORE-TEX® (the breathable fabric that is windproof and waterproof), Glade dental floss, and Elixir guitar strings, earning the company the distinction as the most innovative company in the United States by *Fast Company* magazine in 2004. W. L. Gore consistently manages to innovate and capture the majority of market share in a wide variety of industries, in large part because of its unique culture. In this company, employees do not have bosses in the traditional sense, and risk taking is encouraged by celebrating failures as well as successes (Deutschman, 2004). Companies such as W. L. Gore, Genentech, and Google also encourage their employees to take risks by allowing engineers to devote 20% of their time to projects of their own choosing.

Aggressive Cultures

Companies with **aggressive cultures** value competitiveness and outperforming competitors; by emphasizing this, they often fall short in corporate social responsibility. For example, Microsoft is often identified as a company with an aggressive culture. The company has faced a number of antitrust lawsuits and disputes with competitors over the years. In aggressive companies, people may use language such as “we will kill our competition.” In the past, Microsoft executives made statements such as “we are going to cut off Netscape’s air supply…Everything they are selling, we are going to give away,” and its aggressive culture is cited as a reason for getting into new legal troubles before old ones are resolved (Greene, et. al., 2004; Schlender, 1998).

Outcome-Oriented Cultures

The OCP framework describes **outcome-oriented cultures** as those that emphasize achievement, results, and action as important values. A good example of an outcome-oriented culture may be the electronics retailer Best Buy. Having a culture emphasizing sales performance, Best Buy tallies revenues and other relevant figures daily by department. Employees are trained and mentored to sell company products effectively, and they learn how much money their department made every day (Copeland, 2004). In 2005, the company implemented a Results Oriented Work Environment (ROWE) program that allows employees to work anywhere and anytime; they are evaluated based on results and fulfillment of clearly outlined objectives (Thompson, 2005). Outcome-oriented cultures hold employees as well as managers accountable for success and use systems that reward employee and group output. In these companies, it is more common to see rewards tied to performance indicators as opposed to seniority or loyalty. Research indicates that organizations that have a performance-oriented culture tend to outperform companies that are lacking such a culture (Nohria, et. al., 2003). At the same time, when performance pressures lead to a culture where unethical behaviors become the norm, individuals see their peers as rivals, and short-term results are rewarded, the resulting unhealthy work environment serves as a liability (Probst & Raisch, 2005).

Stable Cultures

Stable cultures are predictable, rule-oriented, and bureaucratic. When the environment is stable and certain, these cultures may help the organization to be effective by providing stable and constant levels of output (Westrum, 2004). These cultures prevent quick action and, as a result, may be a misfit to a changing and dynamic environment. Public sector institutions may be viewed as stable cultures. In the private sector, Kraft Foods is an example of a company with centralized decision making and rule orientation that suffered as a result of the culture-environment mismatch (Thompson, 2006). Its bureaucratic culture is blamed for killing good ideas in early stages and preventing the company from innovating. When the company started a change program to increase the agility of its culture, one of its first actions was to fight bureaucracy with more bureaucracy: The new position of vice president of “business process simplification” was created but was later eliminated (Boyle, 2004; Thompson, 2005; Thompson, 2006).

People-Oriented Cultures

People-oriented cultures value fairness, supportiveness, and respecting individual rights. In these organizations, there is a greater emphasis on and expectation of treating people with respect and dignity (Erdogan, et. al., 2006). One study of new employees in accounting companies found that employees, on average, stayed 14 months longer in companies with people-oriented cultures (Sheridan, 1992). Starbucks is an example of a people-oriented culture. The company pays employees above minimum wage, offers health care and tuition reimbursement benefits to its part-time as well as full-time employees, and has creative perks such as weekly free coffee for all associates. As a result of these policies, the company benefits from a turnover rate lower than the industry average (Weber, 2005).

Team-Oriented Cultures

Companies with a **team-oriented culture** are collaborative and emphasize cooperation among employees. For example, Southwest Airlines facilitates a team-oriented culture by cross-training its employees so that they are capable of helping one another when needed. The company also emphasizes training intact work teams (Bolino & Turnley, 2003). In Southwest's selection process, applicants who are not viewed as team players are not hired as employees (Miles & Mangold, 2005). In team-oriented organizations, members tend to have more positive relationships with their coworkers and particularly with their managers (Erdogan, et. al., 2006).

Detail-Oriented Cultures

Organizations with a **detail-oriented culture** are characterized in the OCP framework as emphasizing precision and paying attention to details. Such a culture gives a competitive advantage to companies in the hospitality industry by helping them differentiate themselves from others. For example, Four Seasons and Ritz Carlton are among hotels who keep records of all customer requests such as which newspaper the guest prefers or what type of pillow the customer uses. This information is put into a computer system and used to provide better service to returning customers. Any requests hotel employees receive, as well as overhear, might be entered into the database to serve customers better.

Strength of Culture

A **strong culture** is one that is shared by organizational members (Arogyaswamy & Byles, 1987; Chatman & Eunyoung, 2003)).—that is, a culture in which most employees in the organization show consensus regarding the values of the company. The stronger a company's culture, the more likely it is to affect the way employees think and behave. For example, cultural values emphasizing customer service will lead to higher-quality customer service if there is widespread agreement among employees on the importance of customer-service-related values (Schneider, et. al., 2002).

It is important to realize that a strong culture may act as an asset or a liability for the organization, depending on the types of values that are shared. For example, imagine a company with a culture that is strongly outcome-oriented. If this value system matches the organizational environment, the company may perform well and outperform its competitors. This is an asset as long as members are behaving ethically. However, a strong outcome-oriented culture coupled with unethical behaviors and an obsession with quantitative performance indicators may be detrimental to an organization's effectiveness. Enron is an extreme example of this dysfunctional type of strong culture.

One limitation of a strong culture is the extreme difficulty of changing it. In an organization where certain values are widely shared, if the organization decides to adopt a different set of values, unlearning the old values and learning the new ones will be a challenge because employees will need to adopt new ways of thinking, behaving, and responding to critical events. For example, Home Depot had a decentralized, autonomous culture where many business decisions were made using "gut feeling" while ignoring the available data. When Robert Nardelli became CEO of the company in 2000, he decided to change its culture starting with centralizing many of the decisions that were previously left to individual stores. This initiative met with substantial resistance, and many high-level employees left during Nardelli's first year. Despite getting financial results such as doubling the sales of the company, many of the changes he made were criticized. He left the company in January 2007 (Charan, 2006; Herman & Wernle, 2007).

A strong culture may also be a liability during a merger. During mergers and acquisitions, companies inevitably experience a clash of cultures, as well as a clash of structures and operating systems. Culture clash becomes more problematic if both parties have unique and strong cultures. For example, during the merger of Daimler-Benz with Chrysler to create DaimlerChrysler, the differing strong cultures of each company acted as a barrier to effective integration. Daimler had a strong engineering culture that was more hierarchical and emphasized routinely working long hours. Daimler employees were used to being part of an elite organization, evidenced by flying first class on all business trips. However, Chrysler had a sales culture where employees and managers were used to autonomy, working shorter hours, and adhering to budget limits that meant only the elite flew first class. The different ways of thinking and behaving in these two companies introduced a number of unanticipated problems during the integration process (Badrtalei & Bates, 2007; Bower, 2001).

Do Organizations Have a Single Culture?

So far, we have assumed that a company has a single culture that is shared throughout the organization. In reality there might be multiple cultures within the organization. For example, people working on the sales floor may experience a different culture from that experienced by people working in the warehouse. Cultures that emerge within different departments, branches, or geographic locations are called **subcultures**. Subcultures may arise from the personal characteristics of employees and managers, as well as the different conditions under which work is performed. In addition to understanding the broader organization's values, managers will need to make an effort to understand subculture values to see their effect on workforce behavior and attitudes.

Sometimes, a subculture may take the form of a **counterculture**. Defined as shared values and beliefs that are in direct opposition to the values of the broader organizational culture (Kerr, et. al., 2005), countercultures are often shaped around a charismatic leader. For example, within a largely bureaucratic organization, an enclave of innovativeness and risk taking may emerge within a single department. A counterculture may be tolerated by the organization as long as it is bringing in results and contributing positively to the effectiveness of the organization. However, its existence may be perceived as a threat to the broader organizational culture. In some cases, this may lead to actions that would take away the autonomy of the managers and eliminate the counterculture.

Key Takeaways

Culture can be understood in terms of seven different culture dimensions, depending on what is most emphasized within the organization. For example, innovative cultures are flexible, adaptable, and experiment with new ideas, while stable cultures are predictable, rule-oriented, and bureaucratic. Strong cultures can be an asset or liability for an organization but are even more challenging to change. Multiple cultures may coexist in a single organization in the form of subcultures and countercultures.

Exercises

1. Think about an organization you are familiar with. On the basis of the dimensions of OCP, how would you characterize its culture?
2. Out of the culture dimensions described, which dimension do you think would lead to higher levels of employee satisfaction and retention? Which one would be related to company performance?
3. What are pros and cons of an outcome-oriented culture?
4. When bureaucracies were first invented, they were considered quite innovative. Do you think that different cultures are more or less effective at different points in time and in different industries? Why or why not?
5. Can you imagine an effective use of subcultures within an organization?

8.6 Creating and Maintaining Organizational Culture

Learning Objectives

1. Identify how cultures are created.
2. Explain how to maintain a culture.
3. Recognize organizational culture signs.

How Are Cultures Created?

Where do cultures come from? Culture is considered to be one of the most difficult things to change in an organization, so understanding this question is important in understanding how to create change . An organization's culture is shaped as the organization faces external and internal challenges and learns how to deal with them. When the organization's way of doing business provides a successful adaptation to environmental challenges and ensures success, those values are retained. These values and ways of doing business are taught to new members as *the* way to do business (Schein, 1992).

The factors that are most important in the creation of an organization's culture include founder and leaders' values, preferences, and industry demands.

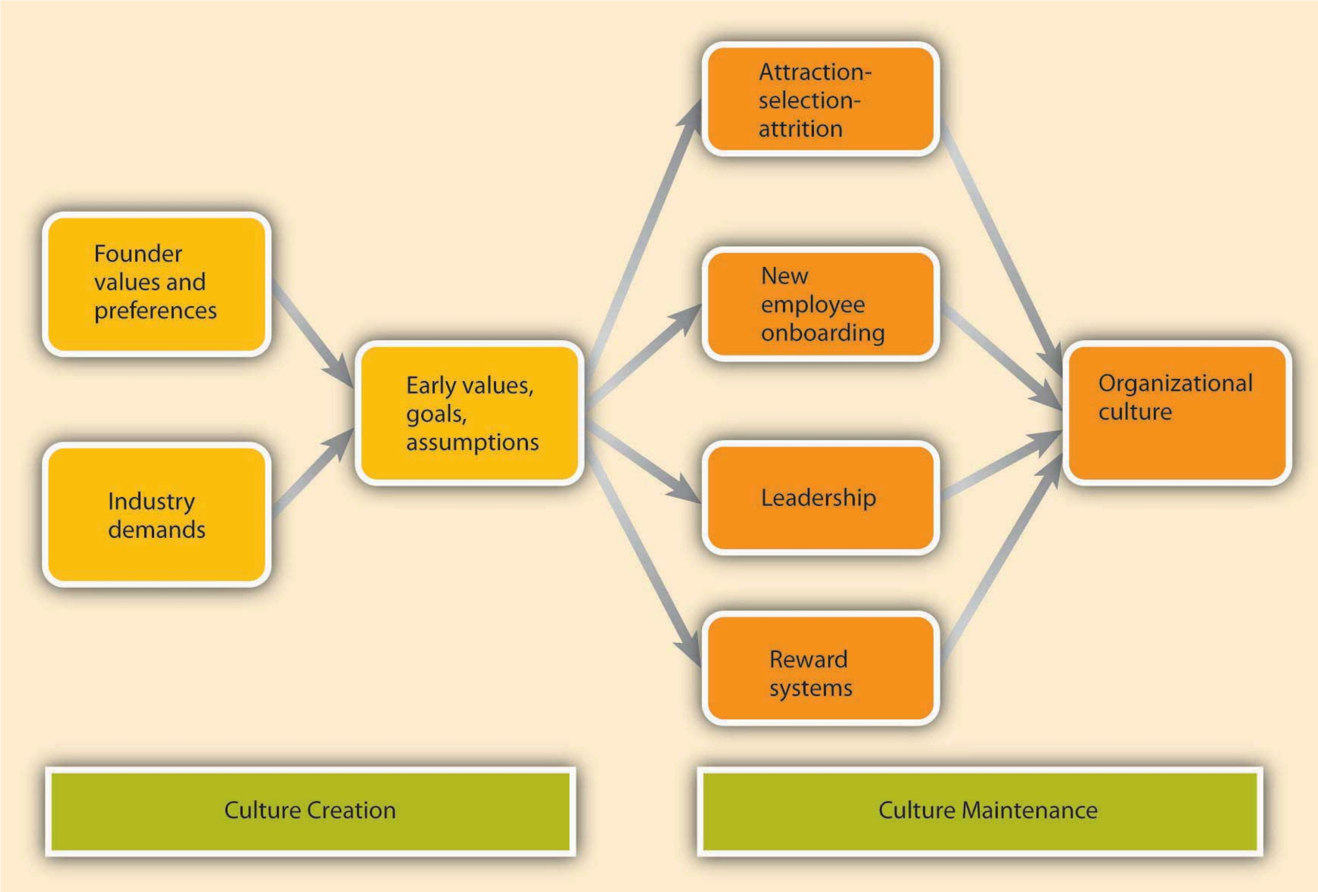


Figure 8.6.1: *Model Describing How Cultures Are Created and Maintained*

Founder Values

A company's culture, particularly during its early years, is inevitably tied to the personality, background, and values of its founder or founders, as well as their vision for the future of the organization. When entrepreneurs establish their own businesses, the way they want to do business determines the organization's rules, the structure set up in the company, and the people they hire to work with them. For example, some of the existing corporate values of the ice cream company Ben & Jerry's Homemade Holdings Inc. can easily be traced to the personalities of its founders Ben Cohen and Jerry Greenfield. In 1978, the two high school friends opened up their first ice-cream shop in a renovated gas station in Burlington, Vermont. Their strong social convictions led them to buy only from the local farmers and devote a certain percentage of their profits to charities. The core values they instilled in their business can still be observed in the current company's devotion to social activism and sustainability, its continuous contributions to charities, use of environmentally friendly materials, and dedication to creating jobs in low-income areas. Even though Unilever acquired the company in 2000, the social activism component remains unchanged and Unilever has expressed its commitment to maintaining it (Kiger, 2005; Rubis, et. al., 2005; Smalley, 2007).

Founder values become part of the corporate culture to the degree to which they help the company be successful. For example, the values of Ben and Jerry's would not be surviving 3 decades later if they had not helped the company in its initial stages. Ben and Jerry's social activism helped distinguish their brand from larger corporate brands and attracted a loyal customer base. Thus, by providing a competitive advantage, these values were retained as part of the corporate culture and were taught to new members as the right way to do business.

Industry Demands

While founders and leaders undoubtedly exert a powerful influence over corporate cultures, the industry characteristics also play a role. Companies within the same industry can sometimes have widely differing cultures. At the same time, the industry characteristics and demands act as a force to create similarities among organizational cultures. For example, despite some differences, many companies in the insurance and banking industries are stable and rule-oriented, many companies in the high-tech industry have innovative cultures, and those in nonprofit industry may be people-oriented. If the industry is one with a large number of regulatory requirements—for example, banking, health care, and high-reliability (such as nuclear power plant) industries—then we might expect the presence of a large number of rules and regulations, a bureaucratic company structure, and a stable culture. The industry influence over culture is also important to know because this shows that it may not be possible to imitate the culture of a company in a different industry, even though it may seem admirable to outsiders.

How Are Cultures Maintained?

As a company matures, its cultural values are refined and strengthened. The early values of a company's culture exert influence over its future values. It is possible to think of organizational culture as an organism that protects itself from external forces. Organizational culture determines what types of people are hired by an organization and what types of people are left out. Moreover, once new employees are hired, the company assimilates new employees and teaches them the way things are done in the organization. We call these processes *attraction-selection-attrition* and *onboarding* processes. We will also examine the role of *leaders* and *reward systems* in shaping and maintaining an organization's culture.

Attraction-Selection-Attrition

Organizational culture is maintained through a process known as attraction-selection-attrition (ASA). First, employees are *attracted* to organizations where they will fit in. Someone who has a competitive nature may feel comfortable in and may prefer to work in a company where interpersonal competition is the norm. Others may prefer to work in a team-oriented workplace. Research shows that employees with different personality traits find different cultures attractive. For example, out of the Big Five personality traits, employees who demonstrate neurotic personalities were less likely to be attracted to innovative cultures, whereas those who had openness to experience were more likely to be attracted to innovative cultures (Judge & Cable, 1997).

Of course, this process is imperfect, and value similarity is only one reason a candidate might be attracted to a company. There may be other, more powerful attractions such as good benefits. At this point in the process, the second component of the ASA framework prevents them from getting in: *selection*. Just as candidates are looking for places where they will fit in, companies are also looking for people who will fit into their current corporate culture. Many companies are hiring people for **fit** with their culture, as opposed to fit with a certain job. For example, Southwest Airlines prides itself for hiring employees based on personality and attitude rather than specific job-related skills, which they can learn after they are hired. Companies use different techniques to weed out candidates who do not fit with corporate values. For example, Google relies on multiple interviews with future peers. By introducing the candidate to several future coworkers and learning what these coworkers think of the candidate, it becomes easier to assess the level of fit.

Even after a company selects people for person-organization fit, there may be new employees who do not fit in. Some candidates may be skillful in impressing recruiters and signal high levels of culture fit even though they do not necessarily share the company's values. In any event, the organization is eventually going to eliminate candidates eventually who do not fit in through *attrition*. Attrition refers to the natural process where the candidates who do not fit in will leave the company. Research indicates that person-organization misfit is one of the important reasons for employee turnover (Kristof-Brown, et. al., 2005; O'Reilly, et. al., 1991).

Because of the ASA process, the company attracts, selects, and retains people who share its core values, whereas those people who are different in core values will be excluded from the organization either during the hiring process or later on through naturally occurring turnover. Thus, organizational culture will act as a self-defending organism where intrusive elements are kept out. Supporting the existence of such self-protective mechanisms, research shows that organizations demonstrate a certain level of homogeneity regarding personalities and values of organizational members (Giberson, et. al., 2005).

New Employee Onboarding

Another way in which an organization's values, norms, and behavioral patterns are transmitted to employees is through **onboarding** (also referred to as the *organizational socialization process*). Onboarding refers to the process through which new employees learn the attitudes, knowledge, skills, and behaviors required to function effectively within an organization. If an organization can successfully socialize new employees into becoming organizational insiders, new employees will feel accepted by their peers and confident regarding their ability to perform; they will also understand and share the assumptions, norms, and values that are part of the organization's culture. This understanding and confidence in turn translate into more effective new employees who perform better and have higher job satisfaction, stronger organizational commitment, and longer tenure within the company (Bauer, et. al., 2007). Organizations engage in different activities to facilitate onboarding, such as implementing orientation programs or matching new employees with mentors.

What Can Employees Do During Onboarding?

New employees who are proactive, seek feedback, and build strong relationships tend to be more successful than those who do not (Bauer & Green, 1998; Kammeyer-Mueller & Wanberg, 2003; Wanberg & Kammeyer-Mueller, 2000). For example, *feedback seeking* helps new employees. Especially on a first job, a new employee can make mistakes and may find it hard to understand and interpret the ambiguous reactions of coworkers. By actively seeking feedback, new employees may find out sooner rather than later any behaviors that need to be changed and gain a better understanding of whether their behavior fits with the company culture and expectations.

Relationship building or *networking* (a facet of the organizing function) is another important behavior new employees may demonstrate. Particularly when a company does not have a systematic approach to onboarding, it becomes more important for new employees to facilitate their own onboarding by actively building relationships. According to one estimate, 35% of managers who start a new job fail in the new job and either voluntarily leave or are fired within one and a half years. Of these, over 60% report not being able to form effective relationships with colleagues as the primary reason for this failure (Fisher, 2005).

What Can Organizations Do During Onboarding?

Many organizations, including Microsoft, Kellogg Company, and Bank of America take a more structured and systematic approach to new employee onboarding, while others follow a “sink or swim” approach where new employees struggle to figure out what is expected of them and what the norms are.

A **formal orientation program** indoctrinates new employees to the company culture, as well as introducing them to their new jobs and colleagues. An orientation program has a role in making new employees feel welcome in addition to imparting information that may help them be successful in their new jobs. Many large organizations have formal orientation programs consisting of lectures, videotapes, and written material, while some may follow more informal approaches. Research shows that formal orientation programs are helpful in teaching employees about the goals and history of the company, as well as communicating the power structure. Moreover, these programs may also help with a new employee’s integration to the team. These benefits may not be realized to the same extent in computer-based orientations. Compared to face-to-face orientation, those undergoing a computer-based orientation were shown to have lower understanding of their job and the company, indicating that different formats of orientations may not substitute for each other (Klein & Weaver, 2000; Moscato, 2005; Wesson & Gogus, 2005).

What Can Organizational Insiders Do During Onboarding?

One of the most important ways in which organizations can help new employees adjust to a company and a new job is through *organizational insiders*—namely, supervisors, coworkers, and mentors. Leaders have a key influence over onboarding and the information and support they provide determine how quickly employees learn about the company politics and culture, while coworker influence determines the degree to which employees adjust to their teams. **Mentors** can be crucial to helping new employees adjust by teaching them the ropes of their jobs and how the company really operates. A mentor is a trusted person who provides an employee with advice and support regarding career-related matters. Mentoring can occur naturally between two interested individuals or organizations can facilitate this process with a formal mentoring program.

Research indicates that certain program characteristics that may make these programs more effective. For example, when mentors and protégés feel that they had input in the mentor-protégé matching process, they tend to be more satisfied with the arrangement. Moreover, when mentors receive training beforehand, the outcomes of the program tend to be more positive (Allen, et. al., 2006). Because mentors may help new employees interpret and understand the company's culture, organizations may benefit from selecting mentors who personify the company's values. Thus, organizations may need to design these programs carefully to increase their chance of success.

Leadership and Culture

Leaders are instrumental in creating and changing an organization's culture. There is a direct correspondence between the leader's style and an organization's culture. For example, when leaders motivate employees through inspiration, corporate culture tends to be more supportive and people-oriented. When leaders motivate by making rewards contingent on performance, the corporate culture tends to be more performance-oriented and competitive (Sarros, et. al., 2002). In these and many other ways, what leaders do directly influences the cultures of their organizations. This is a key point to remember.

Part of the leader's influence over culture is through role modeling. Many studies have suggested that leader behavior, the consistency between organizational policy and leader actions, and leader role modeling determine the degree to which the organization's culture emphasizes ethics (Driscoll & McKee, 2007). The leader's own behaviors will signal to individuals what is acceptable behavior and what is unacceptable. In an organization in which high-level managers make the effort to involve others in decision making and seek opinions of others, a team-oriented culture is more likely to evolve. By acting as role models, leaders send signals to the organization about the norms and values that are expected to guide the actions of its members.

Leaders also shape culture by their reactions to the actions of others around them. For example, do they praise a job well done or do they praise a favored employee regardless of what was accomplished? How do they react when someone admits to making an honest mistake? What are their priorities? In meetings, what types of questions do they ask? Do they want to know what caused accidents so that they can be prevented, or do they seem more concerned about how much money was lost because of an accident? Do they seem outraged when an employee is disrespectful to a coworker, or does their reaction depend on whether they like the harasser? Through their day-to-day actions, leaders shape and maintain an organization's culture.

Reward Systems

Finally, the company culture is shaped by the type of reward systems used in the organization and the kinds of behaviors and outcomes it chooses to reward and punish. One relevant element of the reward system is *whether the organization rewards behaviors or results*. Some companies have reward systems that emphasize intangible elements of performance as well as more easily observable metrics. In these companies, supervisors and peers may evaluate an employee's performance by assessing the person's behaviors as well as the results. In such companies, we may expect a culture that is relatively people- or team-oriented, and employees act as part of a family (Kerr & Slocum, 2005). However, in companies in which goal achievement is the sole criterion for reward, there is a focus on measuring only the results without much regard to the process. In these companies, we might observe outcome-oriented and competitive cultures. *Whether the organization rewards performance or seniority* would also make a difference in culture. When promotions are based on seniority, it would be difficult to establish a culture of outcome orientation. Finally, *the types of behaviors that are rewarded or ignored* set the tone for the culture. Which behaviors are rewarded, which ones are punished, and which are ignored will determine how a company's culture evolves. A reward system is one tool managers can wield when undertaking the controlling function.

Signs of Organizational Culture

How do you find out about a company's culture? As mentioned, culture influences the way members of the organization think, behave, and interact with one another. Thus, one way of finding out about a company's culture is by observing employees or interviewing them. At the same time, culture manifests itself in some visible aspects of the organization's environment. In this section, we discuss five ways in which culture shows itself to observers and employees.

Mission Statement

A **mission statement** is a statement of purpose, describing who the company is and what it does, and serves an important function for organizations. While many companies have mission statements, they do not always reflect the company's values and its purpose. An effective mission statement is well known by employees, is communicated to all employees starting from their first day at work, and has a direct influence on employee behavior.

Some mission statements reflect who the company wants to be (and possibly who its leaders want to be or at least *appear* to be), as opposed to who they actually are. If the mission statement does not affect employee behavior on a day-to-day basis, it has little usefulness as a tool for understanding the company's culture. Enron provided an often-cited example of a disconnect between a company's mission statement and how the company actually operated. Their missions and values statement started with "As a partner in the communities in which we operate, Enron believes it has a responsibility to conduct itself according to certain basic principles." Their values statement included such ironic declarations as "We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here (Kunen, 2002)." Read more about Enron leaders' infamous lack of connection to the company's mission statement, the Zappos culture's positive effect on ethics, as well as the effect culture has on the values displayed by employees in general.

Figure 8.6.2: *Tradition is important at Mary Kay Cosmetics. Pink Cadillacs are given to top performers at large annual events.*
"Pink 1963 Cadillac" by Phillip Pessar, licensed under CC BY 2.0.

Rituals

Rituals refer to repetitive activities within an organization that have symbolic meaning (Anand, 2005). Usually rituals have their roots in the history of a company's culture. They create camaraderie and a sense of belonging among employees. They also serve to teach employees corporate values and create identification with the organization. For example, at the cosmetics firm Mary Kay Inc., employees attend ceremonies recognizing their top salespeople with an award of a new car—traditionally a pink Cadillac. These ceremonies are conducted in large auditoriums where participants wear elaborate evening gowns and sing company songs that create emotional excitement. During this ritual, employees feel a connection to the company culture and its values such as self-determination, willpower, and enthusiasm (Jarnagin & Slocum, 2007). Another example of rituals is the Saturday morning meetings of Walmart. This ritual was first created by the company founder Sam Walton, who used these meetings to discuss which products and practices were doing well and which required adjustment. He was able to use this information to make changes in Walmart's stores before the start of the week, which gave him a competitive advantage over rival stores who would make their adjustments based on weekly sales figures during the middle of the following week. As a ritual, the meetings help maintain a small-company atmosphere, ensure employee involvement and accountability, communicate a performance orientation, and demonstrate taking quick action (Schlender, 2005).

Rules and Policies

Another way in which an observer may find out about a company's culture is to examine its rules and policies. Companies create rules to determine acceptable and unacceptable behavior and, thus, the rules that exist in a company will signal the type of values it has. Policies about issues such as decision making, human resources, and employee privacy reveal what the company values and emphasizes. For example, a company that has a policy such as "all pricing decisions of merchandise will be made at corporate headquarters" is likely to have a centralized culture that is hierarchical, as opposed to decentralized and empowering. The presence or absence of policies on sensitive issues such as English-only rules, bullying and unfair treatment of others, workplace surveillance, open-door policies, sexual harassment, workplace romances, and corporate social responsibility all provide pieces of the puzzle that make up a company's culture.

Impact of HR Practices on Organizational Culture

Below are scenarios of critical decisions you may need to make as a leader one day. Read each question and select one response from each pair of statements. Then, think about the effect your choice would have on the company's culture as well as on your reputation as a leader and relationship with your team.

1. Your company needs to lay off 10 people. Would you
   - lay off the newest 10 people?
   - lay off the 10 people who have the lowest performance evaluations?
2. You're asked to establish a dress code. Would you
   - ask employees to use their best judgment?
   - create a detailed dress code highlighting what is proper and improper?
3. You need to monitor employees during work hours. Would you
   - not monitor them because they are professionals and you trust them?
   - install a program monitoring their Web usage to ensure that they are spending work hours actually doing work?
4. You're preparing performance appraisals. Would you
   - evaluate people on the basis of their behaviors?
   - evaluate people on the basis of the results (numerical sales figures, etc.)?
5. Who will be promoted? Would you promote individuals based on
   - seniority?
   - objective performance?

Are there better options that are not listed?

Physical Layout

A company's building, layout of employee offices, and other workspaces communicate important messages about a company's culture. For example, visitors walking into the Nike campus in Beaverton, Oregon, can witness firsthand some of the distinguishing characteristics of the company's culture. The campus is set on 74 acres and boasts an artificial lake, walking trails, soccer fields, and cutting-edge fitness centers. The campus functions as a symbol of Nike's values such as energy, physical fitness, an emphasis on quality, and a competitive orientation. In addition, at fitness centers on the Nike headquarters, only those using Nike shoes and apparel are allowed in. This sends a strong signal that loyalty is expected. The company's devotion to athletes and their winning spirit are manifested in campus buildings named after famous athletes, photos of athletes hanging on the walls, and their statues dotting the campus (Capowski, 1993; Collins & Porras, 1996 Labich & Carvell, 1995; Mitchell, 2002).

The layout of the office space also is a strong indicator of a company's culture. A company that has an open layout where high-level managers interact with employees may have a culture of team orientation and egalitarianism, whereas a company where most high-level managers have their own floor may indicate a higher level of hierarchy. Microsoft employees tend to have offices with walls and a door because the culture emphasizes solitude, concentration, and privacy. In contrast, Intel is famous for its standard cubicles, which reflect its egalitarian culture. The same value can also be observed in its avoidance of private and reserved parking spots (Clark, 2007). The degree to which playfulness, humor, and fun are part of a company's culture may be indicated in the office environment. For example, Jive Software boasts a colorful, modern, and comfortable office design. Their break room is equipped with a keg of beer, free snacks and sodas, and gaming devices. A casual observation of their work environment sends the message that employees who work there see their work as fun (Jive Software, 2008).

Stories and Language

Perhaps the most colorful and effective way in which organizations communicate their culture to new employees and organizational members is through the skillful use of stories. A story can highlight a critical event an organization faced and the organization's response to it, or a heroic effort of a single employee illustrating the company's values. The stories usually engage employee emotions and generate employee identification with the company or the heroes of the tale. A compelling story may be a key mechanism through which managers motivate employees by giving their behavior direction and by energizing them toward a certain goal (Beslin, 2007). Additionally, stories shared with new employees communicate the company's history, its values and priorities, and create a bond between the new employee and the organization. For example, you may already be familiar with the story of how a scientist at 3M invented Post-it notes. Arthur Fry, a 3M scientist, was using slips of paper to mark the pages of hymns in his church choir, but they kept falling off. He remembered a superweak adhesive that had been invented in 3M's labs, and he coated the markers with this adhesive. Thus, the Post-it notes were born. However, marketing surveys for the interest in such a product were weak and the distributors were not convinced that it had a market. Instead of giving up, Fry distributed samples of the small yellow sticky notes to administrative assistants throughout his company. Once they tried them, people loved them and asked for more. Word spread and this led to the ultimate success of the product. As you can see, this story does a great job of describing the core values of a 3M employee: Being innovative by finding unexpected uses for objects, persevering, and being proactive in the face of negative feedback (Higgins & McAllester, 2002).

Language is another way to identify an organization's culture. Companies often have their own acronyms and buzzwords that are clear to them and help set apart organizational insiders from outsiders. In business, this code is known as jargon. Jargon is the language of specialized terms used by a group or profession. Every profession, trade, and organization has its own specialized terms.

Exercises

1. Do you think it is a good idea for companies to emphasize person-organization fit when hiring new employees? What advantages and disadvantages do you see when hiring people who fit with company values?
2. What is the influence of company founders on company culture? Give examples based on your personal knowledge.
3. What are the methods companies use to aid with employee onboarding? What is the importance of onboarding for organizations?
4. What type of a company do you feel you would fit in? What type of a culture would be a misfit for you? In your past work experience, were there any moments when you felt that you did not fit in? Why?
5. What is the role of physical layout as an indicator of company culture? What type of a physical layout would you expect from a company that is people-oriented? Team-oriented? Stable?

Key Takeaways

Organizational cultures are created by a variety of factors, including founders' values and preferences, industry demands, and early values, goals, and assumptions. Culture is maintained through attraction-selection-attrition, new employee onboarding, leadership, and organizational reward systems. Signs of a company's culture include the organization's mission statement, stories, physical layout, rules and policies, and rituals.

8.7 Creating a Culture of Diversity

Canada and the US are incredibly diverse countries, with residents and citizens coming to both nations from virtually every part of the world. Colleges and universities are perhaps even more diverse than communities. Undergraduate and graduate students travel from Asia, Europe, Africa, and South America to study. Both countries are diverse, however Canadian workplaces are becoming even more diverse due to one of the highest immigration rates in the world, and because many companies work with or have divisions around the globe (BBC News, 2019). There are great benefits to diversity, but differences can also create challenges.

What Is Diversity in the Workplace?

Figure 8.7.1: *Cultural diversity is important. "Woman in Red and Blue Hijab" by cottonbro, Pexels License.*

Leaders who oversee a diverse workforce may find certain advantages and challenges in their jobs. Until the 1950s and 1960s, diversity was not considered an issue. In general, people *were* hired based on their gender, race, social status, and religion. Women were often asked to leave their jobs if they married or became pregnant. No accommodation was made for disability except by special arrangement. Fast-forward to the twenty-first century, and diversity in the workplace is not just a matter of ethics. Diversity is required by law and is a recommended strategy. Diversity is required by law and is a recommended strategy. In the US, Federally protected classes include race, colour, religion or creed, national origin or ancestry, gender, age, disability, veteran status, and, in two cases, genetic information. In Canada there are four designated groups protected by the Employment Equity Act: women, members of visible minorities, persons with disabilities and Aboriginal peoples. The laws in both countries are in response to discrimination, but diversity is also considered an asset in running a business.

Many experts recommend diversity as a long-term strategy. They use a broader meaning of diversity, which adds personality, cognitive style, education, social background, and more. For example, the largest companies make a point of hiring from many colleges. Even if Harvard produced the best individual candidates, companies would still hire from many colleges. The diversity of training and connections are strengths, not shortcomings.

A diverse workplace isn't always easy to achieve, as some locations, industries, and positions tend to attract people of certain backgrounds. To diversify the workplace, some companies make a significant effort to reach out to diverse communities. For example, they might reach out to the veterans community, which includes thousands of individuals of all backgrounds, many of whom have solid training and experience.

The explosive growth in global trade means that large corporations began sending more employees abroad, outsourcing work to other countries, and hiring foreign workers to bring their skill sets to help fill gaps in the workforce. Meanwhile, changing norms and laws improved the status of women in the workplace, and made it both acceptable and legal to be out, gay, and married. Federal law has made it necessary for businesses to accommodate individuals with disabilities through the addition of elevators, ramps, Braille signage, flexible work settings and hours, and more.

With so many requirements for diversity, most businesses now employ a very wide range of people, but the reality is that a diverse workplace brings both challenges and opportunities.

Advantages of Employee Diversity

The Boston Consulting Group (2017), a management consulting firm, takes an approach to diversity that borrows from ecology. First, diversity builds resilience. Enduring systems comprise a broad variety of agents, which behave and respond to external stimuli in varying ways. As a result, a challenge to the system is less likely to break it. Second, diversity is the basis of adaptiveness. Diversity of problem-solving heuristics and behavior permits a system to evolve and learn from experience. Internal variety—diversity—provides the grist for the system to test ideas and actions and select the most effective in each environment.

When a workplace employs only people of similar background, education, and lifestyle, it's easy for employees to reinforce one another's preconceptions and prejudices. When people of different cultures and backgrounds are valued and heard, however, new ideas and opportunities emerge. The Peterson Institute for International Economics (2016) studied the impact of female executives in ninety-one countries and almost twenty-two thousand firms. The firms with more women in corporate leadership did better. A study of this kind cannot determine cause and effect. For example, better performance may result from the nondiscrimination policies and a more open culture, but diversity is a winning strategy either way. Here are some ways that diversity can positively impact an organization:

- ***Diversity enhances creativity.*** People from different places, ethnicities, and lifestyles can bring fresh ideas to an older corporation. Could a product be made to appeal to a whole new demographic? How might a particular service be advertised to a new ethnic market or the disabled community? By including people of different backgrounds in the conversation, managers get valuable insights into different points of view.
- ***Diversity enhances image.*** Today's marketplace is diverse; so, too, are customers. When a company can present itself as diverse, clients and buyers respond positively.
- ***Diversity improves outreach.*** Employees from different parts of the world or different communities can help a corporation to understand and reach out to new markets.
- ***Diversity improves morale.*** When employees of all backgrounds and abilities feel valued, they are more likely to be loyal, engaged, and productive. Employees are also more likely to feel a sense of pride and belonging when they are associated with an employer that clearly cares about the well-being of all.

Exercises

1. Challenges of Employee Diversity
2. Differences can fuel battles and even wars. That's true in the political arena, and it can also be true in the workplace. Problems that can arise with a diverse workplace include difficulty with communication, different work styles or work ethics. Small issues, such as different smells in the lunchroom, can quickly escalate if not managed appropriately.
3. Differences in culture can also lead to miscommunication. For example, Americans value eye contact—even with members of the opposite sex. But in many Asian and Middle Eastern

countries, direct eye contact is considered to be disrespectful. Direct eye contact with someone of the opposite sex may even be seen as flirting. It’s very important, therefore, to provide diversity training to avoid serious social gaffes and challenges.

4. Work styles can also vary from culture to culture. Although many Asians and Central Americans work in groups and value consensus, most Germans and Americans prefer to work independently. Some cultures place a high value on order, organization, and method whereas others emphasize spontaneity and flexible thinking.
5. Another serious challenge lies in diversity in management. Typically, top leadership has been white and male whereas lower level workers may be female or nonwhite. This is changing, but not quickly enough.
6. Fortunately, many of the challenges of employee diversity can be foreseen and managed through employee training and diversity-oriented company policies. It’s important, however, for management to think ahead rather than assume that a diverse workforce will work well without any intervention.

Additional Resources

Learning for Justice – They provide information on topics such as race and ethnicity, religion, ability, class, gender and sexual identity, bullying and bias, etc. and are a great resource.

8.8 Gender and Sexual Orientation

Gender

Increasingly more women are entering the workforce (U.S. Department of Labor, Bureau of Labor Statistics, 2017). This is true in Canada and the United States, with both countries having very similar statistics. In 2018, according to the World Bank (2019), the participation rate of women aged 15 and above in the Canadian labor force was 61% and that of men was 70%. At the same time, 59% of women were part-time workers. In the United States, the labor force participation rate of women aged 15 and above in 2018 was 56%, and men's participation rate was 68%; 59% of women aged 15 and above worked part-time (U.S. Bureau of Labor Statistics, 2019).

Despite the fact women are entering the labor force in greater numbers and earning bachelor's degrees (in Canada, *all* degrees) at a higher rate than men (DeWolf, 2017. Moyer, 2017), women still face a number of challenges at work. The lack of advancement opportunities awarded to qualified women is an example of a major challenge that women face called the glass ceiling (Eagly et al., 2002), which is an invisible barrier based on the prejudicial beliefs that underlie organizational decisions that prevent women from moving beyond certain levels within a company. Additionally, in organizations in which the upper-level managers and decision makers are still predominantly men, women are less likely to find mentors, which are instrumental for networking and learning about career opportunities. Organizations can mitigate this challenge by providing mentors for all new employees. Such a policy would help create a more equal playing field for all employees as they learn to orient themselves and navigate within the organization. Here is an interesting article on corporate leadership and gender.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=691#oembed-1

Watch this video: Canadian women on the gender pay gap, and how we can fix it by Maclean's [5:24] (transcript available)

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=691#oembed-2

Watch this video: Study Reveals Steep U.S. Gender Pay Gaps Especially Among Women Of Color by NBC News [3:40] (transcript available)

One factor that greatly affects women in organizations is sexual harassment. Sexual harassment is illegal, and workers are protected from it by federal legislation in both countries. Despite federal laws, sexual harassment remains an issue, as was displayed recently with the Harvey Weinstein case and the subsequent "Me too" movement. Different types of sexual harassment can occur at work, some of which have been commonplace behaviors in the past, and which may not be recognized as offensive by all employees. Telling lewd jokes, sharing or posting pornographic material, sexist comments, or unwanted touching are generally understood to be harassment, however other unwelcome activities such as making offensive comments about women (or men) in general, whistling, calling someone a "babe", "honey" or a "hunk", persistent invitations on dates, etc. are also examples of actions that are considered to create an offensive work environment.

Although both men and women can be sexually harassed, women are sexually harassed at work more often (Feldbulm et al., 2016). In addition, Black and other minority women are especially likely to be subjected to sexual discrimination and harassment (Hernandez, 2000). **Quid pro quo harassment** refers to the exchange of rewards such as hiring or promotions for sexual favors, or punishments such as demotions for refusal to grant sexual favors. Harassment that creates a hostile environment refers to behaviors that create an abusive work climate.

The treatment of women in business has become a hot topic in corporate boardrooms, human resources departments, and investment committees. Also on the agenda: the need to improve diversity and inclusion across the board and breaking through the glass ceiling. It is in the organization's best interest to prevent sexual harassment from occurring. Ways to do this include companies providing ongoing (e.g., annual) training so that employees are able to recognize sexual harassment. Employees should know what constitutes acceptable and unacceptable behavior and what channels and protocols are in place for reporting unacceptable behaviors. Leaders should understand their role and responsibilities regarding harassment prevention, and a clear and understandable policy should be communicated throughout the organization.

Just as gender-based discrimination is illegal and inappropriate, so is discrimination or mistreatment based on pregnancy, childbirth, or related medical conditions – all of the above are protected under federal legislation.

Sexual Orientation and Gender Identity

Figure 8.8.1: *"Realistic lgtbiq pride flag" by Vectorium, under Freepik Agreement.*

Sexual orientation diversity is increasing in the workforce. In June, 2020, the US Supreme Court ruled that the Civil Rights Act prohibits discrimination based on sexual orientation and gender identity to help ensure individuals cannot be discriminated against for employment or fired for their sexual orientation, gender identity, or gender expression (Ragins et al., 2003), however lesbian, gay, bisexual and transgender, queer/questioning and other (LGBTQ+) employees, still face other types of discrimination inside and outside of the workplace. In Canada, there is an anti-discrimination measure in the Human Rights' Act that also prohibits discrimination based on gender and sexual orientation, including wage discrepancies. Section 11 of the Canadian Human Rights' Act states that, "It is discriminatory practice for an employer to establish or maintain differences in wages between male and female employees employed in the same establishment who are performing work of equal value"(Openstax, 2019). In the modern landscape, people identify as many different genders. Although not explicitly stated, gender protection falls under the general purpose of the act.

How do do leaders manage all of this? It is important for them to really know their organizational members, and be reasonable with requests. If someone would like to be called a different name, or alternate name, in substitution of her or his given name, that is reasonable. Choosing to use a variety of pronouns is becoming more and more common. There are many goals within an organization that need to be achieved by all members, and it is best to resolve any conflicts based on sex and gender efficiently and effectively for all parties to return to a cohesive unit.

More than half of the Fortune 500 companies have corporate policies that protect sexual minorities from discrimination at work and offer domestic-partner benefits (Human Rights Campaign Foundation, 2017). Many employers are beginning to understand that being perceived as inclusive will make them more attractive to a larger pool of job applicants (Button, 2001). Furthermore, many organizations have come to recognize that gender and sexual orientation equity aligns to their mission and ethics.

Compared to heterosexuals, sexual minorities have higher education levels (Black et al., 2000) but still face hiring and treatment discrimination frequently (Ragins et al., 2011). LGBTQ+ employees are often faced with the decision of whether or not to be truthful about their sexual orientation at work for fear of being stigmatized and treated unfairly. To be clear, any stigmatization is the fault of the people who mistreat others, and sometimes even the organization itself. But as a result, LGTBQ+ individuals may choose to engage in what is sometimes called passing, or the decision not to disclose something about oneself. Passing often involves a great risk of emotional strain that can affect performance and wellbeing (Clair et al., 2005). Individuals who pass may distance themselves from coworkers or clients to avoid disclosure about their personal life. This behavior can also result in decreased networking and mentoring opportunities, which over time can limit advancement opportunities. The decision to be transparent about sexual orientation is sometimes called revealing (Ibid). Just like passing, revealing has its own set of risks including being ostracized, stigmatized, and subjected to other forms of discrimination at work. However, compared to passing, the benefits of building relationships at work and using their identity as a catalyst for tolerance and progressive organizational change may outweigh the risks when LGBTQ+ employees decide to reveal. The decision to “come out” should be made exclusively by the individual; “outing” someone else as any sexual orientation or gender identity is considered highly inappropriate and hurtful, and may have employment-related consequences.

Research shows that when laws are passed to prevent sexual orientation discrimination, incidents of workplace discrimination decrease (Barron et al., 2013). This same effect occurs when firms adopt policies that protect the rights of sexual minority employees (Button, 2001). By creating a safe and inclusive work environment for LGBTQ+ employees, companies can create a culture of tolerance and trust for all employees regardless of their sexual orientation or gender identity.

LEADING CHANGE: *Removing Bias In Recruiting*

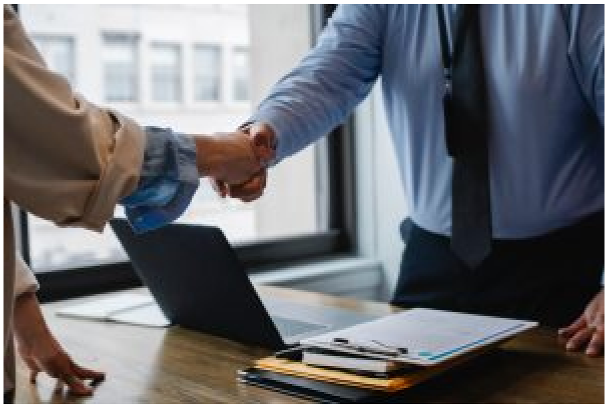


Figure 8.8.2: *Recruitment process. "Crop colleagues shaking hands in office" by Sora Shimazaki, Pexels License.*

An increasing number of companies are using innovative new methods of recruiting. In many cases, firms remove any identifying information about applicants during the recruitment process. An example of this may include anonymous applications that omit fields requesting information such as an applicant's name. Using computer application technology, some companies like Google administer surveys to their anonymous applicants that measure the abilities required for the job before they are considered in the next step of the recruitment process. Alternatively, companies may request that applicants remove identifying information such as names and address from their resumes before applying for positions. As resumes are received, hiring managers can assign a temporary identification number. A recruitment process like this can help organizations attract more candidates, hire the best talent, increase their workplace diversity, and avoid discrimination liability.

In other efforts, organizations work to alter their job descriptions to remove terms that result in gender or other biases. By involving diversity and equity experts, and sometimes using artificial intelligence-based language analysis, recruiters can eliminate unintended barriers and improve their hiring processes.

Exercises

1. Should all companies change their resume screening and interview processes to eliminate biases or are there exceptions that must be considered?
2. If improved recruiting helps eliminate bias during the recruitment process, then what does that say about social media platforms such as Linked In that are commonly used for recruiting applicants? Will using those platforms expose companies to greater liability compared to using more traditional means of recruiting?
3. How does working to eliminate bias recruiting help organizations? How may it hinder organizations?

Additional Resources

Is it Harassment? A Tool to Guide Employees (Canada)

US Equal Employment Opportunity Commission

Interesting article on diversity in CEOs

8.9 Case in Point: Uber Pays the Price

Case in Point: Uber Pays the Price

Figure 8.9.1: *"Uber app icon on smartphone screen" by Ivan Radic, CC BY 2.0.*

Uber revolutionized the taxi industry and the way people commute. With the simple mission "to bring transportation—for everyone, everywhere," today Uber has reached a valuation of around $70 billion and claimed a market share high of almost 90% in 2015. However, in June 2017 Uber experienced a series of bad press regarding an alleged culture of sexual harassment, which is what most experts believe caused their market share to fall to 75%.

In February of 2017 a former software engineer, Susan Fowler, wrote a lengthy post on her website regarding her experience of being harassed by a manager who was not disciplined by human resources for his behavior. In her post, Fowler wrote that Uber's HR department and members of upper management told her that because it was the man's first offense, they would only give him a warning. During her meeting with HR about the incident, Fowler was also advised that she should transfer to another department within the organization. According to Fowler, she was ultimately left no choice but to transfer to another department, despite having specific expertise in the department in which she had originally been working.

As her time at the company went on, she began meeting other women who worked for the company who relayed their own stories of harassment. To her surprise, many of the women reported being harassed by the same person who had harassed her. As she noted in her blog, "It became obvious that both HR and management had been lying about this being his 'first offense.'" Fowler also reported a number of other instances that she identified as sexist and inappropriate within the organization and claims that she was disciplined severely for continuing to speak out. Fowler eventually left Uber after about two years of working for the company, noting that during her time at Uber the percentage of women working there had dropped to 6% of the workforce, down from 25% when she first started.

Following the fallout from Fowler's lengthy description of the workplace on her website, Uber's chief executive Travis Kalanick publicly condemned the behavior described by Fowler, calling it "abhorrent and against everything Uber stands for and believes in." But later in March, Uber board member Arianna Huffington claimed that she believed "sexual harassment was not a systemic problem at the company." Amid pressure from bad media attention and the company's falling market share, Uber made some changes after an independent investigation resulted in 215 complaints. As a result, 20 employees were fired for reasons ranging from sexual harassment to bullying to retaliation to discrimination, and Kalanick announced that he would hire a chief operating officer to help manage the company. In an effort to provide the leadership team with more diversity, two senior female executives were hired to fill the positions of chief brand officer and senior vice president for leadership and strategy.

Exercises

1. Based on Cox's business case for diversity, what are some positive outcomes that may result in changes to Uber's leadership team?
2. What strategies should have been put in place to help prevent sexual harassment incidents like this from happening in the first place?

8.10 Developing Your Personal Skills: Learning to Fit In

Learning Objectives

1. Analyze what you can proactively do to understand a new organizational environment.
2. Determine guidelines for proactive onboarding.

Before You Join

How do you find out about a company's culture before you join? Here are several tips that will allow you to more accurately gauge the culture of a company you are interviewing with.

1. First, do your research. Talking to friends and family members who are familiar with the company, doing an online search for news articles about the company, browsing the company's Web site, and reading its mission statement would be a good start. Websites such as Glassdoor and Indeed offer reviews from current and past employees.
2. Second, observe the physical environment. Do people work in cubicles or in offices? What is the dress code? What is the building structure? Do employees look happy, tired, or stressed? The answers to these questions are all pieces of the puzzle.
3. Third, read between the lines. For example, the absence of a lengthy employee handbook or detailed procedures might mean that the company is more flexible and less bureaucratic.
4. Fourth, reflect on how you are treated. The recruitment process is your first connection to the company. Were you treated with respect? Do they maintain contact with you or are you being ignored for long stretches at a time?
5. Fifth, ask questions. What happened to the previous incumbent of this job? What does it take to be successful in this firm? What would their ideal candidate for the job look like? The answers to these questions will reveal a lot about the way they do business.
6. Finally, listen to your gut. Your feelings about the place in general, and your future manager and coworkers in particular, are important signs that you should not ignore (Daniel & Brandon, 2006; Sacks, 2005).

You've Got a New Job! Now How Do You Get on Board?

- ***Gather information.*** Try to find as much about the company and the job as you can before your first day. After you start working, be a good observer, gather information, and read as much as you can to understand your job and the company. Examine how people are interacting, how they dress, and how they act, in order to avoid behaviors that might indicate to others that you are a misfit.
- ***Manage your first impression.*** First impressions may endure, so make sure that you dress properly, are friendly, and communicate your excitement to be a part of the team. Be on your best behavior!
- *Invest in relationship development*. The relationships you develop with your manager and with coworkers will be essential for you to adjust to your new job. Take the time to strike up conversations with them. If there are work functions during your early days, make sure not to miss them!
- ***Seek feedback.*** Ask your manager or coworkers how well you are doing and whether you are meeting expectations. Listen to what they are telling you and listen to what they are not saying. Then, make sure to act on any suggestions for improvement—you may create a negative impression if you consistently ignore the feedback you receive.
- ***Show success early on.*** To gain the trust of your new manager and colleagues, you may want to establish a history of success early. Volunteer for high-profile projects where you will be able to demonstrate your skills. Alternatively, volunteer for projects that may serve as learning opportunities or that may put you in touch with the key people in the company.

Exercises

1. What clues does your college or school give about its culture?
2. What are four things you could do today to learn more about an organization you are interested in?
3. Imagine that your good friend is starting a new job next week. What recommendations would you give your friend to help him or her do a great job onboarding into the organization?

Key Takeaways

There are a number of ways to learn about an organization's culture before you formally join it. Take the time to consider whether the culture you are observing seems like the right fit for you. Once you get a job, you can do key things to maximize your onboarding success.

8.11 Key Terms

Key Terms

Aggressive cultures value competitiveness and outperforming competitors.

Counterculture is a group with shared values and beliefs that are substantially different or even directly opposed to those of the overall organizational culture.

Divisional structure is a type of organization design based on many functional departments grouped under a division head. Each functional group in a division has its own marketing, sales, accounting, manufacturing, and production team.

Detail-oriented cultures emphasize precision and paying attention to detail.

Functional structure is type of organization design based on departments and expertise areas, such as R&D (research & development), production, accounting, and human resources.

Formal orientation program indoctrinates new employees to the company culture, as well as introducing them to their new jobs and colleagues.

Geographic structure is a type of organization design based on locations of customers that a company serves.

Innovative cultures are flexible, adaptable, and experiment with new ideas.

Matrix structure is a type of organization design around vertical and horizontal team-based structures where individuals in the team may report to multiple leaders.

Macro, General, or External environment is essentially the big picture world in which an organization exists, consisting of political, economic, social, technological, legal and environmental factors that affect the business, but over which leaders have very little if any control.

Mentor is a trusted person who provides an employee with advice and support regarding career-related matters.

Mission statement is a statement of purpose, describing who the company is and what it does.

Networked team structure is a type of organization design based on horizontal teams that are part of an informal, flexible and decentralized network rather than hierarchical lines of authority.

Outcome-oriented cultures emphasize achievement, results, and action as important values.

Onboarding refers to the process through which new employees learn the attitudes, knowledge, skills, and behaviors required to function effectively within an organization.

People-oriented cultures value fairness, supportiveness, respecting individual rights and dignity.

Rituals are repetitive activities within an organization that help teach corporate values, increase motivation and morale, and create identification with the organization.

Stable cultures are predictable, rule-oriented, and bureaucratic.

Strong cultures consist of a majority of employees in the organization showing consensus regarding the values of the company.

Subcultures are cultures that emerge within different departments, branches, or geographic locations.

Team-oriented cultures are collaborative and emphasize cooperation among employees.

Virtual structure is a type of organization design considered boundaryless due to its dependence on information communication technologies (ICTs), where the headquarters may be the only part of a stable organizational base due to structuring around virtual connection and possibly outsourced tasks, positions, and projects.

Values are shared principles, standards, and goals.

8.12 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4734#h5p-8

CHAPTER 9: GLOBAL LEADERSHIP

Chapter Content

9.1 Introduction

What's in it for Me?

Reading this chapter will help you do the following:

1. Explain the importance of international leadership in today's world.
2. Describe how culture can be understood through Hofstede's cultural framework.
3. Identify why an understanding of cultural stereotyping is important.
4. Discuss the GLOBE framework, and its importance to cross-cultural leadership.
5. Outline the steps to prepare for cross-cultural assignments.
6. Explain the main strategies that companies can use to expand internationally.
7. Discuss why a company would go international.

Example: Mike Schlater, Domino's Pizza

Figure 9.1.1 *Photo by EPIC, licensed under CC BY-SA 4.0.*

Domino's Pizza has more than 14,000 stores worldwide. As executive vice president of Domino's Pizza's international division, Mike Schlater is president of Domino's Canada with more than 440 stores. Originally from Ohio, Schlater started his career with Domino's as a pizza delivery driver and worked his way up into management. Schlater saved his earnings, and with some help from his brother, he was able to accept the opportunity to have the first international Domino's franchise in Winnipeg, Manitoba, in 1983. Within weeks, Schlater's store in Canada reached higher sales than his previous store in Ohio had ever attained.

However, it was not an easy start. Schlater faced a number of challenges going international. First, he had to identify the international suppliers and get them approved to sell their products to Domino's. This shows one of the challenges that organizations face when entering new global markets. To meet quality standards designed to protect a brand, companies must undertake an extensive review of potential new suppliers to ensure consistent product quality.

Second, as discussed in this chapter, a major challenge when opening a business on foreign soil is negotiating the political, cultural, and economic differences of that country. Domino's relies on local master franchisees to take advantage of their local expertise in dealing with marketing strategies, political and regulatory issues, and the local labor market. The master franchisees of Domino's Pizza's international business are individuals or entities who, under a specific licensing agreement with

Domino's, control all operations within a specific country. Such master franchisees have deep local knowledge that helped Domino's succeed. For example, it takes local experience to know that only 30 percent of the people in Poland have phones, so 'carry out' needs to be the focus of the business; that Turkey has changed its street names three times in the past 30 years, so delivery is much more challenging; or that, in Japanese, there is no word for pepperoni, the most popular topping worldwide. These are just a few of the challenges that Domino's has had to overcome on the road to becoming the worldwide leader in the pizza delivery business. Under the leadership of people like Schlater, and with the help of dedicated, local master franchisees, Domino's has been able to not only compete in but lead the global pizza delivery market.

Such an impressive career path might seem like luck to some, but Schlater achieved his success due to determination and attention to detail. Additionally, despite such success, Schlater has been socially responsible. Consider that Schlater recently won $250,000 in a lottery. Since Schlater believes in philanthropy, he donated the entire amount to Cardinal Carter High School in his hometown. Over the years, Schlater has donated millions of dollars to foundations and charities, such as the London Health Sciences Foundation, because he now has the ability to indulge after spending decades climbing the corporate ladder at Domino's Pizza. Such charitable focus has also shone light on his socially responsible tendencies, another critical aspect of his success.

Schlater is now president of Domino's of Canada, Ltd., which operates more than 440 stores located in every province, as well as the Yukon and Northwest Territories.

(Global Data, 2022; Domino's Canada Website, 2017 & Wilhelm, 2015)

The above example shows that Domino's has successfully managed global challenges to become the largest pizza chain in the world (Witzil, 2018). For many business leaders over the past few decades, the business world was becoming "flat" because barriers to trade were slowly disappearing. The expectation was that soon global companies would operate unconstrained by national borders. However, recent trends suggest that the business world is now seeing a barrage of protectionism and nationalism as many countries and their leaders emphasize the negatives of globalization. We have also seen the downside of globalization with sourcing and supply chain issues during the pandemic, as well as the accelerated spread of disease with heightened interconnection and travel across borders.

A case in point is Brexit and the U.K.'s exit from the European Union. The European Union has provided the means for the U.K. to freely trade with a number of other European countries without hindrance. At the same time, rhetoric about policies and practices to protect local industries against global competition and to protect local jobs is increasing. But does this mean globalization is dead? Far from it—experts have analyzed recent trade data and shown that globalization is actually strengthening. The DHL Global Connected Index, which tracks the flow of capital, information, trade, and human resources, indicates that the degree of globalization continues to rise (Pankaj, 2017, pp. 712-716). Additionally, we have seen the benefit of countries working together to create vaccines for Covid 19 and to aid nations requiring additional resources to protect their citizens.

Leadership students must be aware of the importance of international leadership and the need to be able to adapt practices to ensure that the management of global operations goes smoothly.

No company is immune to the forces of globalization. Our understanding of this increased during the pandemic but has become even more apparent since Russia's invasion of Ukraine. Whether you run a small company based in Toronto or lead a Fortune 500 company, you are affected by global forces. You may compete with firms from China or India, have coworkers from Egypt, Brazil, or Germany, have to negotiate with someone from Saudi Arabia or purchase components from manufacturers in Taiwan. This chapter will prepare you for the complexities of international leadership by discussing some of the crucial issues faced by international companies today. The chapter begins by discussing some of the key factors in making the business world global today and why an understanding of international leadership is so critical. The chapter then explores the importance of national cultures because cross-cultural conflicts can make an international business difficult to navigate and manage. By understanding the countries and the cultures they find themselves in, international leaders can better prepare to deal with such differences, including appropriate preparation for cross-cultural assignments, preferred leadership styles around the world, and the potential for stereotyping.

The chapter concludes with coverage of the various approaches to taking a company internationally, the advantages and disadvantages of each approach, and the types of business strategies available to companies in the international arena.

9.2 Importance of International Leadership

Learning Objectives

1. Explain the importance of international leadership in today's world.

International leadership is a critical area for any serious student of leadership because of globalization, the worldwide phenomenon whereby the countries of the world are becoming more interconnected and where many trade barriers among nations are disappearing. Even one-person startups are no longer limited to producing and selling their goods and services in domestic markets. In fact, companies are encouraged to explore global markets to stay competitive and are thus likely to have business activity anywhere in the world. Despite some leaders who are promoting protectionism, globalization is being facilitated by several key factors, and companies that want to succeed in this environment must understand the key factors contributing to a more globally connected business world.

Globalization Factor 1: Lowering Trade Barriers

The first critical factor is the lowering of trade barriers through **trade agreements** and government policies through which countries agree to eliminate cross-border barriers to trade and promote global integration. To understand the importance of trade agreements, it is necessary to note that countries have long used tariffs to protect local industries and companies. **Tariffs** are taxes that are added to the price of imported international products. Because these tariffs are usually passed along to the consumer in the form of higher prices, imposing tariffs on imported goods gives domestic companies a price advantage and protects them from foreign competition. (Divesh, 2017). The goal of most trade agreements has been to reduce or eliminate tariffs and other barriers to make cross-border trade easier.

One of the more significant worldwide trade agreements is the rules members of the World Trade Organization (WTO) agree to.
The WTO is the only truly global organization that deals with the rules of trade around the world. It was established on January 1, 1995, and had 164 country members as of July 2016 (The WTO, n.d.). The WTO serves many functions, but the four most important are 1) providing the mechanism for countries to negotiate trade agreements, 2) monitoring such agreements, 3) providing the means to handle trade disputes, and 4) providing training to less-developed countries to implement agreements.

Globalization Factor 2: Foreign Direct Investment

Foreign direct investment (FDI) refers to the deliberate efforts of a country or company to invest in another country through the form of ownership positions in companies in another country. In 2017, global FDI flows amounted to USD $1.52 trillion.

Figure 9.2.1 shows the top 15 recipients of FDI in 2016. As you can see, many of the world's developed economies, such as the U.S., Germany, Canada, and France, are among the top recipients of FDI. However, it is also important to note that many emerging markets, such as China, Brazil, Mexico, and India, figure prominently on this list. Emerging markets, defined as those markets in non-developed countries that present tremendous potential for multinationals, have played a critical role in the global business environment for the last decade. Countries such as Brazil, India, China, and South Africa have all experienced tremendous growth and are driving business trends.

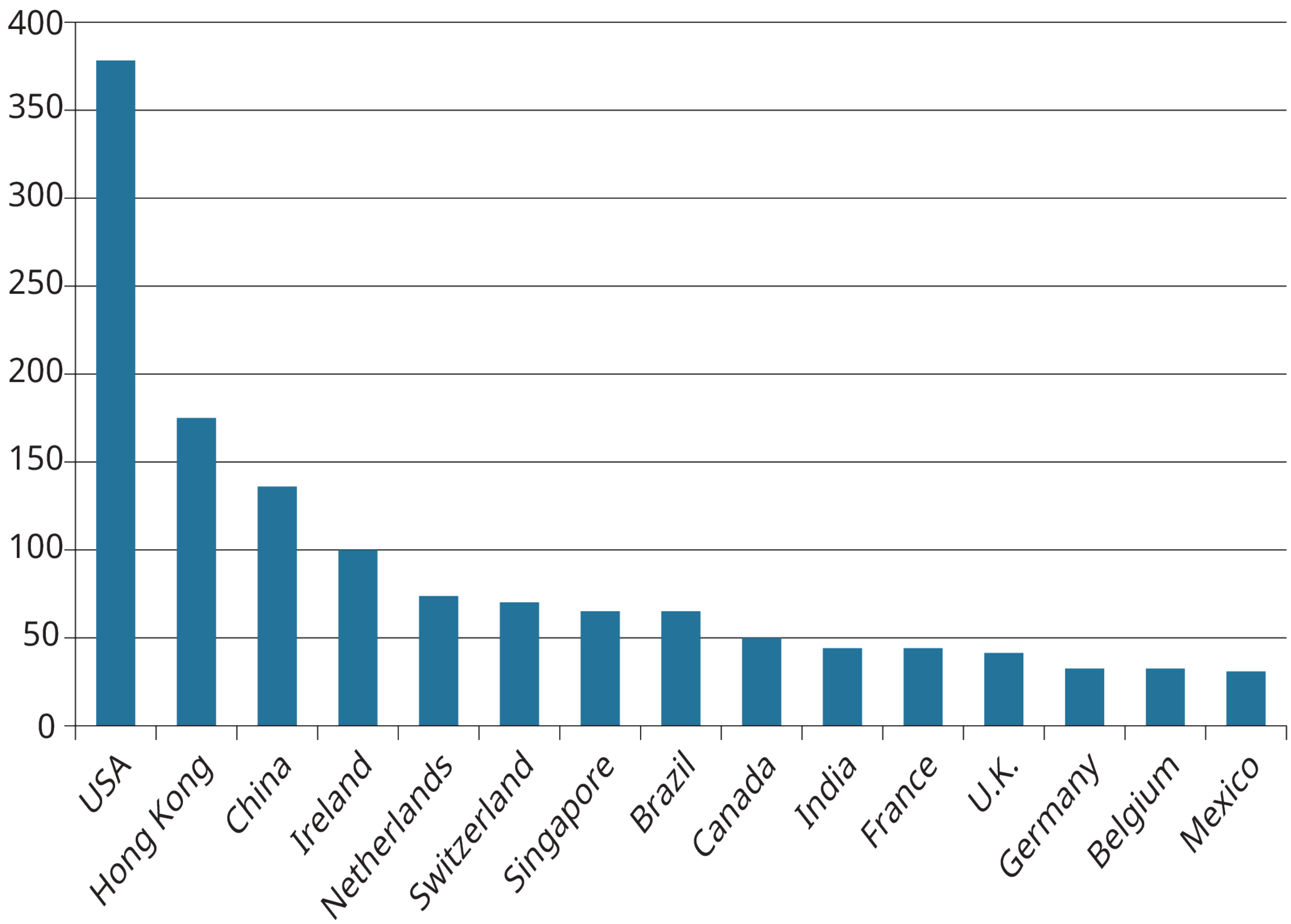


Figure 9.2.1: *Foreign Direct Investment Inflows from Other Countries. "Top 15 recipients of FDI in 2016" by OpenStax, licensed under CC BY 4.0.*

An important consequence of the rise of emerging markets has been the growing importance of emerging market multinationals. Emerging market multinationals are influential companies from emerging markets that compete head-on with established multinationals and rewrite the rules of competition by using new business models.

Consider the case of CEMEX, the Mexican cement manufacturer; Shoprite, the South African retailer; and WIPRO and Infosys, India's leading software companies. These emerging market multinationals are industry leaders in their fields and are pushing more established multinationals to the competitive edge.

The lowering of trade barriers and the increase in foreign direct investment indicate that global trade will continue to stay strong and contribute to globalization. Such trends suggest that companies will need to continue to contend with and take advantage of global opportunities. The rising competition from emerging markets and emerging market multinationals means that companies will need to continue to understand and manage the global environment to compete.

Globalization Factor 3: The Internet

Thanks to the pervasiveness of the Internet today, any company in the world can sell its products to anyone in the world. In fact, the developments in information technology and the reduction in costs of technological equipment mean that any multinational can reach anyone in the world. Social media, such as Twitter and Facebook, also provide a means for multinationals to build relationships with customers worldwide.

What are the implications of this factor for international leadership? As mentioned earlier, companies located anywhere in the world will be able to find new markets and new ways to reach new customers. Consider the case of Russian entrepreneur Dmitrii Dvornikov, who was selling jewelry and table clocks made from Russian semiprecious stones.

Until 2013, Dvornikov was not able to expand beyond local markets. However, he decided to list his products on eBay. This has allowed his business sales to grow by 30%. Such success was spurred by the implementation of software by eBay's operators in Russia. This software enabled smaller companies to sell anywhere in the world. Such factors have greatly expanded e-commerce, the buying, and selling of products using the Internet. With Russia's current war on Ukraine, one would expect Dvornikov to see a very different effect of globalization due to consumer backlash and the many trade sanctions placed on Russian businesses.

E-commerce doesn't necessarily have to be between companies and individual customers. In fact, there are many other forms of e-commerce, such as business-to-consumer (e.g., eBay), business-to-business (B2B, where companies sell to each other), consumer-to-business (C2B, where consumers can sell to businesses), and consumer-to-consumer (C2C, where consumers can sell to other consumers). These forms of e-commerce are all contributing to making the global business world more interconnected.

It is critical for multinationals to appreciate the importance of the Internet. Not only can companies reach new consumers, but they can also improve their business models. Additionally, the Internet provides the opportunity for companies to build relationships with consumers worldwide.

Exercises

1. Describe the lowering of trade barriers and their impact on international business.
2. What is a foreign direct investment?
3. What has the role of the Internet had on international business?

Key Takeaways

So why is it so important for students to understand and appreciate the importance of international leadership in today's world? Whether you work for a domestic company or a foreign company, you will likely need to interact with someone from another country or do business in another country. Understanding international leadership is therefore critical to addressing future challenges.

In this section, you learned about the many factors contributing to making globalization a reality: the growth of trade between countries, the growing importance of foreign direct investment, the growing competition from emerging market multinationals, and the globalization-fueling pervasiveness of the Internet. These factors all contribute to making the business world more global.

9.3 Hofstede's Cultural Framework

Learning Objectives

1. Describe how culture can be understood through Hofstede's cultural framework.

Despite a drop during the pandemic, the number of international post-secondary students in Canada and the United States is significant and has been increasing over the years (Statistics Canada, 2021; Silver, 2021) , so most students of larger institutions likely encounter peers from a variety of countries on their campuses. In our globally interconnected world of business, employees will likely face someone from another country at some point in their careers, companies will negotiate with companies from other countries, and even employees of domestic companies will likely encounter someone from another country.

Trends suggest that immigration, the movement of people from their home country to other countries, will continue to grow worldwide – this process contributes to making companies' workforces increasingly diverse. Additionally, many multinational companies rely on expatriates to run their local operations. An expatriate (or "expat") is a foreign employee who moves to and works in another country for an extended period of time. All of these trends mean that after graduation, you are likely to encounter someone from a different culture during your career, and the potential for cross-cultural tensions is high. It is therefore important for any international leadership student to understand culture to better prepare for dealing with such tensions.

According to Geert Hofstede (2001), a Dutch social psychologist, **culture** is "the collective programming of the mind which distinguishes the member of one group or category of people from another." It tells people who they are, which behaviors are appropriate, and which are not acceptable in any society. It affects almost everything we do, see, feel, and believe. In fact, if you have heard of the "American dream," where if one works hard, one can achieve one's dream, you are aware of one characteristic aspect of American culture. Read more about the American Dream in Canada .

Consider any aspect of your life, and it is likely influenced by your culture. The food you eat, the clothes you wear, and even how you address your boss or teacher are influenced by your culture. Societies develop cultural norms, values, and beliefs to assist their members in adapting to their environments.

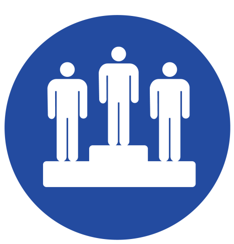
Why is an understanding of culture critical to a leader in a global environment? As you have already seen, anyone from any country is likely to encounter someone from another country at the workplace. Such interactions can result in misunderstandings or tensions if not properly managed. Business magazines are full of examples of cross-cultural misunderstandings that have doomed relationships and business. Refer to some interesting cross-cultural business failures. For another example, North American leaders sent to Beijing, China, may become frustrated because they find that their hosts are more interested in socializing than concluding a deal. Understanding Chinese culture can prevent this type of misunderstanding because North Americans would understand that it is very important for Chinese companies to get to know who they are working with before signing any deal. In this section, you will learn about one of the most powerful tools for understanding cultural differences: Hofstede's model of national culture. (See **Table 9.3.1**)

Table 9.3.1: Hofstede's Model of National Culture

Hofstede's Model of National Culture				
Countries	**Power Distance**	**Individualism**	**Uncertainty Avoidance**	**Masculinity**
Australia	Low	High	Low	High
Canada	Low	High	Low	High
China	High	Low	Medium	Medium
Germany	Low	High	Medium	High
Mexico	High	Medium	High	High
France	High	High	High	Low
Spain	Medium	Medium	High	Low
Greece	Medium	Medium	High	Medium
Denmark	Low	High	Low	Low
Finland	Low	High	Medium	Low
Brazil	High	Medium	Medium	Medium
India	High	Medium	Low	Medium
Japan	Low	Medium	High	High
U.K.	Low	High	Low	High
U.S.A.	Low	High	Low	High
Adapted from Hofstede, G. (2001)				

Hofstede is a Dutch social scientist who developed his model by surveying over 88,000 employees in IBM subsidiaries from 72 countries. Hofstede developed this cultural model primarily on the basis of differences in values and beliefs regarding work goals. Hofstede's framework is especially useful because it provides important information about differences between countries and how to manage such differences. Recent reviews of research have shown the utility of Hofstede's framework for a wide variety of managerial activities, such as change management, conflict management, leadership, negotiation, and work-related attitudes (Kirkman et al., 2006).

Cultural Dimension 1: Power Distance



Hofstede's original survey of more than 88,000 employees from 72 countries revealed four major cultural dimensions. The first cultural dimension is power distance, the degree to which members of a society accept differences in power and authority. In societies with **high power distance**, people are more likely to accept that power inequality is good and acceptable. People in high power distance societies are more likely to accept that there are some powerful people who are in charge and that these people are entitled to special benefits. In contrast, societies with **low power distance** tend to consider that all members are equal. **Table 9.3.2** shows the levels of power distance (and the other cultural dimensions discussed later) in 15 selected societies. Hofstede's scores range from 100 (the highest power distance) to 0 (the lowest). In the table, we break Hofstede's scores into high (70–100), medium (40–69), and low (0–39).

Table 9.3.2: Implications of Power Distance

Type of Work Activity	High Power Distance	Low Power Distance
Organizational structures	• Very centralized • Tall hierarchies with clear levels of leaders and subordinates	• Flat organizational hierarchies • Decentralized structures
Managerial authority	• Concentration of authority at the top • Managers rely on formal rules to manage • Authoritative leadership style and decision making	• Dispersed authority • Managers rely on personal experience • More consultative or collaborative forms of decision making
Relationship with supervisors	• Subordinates expect to be told what to do • Perfect boss is seen as one who is an autocrat • Information sharing constrained by hierarchy	• Subordinates often expected to be consulted • Ideal manager is seen as a democratic leader • Openness to sharing information
Other issues	• Wide salary gap between top and bottom of organization • Leaders often feel underpaid and dissatisfied with careers	• Low salary gap between top and bottom of company • Leaders feel paid adequately and are satisfied
Adapted from Hofstede (2001)		

As **Table 9.3.2** shows, many of the emerging markets in regions such as Asia and Latin America, such as India, Brazil, and Mexico, all have high power distance scores. In such countries, the concern for hierarchy and inequality in organizations is rooted in early socialization in the family and school. In these countries, children are expected to obey their parents and elders. When these children enter school, teachers assume the dominant role. Children must show respect, and they seldom challenge a teacher's authority. As these individuals take on work roles, the allegiance to teachers is transferred to bosses. Thus, people in high power distance societies will seldom question their supervisors. In contrast, Anglo countries such as the United States, Canada, and the United Kingdom have low power distance. In these countries, people do not expect power differences, and everyone is seen as an equal.

Leadership Implications of Power Distance

What are the implications of power distance for international leadership? **Table 9.3.2** shows some of the key differences between high and low power distance societies for work-related issues. As you can see, it is important for leaders to express their authority and know-how in high power distance societies. Subordinates expect clear directions from their leaders and assume they will be told what to do. In high power distance societies, employees will often equate age with wisdom and seniority. For instance, if a multinational is sending people to negotiate in a high power distance country, they should send higher-level and older leaders if they want to be taken seriously.

Cultural Dimension 2: Individualism and Collectivism

The second cultural dimension we consider here is individualism/collectivism. **Individualism** refers to the degree to which a society focuses on the relationship of the individual to the group. **Collectivism** refers to the degree to which a society focuses on the relationship of the group as a whole.

In societies with high individualism (or low collectivism) scores, individuals are valued for their achievements and are rewarded and recognized for such achievements. In contrast, people who live in societies with low individualism (high collectivism) are seen as being part of a wider group, known as the in-group. The in-group includes the family, team, or social class, and how individuals relate to much wider groups is seen as important to their success. In other words, people's success is gauged by how others in their groups view and support them.

Table 9.3.3 shows the levels of individualism in the same selected 15 nations. We again see similar patterns whereby more Anglo cultures such as the U.S., Canada, and the U.K. have relatively high levels of individualism. In contrast, Asian, Latin American, and many emerging countries tend to have cultures that are either in the medium or low range of the individualism dimension. **Table 9.3.3** shows some of the implications of individualism for leadership. The effects of most leadership practices are determined by whether they are done at a group or individual level. For example, in countries with low individualism, one will find that employees are hired and promoted mostly on the basis of association with a larger group, such as a university or high school. In such societies, emphasis is placed on loyalty, seniority, and age. To operate smoothly in such societies, companies need to appreciate the importance of the larger social group. Additionally, as **Table 9.3.3** shows, care should be taken in terms of how rewards are distributed. Rewarding individual team members in low individualism societies can result in tensions because the individual team member may become stigmatized. In such cases, rewards done on a group level may work best.

Table 9.3.3: Implications of Individualism

Type of Work Activity	Low Individualism/High Collectivism	High Individualism/Low Collectivism
Relationship with companies	• Employees act in the interest of in-group (members of the family or same university) • Employee commitment to company relatively low • Employee-employer relationships is almost like a family link	• Employees act in their own interests • Employee commitment to organizations high • Employee-employer relationship based on the market
Human resource, management	• Hiring and promotion takes in-group into consideration • Better to reward based on equality (give everyone the same reward) rather than equity (base reward on work effort) Relatives of employees preferred in hiring • Training best when focused at group level	• Hiring and promotions based on rules • Family relationships unimportant in hiring • Better to reward based on equity • Training done best individually
Other issues	• Belief in collective decisions • Treating friends better than others is normal • Support of teamwork • Less mobility across occupations • Personal relationships very critical in business	• Belief in individual decision making • Treating friends better than others at the workplace is considered unethical • More mobility across occupations within company • Tasks and company prevail over personal relationships in business
Adapted from Hofstede (2001)		

Cultural Dimension 3: Uncertainty Avoidance

Hofstede's third cultural dimension is **uncertainty avoidance**, the degree to which people in a society are comfortable with risk, uncertainty, and unpredictable situations. People in high uncertainty avoidance societies tend to want to avoid uncertainty and unpredictability. As a result, work environments in such countries try to provide stability and certainty through clear rules and instructions. In contrast, societies with low uncertainty avoidance are comfortable with risk, change, and unpredictability. In these countries, risky and ambiguous situations are less likely to upset people.

Table 9.3.4 shows details of the levels of uncertainty avoidance for the selected 15 countries. We see that Anglo and Scandinavian countries have relatively lower uncertainty avoidance scores. In contrast, many emerging markets (such as Brazil, Mexico, and China) have medium to high uncertainty avoidance scores. Such findings suggest that companies should adapt their practices to conform to the levels of uncertainty avoidance. In high uncertainty avoidance countries, for example, leaders are advised to provide structure and order to reduce uncertainty and ambiguity for subordinates. Companies in these cultures have many written rules and procedures that tell employees exactly what the organization expects of them. Additionally, leaders should give clear and explicit directions to their subordinates about exactly what is expected of them in performing their jobs. By reducing any ambiguity, subordinates are less anxious.

In contrast, in low uncertainty avoidance countries, subordinates are much more comfortable and ambiguous. Leaders can therefore give more flexibility and freedom to employees. The design of organizations also allows for fewer rules and regulations.

Table 9.3.4: Implications of Uncertainty Avoidance

Type of Work Activity	Low Uncertainty Avoidance	High Uncertainty Avoidance
Relationship with companies	• Weak loyalty to companies • Average duration of employment shorter • Preference for smaller organizations	• Strong loyalty to employing organizations • Employment are long term in duration • Preference for larger companies
Characteristics of supervisors/leaders	• Superiors optimistic about subordinate ambition and leadership abilities • Top leaders usually involved in strategy • Power of superiors based on relationships and position • Transformational leaders preferred	• Superiors pessimistic about subordinate ambition • Top leaders often involved in operations • Power of superiors based on control of uncertainties • Hierarchical control roles preferred
Entrepreneurship and innovation	• Innovators feel less constrained by rules • Renegade championing • Tolerance for ambiguity in procedures and structures • Innovation welcomed	• Innovators feel constrained by rules • Rational championing • Formalized leadership structures • Innovation resisted

Based on Geert Hofstede, "*Culture's consequences: Comparing values, behaviors and institutions across nations*," 2nd edition, 2001, page 169-170, Thousand Oaks, CA: Sage Publications.

Cultural Dimension 4: Masculinity

The fourth and final dimension we consider is **masculinity**, the degree to which a society emphasizes traditional masculine qualities such as advancement and earnings. In high-masculinity societies, work tends to be very important to people, gender roles are clear, and work takes priority over other aspects of a person's life, such as family and leisure. In addition, masculine societies emphasize earnings and achievements, and employees tend to work very long hours and take very little vacation time.

Table 9.3.5 shows the masculine scores for selected societies. As the table shows, Anglo cultures such as the U.S. and Canada tend to have high masculinity. This is not surprising given that both the U.S. and Canada tend to have some of the highest numbers of hours worked. In contrast, Latin European countries such as France and Spain have much lower masculinity as reflected in the importance of leisure in these societies. Scandinavian cultures also reflect low masculinity, a characteristic that is consistent with the preference for quality of life in such countries. We also see that many of the emerging nations have medium to high masculinity.

Table 9.3.5 also provides some more insights into the implications of masculinity differences for work-related issues. As you can see, companies in high-masculinity societies can count on very work-oriented employees. Multinationals are therefore advised to motivate their employees through pay and security. In contrast, individuals in more feminine societies tend to prefer interesting work and more leisure. Strong motivational policies in these societies emphasize a balance between work and leisure, and multinationals in such societies tend to have stronger policies catering to both genders.

Table 9.3.5: Implications of Masculinity

Type of Work Activity	High Masculinity	Low Masculinity
Relationship with work	• Live in order to work • Preference for high pay • Workers look for security, pay and interesting work	• Work in order to live • Preference for lower number of work hours • Workers look for better working conditions and relationships in work
Leaders' characteristics	• Leaders seen as cultural heroes • Successful leaders primarily exhibit male characteristics • Leaders need to be competitive, firm, aggressive, and decisive • Managers are very ambitious • Fewer women in leadership • Leaders prepared to move family for career reasons	• Leaders are employees like others • Successful leaders are seen as possessing both male and female characteristics • Managers hold fairly modest career ambition • More women in leadership • Leaders less prepared to uproot family because of career move
Other issues	• Large pay gap between genders Job applicants oversell their abilities • Absences due to sickness lower • General preference for larger companies • Conflicts are resolved through fighting until the best "man" wins	• Low salary gap between top and bottom of company [what about gender gap?] • Managers feel paid adequately and are satisfied • Absences because of sickness higher • Preference for smaller organizations • Conflicts are resolved through compromise and negotiations

Based on Geert Hofstede, "*Culture's consequences: Comparing values, behaviors and institutions across nations*," 2nd edition, 2001, page 318, Thousand Oaks, CA: Sage Publications.

Exercises

One of the underlying themes of cross-cultural research is that countries tend to cluster around cultural dimensions. For instance, we saw how Anglo cultures, Latin American cultures, and Scandinavian cultures countries tend to share similar cultural characteristics. Such categorizations are useful because they help leaders simplify their organizational world.

1. Describe Hofstede's approach to defining national culture.
2. Describe power distance and its implications for leaders in in cultural contexts.
3. Describe individualism versus collectivism and its implications for leaders in cultural contexts.
4. Describe uncertainty avoidance and its implications for leaders in in cultural contexts.

Key Takeaways

Given the importance of globalization, leaders need to be able to understand the cultural aspects of a society in which they may find themselves and will need to learn how to adapt to various cultural conditions. The most popular cultural framework, the Hofstede scheme, was developed by Geert Hofstede, a Dutch social scientist who surveyed over 88,000 employees in 72 countries in which IBM had subsidiaries. He developed this cultural model primarily on the basis of differences in values and beliefs regarding work goals. This effort resulted in four main dimensions: power distance (the degree to which societies accept power differences and authority in society), individualism (the degree to which a society focuses on the relationship of the individual to the group), uncertainty avoidance (the degree to which people in a society are comfortable with uncertainty and unpredictable situations), and masculinity (the degree to which a society emphasizes traditional masculine qualities such as advancement and earnings).

9.4 Cultural Stereotyping and Social Institutions

Learning Objectives

1. Identify why an understanding of cultural stereotyping is important.

Figure 9.4.1: Image by truthseeker08, Licensed by Pixabay License.

Earlier sections provided you with some strong insights into cultural differences. However, despite these observations, cultural scholars often find examples where cultural realities don't necessarily fit neatly or completely into the categories proposed by models. Consider, for instance, that American leaders tend to think of themselves as very egalitarian and will typically ask their subordinates to address them by their first name. American leaders will also encourage subordinates to share their views on work-related matters. In contrast, Japanese leaders are often seen as autocratic, and decisions are driven by those at the top. The implications of such preferences suggest that American leaders are more likely to make decisions that reflect the egalitarian position of incorporating subordinates' views. In contrast, Japanese leaders are expected to make decisions on their own, with little input from subordinates. As a result, when American teams and Japanese teams work together, there is often intense confusion. Such confusion stems from the observation that although American leaders tend to be viewed as egalitarian, in reality, they are not, and decisions are often made unilaterally by those at the top. At the same time, Japanese leaders tend to prefer consensus-based decisions, even though they are seen as autocratic.

As detailed by Erin Meyer (2017), a professor at INSEAD the above preferences are often sources of friction when American and Japanese teams work together. Such confusion often occurs because American leaders believe that Japanese leaders have authority because of the Japanese culture's autocratic preferences. The incident of what happened when Suntory, a Japanese whisky manufacturer, became the majority holder of Jim Beam, an American bourbon maker, clearly illustrates the resulting conflict. When a critical decision had to be made, a Jim Beam manager went to Japan to present the proposal to a Japanese manager, thinking that the manager would have the authority to make the decision. However, the Jim Bean manager found that he was not able to have any effect during the meeting because a decision had already been made by consensus.

The above example shows an instance of a cultural paradox, where the insights from an understanding of culture may not necessarily coincide with reality (Osland & Bird, 2000). Why would Japanese leaders, who are often perceived as autocratic, take the time to make decisions by consensus? As another example of a cultural paradox, the Japanese tend to have a low tolerance for uncertainty because of their high uncertainty avoidance, yet they will often have contracts that incorporate significant ambiguity. In contrast, Americans, who are much more comfortable with uncertainty, write very explicit contracts.

If an international leadership student or leader doesn't appreciate the importance of cultural paradoxes, she can engage in cultural stereotyping. Cultural stereotyping occurs when one assumes that all people within a culture act, think, and behave the same way. While national cultures can provide a lens to gain insights into a country, broad generalizations may not necessarily be helpful. In such cases, it is much more prudent to be cautious and to understand that there are significant differences among people within a culture.

The Role of Social Institutions in International Leadership

Recent research examining Hofstede's work provides some evidence of the need to be cautious about using culture as the only source of understanding of societies (Taras et al., 2016). The researchers examined the ongoing assumption that all residents of a given country will behave according to broad cultural norms and found that 80% of variation in cultural values is actually *within* countries. In other words, the assumption that people between countries are more different than people within a country may not be accurate. The researchers actually found that other cultural factors pertaining to people's occupations or the country's wealth also play a critical role. These findings suggest that other factors besides national culture need to be examined. One of these factors is a country's social institutions.

A **social institution** is "a complex of positions, roles, norms, and values lodged in particular types of social structures and organizing relatively stable patterns of human resources with respect to fundamental problems in . . . sustaining viable societal structures within a given environment"
(Turner, 1997, p 6). In other words, as can be seen below, social institutions and the degree of social inequality impact how individuals within society behave.

Similar to national cultures, social institutions have strong effects on how people think, act, and behave. While there are many social institutions in any given country or culture, we limit ourselves to the three institutions that are most relevant in the workplace: social stratification, level of education, and religion.

Social Stratification

Social stratification refers to the degree to which "social benefits are unequally distributed and those patterns . . . are perpetuated for life" (Olsen, 1994, p. 375). These social benefits include wealth and the distribution of income. Through school and parenting, children are taught to accept such inequality, and over time, it becomes a solidly established, taken-for-granted fact of life. Because the level of social stratification in a country impacts how work elements are perceived, it is important for leaders to understand a country's level of social stratification.

Current research suggests that the level of social stratification typically results in societies where only the privileged few have access to jobs with work-related advantages such as the ability to work at enriched jobs that can contribute to personal growth or that may not be under close supervision. In countries with a high level of social stratification, employees may not have a very positive outlook on work. The same research shows that employees in countries with high levels of social inequality tend to have lower levels of attachment to their work. Thus, it is important for multinational leaders to understand employee attitudes toward work in the society in which the company operates.

Education

A second social institution is ‘**education**‘, the socializing experiences that prepare individuals to act in society. Education plays a critical role in socializing individuals into expected norms in their society. One of the critical ways countries differ is on the level of education. In Canada, the United States, and Western European countries, education is accessible to most members of society. In other societies, such as many found in Western Africa, South Asia, and Latin America, education may be much more elitist and not as accessible to the members of the population.

How does education affect the workplace? Research shows that education has an impact on many aspects of work, including employee attachment to work and gender roles. For example, in a study of 30,270 individuals from 26 countries, the findings show that the more accessible education is, the less likely people are to attach to work (Parboteeah & Cullen, 2008).

The researchers argue that the more individuals have access to education, the more likely they have the means to feel satisfaction in life and the less likely work plays a critical role. In contrast, where education is less accessible, individuals have to rely on their work to achieve desired rewards.

Another study by Parboteeah et al. (2008) shows that education also affects how leaders view gender roles. Examining a sample of over 1,500 managers located in 19 countries, the study finds that greater accessibility to education affects leaders' perception of gender roles. Specifically, in societies with more access to education, managers had less traditional views about the role of women in society and were, therefore, more open-minded about women in the workplace.

The above findings also point to the importance of education as an influence in society. Societies and individuals that have similar levels of education accessibility may behave more similarly irrespective of cultural differences. Astute international leaders are therefore well advised to take such issues into consideration when managing international operations.

Religion

The final social institution we consider is **religion**, the shared set of beliefs, activities, and institutions based on faith in supernatural forces (Fisher, 1999, p. 273) or a higher power.

Religion has always been and continues to be an extremely critical aspect of the international business environment. Most countries have seen strong growth in the popularity of religions. For instance, Islam continues to gain new adherents in many parts of the world. Similarly, the tremendous growth of Protestantism in Latin America and the sustained role of Hinduism in Indian society all suggest that religion has significant influences on societal members as well as the businesses they operate in.

In this section, we first consider the major types of religions in the world (Hackett & McClendon, 2017).

Figure 9.4.1 shows that Christianity remains the world's dominant religion, representing around 31% of the world's population (or 2.3 billion of the 7.3 billion individuals in the world). Adherents of Islam follow, representing 24.1% of the world's population, followed by Hindus (15.1%). The other substantial religion is Buddhism, practiced by 6.9% of the world's population. Finally, Judaism is practiced by 0.2% of the world's population.

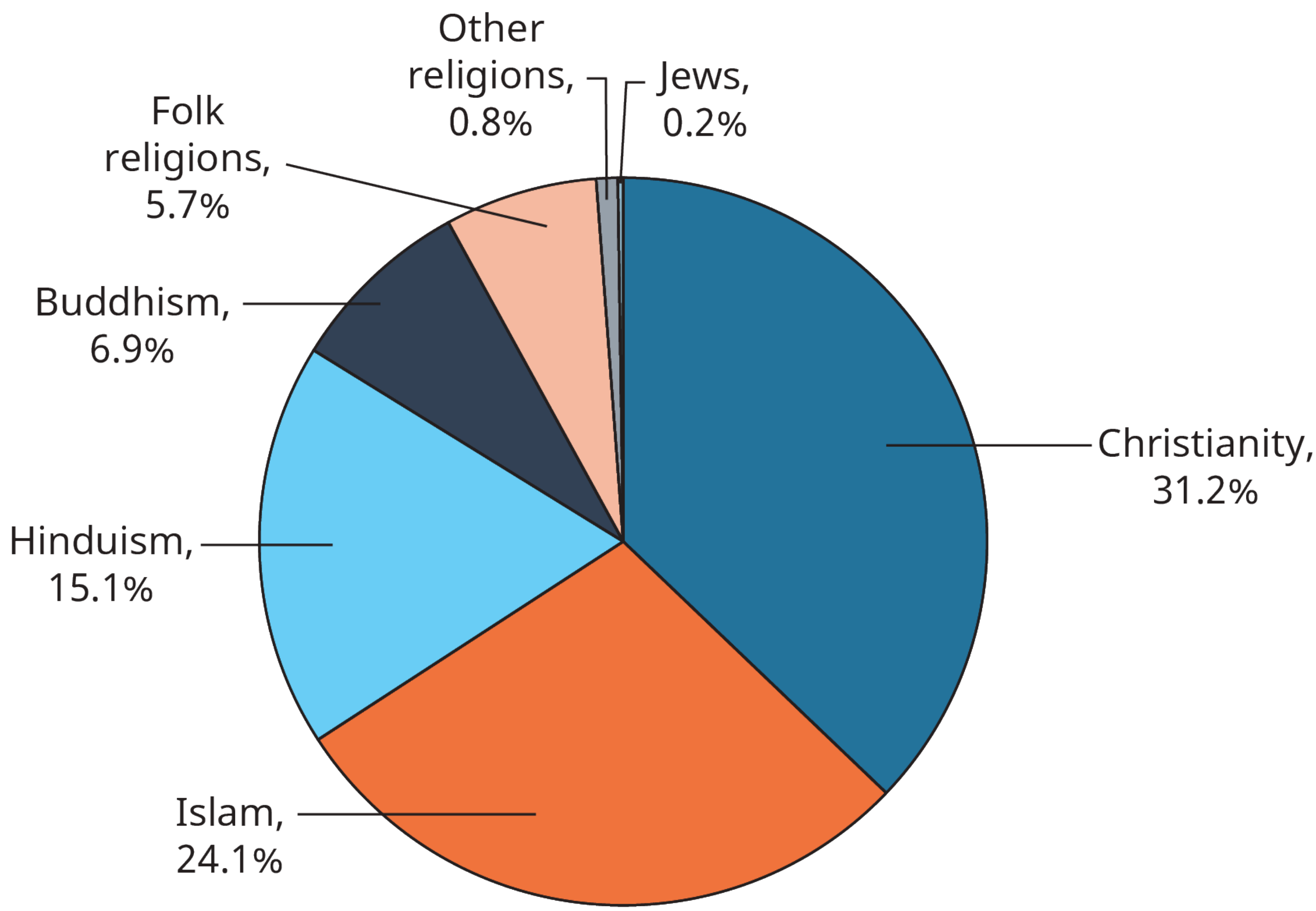


Figure 9.4.2: *Religions of the World (adapted from Hackett & McClendon, 2017)*

Given that Christianity, Islam, and Hinduism represent around 70% of the world's population, we will look at a brief description of each of these religions and their implications for the workplace (Fisher, 1999).

Christianity

Christianity is a faith based on the life, teachings, death, and resurrection of Jesus (believed to be the Christ or the Anointed One of God). Most adherents of Christianity share the belief in a plan of salvation or redemption. The agent of that redemption is Jesus Christ. Jesus is often associated with the possibility of humans connecting with God through penance, confessions of one's sins, self-discipline, and purification.

Christianity has a strong influence on the workplace. For example, the impact of Protestantism, a branch of Christianity, on the development of capitalism is seen as evidence of the link between religion and the economic structuring of societies. Through Protestantism, wealth and hard work were for the glory of God. This emphasis, therefore, allowed a focus on goals attached to economic development and wealth accumulation. This belief explains much of the sustained development of capitalism in Western Protestant societies.

International leadership scholars recognize that Christianity is generally supportive of business and wealth, and so multinationals located in countries where a majority of people are Christian should expect to face an environment in which work and accumulation of wealth are celebrated. Additionally, recent research also shows that Christianity even affects levels of entrepreneurship in society (Parboteeeah et al., 2015).

In that study, researchers examined data from a sample of 9,266 individuals from 27 predominantly Christian countries. The study looked at the impact of different manifestations of Christianity on entrepreneurship and found that Christianity encouraged entrepreneurship, especially in societies characterized by strong knowledge investments in research and development. This study provides further evidence that Christianity supports economic development.

Islam

The essence of Islam, the second largest of the world's religions, is described in the Qur'an as the submission to the will of Allah (God). It has adherents primarily in Africa, the Middle East, China, Malaysia, and the Far East but is growing rapidly in many countries, especially in Europe. Current evidence suggests that Islamic societies are generally supportive of work and the accumulation of wealth as well as entrepreneurship. However, there are some Islamic principles to which multinationals must adhere if they are to succeed in primarily Islamic nations.

Muslim society is very heavily influenced by Islamic standards and norms. Islam provides encompassing guidance in all spheres of life, both social and economic. In fact, the practicing Muslim lives by adhering to the five major pillars of sharia law:

- *Shahada*, or confession (believing and professing the message of Allah)
- prayer (must pray five times a day while facing Mecca, the spiritual home of Islam)
- *Zakat*, or almsgiving (the need to donate a portion of one's income to others to help reduce greed and inequality)
- fasting (the avoidance of eating, including the obligatory fast during the month of Ramadan)
- the *hajj*, or pilgrimage to Mecca (all Muslims who can make the pilgrimage are expected to do so at least once in their lifetime).

These are all important aspects of Islam that have significant implications for the business environment.

For the multinationals operating in Islamic nations, these pillars provide important guidance. For instance, leaders are advised to provide employees with space and the opportunity to pray. Additionally, adherents of Islam also fast for a month during Ramadan. During that month, Muslim employees are not allowed to eat, drink, smoke, or even take medicines from dawn until dusk. Ramadan is considered holy, and multinational companies should expect their workers to be more concerned with sacred matters and a heightened spiritual atmosphere during this time. Therefore, multinational leaders are advised to take steps to ensure that business activities are not disrupted during Ramadan.

Another implication of Islam for global business is that interest gained on monies is viewed as profits generated without wealth and is therefore prohibited. In most Islamic countries, governments have instituted financial laws that therefore see interest as illegal. For any company with operations in a Muslim country, the prohibition of interest presents a serious challenge both in terms of access to loans as well as repayment of obligations. Multinational companies are therefore strongly advised to work with local banks and financial institutions to find creative ways to pay interest in the form of profit-sharing or other financial transactions.

Hinduism

Finally, Hinduism is represented by all those who honor the ancient scriptures called the Vedas. There are currently around 760 million Hindus residing in India, Malaysia, Nepal, Suriname, and Sri Lanka. Unlike Christianity or Islam, Hinduism has significant variations in practices and rituals, leading some experts to suggest that there are no central traditions. Other experts suggest that the quest for Brahman, the ultimate reality and truth and the sacred power that pervades and maintains all things, is the ultimate quest for many Hindus.

Similar to the other religions, Hinduism has implications for the way business is conducted. One of the facets of Hinduism is the caste system, which refers to the ordering of Indian society based on four occupational groups: 1) priests, 2) kings and warriors, 3) merchants and farmers, and 4) manual laborers and artisans. Although the caste system is illegal in India today, its original purpose was to create a system that would subordinate individual interests to the collective good.

Unfortunately, the caste system became a legitimate way to discriminate against the lower castes. The system remains a dominant feature of life in India today, and multinational companies operating in India must be aware of it. For instance, having a member of a lower caste supervise higher-caste individuals can be problematic. Additionally, members of lower castes may face promotion ceilings in organizations because of their caste membership. Nevertheless, it is critical for multinationals to play a critical role in reducing discrimination that is fostered by the caste system. Many companies located in India, such as Infosys, have implemented programs to train lower-caste members to get jobs.

Finally, it is important for multinational leaders to appreciate Hindu beliefs. One of the most relevant beliefs is that Hindus consider cows sacred. Companies such as McDonald's have been very careful to honor this belief and only offer foods that do not include beef products. International leaders also need to be aware of the various Hindu festivals and celebrations because employees generally expect time off and gifts for holidays such as Diwali, the festival of lights.

Exercises

This section presented some of the social institutions that may bring a deeper understanding of cross-national differences. Relying solely on national culture dimensions may not be useful in the presence of cultural paradoxes. Carefully understanding a nation's social institutions can therefore bring additional insights into better international leadership.

1. Describe the social institutions that can provide a deeper understanding of cross-national differences.
2. How can leaders use insights from Hofstede and GLOBE in conjunction with an understanding of social institutions?

Key Takeaways

So why is an understanding of cultural stereotyping important, and what can students do to prepare for cultural stereotyping by looking at social institutions?

While the Hofstede and GLOBE culture frameworks are certainly useful and can provide a solid basis for understanding cultural differences, relying solely on cultural dimensions can lead to problems when leaders are confronted with cultural paradoxes (when reality doesn't coincide with expectations based on cultural dimensions) and cultural stereotyping (when it is assumed that everyone within the same culture acts and behaves similarly).

To broaden your understanding of cultural differences, you must also take into account a country's social institutions.

While there are a large number of social institutions that can impact international business, we examined three main types of social institutions that affect how people act and behave: social stratification (the degree to which social benefits are unequally distributed and those patterns are perpetuated for life), education (the socializing experiences which prepare individuals to act in society), and religion (the shared set of beliefs, activities, and institutions based on faith and worship).

9.5 The GLOBE Framework

Learning Objectives

1. Discuss the GLOBE framework, and its importance to cross-cultural leadership.

Figure 9.5.1: *“Person Holding World Globe Facing Mountain” by Porapak Apichodilok, Pexels License.*

A second important cultural framework, the Global Leadership and Organizational Behavior Effectiveness (GLOBE) project provides leaders with an additional lens through which they can better understand how to perform well in an international environment. While the Hofstede framework was developed in the 1960s, the GLOBE project developed in the 1990s is a more recent attempt to understand cultural dimensions (House et al., 2004).

The GLOBE project involves 170 researchers from over 60 countries who collected data on 17,000 managers from 62 countries around the world.

Similar to Hofstede, the GLOBE researchers uncovered nine cultural dimensions. However, basing their work on Hofstede's cultural dimensions, it is not surprising to note that five of these dimensions are similar to those uncovered by Hofstede, namely 1) uncertainty avoidance, 2) power distance, 3) future orientation (degree to which society values the long term) 4) assertiveness orientation (masculinity), 5) gender egalitarianism (femininity), 6) institutional, and 7) societal collectivism (similar to individualism/collectivism). The only two cultural dimensions unique to the GLOBE project are **performance orientation** (the degree to which societies emphasize performance and achievement) and **humane orientation** (the extent to which societies place importance on fairness, altruism, and caring).

Similar to Hofstede, the GLOBE researchers categorized countries into clusters of countries with similar cultural characteristics. This categorization provides a convenient way to summarize cultural information for a larger number of countries and simplifies the task of the international leader attempting to lead effectively in countries within clusters. Because the clusters include societies with similar cultural profiles, similar cultural adaptations can be made. Although the GLOBE study identified ten clusters, we will discuss only the seven clusters most relevant for international leaders: the Anglo cluster, the Confucian Asia cluster, the Germanic Europe cluster, the Nordic Europe cluster, the Latin America cluster, the Middle East cluster, and the sub-Saharan cluster. **Table 9.5.1** shows these various clusters and the countries in each cluster.

Table 9.5.1: Country Clusters

Anglo	Confucian Asia	Germanic Europe	Latin America	Nordic Europe	Middle East	Sub-Saharan Africa
Australia Canada Ireland New Zealand South Africa (White) United Kingdom United States	China Hong Kong Japan Singapore South Korea Taiwan	Austria Switzerland Netherlands Germany (former East) Germany (former West)	Argentina Bolivia Brazil Colombia Costa Rica El Salvador Guatemala Mexico Venezuela	Denmark Finland Sweden	Qatar Morocco Turkey Egypt Kuwait	Namibia Nigeria South Africa (Black) Zambia Zimbabwe

(Based on Dorfman et al., 2004)

To compare how the different clusters rate different forms of leadership, the GLOBE researchers considered six leadership profiles:

1. Charismatic type (the degree to which the leader can inspire and motivate others)
2. Team-oriented (the degree to which the leader can foster a high-functioning team),
3. Participative type (the degree to which leaders involve others in decision-making)
4. Humane-oriented type (the degree to which the leader shows compassion and generosity)
5. Autonomous (the degree to which the leader reflects independent and individualistic leadership)
6. Self-protective (the degree to which the leader is self-centered and uses a face-saving approach)

Table 9.5.2 shows how the various clusters rank these leadership types and can provide further insights to understand how cultural differences affect preferences for leadership styles.

Table 9.5.2: Country Clusters and Preferred Leadership Styles

Leadership Style	Anglo	Confucian Asia	Germanic Europe	Latin America	Middle East	Nordic Europe	Sub-Saharan Africa
Charismatic	High	Medium	High	High	Low	High	Medium
Team-oriented	Medium	Medium/ High	Medium/Low	High	Low	Medium	Medium
Participative	High	Low	High	Medium	Low	High	High
Humane-oriented	High	Medium/ High	Medium	Medium	Medium	Low	Medium
Autonomous	Medium	Medium	High	Low	Medium	Medium	Low
Self-protective	Low	High	Low	Medium/ High	High	Low	Medium

(Based on Javidan et al., 2006)

Consider, for example, the Nordic Europe cluster, including Scandinavian countries such as Denmark, Finland, and Sweden. These countries have low levels of masculinity, low levels of power, and high individualism. It is therefore not surprising to see that individuals in such societies prefer leaders who are more charismatic and who demonstrate participative leadership tendencies. The least preferred style for this cluster is the self-protective leader, which is more representative of individualist cultures.

Countries in the Latin American cluster (which includes some of the emerging markets of Argentina, Mexico, and Brazil) tend to be more collective, have high power distance, and have high uncertainty avoidance. It is therefore not surprising that leaders who are successful in this cluster are those who make decisions collectively, who treat their subordinates with formality, and who display charisma.

The countries in the Middle East cluster (which includes countries such as Egypt, Morocco, and Turkey) tend to score high on uncertainty avoidance, high on collectivism, and medium on power distance. As a result, because of the high levels of uncertainty avoidance, subordinates are often reluctant to make decisions that involve risk, thereby explaining the high ranking of the autonomous leadership style. Thus, it is not surprising that the Middle East cluster prefers leaders who are less participative. Furthermore, the preferred leadership style in this cluster behaves in a collective manner and tries to maintain harmony because of the high level of collectivism.

Although there are cultural differences between clusters, it is important to see that the clusters do share some similarities. For example, the charismatic leadership style is preferred in all clusters except the Middle East cluster. In addition, **Table 9.5.3** shows that the human-oriented leadership style is preferred in all but the Nordic Europe cluster.

In contrast, leadership styles based on individualist tendencies, such as the autonomous and the self-protective types, tend to be least preferred.

Table 9.5.3: Traits and Behaviors That Are Universally Admired and Disliked

Positively-Regarded Traits and Behaviors across the World	
Trustworthy	Dependable
Intelligent	Just
Honest	Decisive
Plans ahead	Effective bargainer
Encouraging	Win-win problem solver
Positive	Skilled administrator
Dynamic	Communicator
Motivator	Informed
Confidence builder	Team builder
Negatively-Regarded Traits and Behaviors across the World	
Loner	Egocentric
Antisocial[what does this mean? is it different from antisocial?	Ruthless
Not cooperative	Dictatorial
Nonexplicit	

(Based on Den Hartog et al., 1999)

The GLOBE team also found that a number of traits, such as being honest, trustworthy, positive, and dynamic, were viewed positively worldwide and were endorsed irrespective of national culture. Similarly, leadership behaviors such as being a loner, egocentric, and dictatorial were viewed in a negative light by all clusters.

Example: Negotiations in Malaysia and China

You are a rising star in your company, and your CEO asks you to accept an exciting and promising assignment in Malaysia and China, during which you will meet with representatives of your company's local affiliates. In Malaysia, you are introduced to the company executives in a flashy ceremony. You understand that the affiliate's CEO is named Roger, and you have a great time socializing with him. You even decide to show your fondness for him by calling him "Rog." However, later you find that your host's name is actually Rajah.

After your trip to Malaysia, you go to China. You are welcomed lavishly by the local affiliate's executives and are invited to several important meals. Over the next few days, you seem to be spending time mostly at lunches or dinners. Whenever you try to discuss specifics of your products, you find that your hosts are more interested in eating and drinking. You attempt to provide your hosts with contracts that your company has drafted, but you are not successful.

Despite your reservations, you return home feeling strongly about your efforts. However, your CEO soon asks to meet with you. During the meeting, she mentions that neither the Malaysian company nor the Chinese company is interested in doing further business with your company. In fact, both companies decide to go with competitors. The CEO wants to know what happened, and you need to figure out what went wrong.

In this section, we have learned about the various tools that leaders can use to understand and prepare for cross-national differences and how they impact the behaviors of employees across multinational corporations. We've also seen that there are many similarities among cultures. Relying solely on such frameworks to understand a culture can be misleading, however. In the next section, we discuss some of the dangers of cultural stereotyping and examine the need to be cautious and to take into account the interaction between a nation's culture and its social institutions.

Exercises

1. Describe how the GLOBE tools can be used by leaders to prepare for cross-national situations.
2. What are the similarities and differences among clusters?
3. Discuss where the United States, Malaysia, and China stand on Hofstede's cultural dimensions.
4. What are the implications of the above differences for how business is conducted in Malaysia and China?
5. How can these cultural differences explain why you were not successful? What should you have done differently?

Key Takeaways

The GLOBE project cultural framework is a much more recent effort that involved 170 researchers who collected data on 17,000 managers from 62 countries around the world. The focus of the GLOBE project was to understand how national cultures have preferences for different leadership styles. One of the strengths of the GLOBE project is that it clusters societies that share similar characteristics. The seven important clusters of the GLOBE project are the Anglo cluster, the Confucian Asia cluster, the Germanic Europe cluster, the Latin America cluster, the Middle East cluster, the Nordic Europe cluster, and the Sub-Saharan cluster. Each cluster rates differently the styles of leadership that the GLOBE researchers considered. The six leadership profiles are charismatic types (degree to which the leader can inspire and motivate others), participative type (degree to which leaders involve others in decision making), humane-oriented type (degree to which the leader shows compassion and generosity), autonomous (degree to which the leader reflects independent and individualistic leadership), and self-protective (degree to which the leader is self-centered and uses a face-saving approach). The various clusters show preferences for specific leadership styles that are consistent with the cultural aspects emphasized in each cluster.

9.6 Cross-Cultural Assignments

Learning Objectives

1. Outline the steps to prepare for cross-cultural assignments.

At some point in your career, you are very likely to be asked to be involved in cross-cultural operations. You may encounter employees from other countries in the local company you work for, or your company may send you to another country to run international operations. When these situations arise, you will need to be prepared to manage cultural differences. In this section, we discuss some of the things companies and individuals can do to better prepare for cross-national differences.

One of the goals of any cross-cultural training is to increase an employee's cultural intelligence. Cultural intelligence refers to "individuals' capabilities to function and manage effectively in culturally diverse settings" (Eisenberg et al., 2013).

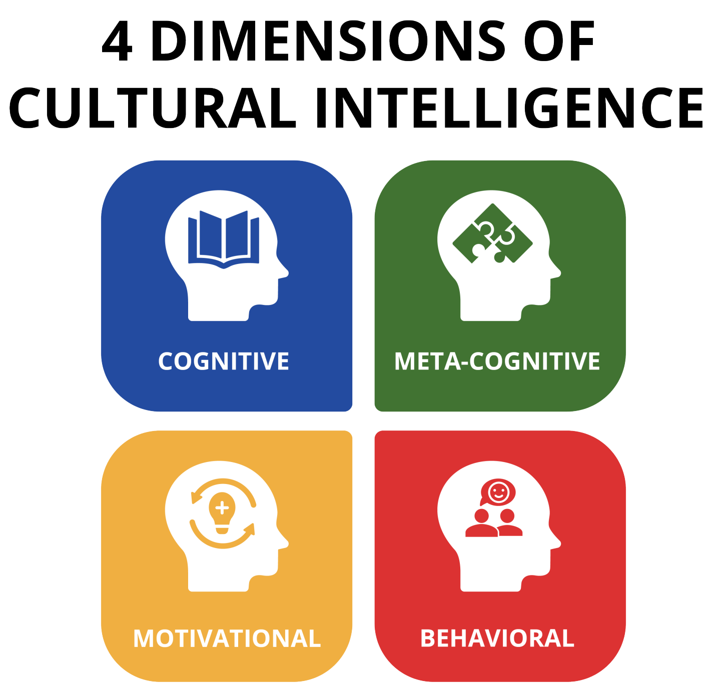


Figure 9.6.1: *"4 Dimensions of Cultural Intelligence" by Alyssa Giles, CC BY-NC-SA 4.0.*

A culturally intelligent leader is someone who can operate without difficulty in cross-national settings. Recent research suggests that cultural intelligence is made up of four dimensions:

- a **cognitive dimension**, focusing on the individual's knowledge of values and practices inherent in the new culture acquired through education and personal experiences
- a **meta-cognitive dimension**, which reflects an individual's ability to use cross-cultural knowledge to understand and adapt to the cultural environment they are exposed to
- a **motivational dimension**, which reflects the ability and desire to continuously learn new aspects of cultures and adapt to them
- a **behavioral dimension**, based on the ability of the individual to exhibit the appropriate forms of verbal and nonverbal behaviors when interacting with people from another culture

To give you more insights into the cultural intelligence measure, **Table 9.6.1** provides some representative statements used to gauge a person's understanding of these four dimensions of cultural intelligence and various aspects of cross-cultural interactions.

Table 9.6.1: Cultural Intelligence Statements

Metacognitive	• I am conscious of the cultural knowledge I use when interacting with people with different cultural backgrounds. • I am conscious of the cultural knowledge I apply to cross-cultural interactions.
Cognitive	• I know the legal and economic systems of other cultures. • I know the cultural values and religious beliefs of other cultures.
Motivational	• I enjoy interacting with people from different cultures. • I enjoy living in cultures that are unfamiliar to me.
Behavioral	• I change my non-verbal behavior when a cross-cultural interaction requires it. • I alter my facial expressions when a cross-cultural interaction requires it.
(Based on Eisenberg et al., 2013)	

Cross-Cultural Training through Education and Personal Experience: Low and High Rigor

Current research suggests that cross-cultural training can influence cultural intelligence. At a basic level, you can acquire cultural intelligence by taking classes in your program. Research has shown that taking cross-cultural management courses can enhance cultural intelligence (Ramsey et al., 2013).

Example: Cultural Intelligence and Cross-Culture Training

For example, in a study of 152 MBA students, researchers found that the cultural intelligence of the students increased after they took a cross-cultural management course. In another longitudinal study, researchers found that studying abroad has a significant impact on the cognitive and metacognitive aspects of cultural intelligence. How do multinationals approach cross-cultural training? The above provides examples of low-rigor training, in which individuals are exposed to critical information to help them understand the realities of a different culture but are not actively and directly engaged with the culture (Lenartowicz et al., 2014). In such cases, instructors transfer basic information and knowledge to students through lectures, books, and case studies.

Low-rigor training has several important disadvantages. Participants often just receive information; they learn that differences exist but do not necessarily learn how to deal with cultural differences in a real-life situation. Furthermore, cross-cultural differences can be very subtle and nuanced, and this method cannot expose participants to such nuances. Balancing these significant disadvantages is one key advantage: low-rigor training tends to be the most cost-effective.

Companies can also rely on high-rigor methods of training, in which participants are actively engaged in the process and can learn some tacit aspects of cross-cultural differences (Lenartowicz et al., 2014). Examples of high-rigor training include classroom language training, case studies, and sensitivity training. High-rigor training also includes more experiential approaches such as role-playing, simulations, and field experiences. Some MNCs (multi-national corporations) also offer on-the-job training, during which employees are coached and trained while working at their jobs. This method allows the trainee not only to see a new culture but also to learn how that culture interacts with the work environment. The advantage of this method is that it enables the participant to be much more actively engaged in learning, thereby facilitating the transfer of knowledge. But as you might have guessed, high-rigor training is much more expensive to provide.

Which method works best? Experts agree that it depends on the nature of the assignment. Longer and more complex international assignments benefit from higher-rigor training (Lenartowicz et al., 2014). Furthermore, because international work assignments tend to be more short-term in nature, ways to enhance the metacognitive aspects of cultural intelligence are necessary (Mor et al., 2013). Today, because more leaders tend to have more frequent but shorter assignments to international companies, having metacognitive skills is critical. As a result, brief lectures or other low-rigor methods that simply provide information may be useful in helping develop the cognitive aspect but not metacognition. In such cases, high-rigor methods that allow participants to be much more actively engaged with culture will work well.

When Should Cross-Cultural Training Occur?

Another important aspect of cross-cultural training is the timing of the training. Some multinationals offer pre-departure cross-cultural training, which provides individuals with learning opportunities prior to their departure (Bennett et al., 2000).

Such training can take the form of 1- to 12-week programs, although two- to three-day programs are also very popular. After such training, the expatriate has a good understanding of expectations, what the local culture looks and feels like, and how to manage any local shocks when they arrive. This approach also makes individuals about to go to another country less anxious about the unknown.

Multinationals will also often opt for post-arrival cross-cultural training, which occurs after an expatriate has arrived in the foreign country and can address issues in "real-time." Armed with local cultural knowledge and training, the expatriate can delve into work issues without worrying about daily living issues.

Recent research provides evidence of the utility of cross-cultural training. For example, a recent study of 114 expatriates showed that both pre-departure and post-arrival training had positive effects on several aspects of their success (Wang & Tran, 2012).

Specifically, in a study in Vietnam, the findings show that both pre-departure and post-arrival training positively impacted the ability of expatriates to adjust to their work and general environment. Additionally, such training was also effective in enhancing the ability of expatriates to better interact with locals. The researchers also examined the impact of language training. Not surprisingly, expatriates who received training in the local language were better able to adjust to local interaction than others.

The above study shows that both pre-departure and post-arrival training is important for success in leading cross-culturally. While the study shows that it is most effective for MNCs to provide more than one type of training, the findings also show that post-arrival training has the most impact on the types of cross-cultural adjustment. While companies tend to shy away from the more expensive post-arrival training, the study suggests that the investment may be worthwhile if it enables expatriates to succeed.

Best practices advise that the optimal time for pre-departure training programs is around three to five weeks prior to the international assignment. Training provided too far ahead of time may not be very effective because the expatriate may not activate all learning readiness and may forget the training if it occurs too far ahead of the assignment. Best practices also suggest that post-arrival training is best delivered 8 to 12 weeks after arrival. This allows the expatriate to experience cross-cultural interaction and phenomena and to be better ready to gain the most from the training.

A final issue that leaders need to address is that the training should not focus only on identifying and teaching about differences (Molinsky, 2015).

Experts agree that this focus on differences is a problem in current cross-cultural training approaches. While identifying and understanding cultural differences is useful and necessary, trainers often don't provide guidance as to how the participants should adapt and react to such cultural differences. It is, therefore, necessary for the multinational to take the necessary steps to teach cross-cultural sojourners to adapt their behaviors so that they act and react in culturally appropriate ways. Experts also suggest that such training should not be static and limited to web pages or documentation. Training should be integrated with the actual work that the employee is engaging in.

Exercises

1. How should training to manage cultural and regional differences occur?
2. How should training for cross-cultural assignments be implemented?

Key Takeaways

While earlier sections provide you with many diagnostic tools to understand how to evaluate cross-cultural differences, this section presented you with ways to prepare for cross-cultural assignments. The goal of any training is to increase cultural intelligence, and the ability to function and lead effectively in culturally diverse settings. To understand what companies can do to increase cultural intelligence, you learned about various types of training: low-rigor training (where individuals are exposed to critical information but are not necessarily actively engaged in their learning) and high-rigor training (methods of training where participants are much more actively engaged in the training process). You also learned that multinationals can also provide training before someone goes on an international assignment or while someone is already on the assignment.

9.7 Strategies for Expanding Globally

Learning Objectives

1. Explain the main strategies that companies can use to expand internationally.

In the previous sections, you have learned about the need for a serious international leadership student to appreciate how countries differ and some possible ways to address these differences. Today, any company involved in business also needs to understand the global business environment and how it can play a role in this environment. In the final two sections of the chapter, we look at the three main strategies available to companies as they internationalize and learn how companies can use these strategies to enter global markets.

1. A global strategy, whereby all operations and activities are managed fairly similarly worldwide
2. A regional strategy, whereby activities and operations are adapted to regional requirements.
3. A local strategy, whereby the company's operations are adapted to fit specific countries.

Global strategy

A global strategy is based on the assumption that the world is extremely interconnected and that patterns of consumption and production are fairly homogeneous worldwide (Verbeke et al., 2016).

In such cases, the company simply extends its domestic strategy to the global arena.

Global strategies represent a potential solution to reduce costs. Using standardized products and processes in each of the markets it enters allows a company to possibly achieve economies of scale and scope. The global company will scan the world for opportunities and respond by expanding into those areas where there is potential. Furthermore, it will deploy those activities worldwide depending on where the most value is achieved.

A good example of a global strategy is the one pursued by Ford Motor Company (Cromwick, 2011).

Ford has decided that electric cars will be the vehicles of the future, and it is therefore pursuing a "global electrification strategy," whereby it will use a global platform across many different models and styles. For instance, Ford is now using the "C-platform" to make a variety of vehicles ranging from compact cars (e.g., the Ford Focus) to larger five-passenger cars (e.g., the C-Max). This platform can also be used to build hybrid electric and battery electric cars.

Figure 9.7.1: *"Toyota at the Paris Motor Show 2010: Prius PHV concept" by Toyota UK, licensed under CC BY-NC-ND 2.0.*

In addition to Ford, many automobile manufacturers have taken a strategic decision to provide electric and hybrid vehicles for the global market. Pictured here is the Toyota Prius hybrid electric vehicle. Toyota takes a regional approach to its global operations.

Why do some companies pursue global strategies? One major reason is the nature of the industry in which they operate. For instance, the automotive industry lends itself to global approaches because the use of the product and the product being sold are similar worldwide. Thus, if there is the possibility of global markets where global customer needs can be met, a global strategy works well. Additionally, as mentioned earlier, a global strategy also enables cost savings. Because activities are not being adapted to local needs, a company can enjoy the benefits of having the same operations worldwide and enjoying synergistic benefits.

The current discussion of research suggests that few companies are truly global. A recent examination of the Fortune Global 500 companies found that only nine companies were truly global as measured by how sales were globally distributed across a number of countries. These companies include Canon, Coca-Cola, Flextronics, IBM, Intel, LVMH, Nokia, Philips, and Sony.

Regional Strategy

A regional strategy is one in which the company decides that it makes sense to organize its functional activities, such as marketing, finance, etc., around geographical regions that play a critical role in terms of sales. Toyota is an example of a company that has successfully implemented a regional strategy. Because regions such as Europe and North America are sufficiently large but different markets, Toyota has decided that it is worth customizing its operations by region. In this case, the company has several regional offices that operate independently of the Japanese headquarters.

A regional strategy is appropriate if companies find that the benefits from dispersing their activities far outweigh the benefits of coordination. For Toyota, having independent units based on regions makes a lot of sense because each region has specific needs that can better be addressed with a regional rather than a global approach. For instance, consider that the price of gasoline is significantly higher in Europe than in the United States. Using a regional approach to the design and manufacture of more- or less-fuel-efficient cars makes much more sense than having a "one size fits all" car designed for a global market.

Local Strategy

The local strategy is the one in which a company adapts its products to meet the needs of the local market. For instance, experts argue that despite the perception that customers want global products, significant cultural and national value differences still suggest that some level of customization is necessary. This is especially critical for some functional areas, such as marketing. People across cultures have different purchasing and usage habits. Furthermore, they respond differently to promotional campaigns and other advertising messages. In such cases, a local strategy may be necessary.

An example of a local strategy is McDonald's product offerings in India (McDonald's India, n.d.).

Given the taste and vegetarian preference of India as well as the consideration that cows are sacred, the company famous for its hamburgers does not offer any beef or pork products. Rather than offend its customers, McDonald's restaurants in India offer burgers made of potatoes and peas (McAloo Tikki); burgers made of beans, green peas, onions, and carrots (McVeggie); and burgers made of paneer, India's cheese (McSpicy Paneer). The only meats that McDonald's sells at its restaurants in India are chicken (McChicken) and fish. Furthermore, the products are adapted to fit the local preference for spicy foods and offerings such as the Masala Grill chicken and the McSpicy Chicken.

Despite the attractiveness of a local strategy, it is not without disadvantages. The local strategy is much more costly because it requires companies to duplicate resources and departments around the world. Additionally, because of the differences in local activities and operations, it may be difficult for the company to achieve learning or cost savings across subsidiaries. The nature of some markets, however, may require that a local strategy be adopted.

Example: From Regional to Global

Bayer Crop Science is a division of Bayer, a leading global company based in Leverkusen Germany. The Crop Science division's main goal "is to be able to produce enough food, feed, fiber and renewable raw materials for a growing world population on the limited land available"

(Bayer, n.d.). It has been involved in many of the latest innovations in agriculture, such as developing apps for farmers to help them understand their crops, climates, and so on, and developing the ability to use drones to assess crop quality.
One of Bayer Crop Science's units is the Global Public and Government Affairs (GPGA) division, which is in charge of monitoring and proactively complying with local government policies. In 2012, Bayer Crop Science had a large number of independent country GPGA divisions that acted independently, thereby limiting collaboration and cooperation. As a result of this regional strategy as described earlier, critical information about policy priorities from different regions was slow to reach headquarters, and Bayer Crop Science was not able to quickly address policy challenges worldwide.
In 2013, Bayer Crop Science hired Lisa Coen to implement a more global strategy in the GPGA division (Townsend et al., 2017)

Her main task was to make the GPGA division a truly global organization. To accomplish her task, she first traveled extensively around the world to meet with the business unit leaders and the public affairs team members. Through this process, she wanted to engage with the key stakeholders to prevent any resistance to change from building up. During these meetings, she discovered that the various local and regional GPGA units had deep knowledge that would greatly help Bayer Crop Science face and manage public policy issues all over the world. The meetings also allowed her to come up with the best strategy to turn the various regional units into a global unit.

To build a more collaborative organization, Coen had to move from a traditional and hierarchical organization based on regions to a globalized network of units. To demonstrate the need for such a system, Coen invited key individuals to a global meeting to work collectively on public policy issues. Through this exercise, she was able to show the group the critical importance of a network organization. Through team-building exercises, Coen showed how the entire group had to move around to meet with the key people in each region. This interaction allowed the group to commit to a network model that would support and build a global organization.

Exercises

1. Why did Bayer Crop Science decide to move from its original regional organization of units to a more global network of units? What were the advantages and disadvantages of this approach?
2. How did Coen build support for the change? Do you believe this was an appropriate way?
3. What challenges do you anticipate as Coen continues to build a network organization?

Key Takeaways

Companies choose international strategies based on their capabilities and skills as well as on the structure and nature of the industry in which they operate. Companies choose regional strategies if they feel that the regions have differences significant enough to justify such an approach. In contrast, companies elect a global strategy if they believe they have global products that can satisfy global consumer needs.

It is important to note, however, that companies rarely adopt the pure forms of strategy as we've described them. Many companies adopt hybrid structures, where some functional areas may be approached globally while other activities may be approached more regionally or locally.

As companies explore expanding into international markets, they adopt one of three main strategies, each of which has its advantages and disadvantages depending on the company's and country's characteristics. The three strategies are 1) the global strategy, in which all operations and activities are managed fairly similarly worldwide; 2) the regional strategy, in which the multinational adapts activities and operations to regional requirements; and 3) the local strategy, in which the company's operations are adapted to fit some specific countries.

9.8 The Necessity of Global Markets

Learning Objectives

1. Discuss why a company would go international.

In this section, we explore some of the methods companies can use to go international and how they might implement them. Each method for entering international markets has its advantages and disadvantages, and it is up to the leadership team to figure out which is most suitable for its company and for the countries in which it operates.

Reasons for Internationalization

"Benefits of Internationalization" by Alyssa Giles, CC BY-NC-SA 4.0.

Before we get into how companies can go international, let's look at why a company might want to expand internationally in the first place. Navigating cross-cultural environments is fraught with dangers but holds the possibility of great success.

Trade Facilitation

At a basic level, relying on a domestic market can be problematic. Because of the many factors enhancing globalization, companies of all sizes and types want to take advantage of global markets to expand and achieve sustainable competitive advantage. Global e-commerce rose almost 26% in 2020 (Abrams, 2021), and is expected to hit $5.55 trillion in 2022 (Keenan, 2022). To learn how Shopify, an e-commerce giant, takes advantage of global markets, go to Global Ecommerce Explained: Stats and Trends to Watch in 2022.

Growth Opportunities

Another critical factor that supports internationalization is that emerging markets such as China, India, Brazil, and Malaysia will continue to grow and present companies with tremendous opportunities. Research from the Boston Consulting Group suggests that such emerging markets experienced growth (as measured by GDP growth rate), surpassing more developed economies by 2.2% (Walternmann et al., 2014).

The middle class was expected to increase by 1.38 billion people in 2020, however, the pandemic reduced that number to 1.32 billion (Kochhar, 2021). That is still an enormous increase in buying power ripe for businesses to tap into as they expand internationally. Experts predict that incomes in emerging markets will continue to rise.

How to Go International 1: Exporting

Given that it is critical for companies to go global, there are various means that companies can use to do so. The most basic and cost-effective approach is exporting, whereby a company sends its product to an international market and fills the order just as it fills a domestic order. Our earlier example of Dmitrii Dvornikov (who was selling jewelry and table clocks made from Russian semiprecious stones to international customers on Russia's eBay) is a simple example of exporting. However, companies can also become more involved in the process and have dedicated offices in other countries to tackle exports. In fact, some companies may find that exporting is so critical that they create a dedicated export department.

Because exporting is one of the easiest ways to go international, it can bring many benefits (Government of Canada, 2021).

Current research suggests that companies that export tend to be 17% more profitable than companies that don't. Additionally, exporting provides the ability for companies to defend their markets by becoming more competitive in other markets. Furthermore, by exploring international markets, a company can acquire critical cross-cultural management skills, thereby increasing the value of the company. Consider the case of DeFeet International, a U.S. maker of socks for cyclists (International Trade Administration, n.d.).

Despite several major disasters during the company's existence (it burned down in 2006), DeFeet has been able to survive and expand thanks to the global market. The company hired an international marketing manager to get advice on how to develop a market strategy for Europe. Because of its strong research and development, DeFeet International has been able to develop the best socks for cycling. While production still takes place in the U.S., exporting has resulted in distributors in over 35 countries.

Despite the many benefits of exporting, companies are often reluctant to do so. Much of such fear is based on some assumptions about how business is done. For instance, managers often assume that exporting can be too risky, but some argue that selling only to domestic markets is just as risky. Some companies believe that exporting is too cumbersome or that getting paid for exports is too complicated and not worth the time. However, experts believe that exporting is not as complicated and can be easily done through the right channels.

This finding suggests that exporting is a viable strategy, even for small firms. To give you more insights into these assumptions, **Table 9.8.1** summarizes some of these myths and counterarguments.

Table 9.8.1: Myths About Exporting and Counterarguments

Myths	Reality
Exporting is risky.	Selling domestically is as difficult as exporting to some markets. Additionally, not all markets are necessarily risky.
It is difficult to get paid for exports.	Buying and selling internationally is now fairly routine. There are numerous ways to ensure reliable payment.
Exporting is so complicated.	Exporting requires minimal paperwork. It is now very easy to search for buyers using the internet. There are many intermediaries available to help with exports.
I can't succeed because I don't speak another language.	As mentioned in the chapter, there are many organizations offering help with translation etc. Setting up global websites can be seamless now.
My product won't do well in other markets.	If you do well in the U.S., your product will probably do well in other countries. There are many services available to test the market.

(Based on International Trade Administration, n.d.)

Solving a Disadvantage of Exporting through Licensing and Franchising

Although exporting is an easy way to go international, it has some disadvantages. Exporting does not give much control to the company in terms of how the product is presented in the international market. For instance, if the company decides to use an international intermediary to sell its product abroad, it is at the mercy of that intermediary. Additionally, exporting sometimes requires traveling and other tasks that may take managers away from domestic activities. In light of such disadvantages, companies will often resort to licensing.

Licensing is a contractual agreement whereby, in exchange for a royalty or fee, a company gives the right to another company to use a trademark, know-how, or other proprietary technology. Similar to exporting, licensing is an easy way for a company to enter an international market quickly and without the need for laying out much capital. A licensor often has some asset that it can offer to the licensee in exchange for a fee. This asset might include a valuable patent, a trademark, technological know-how, or a company name that the licensor provides to the licensee in return for a payment.

A recent study of European firms' entry into the Vietnamese market shows that these companies relied on licensing (Simonet, 2012).

For instance, consider Haymarket Media, one of the largest publishers in the United Kingdom. Haymarket enters into simple licensing agreements with the local affiliates to provide generic content to all worldwide licensees. This content is similar in all overseas editions of its magazines. However, through this licensing arrangement, the country affiliate adds local content. In this way, Haymarket has been able to increase sales of existing content by selling it in new global markets.

International franchising takes licensing up a notch. Rather than simply license some specific aspect of the value chain, a company will license the complete business model. The business model usually includes trademarks, business organization structures, technologies and know-how, and training. Similar to licensing, the franchisor owns a trademark that the franchisee pays a royalty for. Additionally, the franchisee will usually pay for the right to use the business model of the franchisor.

Many fast food companies have relied on franchising agreements to enter the Indian market (Lakshmi et al., 2015).

As India has experienced economic growth, more people have greater amounts of disposable income. In addition, because more couples are now busy working, they rely more on upon fast food as a meal option. Companies such as McDonald's, KFC, Domino's Pizza, and Pizza Hut have all entered franchising agreements with local companies to sell their products. This move has proven to be very successful because the franchisors have been able to expand their markets while the franchisees have seen significant profits in the local Indian markets.

Similar to other forms of entry, licensing and franchising has benefits and disadvantages. In terms of benefits, both forms of entry provide the receiving company with an established brand or some other technological know-how that has already proved itself. The recipient of the franchise agreement doesn't need to build a new reputation but can rely on a well-known international competitor. For the franchisor, this often provides a quick way to expand revenue from an existing business model. Additionally, while licensing and franchising are cost-effective ways to go international, the companies granting the license or franchise still retain control over their product. If things don't work out as planned, the licensor can end the agreement. For the franchisee, an added benefit is that corporate support is provided to help the company succeed.

Disadvantages of Licensing and Franchising

Both licensing and franchising have disadvantages that can affect both the recipient of the agreement and the grantor of the agreement. For instance, a study of Indian entrepreneurs entering into franchise agreements with fast food companies in the United States reported that the master franchisor had too much control (Lakshmi et al., 2015).

Furthermore, a franchise agreement can be risky and capital intensive for the local companies. For the licensor or franchisor, the biggest disadvantage is that the company can create a new competitor. While the host country's laws may dictate the terms of the agreement, local enforcement of these laws may not always be strong. Thus, a local company can therefore use the business model for its own purpose. Furthermore, compared to exporting, the licensor gives up additional control. Once the agreement is signed, it is possible for the licensee to sell the product at a lower price or with lower quality. This has the potential to affect the reputation of the licensor.

How to Go International 2: Strategic Alliances

Because of some of the dangers of licensing and franchising, companies can often get even more involved in global operations by engaging in strategic alliances. International strategic alliances occur when two or more companies from different countries enter into an agreement to conduct joint business activities. Strategic alliances are often the preferred means of entry in emerging markets because they make it easier to do business in the country. A strategic alliance is a way for a foreign company to bypass barriers imposed by local governments.

A prominent example of one of the most successful strategic alliances is the one entered into by Nissan and Renault in 1999 (Kumar, 2014).

In this case, both companies were facing situations in which finding an international partner made sense. Nissan had historically low profitability and needed to find a partner. In contrast, Renault had just ended a failed relationship with Volvo and also needed to expand globally. Furthermore, both companies had what the other partner needed. For instance, Nissan had a strong presence in North America, providing a much-needed boost to Renault's global ambition. Nissan also had strong engineering abilities that would benefit Renault. In contrast, Renault had ample cash and superior design capabilities, both of which Nissan needed.

The Nissan-Renault example shows some of the benefits of strategic alliances. Strategic alliances often provide both partners with sorely needed skills or capabilities. Strategic alliances also often provide access to new markets and customers. In terms of going global, a company may not always have the necessary know-how or financial assets to enter an international market. Strategic alliances, therefore, provide the means for a company to spring into the international domain. In that context, China remains an attractive destination for many multinationals. China's market presents tremendous potential given the increase in disposable income. A recent study sheds some light on the many aspects of entering alliances in China
(PWC, 2015).

Figure 9.8.2, therefore, provides you with some of the main benefits foreign companies expect to gain from strategic alliances.

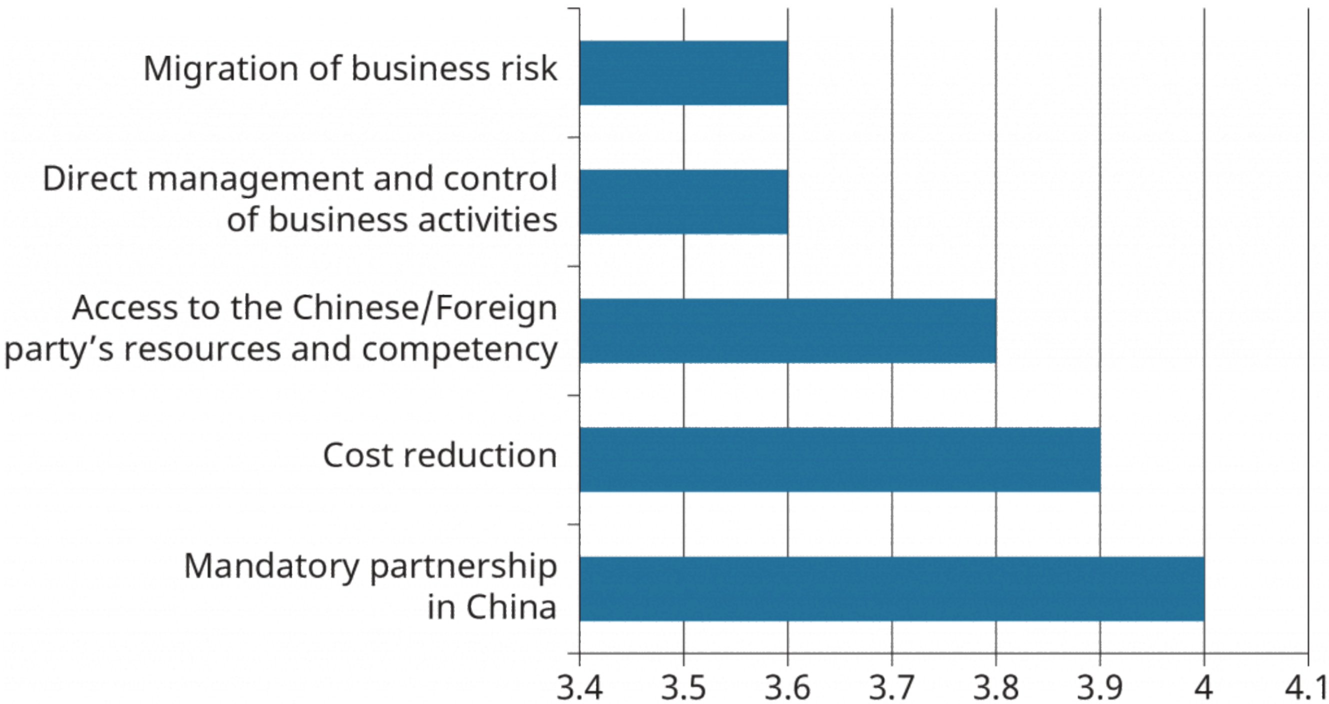


Figure 9.8.2: *Reasons to Enter Strategic Alliances(Based on PWC, 2015)*

Strategic alliances also enable companies to share resources to develop new technologies and make technological advances. This issue is acknowledged by the South Korean government, which encourages South Korean small and medium enterprises to enter into strategic alliances with foreign partners as a way to gain access to advanced technology as well as get management skills to expand internationally. A recent study examined data from South Korea and found that entering strategic alliances also allowed companies to enjoy higher productivity
(Kim, 2015).

Disadvantages of Strategic Alliances

Despite these advantages, strategic alliances are notorious for high failure rates. A major reason is that strategic alliances are very difficult to manage. Additionally, strategic alliances often present partners with the possibility of acting opportunistically. This can occur when a partner tries to access technological know-how that they were not originally privy to. Alliance partners may also decide to refuse to agree to the original terms of the strategic alliance contracts. Finally, strategic alliances inevitably involve ambiguity and uncertainty. Properly managing such ambiguity is also necessary to avoid disadvantages associated with such alliances.

Example: McDonald's in India

McDonald's has had significant success in India. In 1996, it opened its first restaurant. Today, it has over 380 restaurants in India. McDonald's has been successful because it adequately examined cultural differences and found ways to address cultural challenges. As mentioned earlier, the practice of Hinduism, the dominant religion in India, results in a preference for vegetarian meals. McDonald's, therefore, developed many vegetarian menu items while also integrating local foods. It also recognized the very diverse nature of Indian society and offers appropriate regional and local foods in different regions.

To enter the Indian market, McDonald's entered into strategic alliances with two companies that were responsible for different parts of India (The Economist, 2017).

However, despite the success, McDonald's is currently embroiled in a business war with one of two individuals who helped McDonald's come to India. In 1996, McDonald's entered into a 50-50 joint venture with Vikram Bakshi of Connaught Place Restaurants Limited. Over the subsequent decades, Bakshi was able to expand McDonald's significantly in the east and north of India. However, in 2008, McDonald's tried to buy back Bakshi's share for $7 million. Bakshi used evidence from an accounting firm to argue that his share was worth $331 million. In the face of this challenge, McDonald's had Bakshi fired as an alliance partner in 2013. Baskhi has been fighting McDonald's in Indian courts. He sued to be reinstated and to be able to run his stores without interference from McDonald's corporate headquarters. When McDonald's tried to take Bakshi to the London Court of International Arbitration, he was able to get a local Indian court to agree that he was being subjected to "oppression and mismanagement." Although another court has agreed to allow McDonald's to sue Bakshi in London, he is now appealing in another Indian court. This experience has revealed some of the worst fear of multinationals about the dangers of strategic alliances and the need to respect the local courts.

Discussion Questions

1. Why did McDonald's choose to use strategic alliances to enter India? Why not use exporting or other means?
2. Why is McDonald's facing challenges in India? What disadvantages of strategic alliances do these challenges reflect?
3. What can McDonald's do to address Bakshi's concerns?
4. What can McDonald's do about Bakshi's use of local Indian courts? How can multinationals adequately prepare for such situations?*

How to Go International 3: Foreign Direct Investment

Given the difficulties associated with strategic alliances, some companies elect to be wholly vested in the host country. This final form of international entry, which we discussed at the beginning of the chapter, is a foreign direct investment (FDI), which occurs when a company invests in another country by constructing facilities and buildings in that country. FDI can also occur through mergers and acquisitions, whereby a multinational company fully acquires a company in another country. Many car companies, such as Toyota, Honda, BMW, and Nissan, have fully operational plants in the United States. For example, many of the BMW SUVs, such as the BMW X3 and X5, are fully built in the BMW plant in Spartanburg, South Carolina.

Why do some companies choose FDI as a means of international entry? For BMW, FDI allows the company to be closer to its customers and to also sell the car as an American car. Additionally, because some countries may impose tariffs on imported products or otherwise discourage imports, building a plant locally allows a company to bypass such restrictions. Furthermore, FDI can also provide access to local expertise or to cheaper costs of labor, both of which can help a company become more competitive through reduced costs.

Disadvantages of FDI

As you might expect, FDI as an entry mode is not without difficulties. While this method gives the company the most control, it is also the most capital intensive. A multinational engaged in FDI is also exposed to the political risk of a country, the degree to which political decisions can impact a business's ability to survive in that country. For instance, throughout history, countries such as Venezuela have used governmental decrees to appropriate investment from U.S. oil companies. Finally, it is important to note that FDI also involves additional coordination risks and can drain resources from local operations. A company that engages in FDI must be able to coordinate and integrate foreign and domestic operations.

The Incremental Path to Internationalization: The Uppsala Model

The above sections also provided some insights into how some companies can start small (say, with exporting) and eventually have FDI activities in some countries. One of the most popular ways to understand this development path of internationalization is the Uppsala model, which argues that "as firms learn more about a specific market, they become more committed by investing more resources into that market" (Chetty Campbell-Hunt, 2004).

In this model, companies adopt an incremental approach to internationalizing. First, they develop a solid domestic market base. After they have a strong domestic foundation, they start exploring international markets and eventually export products to markets that they feel have close psychic distance. **Psychic distance** refers to the many differences that exist between countries because of language, cultural characteristics, social institutions, and business practices. Countries with close psychic distance are similar to each other in all these variables; those with greater psychic distance are less similar. As a firm continues to gain international experience, it will start exporting to countries with greater psychic distance. As the firm gains even more international experience and knowledge of international markets, it will eventually want to have production facilities in the overseas market (Chetty Campbell-Hunt, 2004).

The Uppsala model has been criticized on many fronts. Experts argue that this approach may oversimplify a very complex process. It is also criticized as being too deterministic because some companies may skip stages.

The latter criticism is valid when we consider the case of born globals, companies that operate internationally from the day they are created.

The All-In Approach to Internalization: Born Globals

Born globals have been made possible because of the many factors we discussed earlier that are making the world more global: the rapid development and decreasing costs of many types of information technologies have allowed companies to go international from the day they are created. Born globals are key to most countries' economic development and allow new entrants to reach a global marketplace in a hurry, rather than build in their home country and expand only after securing a foothold domestically. A recent report suggests that born globals were significant contributors to exports in countries such as Poland and Australia. Additionally, the Organisation for Economic Co-operation and Development (OECD), a leading international organization comprising many of the world's leading economies, has argued that born globals were key engines that tackled the economic downturn occurring after the financial crisis of 2007. It is therefore critical for the international leadership student to understand born globals.

Consider the case of M-PESA, the world's leading mobile-money company, created in 2007 in Kenya. Economist, "Why does Kenya lead the world in mobile money," 2015, March 2nd, Online Edition. Because of M-PESA, it is now easier to pay for a taxi ride using your mobile phone in Nairobi, Kenya, than in New York. M-PESA was created by Safaricom, Kenya's largest mobile-network operator. A customer can sign up for the service at one of the 40,000 agents throughout Kenya and place money in the account. Money can then be transferred to others by using a mobile phone. This has proved to be very useful because so many people work in Kenya's major cities and need to transfer money to their family, who often life far away in rural areas. The mobile-money service provides a safe and convenient way to move money around in unsafe environments. The development in IT has also allowed M-PESA to quickly expand globally. Today it has 30 million users in 10 countries (Monks, 2017).

Current research suggests that born globals are unique in many ways (Choquette et al. 2017).

When compared to other start-ups, born globals tend to have higher employment and job growth rates. Born globals also serve a wider global market than domestic start-ups. Additionally, while born globals tend to experience similar internationalization patterns of smaller entrepreneurial firms, they have much more aggressive learning strategies as a result of becoming global much faster than others (Chetty Campbell-Hunt, 2004).

Given the critical importance of born globals, what are the factors that contribute to their success? Current research suggests that a number of factors, such as marketing competence, effective pricing, advertising and distribution capabilities, product quality, and so on, all contribute to the success of such companies (Danik & Kowalik, 2015).

Studies also show that prior experience of leaders in combining resources from different countries and having a global vision are also important. To give you more insights, **Table 9.8.3** discusses the success factors for born globals based on several studies.

Table 9.8.3: Success Factors of Born Globals

Study Sample	Key Success Factors
21 British firms	• Product uniqueness • New product development ability • Ability to meet customer specification • Company reputation
Companies based in U.S. and Denmark	• Marketing competence • Control of marketing processes • Effective pricing • Advertising and distribution • Product quality and differentiation
New ventures in Irish shellfish sector	• Maintaining closer relationship with international customers • Product differentiation • Proactive personality and global mindset of company founder
Irish low-technology International New Ventures	• Dynamic capability – ability for firms to constantly develop new capabilities to identify opportunities and respond
Polish born globals	• Product quality • Product pricing

(Based on Danik & Kowalik, 2015)

Example: SAP and the American CEO of a German Multinational

SAP is a German multinational specializing in enterprise application software. The company was founded by five engineers, and the company is now the world's leading business software maker. Through its software, SAP helps its customers streamline production processes. SAP also provides forecasting services to its customers to help them predict customer trends. It currently has over 87,000 employees in 130 countries assisting over 335,000 customers worldwide.

For the first time in its history, the company is currently headed by an American, Bill McDermott. McDermott's training was in sales, and that provided him with significant expertise to become SAP's current CEO. In 2010, SAP was facing declining revenue worldwide and needed a turnaround. Initially, McDermott was co-CEO with Jim Hagemann Snabe, a Danish executive who was one of the company's cofounders. The arrangement worked well, and when Snabe retired in 2014, McDermott became CEO.

McDermott's success came from the many changes he instituted to better adapt to cultural differences. For instance, he quickly discovered that sales were not very effective in the United States because the salespeople were more interested in focusing on the engineering aspects of SAP's products at the expense of listening to American customers. Such experiences led to the development of more customer-focused innovation and a more empathetic approach to customer needs, things McDermott strongly believes in.

In visiting his German counterparts, McDermott also saw other potential sources of cross-cultural conflict. For instance, he saw that presentations in the United States were much more effective if the presentation quickly engaged the audience and got them excited. In contrast, a German audience preferred a more disciplined, fact-based presentation. McDermott also discovered key differences between the way U.S. companies are managed in comparison to German companies. For example, he found that while U.S. public companies are pressured by quarterly results, SAP was much more interested in 30-year cycles as opposed to 90-day stock price movements.

McDermott's success at managing cross-cultural differences is no surprise. When he was a teenager, he purchased a distressed deli shop in Long Island. Long Island was already a melting pot of immigrants, and he learned how to deal with a diverse group of customers. When he was first hired at 27 to sell Xerox copy machines, he found that American customers do not have a long time for a sales pitch. He learned to be quick and to the point. In contrast, in Asia, he found that you had to focus on developing relationships rather than focus on the product. At the age of 29, he was asked to turn around business in Puerto Rico. There he found employee morale to be very low because of cost-cutting measures. Rather than blindly implementing American management, he listened to the local employees and implemented many measures to improve operations. For instance, he worked to improve customer service. Most importantly, he reinstated a Christmas party that had been canceled as a cost-cutting measure. This lifted morale and led to the turnaround.

McDermott has many important lessons for aspiring cross-cultural leaders. He advises that leaders be respectful of cross-cultural differences. Additionally, because SAP has one global vision, he can have all employees focus on that vision. He therefore also suggests that leaders and managers adopt a compelling vision that can be readily shared with all employees. He also believes that the customer experience is what is critical. Finally, he recommends that the savvy manager be human and empathetic and show humility.

Critical Thinking Questions

1. What are some of the sources of McDermott's excellence at managing cross-cultural differences? How did his experience managing a deli store at a young age help him develop cross-cultural management skills?
2. What are some of the cross-cultural differences he discovered? Using your knowledge of culture, explain some of these differences.
3. What is your assessment of his lessons for cross-cultural managers? Relate these lessons to the GLOBE findings of the effective global leader.

(Colvin, 2014; Lev-Ram, 2012 & McDermott, 2016)

Exercises

Leadership Skills Application Exercises

1. Your manager is currently considering negotiations in China, and given your international leadership knowledge, you are asked for advice. How would you approach preparing to advise her? What type of information will you provide to her?
2. You have a new product, and you are considering exporting the product. Visit the Government of Canada's Step-by-Step Guide to Exporting or the American government's export website at **https://www.export.gov/article?id=Why-Companies-should-export**. What are some of the key issues to take into consideration when exporting?
3. You are in charge of HR in your company, and the company will soon need to send an expatriate to Japan. You will need to design a training program to better prepare your employee. What type of training program will you provide? What essential elements will the program include?
4. You are considering investing in Saudi Arabia and know that the business culture there is influenced by religion. Using your knowledge of Islam, what should you expect? How can you better prepare for the investment?
5. You have designed a new surfboard that presents significant advantages over current models. How can you determine whether you are ready to launch your company as a born global?

Leadership Decision Exercises

1. You are the CEO of a company that produces high-end laptops for gaming. You have heard that there is interest in your product from international customers. You need to decide how to enter the international market. What issues do you take into consideration when deciding among the different means of entry? Which approach do you think would work best?
2. Visit Hofstede's cultural dimensions website at **https://www.hofstede-insights.com/models/national-culture/**. Pick two countries and compare them with Canada on the cultural dimensions. How would you manage cultural differences in these countries?
3. Your company is interested in exploring international expansion into Africa. Visit the African Union's website at **https://au.int/en/**. What are some of the countries included in the African Union? How easy will it be to approach entering these markets?
4. Your company is interested in exploring investments in several sectors in Zimbabwe. Because of political instability, you are obviously very reluctant given the risks of doing business in that country. Using data from **https://www.marsh.com/us/campaigns/political-risk-map-2017.html**, discuss the concept of political risk. When can you decide that investing in Zimbabwe is a good idea?
5. You will be sending one of your employees to several new countries for short-term assignments. You need to decide between low-rigor cross-cultural training and high-rigor cross-cultural training. Which method would work best? How would you decide between the two, and what elements would your training involve?

Key Takeaways

Within this section, you first read about the need for companies to go international and learned that some markets present strong potential while others have floundered.

Companies can go international in many ways: exporting (an entry mode where a company sends a product to an international market and fills the order like a domestic order), licensing, and franchising (a contractual agreement whereby a company is given the right to another company's trademarks, know-how, and other intangible assets in return for a royalty or a fee), strategic alliances (where two or more companies from different countries enter into an agreement to conduct joint business activities), and foreign direct investment (which involves a company investing in another country through the construction of facilities and buildings in another country).

With each of these methods of entry, there is a trade-off between the cost of a means of entry and the amount of control a company has over its operations. For example, exporting is usually the cheapest way to go international but offers the company the least amount of control. Born globals do not have to think about how or when to go global because they are international from the day they are created.

9.9 Key Terms

Key Terms

Culture is the way of life of a group of people and includes such things as values, beliefs, customs, food, music, religion, etc. that distinguish one group or category of people from another.

Collectivism refers to the degree to which a society focuses on the relationship of the group as a whole.

Education as a social institution includes the socializing experiences and transmission of knowledge that prepares individuals to act in society.

Foreign direct investment (FDI) refers to the deliberate efforts of a country or company to invest in another country through the form of ownership positions in companies in another country.

High power distance societies are more likely to accept that power inequality is good and acceptable.

Humane orientation is the extent to which societies place importance on fairness, altruism, and caring.

Individualism refers to the degree to which a society focuses on the relationship of the individual to the group.

Low power distance societies tend to consider that all members are equal.

Masculinity refers to the degree to which a society emphasizes traditional masculine qualities such as achievement and earnings.

Performance orientation is the degree to which societies emphasize performance and achievement.

Psychic distance refers to the many differences that exist between countries because of language, cultural characteristics, social institutions, and business practices.

Religion is a social institution consisting of the shared set of beliefs, activities, behaviors and values based on faith in a higher power.

Social stratification refers to the degree to which a society accepts the unequal distribution of social benefits such wealth, employment and income.

Tariffs are taxes that are added to the price of imported international products.

Uncertainty avoidance is the degree to which people in a society are comfortable with risk, uncertainty, and unpredictable situations.

9.10 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4736#h5p-9

CHAPTER 10: LEADING TEAMS

Chapter Content

10.1 Focus on Teamwork

Learning Objectives

Reading this chapter will help you do the following:

1. Discuss the benefits of working in teams.
2. Outline how teams develop over time.
3. List the key considerations in managing teams.
4. Discuss the benefits of conflict for a team.
5. Describe the impact of team diversity on decision-making and problem-solving.
6. Discuss social networks and their value.
7. Analyze the key dimensions of social networks.
8. Analyze how social networks create value.
9. Determine the actions required to take to develop a network.
10. Identify the gaps in your network and develop a plan to fill those gaps.

Figure 10.1.1: *"Rowing 0012" by von Dursfel foto, licensed under CC BY-NC-SA 2.0.*

You have probably been part of many teams throughout your life. Think back to the group of students in your classes growing up, teams you played on or bands that you played in, religious and community groups, etc. You are currently in a group that is a cohort of students, may be part of a team at work, or live with a group of roommates. Going forward you will see that most work is done in teams, and today's organizations require employees that are both good team leaders and good team players. Collaboration and teamwork are crucial in our globally connected high-tech workplaces. As tasks have become more complex, groups and teams have become essential to solving the wicked problems of our time while negotiating a constant barrage of change. Teams are part of a social network. Social networks are the pathways through which communication and resources flow, and the channels through which work actually gets done. Networks provide unique advantages both personally and professionally.

Key Takeaways

Much of the work that is performed today in organizations requires a focus on teamwork. The ability to work successfully as a team member, as well as the ability to lead teams, is an ultimate advantage within the workforce. Teams themselves must be managed, in addition to managing just the individuals, to be successful. We've all heard the quote originally coined by Aristotle that states that "the whole is greater than the sum of its parts." This captures the nature of the team perfectly—there is such a synergy that comes from a team that the individuals alone are not able to create. This chapter details the importance of and benefits that you may derive from working as a team, as well as some of the ways we can make our teams more successful.

10.2 Teamwork in the Workplace

Learning Objectives

1. Discuss the benefits of working in teams.

What is a team, and what makes a team effective?

Teamwork has never been more important in organizations than it is today. Whether you work in a manufacturing environment and utilize self-directed work teams, or if you work in the "knowledge economy" and derive benefits from collaboration within a team structure, you are harnessing the power of a team. A team, according to Katzenbach and Smith (1993) in their *Harvard Business Review* (HBR) article "The Discipline of Teams," is defined as "people organized to function cooperatively as a group"

Figure 10.2.1: *"Team Functionality" by Alyssa Giles, CC BY-NC-SA 4.0.*

The five elements that make teams function are:

1. Common commitment and purpose

2. Specific performance goals
3. Complementary skills
4. Commitment to how the work gets done
5. Mutual accountability

A team has a specific purpose that it delivers on, has shared leadership roles, and has both individual and mutual accountabilities. Teams discuss, make decisions, and perform real work together, and they measure their performance by assessing their collective work products. This is very different from the classic working group in an organization (usually organized by functional area) in which there is a focused leader, individual accountabilities and work products, and a group purpose that is the same as the broader organizational mission. Think of the finance organization or a particular business unit in your company—these are, in effect, larger working groups that take on a piece of the broader organizational mission. They are organized under a leader, and their effectiveness is measured by their influence on others within the business (e.g., financial performance of the business.)

Figure 10.2.2: *"Business" by wallace_Lan, licensed under CC BY-NC-ND 2.0.*

So, what makes a team truly effective? According to Katzenbach and Smith's (1993) "Discipline of Teams," there are several practices that the authors have observed in successful teams. These practices include:

1. Establish urgency, demanding performance standards, and direction. Teams work best when they have a compelling reason for being, and it is thus more likely that the teams will be successful and live up to performance expectations. We've all seen the teams that are brought together to address an "important initiative" for the company, but without clear direction and a truly compelling reason to exist, the team will

lose momentum and wither.

2. Select members for their skill and skill potential, not for their personality. This is not always as easy as it sounds for several reasons. First, most people would prefer to have those with good personalities and positive attitudes on their team in order to promote a pleasant work environment. This is fine, but make sure that those individuals have the skill sets needed (or the potential to acquire/learn) for their piece of the project. The second caveat here is that you don't always know what skills you need on a project until you really dig in and see what's going on. Spend some time upfront thinking about the purpose of the project and the anticipated deliverables you will be producing, and think through the specific types of skills you'll need on the team.
3. Pay particular attention to first meetings and actions. This is one way of saying that first impressions mean a lot—and it is just as important for teams as for individuals. Teams will interact with everyone from functional subject-matter experts all the way to senior leadership, and the team must look competent and be perceived as competent. Keeping an eye on your team's level of emotional intelligence is very important and will enhance your team's reputation and ability to navigate stakeholders within the organization.
4. Set some clear rules of behavior. I have been through many meetings and team situations in which we have rushed through "ground rules" because it felt like they were obvious—and everyone always came up with the same list. It is so critical that the team takes the time upfront to capture their own rules of the road in order to keep the team in check. Rules that address areas such as attendance, discussion, confidentiality, project approach, and conflict are key to keeping team members aligned and engaged appropriately.
5. Set and seize upon a few immediate performance-oriented tasks and goals. What does this mean? Have some quick wins that make the team feel that they're really accomplishing something and working together well. This is very important to the team's confidence, as well as just getting into the practice of working as a team. Success in the larger tasks will come soon enough, as the larger tasks are really just a group of smaller tasks that fit together to produce a larger deliverable.
6. Challenge the group regularly with fresh facts and information. That is, continue to research and gather information to confirm or challenge what you know about your project. Don't assume that all the facts are static and that you received them at the beginning of the project. Often, you don't know what you don't know until you dig in. I think that the pace of change is so great in the world today that new information is always presenting itself and must be considered in the overall context of the project.
7. Spend lots of time together. Here's an obvious one that is often overlooked. People are so busy that they forget that an important part of the team process is to spend time together, think together, and bond. Time in person, time on the phone, time in meetings—all of it counts and helps to build camaraderie and trust.
8. Exploit the power of positive feedback, recognition, and reward. Positive reinforcement is a motivator that will help the members of the team feel more comfortable contributing. It will also reinforce the behaviors and expectations that you're driving within the team. Although there are many extrinsic rewards that can serve as motivators, a successful team begins to feel that its own success and performance is the most rewarding.
9. Collaboration is another key concept and method by which teams can work together very successfully. Bringing together a team of experts from across the business would seem to be a best practice in any situation. However, Gratton and Erickson (2007), in their article Eight Ways to Build Collaborative Teams, found that collaboration seems to decrease sharply when a team is working on complex project initiatives. In their study, they examined 55 larger teams and identified those with strong collaboration skills, despite the level of complexity. There were eight success factors for having strong collaboration skills:

    - "Signature" relationship practices

- Role models of collaboration among executives
- Establishment of “gift” culture, in which managers mentor employees
- Training in relationship skills
- A sense of community
- Ambidextrous leaders—good at task and people leadership
- Good use of heritage relationships
- Role clarity and task ambiguity (Gratton et al., 2007)

As teams grow in size and complexity, the standard practices that worked well with small teams don’t work anymore. Organizations need to think about how to make collaboration work, and they should leverage the above best practices to build relationships and trust.

Exercises

- What is the definition of a team?
- Name some practices that can make a team more successful.

Key Takeaways

Teams have never been more important in the workplace. Teams require common commitment and purpose, specific performance goals, complementary skills, commitment to how the work gets done, and mutual accountability to achieve the collaboration necessary in today’s organizations. Teams differ from groups in that teams have a common goal and shared leadership, along with group and individual responsibilities. Performance is measured by the collective contributions of the team. Groups have individual goals, responsibilities, and performance measures (although they lead to the overall goals of the organization) and an official leader (for example the manager of HR). Teams should consist of members with critical skills that can collaborate well to accomplish a task they believe is important. Teamwork requires trust.

10.3 Team Development Over Time

Learning Objectives

1. Outline how teams develop over time.

How do teams develop over time?

If you have been a part of a team—as most of us have—then you intuitively have felt that there are different "stages" of team development. Teams and team members often start from a position of friendliness and excitement about a project or endeavor, but the mood can sour and the team dynamics can go south very quickly once the real work begins.

An educational psychologist Bruce Tuckman (1965) at Ohio State University developed a four-stage model to explain the complexities that he had witnessed in team development. The original model was called Tuckman's Stages of Group Development, and he added the fifth stage of "Adjourning" in 1977 to explain the disbanding of a team at the end of a project.

The 'original' four stages of the Tuckman model are:

1. Forming
2. Storming
3. Norming
4. Performing

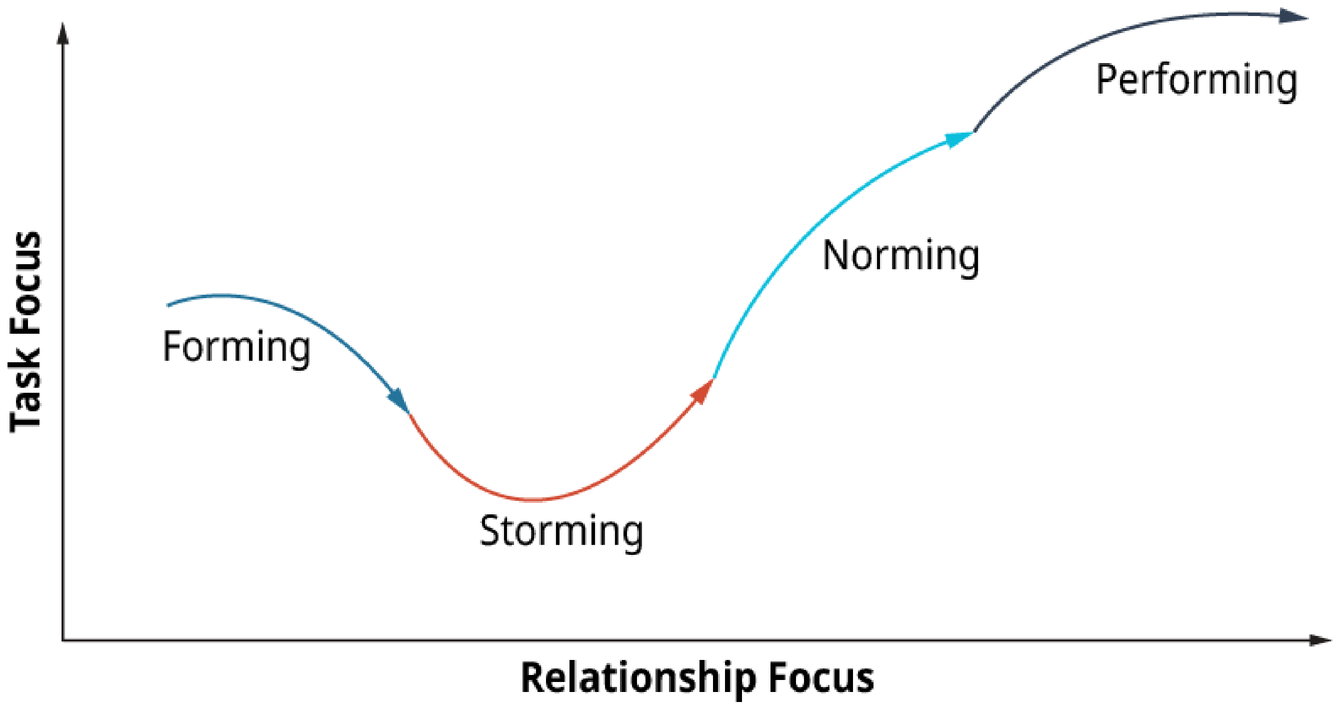


Figure 10.3.1: *"Tuckman's Model of Team Development" by Rice University, OpenStax, licensed under CC-BY 4.0.*

1. **The Forming Stage**

The Forming stage begins with the introduction of team members. This is known as the "polite stage" in which the team is mainly focused on similarities and the group looks to the leader for structure and direction. The team members at this point are enthusiastic, and issues are still being discussed on a global, ambiguous level. This is when the informal pecking order begins to develop, but the team is still friendly.

2. The Storming Stage

Figure 10.3.2: “Business Meeting” by thetaxhaven, licensed under CC BY 2.0.

The Storming stage begins as team members begin vying for leadership and testing the group processes. This is known as the “win-lose” stage, as members clash for control of the group and people begin to choose sides. The attitude toward the team and the project begin to shift negative, and there is frustration around goals, tasks, and progress. The Storming Stage In the storming stage, protracted competition vying for the leadership of the group can hinder progress. You are likely to encounter this in your coursework when a group assignment requires forming a team.

3. The Norming Stage

After what can be a very long and painful Storming process for the team, slowly the Norming stage may start to take root. During Norming, the team is starting to work well together, and buy-in to group goals occurs. The team is establishing and maintaining ground rules and boundaries, and there is a willingness to share responsibility and control. At this point in the team formation, members begin to value and respect each other and their contributions.

4. The Performing Stage

Finally, as the team builds momentum and starts to get results, it is entering the Performing stage. The team is completely self-directed and requires little management direction. The team has confidence, pride, and enthusiasm, and there is a congruence of vision, team, and self. As the team continues to perform, it may even succeed in becoming a high-performing team. High-performing teams have optimized both task and people relationships—they are maximizing performance and team effectiveness.

Katzenbach and Smith (1993) in their study of teams, have created a “team performance curve” that graphs the journey of a team from a working group to a high-performing team. The team performance curve is illustrated in **Figure 10.3.3.**

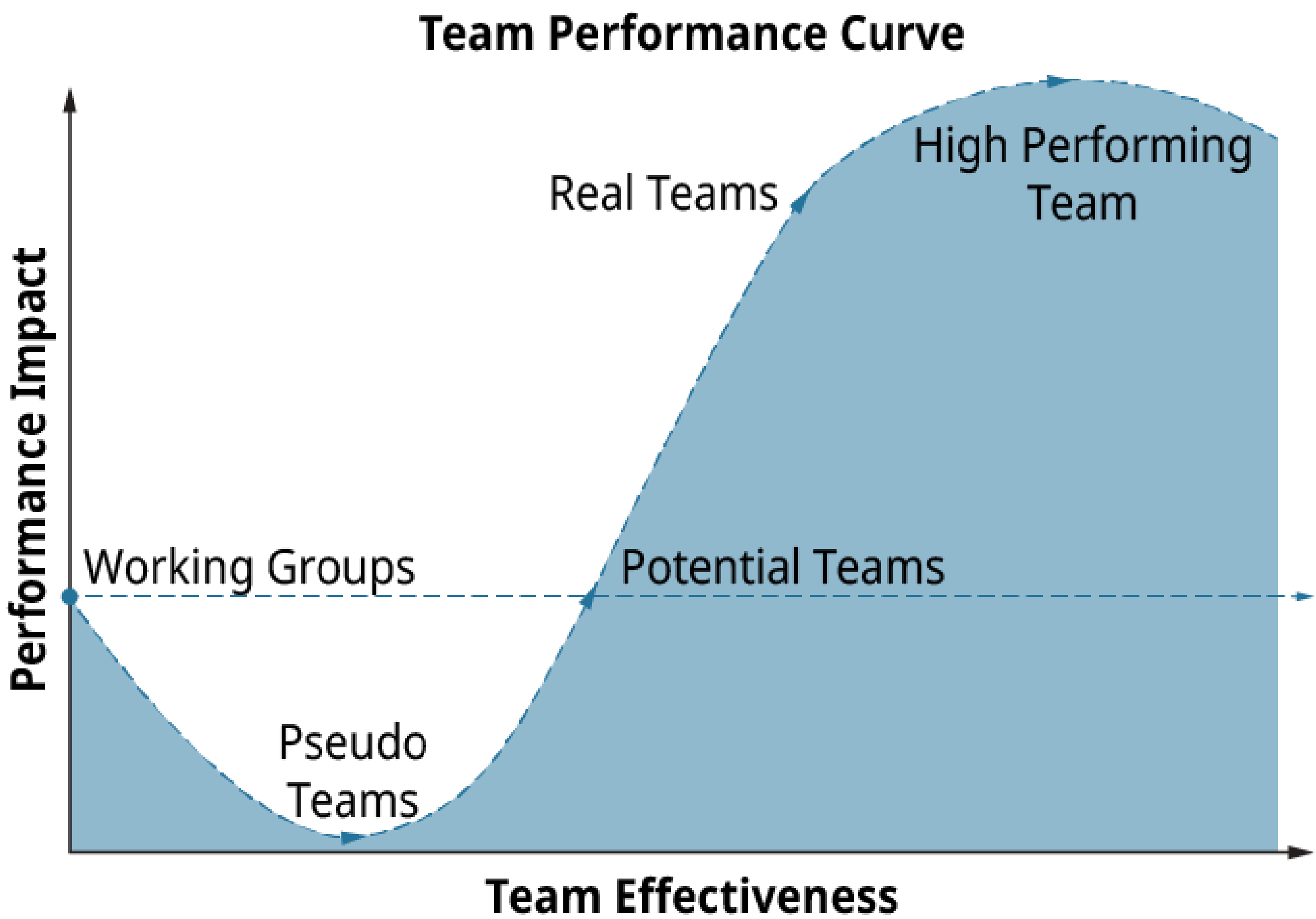


Figure 10.3.3: *"Team Performance Curve" by Rice University & OpenStax, licensed under CC BY 4.0.*

The process of becoming a high-performance team is not a linear process. Similarly, the four stages of team development in the Tuckman model are not linear, and there are also factors that may cause the team to regress to an earlier stage of development. When a team member is added to the group, this may change the dynamic enough and be disruptive enough to cause a backward slide to an earlier stage. Similarly, if a new project task is introduced that causes confusion or anxiety for the group, then this may also cause a backward slide to an earlier stage of development. Think of your own experiences with project teams and the backslide that the group may have taken when another team member was introduced. You may have personally found the same to be true when a leader or project sponsor changes the scope or adds a new project task. The team has to re-group and will likely re-Storm and re-Form before getting back to Performing as a team.

Catching the Entrepreneurial Spirit

Starting the Startup Team

Nothing is more exciting than a startup business. The enthusiasm is high, and people are excited about the new venture and the prospects that await. Depending on the situation, there may be funding that the startup has received from investors, or the startup could be growing and powering itself organically. Either way, the startup faces many different questions in the beginning, which will have a tremendous impact on its growth potential and performance down the road. One of the most critical questions that face a startup —or any business for that matter—is the question of who should be on the team. Human capital is the greatest asset that any company can have, and it is an especially critical decision in a startup environment when you have limited resources and those resources will be responsible for building the company from the ground up.

In Noam Wasserman's HBSP article (2012) "Assembling the Startup Team", Wasserman asserts:

"*Nothing can bedevil a high-potential startup more than its people problems. In research on startup performance, venture capitalists attributed 65% of portfolio company failures to problems within the startup's management team. Another study asked investors to identify problems that might occur at their portfolio companies; 61% of the problems involved team issues. These problems typically result from choices that founders make as they add team members…"*

These statistics are based on people problems in startups, and it isn't quite clear what percent of larger company failures could be directly or indirectly attributed to people and team issues. I would imagine that the percentage is also significant. The impact of people problems and team issues in a startup organization that is just getting its footing and trying to make the right connections and decisions can be very significant. If you know anyone who has a company in startup mode, you may have noticed that some of the early team members who are selected to join the team are trusted family members, friends, or former colleagues. Once a startup company grows to a certain level, then it may acquire an experienced CEO to take the helm. In any case, the startup is faced early on with important questions on how to build the team in a way that will maximize the chance of success.

In "Assembling the Startup Team," Wasserman refers to the three Rs: relationships, roles, and rewards as being key elements that must be managed effectively in order to avoid problems in the long term. Relationships refer to the actual team members that are chosen, and there are several caveats to keep in mind. Hiring relatives or close friends because they are trusted may seem like the right idea in the beginning, but the long-term hazards (per current research) outweigh the benefits. Family and friends may think too similarly, and the team misses the benefit of other perspectives and connections. Roles are important because you have to think about the division of labor and skills, as well as who is in the right roles for decision-making. The startup team needs to think through the implications of assigning people to specific roles, as that may dictate their decision power and status. Finally, defining the rewards can be difficult for the startup team because it essentially means that they are splitting the pie—i.e., both short-term and long-term compensation. For startup founders, this can be a very difficult decision when they have to weigh the balance of giving something away versus gaining human capital that may ultimately help the business to succeed. Thinking through the tradeoffs and keeping alignment between the "three Rs" is important because it challenges the startup team to think of the long-term consequences of some of their early decisions. It is easy to bring family and friends into the startup equation due to trust factors, but a careful analysis of the "three Rs" will help a startup leadership team make decisions that will pay off in the long term.

Exercises

1. Why might it be a bad decision to hire someone for a key startup role based only on the fact that

the person is close family or a friend?
2. What are the potential tradeoffs to the business?
3. What does it mean for the “three Rs” to be in alignment? What is the potential risk of these not being in alignment? What could go wrong?
4. What are the four stages of team development?
5. What can cause a team to regress in its development?

Key Takeaways

Teams go through four stages: forming, storming, norming and performing. Relationships are important in teams, and critically so in new ventures. Having the right startup team can make or break a fledgling organization, so it is important to carefully consider key players in terms of the Rs of relationship, roles and rewards, in order to provide a new business with the best opportunity for success.

10.4 Things to Consider When Leading Teams

Learning Objectives

1. List the key considerations in managing teams.

What are some key considerations in leading teams?

For those of us who have had the pleasure of managing or leading a team, we know that it can feel like a dubious distinction. Leading a team is fulfilling—especially if the task or organizational mandate at hand is so critical to the organization that people are happy to be a part of the team that drives things forward. It can also be an exercise in frustration, as the charge is to lead a group composed of various individuals, which at various times will act both like a group and like a bunch of individuals. Managing teams is no small feat, and the most experienced leaders truly understand that success ultimately depends on their ability to build a strong and well-functioning team. In Gabarro's (1987) *The Dynamics of Taking Charge*, he quotes a manager who had successfully worked to turn around a number of organizations:

"People have to want to work together; they have to see how to do it. There has to be an environment for it and that takes time. It's my highest priority right now but I don't write it down anywhere because it's not like other priorities. If I told corporate that building a team was my prime goal they'd tell me, so what? They'd expect that as part of making things better" (pp. 85–87).

This quotation is indicative of the state of most organizations today. The focus is on corporate goals and priorities—very task-driven and outcome-driven—but it is the people dynamics and how people work together in the company and in TEAMS that can make a real difference to the goals and outcome.

Example: Managerial Leadership

Making the jump from individual contributor to leader is never easy, and it doesn't take long for a new manager to realize that what got him there is much different than what is needed to be successful in the future. Individual contributors that have been recently promoted would probably say that they have strong technical skills in their area and that they were very good at doing what they were doing. In a more savvy organization that recognizes leadership competencies, individual contributors would probably say that they have strong technical skills AND that they showed some behaviors and potential to lead others. When new leaders enter their new roles, they expect that they will be managing people—that is, the people on their teams. Few new managers fully realize that the challenge ahead is not just in managing their people, but in managing all the other stakeholders and constituencies that want to and need to weigh in.

One of the key challenges that face new leaders is figuring out to balance all of the multiple demands from both the team and the stakeholders and constituencies external to the team. Linda A. Hill, the Wallace Brett Donham Professor of Business Administration at Harvard Business School, states that "among all the challenges facing new managers, the need to reconcile different constituencies' expectations and interests is probably the most difficult" (Hill, 1994). She asserts that the demands that the new manager's direct reports, his peers, his boss, and the company's customers place on the new manager will cause conflict at times. Having teams of their own, new managers may think that managing their direct reports is the most important role to play, even at the exclusion of managing other stakeholders. This is incorrect. A new manager needs to "manage his other consistencies just as carefully" (Johnson, 2008).

A stakeholder checklist is a valuable tool. It is a list of all the stakeholders that will impact the success of a project, or a team. it is important to build relationships with stakeholders in order to ensure success. Some of the questions to ask when developing a stakeholder list include:

- Whose support will I need?
- Who needs my support? What do they need from me or my team?
- Who can keep me and my team from being successful?
- What is my ongoing influencing strategy?

Some new leaders will feel that these strategies for building stakeholder support are too "political" and they don't feel right. This is a necessary part of a new manager's role, because now the role and the work call for greater interdependence and relationship building in order to be successful. It is no longer just about individual technical skills, but more about building and managing relationships with people who will support you and your team to get your work done. So, if you are a new leader asking "Who am I managing?" … the answer is EVERYONE.

Discussion Questions
Do you agree with the statement that "what got you there isn't what will make you successful in the future"? Why or why not?
Who would be on your stakeholder checklist? Which stakeholders are you already engaging and building relationships with?

In Linda Hill's *Harvard Business Review* article Managing Your Team (1995), she discusses that managing a team means managing paradox. Paradox exists in the fact that teams have both individual and collective identities and goals. Each individual has goals and ideas as to what he wants to accomplish—on the project, in one's career, and in life. The team itself, of course, has goals and success metrics that it needs to meet in order to be successful. Sometimes these can be in conflict with each other. Competition may arise among team members, and a win-loss attitude may take place over a collaborative and problem-solving team dynamic. The team leader may need to step in to help integrate all of the individual differences to enable them to productively pursue the team goal. Therein lies the primary paradox—balancing individual differences and goals AND the collective identity and goals.

Other paradoxes include:

- Fostering support AND confrontation among team members
- Focusing on performance AND learning and development
- Balancing leadership authority AND team member discretion and autonomy
- Balancing the Triangle of Relationships—manager, team, and individual (See Figure 10.4.1)

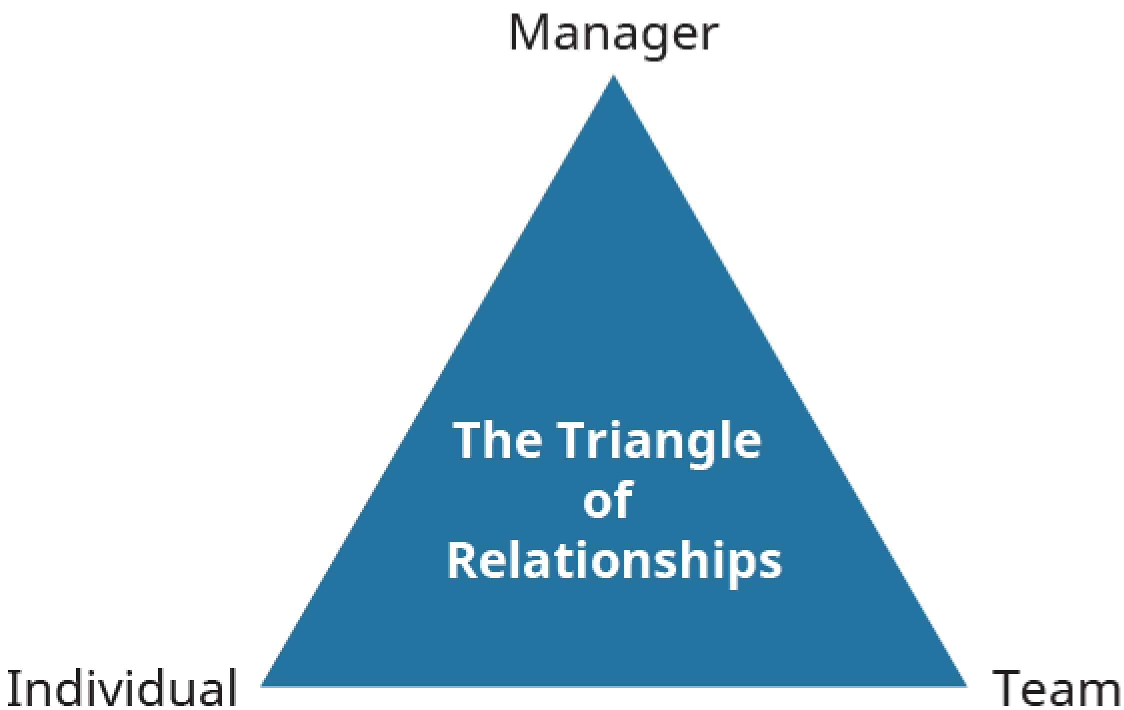


Figure 10.4.1: *"The Triangle of Relationships" by Rice University & OpenStax, licensed under CC BY 4.0.*

Leading a team requires managing its boundaries. Managing the team's boundaries—or space between the team and its external forces, stakeholders, and pressures—is a delicate balance of strategy, stakeholder management, and organizational behavior. The team leader must serve, in part, as a buffer to these external factors so that they don't derail or distract the team from its goals. However, the leader must also understand enough about the external environment and have enough emotional intelligence to understand which forces, players, or situations must be synthesized within the team for its own benefit. Think about any medium or large-scale change initiative that you have been a part of in your career. Ideally, there is generally a vision for change and a level of sponsorship at the senior levels of the organization that is supposed to pave the way for that change to take root. The project team is officially "blessed" to kick off the team, create a charter, and identify the needed actions to drive the initiative to successful completion.

The dynamic that ensues after the kickoff is really what will determine the success of the team. There are numerous stakeholders in any organization, and many will be supportive of newly proposed initiatives (i.e pro-change), while others may be against them—either due to a lack of understanding or concerns about losing power or territory. The external environment and business strategy may not be particularly well suited for a change initiative to take place, and so there may be the feeling of forces opposing the project team's efforts. A strong team leader needs to manage these "boundaries" within the organization to help the team navigate through and with the organizational complexities, goals, nuances, and egos that are a part of any organization.

In Linda Hill's *Harvard Business Review* article "Exercising Influence," (1994) she states that "managers also need to manage relationships with those who are outside their team but inside their organizations. To do so, they must understand the power dynamics of the larger organization and invest time and energy in building and maintaining relationships with those on who the team is dependent." It is also, in her view, "the manager's job, at a minimum, to educate other about organizational structures, systems, or politics that interfere with the team's performance." With all of the potential external influences on a team, managing a team's boundaries can truly mean the difference between success and failure.

The final element of managing a team is to manage the team itself—both the people elements and the process elements, or task at hand. The process-focused elements include managing the work plan to reach the overall goal, as well as the incremental meetings and milestones that are a part of the team's journey to reach the longer-term goal. Keeping the team focused on its objectives—beginning with setting agendas all the way to managing project tasks and celebrating milestones—assures that the team will stay on track. Projects and initiatives vary in size, scope, and complexity, so the project management tools shouldn't be prescribed in a general sense. The important takeaway here is to choose an approach and a tool that works for the culture of the team and the organization, and that helps the team understand where they are, where they need to go, and what resources are a part of that process.

In managing the team members and interpersonal dynamics, there is the important element of selecting the right team members, shaping the team's norms and culture (how are decisions made, what are our rules, how do we manage conflict, etc.), and coaching the team. Defining the right skill sets, functions, perspectives, and expertise of the members will ensure a solid foundation. Helping the team to identify and formalize the ground rules for team engagement will help manage in the face of adversity or team conflict in the future. Finally, playing a role as a supportive coach will help both the individual team members and the group entity think through issues and make progress towards goals. A coach doesn't solve the individual/team problem but helps the team think through a solution and move forward. Teams may need guidance on how to work things out within the team, and the leader must provide feedback and hold team members accountable for their behavior and contribution. Continuous improvement is the name of the game. A team may not start out as high performing, but they can certainly achieve that goal if everyone is focused on incremental improvements to communication, collaboration, and performance.

Exercises

1. Discuss the paradox(es) of a team.
2. How can a leader manage team boundaries?

Key Takeaways

Team leadership can be rewarding, but it is not always easy. New managers in particular may find it difficult to juggle the competing demands of a multitude of stakeholders, including the team itself.

Ensuring the team has what it needs to work collaboratively is a good place to start, but relationships with upper management, peers, clients, etc. must be maintained at the same time.

10.5 Opportunities and Challenges to Team Building

Learning Objectives

1. Discuss the benefits of conflict for a team.

What are the benefits of conflict for a team?

There are many sources of **conflict** for a team, whether it is due to a communication breakdown, competing views or goals, power struggles, or conflicts between different personalities. The perception is that conflict is generally bad for a team and that it will inevitably bring the team down and cause them to spiral out of control and off track. Conflict does have some potential costs. If handled poorly, it can create distrust within a group, it can be disruptive to group progress and morale, and it could be detrimental to building lasting relationships. It is generally seen as a negative, even though constructive conflicts and constructive responses to conflicts can be an important developmental milestone for a team. Some potential benefits of conflict are that it encourages a greater diversity of ideas and perspectives and helps people to better understand opposing points of view. It can also enhance a team's problem-solving capability and can highlight critical points of discussion and contention that need to be given more thought.

Another key benefit or outcome of conflict is that a team that trusts each other—its members and members' intentions—will arise from conflict being a stronger and higher-performing team. Patrick Lencioni, in his bestselling book *The Five Dysfunctions of a Team* (2002), writes:

"The first dysfunction is an absence of trust among team members. Essentially, this stems from their unwillingness to be vulnerable within the group. Team members who are not genuinely open with one another about their mistakes and weaknesses make it impossible to build a foundation for trust. This failure to build trust is damaging because it sets the tone for the second dysfunction: fear of conflict. Teams that lack trust are incapable of engaging in unfiltered and passionate debate of ideas. Instead, they resort to veiled discussions and guarded comments" (p. 188).

Lencioni also asserts that if a team doesn't work through its conflict and air its opinions through debate, team members will never really be able to buy in and commit to decisions. This lack of commitment is Lencioni's third dysfunction. Teams often have a fear of conflict so as not to hurt any team members' feelings. The downside of this avoidance is that conflicts still exist under the surface and may resurface in more insidious and back-channel ways that can derail a team. How can a team overcome its fear of conflict and move the team forward? Lencioni names a few strategies that teams can use to make conflict more common and productive. Mining is a technique that can be used in teams that tend to avoid conflict. This technique requires that one team member "assume the role of a 'miner of conflict'—someone who extracts buried disagreements within the team and sheds the light of day on them. They must have the courage and confidence to call out sensitive issues and force team members to work through them." Real-time permission is another technique to "recognize when the people engaged in conflict are becoming uncomfortable with the level of discord, and then interrupt to remind them that what they are doing is necessary." This technique can help the group to focus on the points of conflict by coaching the team not to sweep things under the rug.

The team leader plays a very important role in the team's ability to address and navigate successfully through conflicts. Sometimes a leader will have the attitude that conflict is a derailer and will try to stymie it at any cost. This ultimately leads to a team culture in which conflict is avoided and the underlying feelings are allowed to accumulate below the surface of the discussion. The leader should, by contrast, model the appropriate behavior by constructively addressing conflict and bringing issues to the surface to be addressed and resolved by the team. This is key to building a successful and effective team.

There are a variety of individual responses to conflict that you may see as a team member. Some people take the constructive and thoughtful path when conflicts arise, while others may jump immediately to destructive behaviors. In *Managing Conflict Dynamics: A Practical Approach*, Capobianco et al. (2005) recognized that there are both constructive and destructive responses to conflict, as well as active and passive responses that we need to recognize. In the event of team conflict, the goal is to have a constructive response in order to encourage dialogue, learning, and resolution (p. 188). Responses such as perspective taking, creating solutions, expressing emotions, and reaching out are considered active and constructive responses to conflict. Reflective thinking, delay responding, and adapting are considered passive and constructive responses to conflict. See **Figure 10.5.1** for a visual of the constructive responses, as well as the destructive responses, to conflict.

	Constructive	Destructive
Active	• Perspective taking • Creating solutions • Expressing emotions • Reaching out	• Winning • Displaying anger • Demeaning others • Retaliating
Passive	• Reflective thinking • Delay responding • Adapting	• Avoiding • Yielding • Hiding emotions • Self-criticizing

Figure 10.5.1: *"Responses to Conflict." by Rice University & OpenStax, licensed under CC BY 4.0.*

Example: Dare to Disagree- Margret Heffernan Ted Talk

Most people instinctively avoid conflict, but as Margaret Heffernan shows us in her TedTalk below, good disagreement is central to progress. She illustrates (sometimes counterintuitively) how the best partners are not 'echo chambers' — and how great research teams, relationships, and businesses allow people to deeply disagree.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=403#oembed-1

Watch this video: Dare to disagree by Margaret Heffernan [12:56](Transcript Available).

Exercises

1. Given the comments by Margaret Heffernan in the video above, has your opinion of conflict changed at all?
2. What are some techniques to make conflict more productive?
3. What are some destructive responses to conflict?

Key Takeaways

In summary, conflict is never easy for an individual or a team to navigate through, but it can and should be done. Illuminating the team about areas of conflict and differing perspectives can have a very positive impact on the growth and future performance of the team, and it should be managed constructively. As is shown in Margaret Heffernan's video below, healthy teams raise issues and discuss differing points of view because that will ultimately help the team reach stronger, more innovative, and well-reasoned decisions. Although many people find conflict uncomfortable and try to avoid it at all costs, it is possible to have positive conflict, if the situation is handled well.

10.6 Team Diversity and Multicultural Teams

Learning Objectives

1. Describe the impact of team diversity on decision-making and problem-solving.

How does team diversity enhance decision-making and problem-solving?

As discussed earlier, decision-making and problem-solving can be much more dynamic and successful when performed in a diverse team environment. The multiple diverse perspectives can enhance both the understanding of the problem and the quality of the solution. **Diversity** is a word that is very commonly used today; leaders must ensure that diversity and building diverse teams does not become lost in the normal processes of doing business.

In the *Harvard Business Review* article "Why Diverse Teams are Smarter" (Nov. 2016), David Rock and Heidi Grant support the idea that increasing workplace diversity is a good business decision. A 2015 McKinsey report on 366 public companies found that those in the top quartile for ethnic and racial diversity in management were 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity were 15% more likely to have returns above the industry mean. Similarly, in a global analysis conducted by Credit Suisse, organizations with at least one female board member yielded a higher return on equity and higher net income growth than those that did not have any women on the board.

Figure 10.6.1: "wocintech (microsoft) – 135" by WOCinTech Chat, licensed under CC BY 2.0.

Additional research on diversity has shown that diverse teams are better at decision-making and problem-solving because they tend to focus more on facts (Rock & Grant, 2016). A study noted in the article showed that diverse teams are "more likely to constantly reexamine facts and remain objective. They may also encourage greater scrutiny of each member's actions, keeping their joint cognitive resources sharp and vigilant. By breaking up workforce homogeneity, you can allow your employees to become more aware of their own potential biases—entrenched ways of thinking that can otherwise blind them to key information and even lead them to make errors in decision-making processes" (Rock & Grant, 2016). In other words, when people are among homogeneous and like-minded (nondiverse) teammates, the team is susceptible to **groupthink** and may be reticent to consider opposing viewpoints since all team members are in alignment. In a more diverse team with a variety of backgrounds and experiences, the opposing viewpoints are more likely to come out and the team members feel obligated to research and address the questions that have been raised. Again, this enables a richer discussion and a more in-depth fact-finding and exploration of opposing ideas and viewpoints in order to solve problems.

Diversity in teams also leads to greater innovation. A Boston Consulting Group article entitled "The Mix that Matters: Innovation through Diversity" (Lorenzo et al., 2017) explains a study in which BCG and the Technical University of Munich conducted an empirical analysis to understand the relationship between diversity in managers (all management levels) and innovation. The key findings of this study show that:

- The positive relationship between management diversity and innovation is statistically significant—and thus companies with higher levels of diversity derive more revenue from new products and services.
- The innovation boost isn't limited to a single type of diversity. The presence of managers who are either female or are from other countries, industries, or companies can cause an increase in innovation.
- Management diversity seems to have a particularly positive effect on innovation at complex companies—those that have multiple product lines or that operate in multiple industry segments.
- To reach its potential, gender diversity needs to go beyond tokenism. In the study, innovation performance only increased significantly when the workforce included more than 20% women in management positions. Having a high percentage of female employees doesn't increase innovation if only a small number of women are managers.
- In companies with diverse management teams, openness to contributions from lower-level workers and an environment in which employees feel free to speak their minds are crucial for fostering innovation.

What are some challenges and best practices for managing and working with multicultural teams?

As globalization has increased over the last decades, workplaces have felt the impact of working within multicultural teams. The earlier section on team diversity outlined some of the highlights and benefits of working on diverse teams, and a multicultural group certainly qualifies as diverse. However, there are some key practices that are recommended to those who are leading multicultural teams so that they can parlay the diversity into an advantage and not be derailed by it.

People may assume that communication is the key factor that can derail multicultural teams, as participants may have different languages and communication styles. In the *Harvard Business Review* article "Managing Multicultural Teams," (Brett et al., 2006), the authors point out four key cultural differences that can cause destructive conflicts in a team. The first difference is *direct versus indirect communication*. Some cultures are very direct and explicit in their communication, while others are more indirect and ask questions rather than pointing out problems. This difference can cause conflict because, at the extreme, the direct style may be considered offensive by some, while the indirect style may be perceived as unproductive and passive-aggressive in team interactions.

The second difference that multicultural teams may face is *trouble with accents and fluency*. When team members don't speak the same language, there may be one language that dominates the group interaction—and those who don't speak it may feel left out. The speakers of the primary language may feel that those members don't contribute as much or are less competent. The next challenge is when there are *differing attitudes toward hierarchy*. Some cultures are very respectful of the hierarchy and will treat team members based on that hierarchy. Other cultures are more egalitarian and don't observe hierarchical differences to the same degree. This may lead to clashes if some people feel that they are being disrespected and not treated according to their status. The final difference that may challenge multicultural teams is *conflicting decision-making norms*. Different cultures make decisions differently, and some will apply a great deal of analysis and preparation beforehand. Those cultures that make decisions more quickly (and need just enough information to make a decision) may be frustrated with the slow response and relatively longer thought process.

These cultural differences are good examples of how everyday team activities (decision-making, communication, interaction among team members) may become points of contention for a multicultural team if there isn't an adequate understanding of everyone's culture. The authors propose that there are several potential interventions to try if these conflicts arise. One simple intervention is 'adaptation', which is working with or around differences. This is best used when team members are willing to acknowledge the cultural differences and learn how to work with them. The next intervention technique is structural intervention, or reorganizing to reduce friction on the team. This technique is best used if there are unproductive subgroups or cliques within the team that need to be moved around. Managerial intervention is the technique of making decisions by management and without team involvement. This technique is one that should be used sparingly, as it essentially shows that the team needs guidance and can't move forward without management getting involved. Finally, exit is an intervention of last resort, and is the voluntary or involuntary removal of a team member. If the differences and challenges have proven to be so great that an individual on the team can no longer work with the team productively, then it may be necessary to remove the team member in question.

There are some people who seem to be innately aware of and able to work with cultural differences on teams and in their organizations. These individuals might be said to have cultural intelligence. Cultural intelligence is a competency and a skill that enables individuals to function effectively in cross-cultural environments. It develops as people become more aware of the influence of culture and more capable of adapting their behavior to the norms of other cultures. In the *IESE Insight* article entitled "Cultural Competence: Why It Matters and How You Can Acquire It" (Lee & Liao, 2015), the authors assert that "multicultural leaders may relate better to team members from different cultures and resolve conflicts more easily. Their multiple talents can also be put to good use in international negotiations." Multicultural leaders don't have a lot of "baggage" from any one culture, and so are sometimes perceived as being culturally neutral. They are very good at handling diversity, which gives them a great advantage in their relationships with teammates.

In order to help employees become better team members in a world that is increasingly multicultural, there are a few best practices that the authors recommend for honing cross-cultural skills. The first is to "broaden your mind"—expand your own cultural channels (travel, movies, books) and surround yourself with people from other cultures. This helps to raise your own awareness of the cultural differences and norms that you may encounter. Another best practice is to "develop your cross-cultural skills through practice" and experiential learning. You may have the opportunity to work or travel abroad—but if you don't, then getting to know some of your company's cross-cultural colleagues or foreign visitors will help you to practice your skills. Serving on a cross-cultural project team and taking the time to get to know and bond with your global colleagues is an excellent way to develop skills and increase your cultural intelligence.

Exercises

1. What are some of the challenges of a multicultural team?
2. Explain the cultural intelligence techniques of head, body, and heart.

3. Why do diverse teams focus more on data than homogeneous teams?
4. How are diversity and innovation related?

Key Takeaways

Diverse teams lead to more creativity, innovation, and better decision making. Ultimately, diverse teams can have a significant positive impact an organization’s bottom line, but they can also create challenges due to cultural differences around decision-making, communication, and interaction among team members. By honing their cross-cultural skills leaders can expand their cultural intelligence to not only function more effectively in diverse teams, but help create a team environment of respect and trust where true collaboration can thrive.

10.7 Social Networks

Learning Objectives

1. Discuss social networks and their value.

Social Networks

Most leadership and management textbooks do not cover the subject of social networks, which is unfortunate. Social networks can be considered “the invisible organization”—they are the pathways through which communication and resources flow between individuals and groups, and how work actually gets done. An organization flowchart might communicate who reports to whom, but it is ultimately the internal (i.e., within the organization) and external (i.e., ties between members of the organization and people outside the organization such as suppliers or customers) social networks that really explain productivity (or impediments to productivity).

You are probably already active on social networks such as Facebook, Instagram, and LinkedIn. When it comes to the role of social networking groups in leadership, these sites are only the ‘tip of the iceberg’. Networks provide leaders with three unique advantages:

1. access to information and knowledge
2. access to diverse skill sets; and
3. power.

While leaders see these advantages at work every day, they might not pause to consider how their networks regulate them. In this chapter you will learn about the role and importance of social networking groups, and social network analysis. You can take the opportunity to map and evaluate your own social network and evaluate its effectiveness personally and professionally.

Example: Networking Powers Relationships

Networking has the potential to open doors and create possibilities for jobs and partnerships. Networking establishes connections between individuals and groups, with access to information that one might not normally have access to. Reaching out to strangers can be an intimidating and nerve-racking experience. In business, the more central you are, the more power you have. Creating connections and ties to other people affords you the opportunity for power and the ability to more closely control your future, so while at times networking might feel awkward and uncomfortable, it is a necessary and important part of establishing and maintaining a career.

Online social networking sites play an important role in this networking process for individuals both professionally and personally.. These online sites have created new opportunities for networking and allow individuals to branch out beyond their normal world of industry, school, and business. The key is to avoid costly missteps as employers have begun to search online for information about prospective and current employees.

Many of these online sites have become a tool for business. For example, LinkedIn targets working professionals and provides them a way to maintain lists of business connections and to use those connections to gain an introduction to people using mutual contacts. Unlike other social networking sites, LinkedIn is almost entirely used by professionals. The power of social networking flows in both directions. Employers can screen applicants through their online accounts and recruiters more than ever are using these sites to view background information, individual skill sets, and employment history, which can be cross-referenced with submitted applications. Job seekers can review the profiles of those at top management firms and search for mutual contacts. LinkedIn also provides statistics about firms, which can be useful information for individuals looking at potential employers. Additionally, LinkedIn Learning offers the opportunity to build skills that can help individuals advance their careers or organizations to provide additional tools to increase employee capacities.

Networking is about building your brand and managing relationships. Using social networks as a vehicle to market one's self and make professional connections is becoming increasingly common, as well as using loose ties or connections through others to open doors and land jobs. In an increasingly high-tech and digital world, it is important to be aware and conscience of the digital footprint that we create. But with careful cultivation, these online networks can present many opportunities.

Exercises

1. Should employers track the use of LinkedIn or Facebook among their employees? Why or why not?
2. How is online networking different from, or similar to, in-person networking? Please describe your experience with both.
3. What are the downfalls and benefits of social networking?
4. In what ways are indirect ties as powerful and important as direct ties?
5. To what extent have you built your own brand? Is this something that you have ever considered before?

Key Takeaways

Social networks are the channels through which communication and knowledge flow, and are ultimately based on the internal and external relationships that hold the key to whether an organization thrives or even survives. Although most leadership textbooks don't discuss social networks, they are critical for leaders to understand and manage as they offer access to the information and knowledge, diverse skill sets, and the power necessary to successfully accomplish tasks.

10.8 An Introduction to the Lexicon of Social Networks

Learning Objectives

1. Analyze the key dimensions of social networks.

Social Networks and Leadership

This section draws on social network research to help you understand the leadership implications. Social networks often complement or compete with such aspects of organizations as the formal organizational structure outlined in a flowchart, work processes (think "job description"), human resource practices, leadership style, and organization culture. This is particularly problematic in knowledge-intensive settings where management is counting on collaboration among employees with different types of expertise. Just as with social networking sites like Facebook, LinkedIn, and Instagram, organization members rely heavily on their networks of workplace relationships to find information and solve problems—one of the most consistent findings in the social science literature is that *who* you know often has a great deal to do with *what* you come to know (Kilduff & Tsai, 2004). Both practical experience and scholarly research, however, indicate significant difficulty in getting people with different expertise, backgrounds, and problem-solving styles to integrate their unique perspectives effectively. From a leader's standpoint, simply moving boxes on an organizational chart is not sufficient to ensure effective collaboration among workers. Building strong social networks is crucial to managing the innovation and change necessary for the survival of organizations in the current global marketplace.

What Is a Social Network?

A **social network** can be characterized as a patterned set of relationships between two or more people—or, as they are called in the social science literature, **actors**. It can be depicted in a **sociogram**, as shown in Figure 10.8.1.

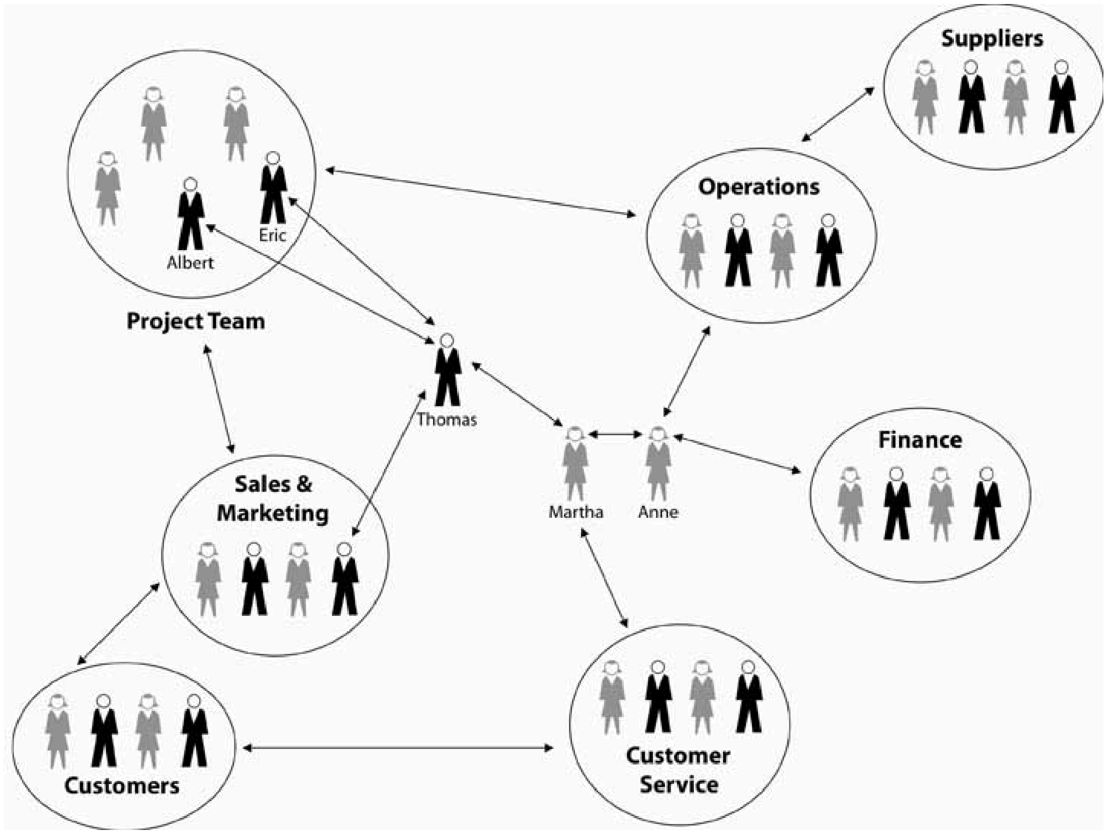


Figure 10.8.1: *Example of a Social Network Based on Information Ties*

The term "**actors**" is broader, as it includes all possible types of information/knowledge processing entities: the individuals, groups, organizations, or supraorganizations that constitute the network (Granovetter, 1985; Granovetter, 1995). For instance, all of the people named in Figure X.X are actors, but you could also consider each work group or department as an actor if you were concerned with the interaction among these groups rather than with the interaction within the groups or among individuals. The characteristics of a social network also are the determinants of **social capital**, that is, the resources—such as ideas, information, money, and trust—available in and through personal and business networks. As an individual, *you* can have social capital; organizations have social capital as well. Since social capital is based on relationships, however, no single person can claim ownership of it. Social capital is important and manageable.

Social Network Analysis and the Quality of Work Interactions

As shown in **Figure 10.8.1**, mapping and measuring relationships and flows among people, groups, organizations, computers, websites, and other actors is called **social network analysis** (SNA). Each connection, or relationship, between actors, is known as a **network tie**, while each actor, or point on the network, is referred to as a **node**. In the previous figure, Thomas is a node, and his connections to Albert, Eric, Martha, and others are network ties. **Direct ties** are those in which a single link spans two actors; **indirect ties** are where connections exist between actors, but only through other actors (hence, *indirect* ties). You can see that Thomas has four *direct ties* and is indirectly tied to everyone in the network. Conceptually, you probably have *indirect ties* to everyone on the planet but that does not necessarily mean they come to mind as part of your social network group.

Figure 10.8.2: *"Kevin Bacon" by Gage Skidmore, licensed under CC BY-SA 2.0.*

Network size would be the number of actors. Though you might be interested in the count of all network members, you also might want to know how many people are one, two, or three links away. Long before computer networking was invented, psychologists Jeffrey Travers and Stanley Milgram conducted a low-tech experiment that looked directly at this question (Travers & Milgram, 1969). They asked how many links might be necessary to get an envelope from one randomly chosen person to another randomly chosen person in the United States. They found that, on average, there were six links—or "degrees of separation"—between any two people randomly drawn from the U.S. population (at the time) of 250 million. Flipping the numbers around, Travers and Milgram then estimated that each individual had a potential network of 3,000 to 10,000 people. You may be familiar with this larger body of work in terms of "how many degrees of separation are you from Kevin Bacon?" or the notion of the "six degrees of separation."

Social Network Characteristics

The extent to which a given actor is in the middle of the network is referred to as **centrality** (i.e., network centrality), though the definition of "middle" can vary from who has the most ties, to who is the unique connection between two other groups. Centrality is good and is important to leadership because it puts the actor in a position to gather information and serve as a broker between the parties that are connected via that actor.

Another basic network indicator is **density**, which essentially reflects how many people in a network are connected (usually directly) to each other. You can imagine that there are a number of possible network configurations based simply on permutations of network size, centrality, and density. For instance, you can have a large or tiny network, be central or peripheral in the network, and have a dense or sprawling network. Each of these structures has implications for how the network might serve its various actors.

The tie between actors can be directional or bidirectional (i.e., reciprocal flows between actors); similarly, a network can be described as social, personal, professional, informational, and so on, depending on what is of most interest.

A Sampling of Social Network Types

As a leader, you might be interested in your employees' (1) communication network, (2) information network, (3) problem-solving network, (4) knowledge network, or (5) access network (Cross, et. al., 2002). A **communication network** is the informal structure of an organization as represented in ongoing patterns of interaction, either in general or with respect to a given issue. For instance, people on the same office floor may periodically congregate in the break room or by the soda machine and engage in informal communication. For this reason, some descriptions of social networks focus on the *informal network*. That is the pattern of interactions among employees that aren't a direct consequence of the organization chart, job descriptions, and so on.

An **information network** shows who goes to whom for advice on work-related matters. For example, if you have a question about filling out a form, or answering a customer's question, who do you regularly seek out for answers? A **problem-solving network** indicates who goes to whom to engage in dialogue that helps people solve problems at work. For instance, "whenever this machine breaks down I know I can turn to Pat for help." A **knowledge network** captures who is aware of whose knowledge and skills, and an **access network** shows who has access to whose knowledge and expertise.

The example with Pat is also a knowledge network because it appears that you understand that Pat has the needed knowledge, and there is no barrier impeding your access to Pat. However, if the organization had rules telling you that you needed to talk to Pat's boss before getting assistance from Pat, then the knowledge network and access network would look different. You can imagine that each of these types of networks might reveal a different structure, depending on the question—for example, the linkages would be different across iterations of the figure. You can see that information is flowing back and forth between different actors in the network. However, it does not appear that information is flowing directly between all network members—for instance, the sales and marketing, finance, and operations staff do not communicate directly with each other. However, if you were to combine the staff from those functions in the same office space, you would likely create a new communication network, which in turn could change the information ties of all the members.

Social network research has also considered the way that individuals interact, as well as their potential impact on network relationships (Bavelas, 1950; Leavitt, 1951; Shaw, 1964). This is important to leadership. Five key dimensions of work quality can also be taken into account with social networks: (1) activity, (2) control, (3) access, (4) influence, and (5) power. **Activity** gauges how active a person is in the network. For example, an individual may be in the network, but actually do little to affect what is going on. **Control** gauges how much control a person has over the flow of information. Centrality is obviously one indicator of control, but there may be other determinants of control such as intelligence, personality, or even a particular skill set. In highly technical fields, for example, one individual (a node) can make a big difference in information flow, even if he or she is situated in a fairly open and balanced network. **Access** tells you how easily a person in the network can get the resources that he or she needs to be successful in the organization. How many steps, for instance, are they away from those individuals or units that are most instrumental for their success? **Influence** and **power** are different but related: influence shows how much *potential* influence a person wields in the network, while power tells you how able they are to get things done. You can see how the above would be important for leaders – if social networks provide control, access, influence, and power – these are key commodities to getting things done.

Exercises

1. What is a social network and why are they important for leaders to understand?
2. What is social network analysis?
3. Why is network size important?
4. Why is network centrality important?
5. Why is network density important?
6. What are some key types of social networks?

Key Takeaways

Social networks are important for leaders to manage as they are the invisible structure in organizations—they capture the actual pathways of how information flows and how work is done. Network size, centrality, and density were identified as key features of social networks, and you have a general understanding of at least five types of social networks of considerable value: communication, information, problem solving, knowledge, and access.

[1]It is one problem to learn or act on knowledge with others who think like you (such as in a community of practice); however, it is an entirely different problem to do this in diverse social contexts, such as cross-functional teams, where people often do not share a common vision, language, metrics of performance, or even understanding of the problem. For example, sociologists have demonstrated how correct information can have little or no effect on critical decision processes. Vaughn, D. (1996). *The Challenger launch decision: Risky technology, culture and deviance at NASA*. Chicago: University of Chicago Press. Further, organizational theorists have shown that a person's knowledge can be role constrained. March, J., & Olsen, J. (1975). The uncertainty of the past: Organizational learning under ambiguity. *European Journal of Political Research, 3*, 147–171.

10.9 How Leaders Can Use Social Networks to Create Value

Learning Objectives

1. Analyze how social networks create value.

The Benefits of Social Networks

You probably have an intuitive sense of how and why social networks are valuable for you, personally and professionally. The successful 2008 U.S. presidential campaign of Barack Obama provides a dramatic example of how individuals can benefit when they understand and apply the principles and power of social networking (Cox, 2008). In this section, we discuss three fundamental principles of social network theory, then help you see how social networks create value in your career and within and across organizations, before describing social network analysis (SNA) and making note of some of the ethical implications of SNA.

Reciprocity, Exchange, and Similarity

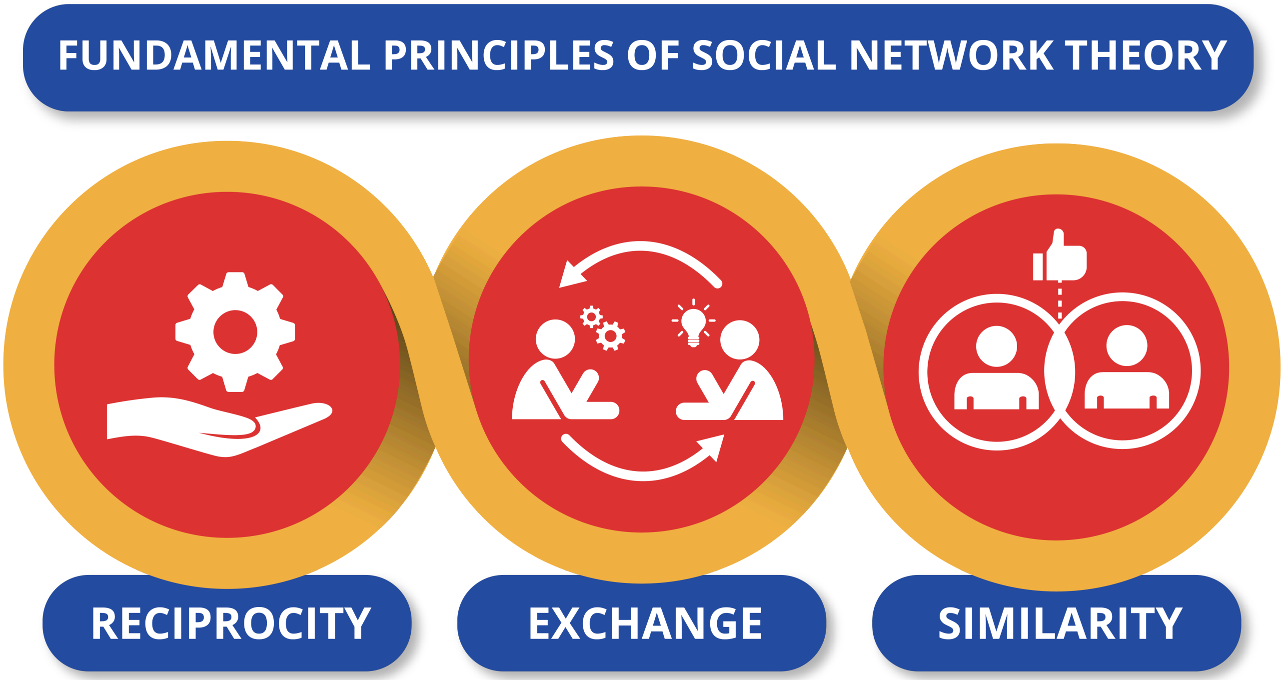


Figure 10.9.1: *"Principles of Social Network" by Alyssa Giles, CC BY-NC-SA 4.0.*

Across all social networks, performance depends on the degree to which three fundamental principles are accounted for (Kilduff & Tsai, 2004). The first is the **principle of reciprocity**, which simply refers to the degree to which you trade favors with others. With the principle of reciprocity, leaders have the ability to get things done by providing services to others in exchange for the services they require. For instance, you are more likely to get assistance with a problem from a colleague at work when you have helped him or her out in the past. Although the quid pro quo may not be immediate, over time leaders will receive only in proportion to what they give. Unless the exchanges are roughly equivalent over time, hard feelings or distrust will result. In organizations, few transactions are one-shot deals. Most are ongoing trades of "favors." Therefore, two outcomes are important: success in achieving the objective and success in improving the relationship such that the next exchange will be more productive.

The second principle is the **principle of exchange**. Like the reciprocity principle, it refers to "trading favors," but it is different in this way: the principle of exchange proposes that there may be greater opportunity for trading favors when the actors are different from one another. In fact, according to network theory, "difference" is what makes network ties useful in that such difference increases the likelihood that each party brings a complementary resource to the table. Going back to our example where you sought out assistance from a colleague, you probably needed that assistance because that person brought a different skill set, knowledge, or other resources to bear on the problem. That is, since you were different, the value of exchange was greater.

The third principle is the **principle of similarity**. Psychologists studying human behavior have observed that relationships, and therefore network ties, tend to develop spontaneously between people with common backgrounds, values, and interests. Similarity, the extent that your network is composed only of like-minded folks, also makes it more likely that an individual may be dependent on a handful of people with common interests.

Why is it important to understand these three principles? As a leader, you will find your network useful to the extent that you can balance the effects of the three principles. Because of similarity, it is easier to build networks with those with whom you have various things in common, though this similarity makes the network less useful if you need new ideas or other resources not in the current group. A critical mistake is to become overly dependent on one person or on only a few network relationships. Not only can those relationships sour but also the leader's usefulness to others depends critically on his or her other connections. Those people most likely to be attractive potential protégés, for example, will also be likely to have alternative contacts and sponsors available to them.

Similarity also means that you have to work harder to build strong *exchange* networks since their formation is not spontaneous. Most personal networks are highly clustered—that is, your friends are likely to be friends with one another as well. And, if you made those friends by introducing yourself to them, the chances are high that their experiences and perspectives echo your own. Because ideas generated within this type of network circulate among the same people with shared views, a potential winner can wither away and die if no one in the group has what it takes to bring that idea to fruition. But what if someone within that cluster knows someone else who belongs to a whole different group? That connection, formed by an information broker, can expose your idea to a new world, filled with fresh opportunities for success. Diversity makes the difference.

Finally, for reciprocity to work, you have to be willing and able to trade or reciprocate favors, and this means that you might need access to other people or resources outside the current network. For example, you may have to build relationships with other individuals such that you can use them to help you contribute to your existing network ties. We will look more at personal social networks in the next section.

Making Invisible Work Visible

In 2002, researchers Rob Cross, Steve Borghatti, and Andrew Parker published the results of their study of the social networking characteristics of 23 *Fortune* 500 firms (Cross et. al., 2002). These researchers were concerned that traditional analysis of organizational structure might miss the true way that critical work was being done in modern firms—that is, they theorized that social networks, and not the structure presented on the organization chart, might be a better indicator of the flow of knowledge, information, and other vital strategic resources in the organization. One goal of their research was to better define scenarios in which conducting a social network analysis would likely yield sufficient benefit to justify the investment of time and energy on the part of the organization.

Cross and colleagues found that SNA was particularly valuable as a diagnostic tool for managers attempting to promote collaboration and knowledge sharing in important networks. Specifically, they found SNA uniquely effective in:

- Promoting effective collaboration within a strategically important group.
- Supporting critical junctures in networks that have cross-functional, hierarchical, or geographic boundaries.

- Ensuring integration within groups following strategic restructuring initiatives.

Connect and Develop

Consumer product giant Procter & Gamble (P&G) pioneered the idea of *connect and develop*, which refers to developing new products and services through a vast social network spanning parts of P&G and many other external organizations. Like many companies, P&G historically relied on internal capabilities and those of a network of trusted suppliers to invent, develop, and deliver new products and services to the market. It did not actively seek to connect with potential external partners. Similarly, the P&G products, technologies, and 'know-how', it developed were used almost solely for the manufacture and sale of P&G's core products. Beyond this, P&G seldom licensed them to other companies.

Figure 10.9.2: *"A Group of People Using Smartphones" by Yan Krukov, Pexels License.*

However, around 2003, P&G woke up to the fact that, in the areas in which it does business, there are millions of scientists, engineers, and other companies globally. Why not collaborate with them? P&G now embraces open innovation, and it calls this approach "Connect + Develop." It even has a website with Connect + Develop as its address (http://www.pgconnectdevelop.com). This open innovation network at P&G works both ways—inbound and outbound—and encompasses everything from trademarks to packaging, marketing models to engineering, and business services to design.

On the inbound side, P&G is aggressively looking for solutions for its needs, but also will consider any innovation—packaging, design, marketing models, research methods, engineering, and technology—that would improve its products and services. On the outbound side, P&G has a number of assets available for license: trademarks, technologies, engineering solutions, business services, market research methods, and models, and more.

As of 2005, P&G's Connect + Develop strategy had already resulted in more than 1,000 active agreements. Types of innovations vary widely, as do the sources and business models. P&G is interested in all types of high-quality, on-strategy business partners, from individual inventors or entrepreneurs to smaller companies and those listed in the FORTUNE 500—even competitors. Inbound or out, know-how or new products, examples of success are as diverse as P&G's product categories. Some of these stories are shown in "P&G Connect + Develop Success Stories."

Example: P&G Connect + Develop Success Stories

Bringing Technology Into P&G: Olay Regenerist

A few years ago, the folks in P&G's skin care organization were looking both internally and externally for antiwrinkle technology options for next-generation Olay products. At a technical conference in Europe, P&G first learned of a new peptide technology that wound up being a key component used in the blockbuster product, Olay Regenerist. The technology was developed by a small cosmetics company in France. They not only developed the peptide but also the in vitro and clinical data that convinced P&G to evaluate this material. After they shared some of their work at a conference attended by P&G's skin-care researchers, they accepted an invitation for their technologists to visit P&G and present their entire set of data on the antiwrinkle effects of the new peptide. This company now continues to collaborate with P&G on new technology upstream identification and further upstream P&G projects.

Taking Technology Out of P&G: Calsura

Not all calcium is created equal.

When P&G was in the juice business, it discovered Calsura, a more absorbable calcium that helps build stronger bones faster, and keeps them stronger for life. The addition of Calsura calcium makes any food or drink a great source of the daily calcium needed for building stronger bones faster in kids, and keeping bones stronger throughout adulthood; Calsura is proven to be 30% more absorbable than regular calcium. Today, P&G licenses the Calsura technology to several companies.

- University Collaboration
- University of Cincinnati Live Well Collaborative
- Collaborating with a university in a new way

P&G has partnered with the prestigious design school at the University of Cincinnati to develop products specifically for consumers over age 50. Using design labs, university students and P&G researchers collaborate to study the unique needs of the over-50 consumer. The goal is to develop and commercialize products that are designed for this consumer bracket.

(Proctor & Gamble, n.d.)

Ethical Implications

Social networks are a key ingredient in the "organizing" component of management, so should in fact help managers lead their organizations to bigger and better things (Borgatti & Molina, 2003; Borgatti & Molina, 2005). So what harm can there be if a leader uses SNA to uncover the invisible structure in their organization? Three top ethical concerns are (1) violation of privacy, (2) psychological harm, and (3) harm to individual standing.

The Ethical Argument in Favor of Managing Social Networks

Being sensitive to the ethical issues surrounding the management of social networks does not mean leaving social network relationships to chance. For instance, if you know that your department would be more productive if person A and person B were connected, as a leader wouldn't you want to make that connection happen? In many firms, individuals are paid based on performance, so this connection might not only increase the department's performance but its personal income as well.

The broader issue is that social networks exist and that the social capital they provide is an important and powerful vehicle for getting work done. That means that the ethical leader should not neglect them. Wayne Baker, the author of *Achieving Success Through Social Capital (2000)*, puts it this way:

"The ethics of social capital [i.e., social network relationships] requires that we all recognize our moral duty to consciously manage relationships. No one can evade this duty—not managing relationships is managing them. The only choice is how to manage networks of relationships. To be an effective networker, we can't directly pursue the benefits of networks or focus on what we can get from our networks. In practice, using social capital means putting our networks into action and service for others. The great paradox is that by contributing to others, you are helped in return, often far in excess of what anyone would expect or predict".

Exercises

What do the social network concepts of reciprocity, exchange, and similarity mean, and what are their pros and cons?
How do social networks create value in an organizational setting?
What are some ways that an organization can manage the social network to be more innovative?
What is social network analysis?
Why should leaders be concerned about the ethical implications of social network analysis?
Why might it be unethical for leaders to neglect the organization's social networks?

Key Takeaways

This section showed how social networks create value and goes on to address social network analysis (SNA). We started by introducing the social network theory concepts of reciprocity, exchange, and similarity. We outlined how social networks create value in and across organizations, with specific examples of making invisible work visible before describing SNA and highlighting some of the ethical implications surrounding privacy, harm to individual standing, and psychological harm. Some specific approaches to managing SNA-related ethical issues were outlined as well as the negative ethical implications of ignoring an organization's SNA.

To foster creativity, 3M encourages technical staff members to spend up to 15% of their time on projects of their own choosing. Also known as the "bootlegging" policy, the 15% rule has been the catalyst for some of 3M's most famous products, such as Scotch Tape and—of course—Post-it notes (3M, 2002).

10.10 Personal, Operational, and Strategic Networks

Learning Objectives

1. Determine the actions required to take to develop a network.

Three Types of Networking

Strong, useful networks don't just happen at the water cooler. They have to be carefully constructed. What separates successful leaders from the rest of the pack? Networking, as defined in Section 10.8, is creating a fabric of personal contacts to provide the support, feedback, and resources needed to get things done. Yet many leaders avoid networking. Some think they don't have time for it. Others disdain it as manipulative. To succeed as a leader, Ibarra recommends building three types of networks:

1. Personal—kindred spirits outside your organization who can help you with personal advancement.
2. Operational—people you need to accomplish your assigned, routine tasks.
3. Strategic—people outside your control who will enable you to reach key organizational objectives.

Table 10.10.1: Personal, Operational, and Strategic Networks

	The purpose of this network is to…	If you want to find network members, try…
Personal network	exchange important referrals and needed outside information; develop professional skills through coaching and mentoring	participating in alumni groups, clubs, professional associations, and personal interest communities.
Operational network	get your work done, and get it done efficiently.	identifying individuals who can block or support a project.
Strategic network	figure out future priorities and challenges; get stakeholder support for them.	identifying lateral and vertical relationships with other functional and business unit managers—people outside your immediate control—who can help you determine how your role and contribution fit into the overall picture.

Making It Happen

Figure 10.10.1: *"Mark Zuckerberg" by The Crunchies!, licensed under CC BY-ND 2.0.*

Networks create value, but networking takes real work. Beyond that obvious point, accept that networking is one of the most important requirements of a leadership role. To overcome any qualms about it, identify a person you respect who networks effectively and ethically. Observe how he or she uses networks to accomplish goals. You probably will also have to reallocate your time. This means becoming a master at the art of delegation, to liberate time you can then spend on cultivating networks.

Building a network obviously means that you need to establish connections. Create reasons for interacting with people outside your function or organization; for instance, by taking advantage of social interests to set the stage for addressing strategic concerns. Ibarra and Hunter found that personal networking will not help a manager through the leadership transition unless he or she learns how to bring those connections to bear on organizational strategy. In "Guy Kawasaki's Guide to Networking through LinkedIn," you are introduced to a number of network growth strategies using that powerful Web-based tool.

Finally, remind yourself that networking requires you to apply the principle of reciprocity. That is, give and take continually—though a useful mantra in networking is "give, give, give." Don't wait until you really need something bad to ask for a favor from a network member. Instead, take every opportunity to give to—and receive from—people in your networks, regardless of whether you need help.

Remember, Mark Zuckerberg, cofounder of Facebook, helped to bring social networking to 90 million users.

Social Networks and Careers

We owe our knowledge about the relationship between social network characteristics and finding a job to Stanford sociologist Mark Granovetter. In a groundbreaking study, Granovetter found that job seekers are more likely to find a job through weak ties than through strong ties (Granovetter, 1974). He demonstrated that while job hunters use social connections to find work, they don't use close friends. Rather, survey respondents said they found jobs through acquaintances: old college friends, former colleagues, people they saw only occasionally or just happened to run into at the right moment. New information, about jobs or anything else, rarely comes from your close friends, because they tend to know the same things and people you do. **Strong ties**, as you might expect, exist among individuals who know one another well and engage in relatively frequent, ongoing resource exchanges. **Weak ties**, in contrast, exist among individuals who know one another, at least by reputation, but who do not engage in a regular exchange of resources. In fact, Granovetter showed that those who relied on weak ties to get a job fared better in the market in terms of higher pay, higher occupational status, greater job satisfaction, and longer job tenure. While much in the world has changed since Granovetter's 1974 research, subsequent studies continue to affirm his basic findings on the consequences of social network structure (Goleman, 2006). As you might expect, for weak ties to be effective though, there must be some basis for the affinity between the indirectly connected individuals, but this affinity can simply be having the same birth month or high school or college alma mater.

The value of weak ties is highly counterintuitive; we tend to think of relationships being more valuable when we have strong ties to others. However, if you think about it, and as shown in **Figure 10.10.3**, the value of a weak tie lies in the fact that it is typically a **bridging tie**, that is, a tie that provides nonredundant information and resources. In the case of a job search, the weak tie serves as a strong bridge. "Social Networking as a Career-Building Strategy" suggests some personal strategies you might consider with your own social networks. Remember to use LinkedIn wisely to find a job – or to have a job find you!

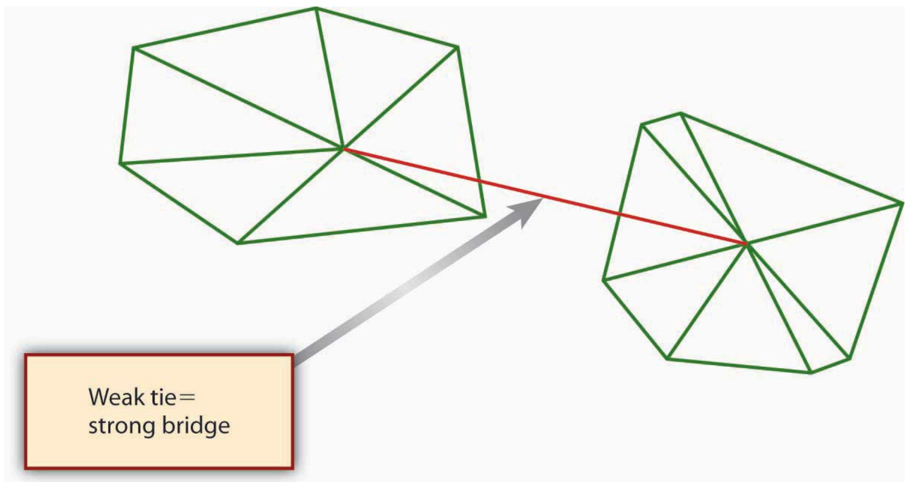


Figure 10.10.2: The Value of Weak Ties is licensed under CC BY-NC-SA-3.0

Example: Guy Kawasaki's Guide to Networking Through LinkedIn

LinkedIn (http://www.Linkedin.com) is the top business social networking site. With more than 30 million members by the end of 2008, its membership dwarfs that of the second-largest business networking site, Plaxo. LinkedIn is an online network of experienced professionals from around the world representing 150 industries (LinkedIn, 2008). Yet, it's still a tool that is underutilized, so entrepreneur Guy Kawasaki compiled a list of ways to increase the value of LinkedIn (Guy Kawaski, 2008). Some of Kawasaki's key points are summarized here that can help you develop the strategic side of your social network (though it will help you with job searches as well):

1. **Increase your visibility:** By adding connections, you increase the likelihood that people will see your profile first when they're searching for someone to hire or do business with. In addition to appearing at the top of search results, people would much rather work with people who their friends know and trust.
2. **Improve your connectability:** Most new users put only their current company in their profile. By

doing so, they severely limit their ability to connect with people. You should fill out your profile like it's a resume, so include past companies, education, affiliations, and activities. You can also include a link to your profile as part of an e-mail signature. The added benefit is that the link enables people to see all your credentials.

3. **Perform blind, "reverse," and company reference checks:** Use LinkedIn's reference check tool to input a company name and the years the person worked at the company to search for references. Your search will find the people who worked at the company during the same time period. Since references provided by a candidate will generally be glowing, this is a good way to get more balanced data.
4. **Make your interview go more smoothly:** You can use LinkedIn to find the people that you're meeting. Knowing that you went to the same school, play hockey, or share acquaintances is a lot better than an awkward silence after, "I'm doing fine, thank you."
5. **Gauge the health of a company:** Perform an advanced search for the company name and uncheck the "Current Companies Only" box. This will enable you to scrutinize the rate of turnover and whether key people are abandoning ship. Former employees usually give more candid opinions about a company's prospects than someone who's still on board.

Exercises

1. What characterizes a personal social network and how can they benefit you?
2. What characterizes an operational social network?
3. What characterizes a strategic social network?
4. How do social networks create value in a career management setting?

Key Takeaways

In this section, you were introduced to a different slant on social networks—a slant that helps you manage your networks based on where you might be in an organization. Personal networks are important and tend to follow you everywhere, operational networks are those that help you get your immediate work done, and strategic networks involve a much broader stakeholder group that typically involve individuals who are out of your direct control. We further discussed using social networks as a vehicle for advancing your own career. One key takeaway from this section is that effective leaders are effective networkers, and you will need to figure out the style of networking that works for you as you move higher in an organization.

10.11 Mapping and Your Own Social Network

Learning Objectives

1. Identify the gaps in your network and develop a plan to fill those gaps.

Mapping Out Your Own Social Network

As you have already learned, the mapping and measuring of relationships and flows between people, groups, organizations, computers, Web sites, and other information/knowledge processing entities is called social network analysis. Social network analysis is not the same thing as **networking**, where networking is the activities you might engage in to build your social network. In this section, you will learn the basics of mapping your own social network. It will give you a sense of the size of your network, along with some other useful characteristics to work with such as density.

Step One: What Purpose Should the Network Serve?

There are a number of possible purposes for a social network.[1] As a leader, you are probably most concerned with these six (Cross et al., 2002). First, a communication network is the informal structure of an organization as represented in ongoing patterns of interaction, either in general or with respect to a given issue. Second, an information network shows who goes to whom for advice on work-related matters. Third, a problem-solving network indicates who goes to whom to engage in dialogue that helps people solve problems at work. Fourth, a knowledge network captures who is aware of whose knowledge and skills, and an access network (fifth) shows who has access to whose knowledge and expertise. The sixth and final purpose is a **career network**, which reflects those individuals in your network who are likely to be helpful in your search for a new job or quest for a promotion. Given that you are reading a principles of leadership and management book, a career network may be the most interesting to you.

Step Two: Who Are Your Contacts and What Is Your Relationship with Them?

Let's assume that we are mapping your career network. A career network is simply those individuals who might be instrumental in helping you secure a new job or promotion. You can simply draft out a list of names, using names or just initials, but the goal is to develop a fairly complete list. The list can be as long or as short as you want to make it, though keep in mind that there is probably a limit to how effectively you can maintain a large network where you expect each relationship to be strong and meaningful or at least one where the contact would probably respond to your request for assistance. Leaders with 15 years of experience might list 30 to 50 names, while a college student might list 15 to 25 names. These are just averages, though, and individuals can be much higher or lower, depending on their situation.

The following three questions are sometimes useful in drafting out this initial list.

1. If you look back over the last two to three years, who are the people with whom you have discussed important school or work matters? This may have been for bouncing around ideas for important projects, getting support or cooperation for your initiatives, evaluating opportunities, or any other matters of importance to you.
2. What people have been most helpful and useful in accomplishing your job in a work, school, or volunteer setting? Consider people who have provided leads, made introductions, offered advice in your decision-making, or provided resources.
3. Who has directly influenced your career? List those people who have contributed most significantly to your professional development and career advancement during the past two to three years.

Now that you have your list, briefly categorize the names based on (1) the strength of your relationship (very close, close, not very close, distant) and (2) who they are and where they come from. For this second facet, you might want to consider using **Table 10.11.1** below:

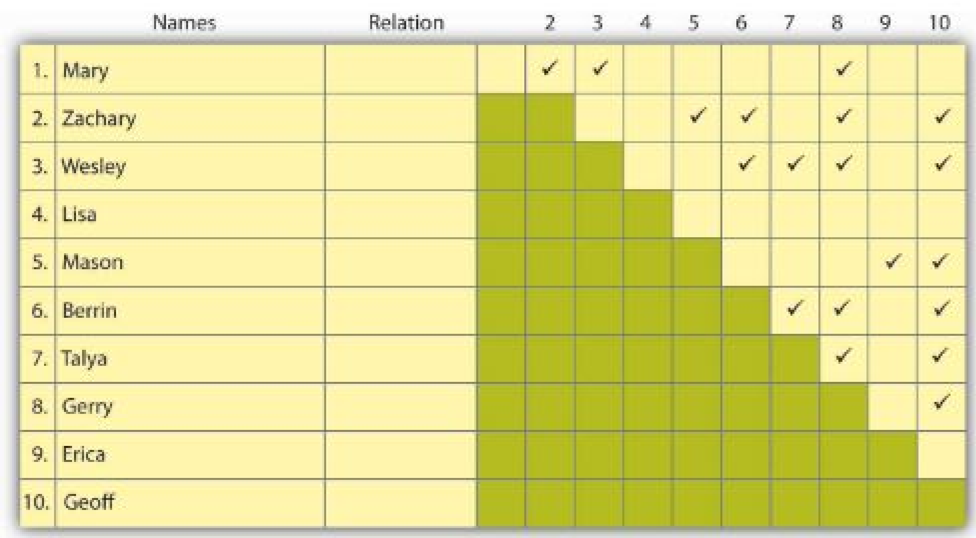
Table 10.11.1: Network Contacts

Total no. of ties _______	No. Ties	% of Total
1. Your senior (higher up in your or another organization)	_____	_____
2. Your peer (at your level in your or another organization)	_____	_____
3. Your junior (below you in your or another organization)	_____	_____
4. From a different functional or product area	_____	_____
5. From a different business unit or office in your firm	_____	_____
6. From a different firm	_____	_____
7. The same gender as you are	_____	_____
8. Members of the same racial or ethnic group as you are	_____	_____
9. The same nationality as you are	_____	_____

You will come back to this information after the next step, but you already have a better picture of your network just after this second step. For instance, you know how many people are in this network, and the relative presence of different types of network members.

Step Three: Who Knows Whom? Computing Network Density

Transfer your list of names to a grid like the one shown in the Sample Network Grid. Be sure to note your relationship with them, in terms ranging from very close to distant. To complete the grid you place a check in the box where one individual knows another. For instance, in **Figure 10.11.2**, Mary knows Zachary, Wesley, and Gerry.



	Names	Relation		2	3	4	5	6	7	8	9	10
1.	Mary			✓	✓					✓		
2.	Zachary						✓	✓		✓		✓
3.	Wesley							✓	✓	✓		✓
4.	Lisa											
5.	Mason										✓	✓
6.	Berrin								✓	✓		✓
7.	Talya									✓		✓
8.	Gerry											✓
9.	Erica											
10.	Geoff											

Figure 10.11.1: *Sample Network Grid*

Computing Network Density

Once you have finished check-marking who knows whom, compute the density of *your* network using **Table 10.11.2**:

Table 10.11.2: Computing Network Density

a. Total number of people in your network *To follow our example, N = 10* (i.e., there are 10 names)	N = __**10**_
b. Maximum Density (i.e., if everyone in your network knew each other). *Our maximum density is (10 × 9) ÷ 2 = 45* **[N × (N – 1)] ÷ 2 = M**	M = __**45**_
c. Total number of checkmarks on your network grid (i.e., the number of relationships among people in your network). *In our example, C = 19.*	C = __**19**_
d. Density of Your Network. *Our D = 19 ÷ 45 = .42* **C ÷ M = D**	D = __**.42**_

In our example, if our calculations are correct, the density of this network is .42. If each person in this network knew every other person, then the density would be 1.0; if no one knew one another, outside of the person whose network this was, then the density would be 0.0. In our example, the network density is close to the middle, which means that fewer than half the people have common network ties, while a little more than half have unique relationships. You might also want to run this calculation for a subset of the ties based on whether they are very strong, distant, and so on. If you do use a subset, though, then remember to use that number as your starting point (N = no. very close ties, for instance).

What Is a Good Number?

There is little research to tell us exactly how big (or small) or how dense (or sparse) the *ideal* network should be, although there are some facts to consider. Some studies have suggested an upper limit of 150 network ties (Bialik, 2007), but that is a pretty big number if you also characterize those ties as "very close." It is perhaps more reasonable if a few are very close and the rest are spread out in the "close" to "distant" categories. If you have a network of 15 to 20 people whose names come to mind quickly, that is probably a useful size, particularly if your network density is around the middle. Remember, you just set up a network where you were sort of the center point, and each member of your network, even if he/she is peripheral to yours, is the center of his/her own network.

A good number for density is between .40 and .60—that is, some people know one another, and some do not. The advantage of having people in your network who know one another is that they are likely to communicate more frequently and provide a set of shared relationships that you can use to move information, ideas, and other resources forward. Also, if any one of your network members, who knows no one else in the network, leaves the network for some reason, you will no longer have access to the stuff he or she provided for you.

You also want a number of unique ties though, since those relationships provide you access to unique information, resources, and ideas. Because of the network theory principles of reciprocity and exchange your network is likely to be more responsive when you have helped others in the network (reciprocate favors), and such reciprocation is most likely when you have access to unique resources (the exchange principle).

Step Four: Assess and Take Action

Let's take a look at the information you now have about your network. From Step 2 you have the size of your network, and the percentage of ties that break out by relationship (very strong to distant) and characteristics (company, demographics, and so on). From Step 3 you have the density of your network, and that helps shed additional light on the information generated in Step 2.

This puts you in a pretty good position. If you think your network is too small, you have a way to identify the gaps in your network that, if filled, would both grow your network and fill those key gaps. If the density is too high, then the pathway is similar as well. If you think that you have a great network already, then you can validate this with the information generated in Steps 2 and 3. In all likelihood, you will see opportunities to shore up gaps and develop strategies for doing so.

Here are some pointers from effective leaders on how to make sure your network is creating value for you:

- When entering a new position, effective leaders identify the people on whom they depend for getting things done and focus their energies on cultivating relationships with those people.
- Effective leaders consider others as potential allies, even when they may appear to be adversaries. They develop an awareness of key goals and resources valued by the potential ally and attempt to find areas of mutual benefit.
- Relationships with people who are dissimilar on multiple dimensions (e.g., a senior manager in another division) are the most difficult to cultivate and therefore require the most explicit strategies.
- Effective leaders tend to be keenly aware of their personal preferences and interaction styles for developing their networks. For example, those who are not comfortable with extracurricular socializing may make extra time for informal conversations at work.

Exercises

1. How might social network analysis help you find a new job?
2. What are the basic steps in social network analysis?
3. What information do you need to analyze your social network?
4. Why is the size of your network important?
5. Why is the density of your network important?
6. What can you do to create value through your social network?

Key Takeaways

You now have a good understanding of how to analyze the basic characteristics of your social network or that of another individual. In this section, you were introduced to a pencil-and-paper approach to social network analysis, though you can also use electronic forms that map more complex relationships, and perhaps show how multiple networks are tied (or not tied) together. This section closed with showing you how to bolster the value created by your social network.

[1]The first author, Mason A. Carpenter, has been using social networking mapping in his classes for the past 15 years. This particular mapping tool has evolved over that time and is inspired by the larger body of social network research. There is no magic to this particular grid tool, and you are welcome to use and adapt it as the need arises. This grid simply asks students to identify who might be helpful in their network, the nature of their relationship with these individuals, and which members know each other.

10.12 Key Terms

Key Terms

Actors in social networks include all of the individuals, groups or organizations that make up the network.

Access network shows who has access to whose knowledge and expertise.

Activity gauges how active a person is in the network.

Access tells you how easily a person in the network can get the resources that he or she needs to be successful in the organization.

Bridging tie is a tie that provides non-redundant information and resources.

Career network reflects those individuals in your network who are likely to be helpful in your search for a new job or quest for a promotion.

Control gauges how much control a person has over the flow of information in the network.

Conflict can be due to a communication breakdown, competing views or goals, power struggles, or conflicts between different personalities.

Centrality is the extent to which a given actor is in the middle of the network.

Communication network is the informal structure of an organization as represented in ongoing patterns of interaction, either in general, or with respect to a given issue.

Density reflects how many people in a network are connected (usually directly) to each other.

Direct ties are those in which a single link spans two actors.

Indirect ties are where connections exist between actors, but only through other actors.

Information network shows who goes to whom for advice on work-related matters.

Knowledge network captures who is aware of whose knowledge and skills.

Network tie is each connection, or relationship, between actors.

Nodes are each actor, or point on the network.

Networking is the range of activities you might engage in to build your social network.

Problem-solving networks indicate who goes to whom to engage in dialogue that helps people solve problems at work.

Principle of reciprocity refers to the degree to which you trade favors that are of relatively equal value with others.

Principle of exchange refers to trading favors with those who are different from you and provides greater value due to the differences in resources such as knowledge, capabilities, skill sets, etc.

Principle of similarity refers to the fact that relationships and network ties tend to develop spontaneously between people with common backgrounds, values, and interests.

Social network can be characterized as a patterned set of relationships between two or more people.

Social capital includes the resources available in and through personal and business networks such as ideas, information, money, and trust.

Social network analysis (SNA) is mapping and measuring relationships and flows among people, groups, organizations, computers, websites, and other actors.

Strong ties exist among individuals who know one another well and engage in relatively frequent, ongoing resource exchanges.

Weak ties exist among individuals who know one another, at least by reputation, but who do not engage in a regular exchange of resources.

10.13 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4740#h5p-10

CHAPTER 11: LEADING INNOVATION AND CHANGE

Chapter Content

11.1 Introduction to Leading Innovation and Change

What's in it for Me?

Reading this chapter will help you do the following:

1. Explain what creativity has to do with business.
2. Outline why innovation is vital to an organization.
3. Analyze why some organizations fail at innovation.
4. Describe how social networks can increase the likelihood of organizational innovation.
5. Determine what causes organizations to change.
6. Explain how leaders can encourage change.
7. Describe how leaders can create an innovative culture in the workplace.
8. Outline how employees can be rewarded for innovation and creativity.
9. Determine how a strategic business partner or co-creation may help a company innovate.
10. Compare how company structure can support or hinder innovation.
11. Analyze why some organizations fail at innovation.

11.2 Creating an Innovative Culture

Learning Objectives

1. Explain how leaders can create an innovative workplace.

Creating an Innovative Culture

Creating an innovative culture at work can improve employee satisfaction, team productivity, and the quality of the company's products and services. It can also help grow brands, attract prospective employees, keep talent in the workforce, and help generate revenue (Indeed Editorial Team, 2021). While innovation strategy varies depending on the market and business goals, some challenges are universal. For example, if an executive may be struggling to manage the company's innovation efforts to produce the results planned for. The leader of an innovation project may be finding it hard to garner the support needed from senior management (Swisher2016).

What is an Innovative Culture?

An **innovative culture** is a work environment that fosters and rewards employee creativity instead of focusing on deadlines and revenue. Tech companies often have an innovative culture since the tech industry constantly changes and generates new ideas. Key characteristics of an innovative culture include (Indeed Editorial Team, 2021):

- Unique strategy: An innovative strategy often involves specific goals and a strategy specifically designed for and by the company.
- Autonomy: When the workplace has an innovative culture, it often gives employees freedom in how they work to accomplish goals.
- Trust: An environment of trust encourages employees to share ideas and attempt new methods to accomplish goals.
- Accepting failures: Innovation may lead to some failures along the way. Allowing these failures helps employees be more creative without the fear of defeat or making a mistake.
- Leadership: Good leaders with effective management abilities help maintain an innovative culture. However, it's best implemented when employees act as leaders, too.

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=2179#oembed-1

Watch this video: Amazon's culture of innovation | London Business School by London Business School [6:36] (Transcript Available).

Why Have an Innovative Work Culture?

An innovative work culture encourages continuous improvements which can help the company produce improved products and services to retain existing customers and attract new customers. An innovative company also attracts investors and new talent (new employees). Innovation can improve the company's image and make it a leader in the industry, again bringing more customers, investors, and profit. Innovative companies often have higher revenues than their competitors in the market, and they make more profit.

When companies trust, encourage and reward their employees, their employees feel more creative and create new ideas at work. This is a benefit to the company. Often innovative cultures create happier and more productive employees. Innovation can prepare a company to adapt to its industry and market and this ability to adapt can lead to a company's longevity as it must keep up with its competition to stay relevant. When a team searches for new methodologies or processes and creates new products, it may discover a groundbreaking idea or predict a future problem it may face. Both can help the company adapt to a changing landscape. To summarize, the benefits of having an innovative work culture include the following (Swisher, 2016):

- Sets a course for improvement
- Helps develop new ideas
- Leads to company growth
- Gives a competitive advantage
- Increases team efficiency
- Develops an adaptive nature
- Appeals to more talented professionals
- Improves the company brand

How Can Leaders Build an Innovative Work Culture?

Below are some tips for how leaders can build an innovative work culture:

- Actively motivate and encourage innovation from employees. Invite them to share ideas during company meetings and discuss company problems and solutions in a group environment.
- Build trust within the team–be honest, admit mistakes, take ownership, be dependable, collaborate. Try team-building exercises to help people feel free to share ideas without being judged.
- Ask customers for feedback/invite customers to feedback rounds
- Ask stakeholders for feedback
- Invest in training for employees
- Actively invest resources in research and development (R&D)

- Partner with startups and innovative companies
- Build an intrapreneurship program
- Express that failure is an option. Make sure everyone understands that a part of getting to success often includes some failures.
- Actively research on the Internet (industry news, tech news, etc.)
- Survey/interview/meet with experts
- Incorporate innovation into the business strategy. Establish a company innovation vision, set goals, and share values to promote innovation in the workplace.
- Establish a reward system for innovative thinking, such as rewarding employees' progress in innovation with commission-based pay, promotions, bonuses, time off, treats, events, special recognition, or sharing in the innovation profits.

How Can Leaders Nurture Innovation?

Internal Collaboration

It is important to create cross-departmental teams and make communicating across departments easy. When, for example, the marketing team only speaks to the marketing team this creates a recipe for GroupThink. To ensure employees understand how the different parts of the company work and how they must work together to achieve progress, leaders might, for example, create a policy whereby anyone who wishes to become a business unit general manager must have worked in at least two functional areas for two or more years. The CEO of a very successful technology company requires the R&D people to spend about 10% of their time in marketing and sales and vice versa (Gupta et al., 2017).

Figure 11.2.1: *"Coworkers working Together" by Fauxels, Pexels License.*

A great example of internal or cross-company collaboration is Starbucks. As the rise of café culture birthed hipster pop-ups and independent shops, the dominant chains began to lose ground. Keen to avoid a Kodak moment, Howard Schultz jumped to action. The Starbucks CEO invited store managers from all over the world to come together for a conference to redesign the café experience (Richards, 2021).

Innovation Labs and Intrapreneurship

Designing innovation labs is one way to foster and support innovative initiatives. Some well-known organizations create innovation lab spaces where their employees can experiment and work on innovative ideas. Some companies share successful ideas from employees by supporting them in intrapreneurship initiatives which often takes the form of company spin-offs or subsidiaries whereby the employee who came up with the idea often becomes a top-level manager of the new spin-off company. Innovation Labs can also be external, such as a consulting firm that supports the innovation process of other businesses. Innovation labs are strategic and goal-focused, and are used as tools to address specific company innovation requirements. [1]

Innovation Time for Employees

Leaders who build innovation into their culture may offer "free time" to employees who wish to work on innovative initiatives. Leaders want to encourage innovation in non-obvious areas. Getting employees to expand their definitions of innovation is essential, so leaders should explicitly spell out for employees distinct areas that are ripe for innovation within the company, such as product, process, or business model, and let employees know the company is seeking contributions in any of these areas (Solomon, 2018).

Figure 11.2.2: *An Innovative Team. Photo by Jason Goodman, licensed by Unsplash license.*

Companies like Google, 3M, and a host of others are known for letting their employees spend 15 to 20 percent of their time each week working on creative side projects, innovations, and ideas – and it pays off. (This is how Gmail and Google Earth were created.) In addition to creating space for employees to innovate, leaders should also be prepared to reward employees for their creativity. For example, employees might be promised a certain percentage of net revenue for any employee who comes up with a new product that goes to market (Abrams, 2021).

Partnerships and Acquisitions

Forming partnerships with other organizations to create a new innovation is often a great idea since it will reduce the risks of innovating for each company because each partner shares in the risks. With that said, each collaborating organization will also share in the rewards. An organization that may be weak in some areas and has determined it would not be feasible to expand operations, purchase technology, or obtain patents that would be needed to develop a specific innovation, might gain the strengths needed (e.g., supply chain, manufacturing, technology, patents, trademarks, etc.) through a partner company that would share these with the innovation team. (Note that some of these concepts were discussed in the chapter on innovation risks.)

Sometimes larger companies work with smaller businesses that have a niche, expertise, technology, or specialty that the larger company does not have. Sometimes large organizations purchase (acquire) these smaller companies so that the larger organization can expand its innovative skillset, technologies, processes, patents/trademarks, and expertise with what the smaller company brings. For example, software and application development might not be the company's thing so the company might consider partnering with a Python developer to launch a brand new web application that the industry has never seen (Abrams, 2021).

Cisco's acquisition strategy generally targets smaller companies that have developed innovative new products, but the key to making these acquisitions pay over the long term is the company's ability to retain the talented

1.

engineers and managers from the acquired companies. They've been very successful at this, bolstered of course by the company's increasing stock value (Morris, 2007).

The government often partners with businesses toward innovation, especially social innovation, technology innovation, and environmental innovation. Governmental organizations across the globe have launched their own innovation hubs often partnering with businesses to find innovations that will bring value to entire communities. (Note that some of these concepts were discussed in the chapter on innovation risks.)

Innovation consultants can help guide the innovative process. Companies can outsource these experts if they do not have an organizational structure for innovation or lack talent within the organization. (Note that some of these concepts were discussed in the chapter on innovation risks.)

Open Labs for Co-Creation

An "open lab" can offer real benefits for organizations, for example, reinforcing corporate commitment to innovation and creativity in a physical space. Auto manufacturer, BMW, has a co-creation lab where its customers can share their ideas and become an integral part of concept vehicle development (Orange Business Services, 2019). Collaborating with customers by inviting them into innovation projects through gathering feedback to participating in development, customers have helped companies make great strides. Companies might consider co-creation partnerships with customers, universities, suppliers, start-ups, and even competitors. In early 2018, Swedish furniture and home goods retailer IKEA launched 'Co-Create IKEA', a digital platform encouraging customers and fans to develop new products. In 2018, Coca-Cola entered into a co-creation experiment with customers to make sure its Southeast Asia product strategy reflects the tastes of the region and its people (Livescault, n.d.).

Structuring for Innovation

Figure 11.2.3: *Customer Involvement. "Woman in Black Long Sleeve Shirt Talking to Man" by RODNAE Productions, Pexels License.*

"The most important goal of innovation is to gain a competitive advantage by increasing the speed and effectiveness with which your company learns—and acts on that learning. Innovation is about experimentation—failing early and often" (Swisher, 2016).

Innovation Strategy is about mapping an organization's mission, vision, and value proposition for defined customer markets. It sets boundaries to innovation performance expectations by simplifying and structuring the innovation work to achieve the best possible outcome. For a business to thrive in today's world of intensified competition it is critical that innovation initiatives are aligned with corporate strategy. (Note, additional details about innovation strategy are provided within the chapter on growth strategy.)

An innovation strategy is a clearly-defined plan of structured steps a person or team must perform to achieve the growth and future sustainability goals of an organization. An innovation strategy provides people with a framework for critical decision-making. Leaders may consider the following questions when devising a strategy (Richards, 2021):

- **In what areas will we invest?**

- **How much will we invest?**
- **Who will make investment decisions?**
- **What capabilities will we need to develop to support our investments?**
- **What capabilities can we not build, which we must then acquire or form a partnership to provide?**

Holding on to traditional practices just because “that’s what we’ve always done” is not a strategy for success. That rigid approach is guaranteed to fail in the face of disruption, as proven by Kodak and Blockbuster.

Leaders who want an innovative company must ensure a balanced innovation portfolio; a combination of core, adjacent, and transformative innovation initiatives. Generally, 70% of innovation investments are in core innovations, 20% in adjacent innovations, and only 10% in disruptive innovations. In terms of value creation potential, however, the ratios are inverted: core innovation efforts typically contribute 10% of the long-term cumulative return on innovation investment, adjacent initiatives contribute 20%, and transformational projects yield a huge 70%. The right balance of innovation investment will vary from company to company according to particular factors like age of the company, its competitive position in the market, and characteristics of the industry served (e.g. number of suppliers, market growth, regulatory patterns, etc). Most companies tend to be heavily oriented toward just core innovation and whilst this is understandable in terms of avoiding the greater risks and uncertainties associated with adjacent and transformational initiatives, the result will be a steady, long-term decline in business and attractiveness to customers if a company never tries some adjacent or transformational projects (MBA Knowledge Base, n.d.). (Note that some of these concepts were discussed in the chapter on innovation risks.)

Leaders must create corporate structures that continuously nurture innovation. They should build connections to innovation within the company vision, mission, and values and ensure that company values and goals are communicated throughout the organization. It is also important for the leaders of the organization to model the behaviors they want to see in their employees and create a culture of innovation through providing training, motivation, encouragement, and support to employees. Leaders must examine new ideas with an open mind. Many ideas are in their infancy when they first appear and it may take time to refine and perfect the concept.

Leaders must continually look for opportunities and threats and examine the company’s strengths and weaknesses so as to build weaknesses into strengths, use strengths to combat threats, and take advantage of opportunities (SWOT, competitive analysis, PEST, Porter’s Five Forces, Ansoff Matrix, Innovation Matrix, etc.).

Leaders must be ready to accept risk and understand it is acceptable to fail and try again, as this is part of the innovative process. Investing in a knowledge management system will help the company make it easy to share information and ideas, track innovation progress, manage the budget, track ROI, and keep track of lessons learned from past failures so as to avoid these pitfalls in the future. An electronic system allows companies to capture the benefits of, and lessons learned from innovation.

Smaller businesses do not have much problem with the organizational structure getting in the way of innovation because most employees who have an innovative idea can speak directly with the owner of the business to get the idea reviewed and approved. Larger corporations have several types of organizational structures and some of those, such as hierarchical have many layers, so an employee may speak with their direct manager who then speaks to an area manager who then speaks to another manager, and so on. Often in these large organizations, different departments are responsible for their own profit and loss, so they essentially compete with each other for company resources which is not the best structure to support collaborative innovation or make it easy to get big ideas into the innovation pipeline.

Figure 11.2.4: *Competing for resources. "Man holding chess piece" by Pixabay, Pexels License.*

From small businesses to large organizations like global megacorporations, companies across the globe generally rely on four different types of organizational structures in the mechanistic model: Functional, Divisional, Matrix, and Hybrid. Matrix structures combine functional structures with divisional structures in a grid arrangement that combines vertical functions (e.g., organizational roles and titles) with horizontal divisions (e.g., directors of various product lines, projects, etc.). A matrix organization decentralizes decision-making and provides teams with increased autonomy while simultaneously improving cross-functional collaboration to boost overall productivity and encourage innovative approaches to problem-solving. Hybrid is similar to matrix structures, yet allows for collaborative sharing of data and resources while preserving division-specific specializations (Del Vecchio, n.d.).

While the four organizational structures above are the most common, companies around the world also use four other types of organizational structures which are more organic in nature: Process, Circular, Flat, and Network. Process structures concentrate on end-to-end workflows for specific processes. This improves adaptability and flexibility to meet changing demand and market conditions. A circular structure is intended to encourage the dissemination of information and inspiration from the center and allow different divisions to participate as components of a single whole. In flat structures, management and executive staff take a more collaborative rather than supervisory role, working and communicating closely with team members and project managers (Del Vecchio, n.d.).

To ensure operations are running smoothly, many businesses follow an organizational structure that best supports their size and business goals. Having and communicating a clear organizational structure helps employees understand their roles and corresponding expectations and informs goal-setting (Indeed Editorial Team, 2021).

One or more interactive elements has been excluded from this version of the text. You can view them online here: https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=2179#oembed-2

Watch this video: How Apple Is Organized for Innovation: The Functional Organization by Harvard Business Review [4:35](Transcript Available).

Funding and Budgeting for Innovation

The process for establishing a funding source will differ depending on the company. For example, Allstate CIO, Suren Gupta, has described how a formal **Innovation Council** evaluates ideas and allocates funding. In other companies, if the innovation ties closely to a particular business unit, then funding may come from that group's budget. The actual size of the budget depends on whether a company lab is building the technology itself, partnering with other organizations, or acquiring a company, product, or talent. Amazon and Google have spent millions of dollars developing parcel delivery drones. Meanwhile, companies like UPS and Daimler AG have opted to partner with—and make strategic investments in—established drone makers. This lowers both the risk and the cost of innovation while still allowing the company to develop new capabilities. Regardless of how funding is established—or the size of the budget itself—it is critical to measure how much money was spent at each stage of the process: preparation (i.e., percentage of capital budget allocated to innovation projects), development (i.e., R&D spending at each phase of development the innovation process), and results (i.e., percentage of sales from innovation projects). As with the portfolio approach to general innovation metrics, the use of financial metrics across the innovation lifecycle reduces the focus on ROI, and too much focus on ROI can cripple innovative projects in the early stages (Davis, 2015).

Exercises

1. **Intrapreneurship.** Search the Internet to locate examples of successful intrapreneurship. What was the idea? How did the intrapreneur come up with the idea? How was the employee(s) rewarded? Do you have ideas for improvement or new product/service offerings that could be implemented in your workplace or even within your college or university? Share your thoughts with your class and/or professor.
2. **Innovation Lab.** Search the Internet to locate an example of a company's Innovation Lab that recently produces a new innovation success. What was that success? What type of innovation was it–product, service, technology, etc.? Was it an incremental or disruptive innovation? How long did it take to develop this concept and get it to market? Discuss your findings with our class and/or professor.

Additional Resources

- 14 Inspiring Examples of Intrapreneurship and Employee Ideas in Action

- 10 Inspiring Examples of Successful Intrapreneurship
- 7 Considerations When Creating a Corporate Innovation Lab
- 31 Innovation Labs to Know

Key Takeaways

An **innovative culture** is a work environment that fosters and rewards employee creativity instead of focusing on deadlines and revenue. Creating an innovative culture at work can improve employee satisfaction, team productivity, and the quality of the company's products and services. It can also help grow brands, attract prospective employees, keep talent in the workforce, and help generate revenue.

Key characteristics of an innovative culture include unique strategy, autonomy, trust, accepting failures, and leadership.

There are many **benefits** of creating an innovative work culture, such as competitive advantage, company growth, improved company brand, increased team efficiency, developing an adaptive nature, and more.

There are many ways in which leaders can **build an innovative work culture** including asking customers and other stakeholders for feedback, motivating employees to innovate, partnering with startups and innovative companies, building an intrapreneurship program, establishing a reward system for innovative thinking, and more.

Leaders can **nurture innovation** by facilitating internal collaboration, creating innovation labs, supporting intrapreneurship, providing innovation time for employees, forming partnerships, acquiring smaller companies, and developing open labs for co-creation opportunities.

Innovation strategy is about mapping an organization's mission, vision, and value proposition for defined customer markets. It sets boundaries to innovation performance expectations by simplifying and structuring the innovation work to achieve the best possible outcome.

Leaders who want an innovative company must ensure a **balanced innovation portfolio**; a combination of core, adjacent, and transformative innovation initiatives. Generally, 70% of innovation investments are in core innovations, 20% in adjacent innovations, and only 10% in disruptive innovations. In terms of value creation potential, however, the ratios are inverted: core innovation efforts typically contribute 10% of the long-term cumulative return on innovation investment, adjacent initiatives contribute 20%, and transformational projects yield a huge 70%.

Organizational structure is a way or method by which organizational activities are divided, organized, and coordinated. From small businesses to large organizations like global megacorporations, companies across the globe generally rely on four different types of **organizational structures** in the **mechanistic model**: Functional, Divisional, Matrix, and Hybrid. While the four organizational structures above are the most common, companies around the world also use four other types of organizational structures which are more **organic in nature:** Process, Circular, Flat, and Network. To ensure operations are running smoothly, many businesses follow an organizational structure that best supports their size and business goals. To ensure operations are running smoothly, many businesses follow an organizational structure that best supports their size and business goals. Having and communicating a clear organizational structure helps employees understand their roles and corresponding expectations and informs goal-setting.

11.3 Failure to Innovate

Learning Objectives

1. Explain why some organizations fail at innovation.

Why Do Some Organizations Fail at Innovation?

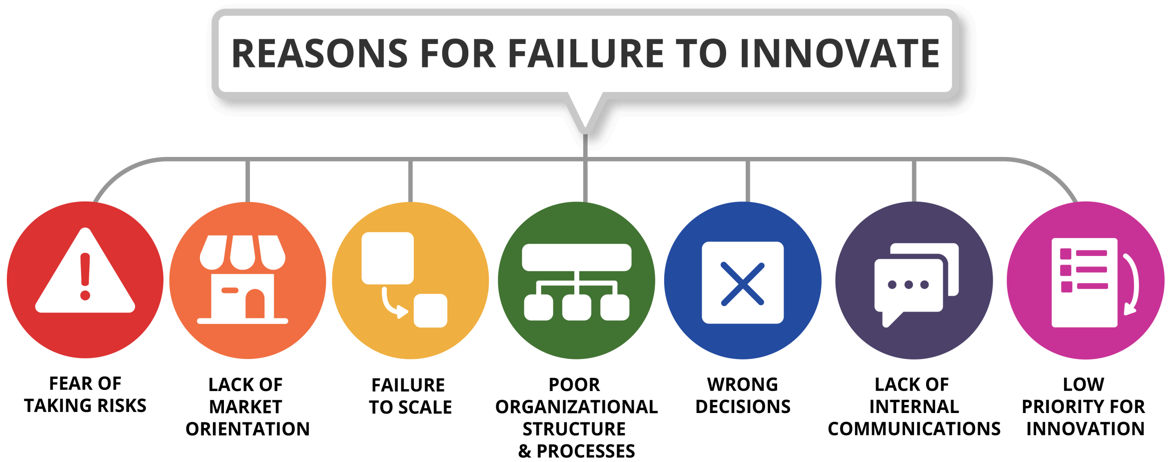


Figure 11.3.1: *"Reasons for Failure to Innovate" by Alyssa Giles, CC BY-NC-SA 4.0.*

Companies need to facilitate creative ideation; they also need processes to capture the outputs of creative ideation and transform them into profitable and scalable innovations. There are many reasons why innovation projects or new products fail in the market. Usually, a failure is not related to the quality of an idea itself, but to its implementation, which means that it has internal organizational causes. Management must be aware of the company's weaknesses and act to create a framework that encourages and strengthens innovation, which should create higher innovation successes and generate additional revenue for the company. A few reasons innovations fail are listed below.

1. **Fear of taking risks.** The innovative process carries no guarantees, and the consequences of fear of risk tend to make organizations prefer the status quo.
2. **Lack of market orientation.** The lack of market orientation and understanding of customer needs is

another main reason why new products fail on the market. The product does not offer a true and convincing customer value or differentiate itself from existing products (Lead Innovation Blog, 2018).

3. **Failure to scale.** Scaling is the part where most of the value creation and impact comes from. Scaling an innovation can be defined as the process of expanding the presence and the use of the innovation to be as widespread as possible to maximize that impact (Nieminen, 2021).
4. **Poor Organizational Structure and Processes.** An organizational structure that does not support innovation. The larger an organization is, the slower the processes often become. Sluggish processes with long decision-making cycles can be a death sentence for innovations. In addition, there are often interface and communication problems. All this has a negative effect on the quality and efficiency of innovation projects. This becomes more obvious when compared to the speed of how quickly start-ups can innovate (Lead Innovation Blog, 2018).
5. **Wrong decisions.** Management may set the wrong course in innovation projects or when selecting ideas. Wrong decisions can affect the prioritization of ideas, product strategies for new products, selection of variants in development, etc. The reasons behind this include lack of corporate and innovation strategy or insufficient information as a basis for decision-making (Lead Innovation Blog, 2018).
6. **Lack of Internal Communication.** Despite working hard, being isolated in groups/departments can hinder collaboration by creating unnecessary competition within departments. Once input is required from all departments, internal communication and collaboration must be streamlined.
7. **Low priority for innovation.** The unrealized commitment and the lack of support for innovation are certainly some of the main reasons why innovations fail. As a result, many resources are lost through friction losses and innovation tasks are not worked out in the required quality. The main cause is from above and it is also reflected in the culture of innovation (The Leadership Network, 2016).

Example: Innovation Practices that Saved LEGO

From the brink of bankruptcy, LEGO has grown into a highly profitable toy brand that produces a staggering 22 billion plastic bricks a year. Fuelled in part by LEGO movies, the privately held company surged ahead of its main rival, Mattel, in 2014 to become the biggest toy manufacturer in the world. Against all odds, LEGO achieved one of the biggest turnarounds in history. How did they do it?

Setting a new direction

First, LEGO restructured and hired a new CEO, Jørgen Vig Knudstorp, a process-based thinker and father of four who arrived from McKinsey & Co. in 2001 and was promoted to CEO just three years later, at just 36. Knudstorp quickly realized that the problem was not with the product, but with the company's attempts to become more relevant in the age of video games. LEGO had "over-innovated," spreading itself far too thin and launching so many new initiatives that the company had lost its sense of identity (The Leadership Network, 2016).

Innovation at the core

Knudstorp's turnaround plan involved a mix of cost-cutting, philosophical revitalization, sustainable innovation, and back-to-basics simplicity. The goal was to rediscover the very essence of LEGO, innovate close to the core, and leverage their loyal and creative fan base. He set up “The Future Lab”, a secretive and highly ambitious R&D team tasked with inventing new, technologically enhanced “play experiences” for children all over the world based on detailed ethnographic studies of how children play. With The Future Lab, LEGO developed a range of low-risk, low-cost innovation practices to test ideas and cultivate expertise (The Leadership Network, 2016).

Smart Licensing

LEGO’s breakthrough with licensed intellectual property began in 1999 with an agreement to license Star Wars characters and vehicles. On the heels of the Star Wars success, LEGO smartly committed itself to obtaining licensing arrangements with established brands, including Harry Potter, Lord of the Rings, DC Comics, Marvel, and Disney. The move paid off, while royalty expenses were in the hundreds of millions, profits reached billions (The Leadership Network, 2016).

Figure 11.3.2: *LEGO Star Wars Characters “Lego Star Wars Sheng Yuan Bootleg SY287 Review” by Steven Wells, licensed under CC BY 2.0.*

Rapid prototyping

Within its factories, LEGO has embraced a philosophy of rapid prototyping. Inspired by Google and other technology companies, they create minimum viable products to prototype and get new products to market quickly on a small scale. The Future Lab also cultivates intrapreneurship as its relationship with LEGO is more akin to an incubated start-up. By using market testing and validating their new products, The Future Lab is driving culture change to ensure that this new business model and way of working will be accepted across the organization (The Leadership Network, 2016).

Open Innovation

Lego goes a step further with consumer feedback by putting customers, suppliers, and partners in the driving seat for innovation. LEGO Ideas is a crowdsourcing platform that allows fans to design their own sets, gather support from fellow fans (you need at least 10,000 votes), and eventually get LEGO to produce your set as one of its standard lines. Examples include *Back to the Future*’s Delorean and the *Ghostbusters* Ectomobile, which are now widely popular.

The online platform now generates hundreds of new product suggestions each year and uses subtle and powerful open innovation techniques, employing everything from social media to peer selection to entice fans into contributing new designs and ideas.

LEGO Architecture is another good example. Several years ago, a Chicago architect and Adult Fan of LEGO (AFOL) reached out to LEGO, suggesting they create official kits similar to his homemade LEGO models of iconic buildings. The idea was initially met with some resistance, but fortunately, a free-thinking Norwegian LEGO executive saw value in AFOLs and created a stealthy, shoestring plan to prove their worth to the company. They tested the LEGO architecture line in just a couple of stores in Chicago and saw that they were able to charge “grown-up prices” for kits with the same number of LEGO bricks inside. The pilot was a success and the line remains hugely popular amongst adult fans of LEGO worldwide (The Leadership Network, 2016).

Designing Products for Girls

Another example of audience diversification is LEGO Friends. In 2011, boys made up 90% of LEGO consumers and LEGO wanted to broaden its appeal to more girls. Their research showed that – while both girls and boys love the building aspect of LEGO – there is a key difference in *how* boys and girls tend to play with their sets. Whereas boys tend to be more compelled by a strong narrative, girls are more likely to use their sets for role-playing. After years of refinement, the company launched LEGO Friends, a new line designed specifically for girls. The line doubled sales expectations in 2012, the year it was launched, and in that year alone LEGO tripled its sales to girls.

Low-Risk Experimentation

In the past, LEGO wouldn’t have launched any “risky” products that could smear the brand’s reputation for quality. But that’s precisely why Knudstorp created Future Lab – so mistakes can be made relatively cheaply and vast amounts can be learned. For example, LEGO Universe, an online game that resembled World of Warcraft, was discontinued just over a year after its launch as they weren’t able to build a satisfactory revenue model. The experiment barely damaged LEGO’s reputation whilst providing multiple key insights and learning lessons to establish the company in the digital world.

In February 2015, LEGO launched a new game – LEGO Portal Racers – in partnership with augmented reality company Metaio. The game uses an Intel RealSense camera and depth technology to allow users to play without using their hands, instead of using head movements to steer left or right. The original idea was to have kids build their own vehicles out of bricks and scan them into the game, but it remains a digital-only experience for the time being. Like LEGO Fusion, it is a means for Future Lab to understand and experiment with new technologies.

Few businesses have mastered the digital/physical experience but LEGO’s ability to experiment quickly, cheaply and under the radar means it can continue to evolve, discover new forms of play, and delight its fans (The Leadership Network, 2016).

So what can we learn from the ups and downs of innovation at LEGO?

1. *Innovation without direction is risky.*
2. *Innovate close to the core first.*
3. *To experiment and test ideas in a safe way, without damaging your brand reputation, start with small projects and small budgets, then test, learn and prove.*
4. *Disrupt yourself – build the next big thing before a competitor does.*
5. *Foster open innovation and listen to the wisdom of your customers.*
6. *Build an innovation culture that gives people the freedom to be creative, as well as the direction and focus needed to deliver profitable innovation.*

Exercises

1. Innovation Failure. Search the Internet to locate an example of a company's innovation that failed. What is this innovation and why did it fail? Could the company have done something along the innovation path to correct the issues? Discuss your findings with your class and/or professor.
2. Failed to Innovate. Search the Internet for Blackberry, Kodak, and Yahoo. What happened to these companies? Why did they fail to innovate? Was leadership the issue? Were poor decisions made? There are many companies that fail to innovate for reasons they feel are justified, but what happens if a company does not stay competitive? Share your findings with the class and/or professor.
3. Funding. Search the Internet for examples of where companies can find funding for their innovative ideas. Consider both small, start-up companies or entrepreneurs, as well as large corporations. Where do they find the money to support innovation development? Share your findings with your class and/or professor.

Additional Resources

- Types of Organizational Structures and Their Pros and Cons

Key Takeaways

The process for establishing a funding source for innovation will differ depending on the company. The actual size of the **budget** depends on whether a lab is building the technology itself, partnering with other organizations, or acquiring a company, product, or talent.

There are many reasons why **innovation projects fail** in the market. Usually, a failure is not related to the quality of an idea itself, but to its implementation, which means that it has internal organizational causes. Innovations fail for some of the following reasons: fear of taking risks, lack of market orientation, failure to scale, poor organizational structure or processes, wrong decisions, lack of internal communication, and low priority for innovation.

11.4 Social Networks and Innovation

Learning Objectives

1. Describe an innovation network and outline its four steps.

The Innovation Network

Strategy consultant McKinsey & Company points to research that finds differences in individual creativity and intelligence matter far less for organizational innovation than connections and networks. That is, networked employees can realize their innovations and make them catch on more quickly than nonnetworked employees can (Fleming & Marx, 2006).

On the basis of what was found by Cross and colleagues across many large firms, McKinsey has observed four important steps in the innovation network process (Barsh et al., 2007). These four critical steps in designing, implementing, and managing an innovation network are summarized in the following figure.

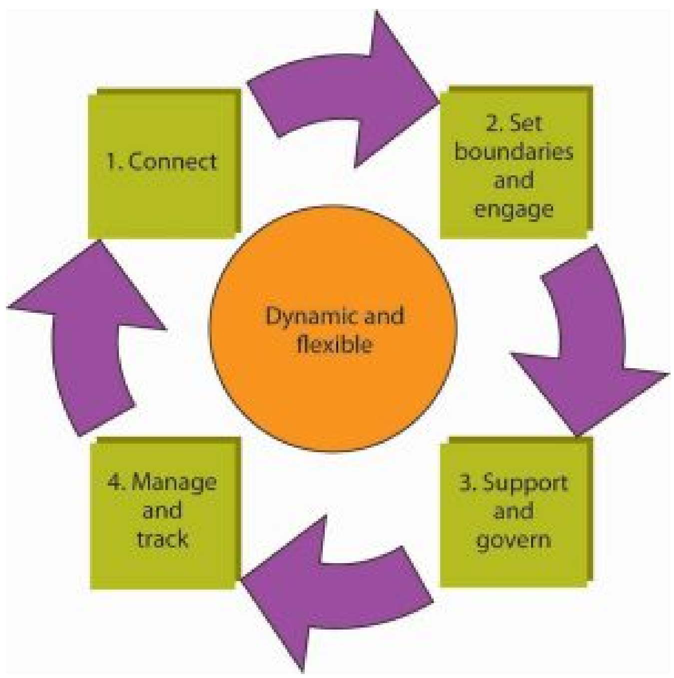


Figure 11.4.1: *Managing the Innovation Network. Adapted from http://www.mckinseyquarterly.com (retrieved June 4, 2008).*

The first step, *connect*, involves the identification of key people in the organization with an innovation mind-set. Such individuals are not wed to the status quo and are comfortable with change and uncertainty. It is important to involve individuals with different backgrounds and approaches to innovation. For instance, some individuals are great at generating ideas while others may be better at researching and validating them. This group of individuals would then be defined as a network. The second step, *set boundaries and engage*, is where the network's goals and objectives are defined. It is important to make it clear how the network's goals and objectives will contribute to the organization's goals and larger strategy, mission, and vision. Time frames and desired target outcomes are stated as well.

In the third step, *support and govern*, the leadership structure for the network is decided on, along with any protocols for meeting, sharing ideas, and decision making. With these process guidelines in place, the network members can then make sure that they have identified the resources necessary to conduct their work. This includes gaining sponsorship and buy-in from other parts of the organization, including top leadership. Finally, the fourth step involves *managing and tracking*. This last step covers a spectrum of needs, ranging from how network members will be recognized and rewarded for their contributions, the agreement about process-tracking criteria, and some guidelines on how new members join the network and others leave.

As mentioned in the *connect* stage of developing an innovation network, you can fine-tune the network's goals by identifying the appropriate mix and balance of employees. Innovation networks, like cross-functional teams, require different skills and attitudes. In McKinsey's experience, they include combinations of several archetypes. Which one are you?

- *Idea generators* prefer to come up with ideas, believe that asking the right questions is more important than having the right answers, and are willing to take risks on high-profile experiments.
- *Researchers* mine data to find patterns, which they use as a source of new ideas. They are the most likely members of the network to seek consumer insights and to regard such insights as a primary input.
- *Experts* value proficiency in a single domain and relish opportunities to get things done.
- *Producers* orchestrate the activities of the network. Others come to them for new ideas or to get things done. They are also the most likely members of the network to be making connections across teams and groups.

It would stand to reason that by making use of innovation networks, leaders would have access to creative individuals who are more likely to be open to change. We will see the importance of these networks in creating change in organizations. It is important to note that some social networks may be resistant to change, and how to overcome this issue.

11.5 Organizational Change

Learning Objectives

1. Understand organizational change and why people resist it.

Why Do Organizations Change?

Organizational change is the movement of an organization from one state of affairs to another. A change in the environment often requires change within the organization operating within that environment. Considering our current environment, at the tail end of a global pandemic and a few months into Russia's invasion of Ukraine, there has been a great deal of change affecting individuals and their organizations. While it is said that the only constant is change, most people resist change. This is also true in organizations. Change in almost any aspect of a company's operation can be met with resistance, and different cultures can have different reactions to both the change and the means to promote the change. To better facilitate necessary changes, several steps can be taken that have been proved to lower the anxiety of employees and ease the transformation process. Often, the simple act of including employees in the change process can drastically reduce opposition to new methods. In some organizations, this level of inclusion is not possible, and instead organizations can recruit a small number of opinion leaders who use their social networks to promote the benefits of coming changes.

Organizational change can take many forms. It may involve a change in a company's structure, strategy, policies, procedures, technology, or culture. The change may be planned years in advance or may be forced on an organization because of a shift in the environment. Organizational change can be radical and swiftly alter the way an organization operates, or it may be incremental and slow. In any case, regardless of the type, change involves letting go of the old ways in which work is done and adjusting to new ways. Therefore, fundamentally, it is a process that involves effective people management.

Leaders often find themselves faced with the need to manage organizational change effectively. Oftentimes, the planning process reveals the need for a new or improved strategy, which is then reflected in changes to tactical and operational plans. Creativity comes into play in constructing a new organizational design or altering the existing design. This can entail changes that may affect a single employee or the entire organization, depending on the scope of the change. Effective decision making takes into account the change-management implications of decisions and planning for the need to manage the implementation of decisions. Finally, any updates to controlling systems and processes will potentially involve changes to employees' assigned tasks and performance assessments, which will require astute change management skills to implement. In short, change management is an important leadership skill to develop.

Workplace Demographics

Organizational change is often a response to changes to the environment. For example, agencies that monitor workplace demographics have reported that the average age of the workforce will increase as the baby boom generation nears retirement age and the numbers of younger workers are insufficient to fill the gap in the U.S. (Toosi, 2015) and in Canada (Statistics Canada, 2019). What does this mean for companies? Organizations may realize that as the workforce gets older, the types of benefits workers prefer may change. Work arrangements such as flexible work hours and job sharing may become more popular as employees remain in the workforce even after retirement. It is also possible that employees who are unhappy with their current work situation will choose to retire, resulting in a sudden loss of valuable knowledge and expertise in organizations. Therefore, organizations will have to devise strategies to retain these employees and plan for their retirement. Finally, a critical issue is finding ways of dealing with age-related stereotypes which act as barriers in the retention of these employees.

Technology

Sometimes change is motivated by rapid innovations in technology. Moore's law (a prediction by Gordon Moore, cofounder of Intel) dictates that the overall complexity of computers will double every 18 months with no increase in cost (Tardi, 2022). Such change is motivating corporations to adapt their technology rapidly. Sometimes technology produces such profound developments that companies struggle to adapt. Think of the music industry. When music CDs were first introduced in the 1980s, they were substantially more appealing than the traditional LP vinyl records. Record companies were easily able to double the prices, even though producing CDs cost a fraction of what it cost to produce LPs. For decades, record-producing companies benefited from this status quo. Yet when peer-to-peer file sharing through software such as Napster and Kazaa threatened the core of their business, companies in the music industry found themselves completely unprepared for such disruptive technological changes. Their first response was to sue the users of file-sharing software, sometimes even underage kids. They also kept looking for a technology that would make it impossible to copy a CD or DVD, which has yet to emerge. Until Apple's iTunes came up with a new way to sell music online, it was doubtful that consumers would ever be willing to pay for music that was otherwise available for free (albeit illegally so). Ironically, we now see a resurgence of vinyl.

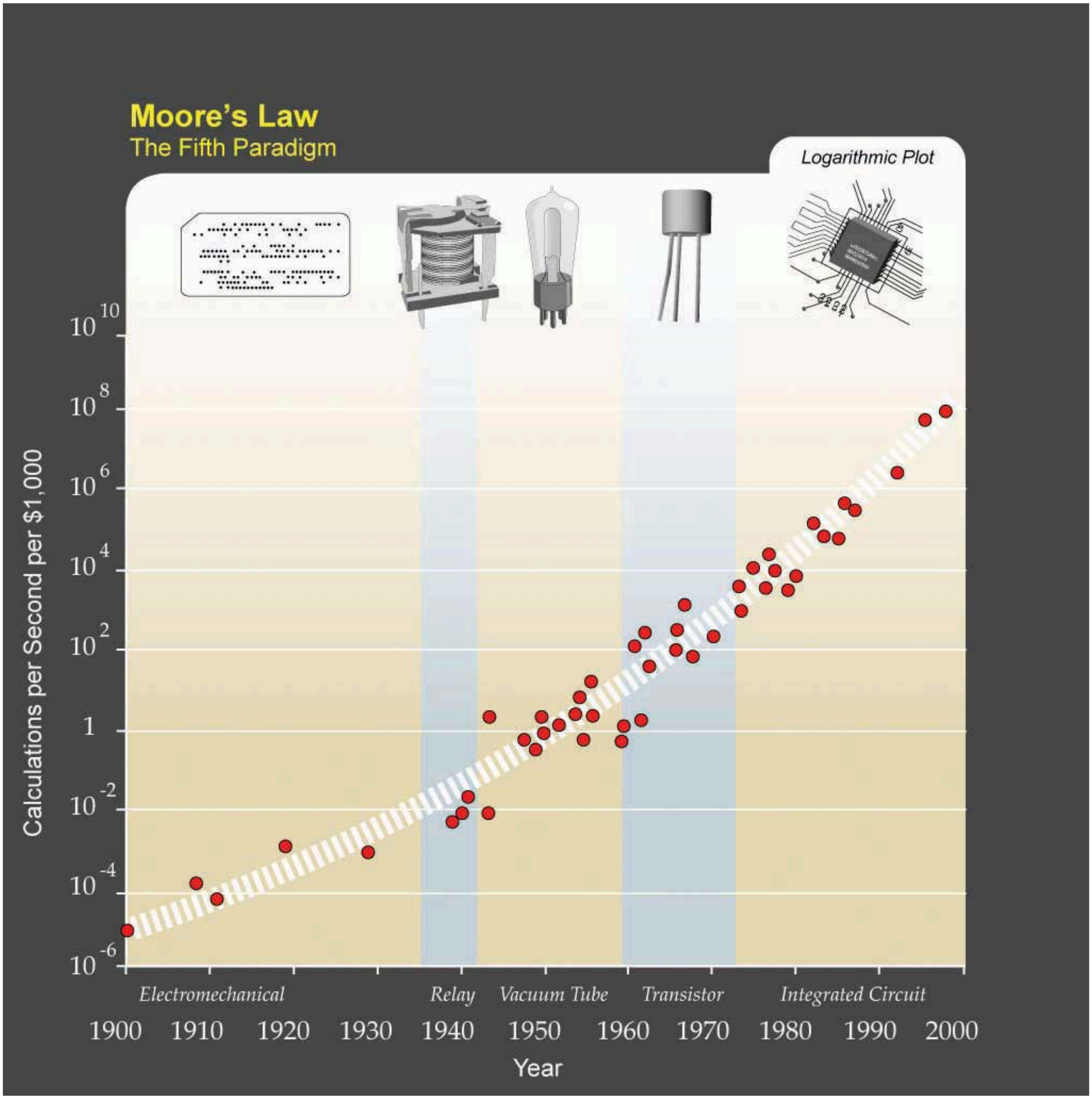


Figure 11.5.1: *Kurzweil expanded Moore's law from integrated circuits to earlier transistors, vacuum tubes, relays, and electromechanical computers to show that his trend holds there as well. "Moore's Law, The Fifth Paradigm" by Ray Kurzweil, licensed under CC BY 1.0.*

Globalization

Globalization is another threat and opportunity for organizations, depending on their ability to adapt to it.

Because of differences in national economies and standards of living from one country to another, organizations in developed countries are finding that it is often cheaper to produce goods and deliver services in less developed countries. This has led many companies to outsource (or "offshore") their manufacturing operations to countries such as China and Mexico. In the 1990s, knowledge work was thought to be safe from outsourcing, but in the 21st century we are also seeing many service operations moved to places with cheaper wages. For example, many companies have outsourced software development to India, with Indian companies such as Wipro and Infosys emerging as global giants. Given these changes, understanding how to manage a global workforce is a necessity. Many companies realize that outsourcing forces them to operate in an institutional environment that is radically different from what they are used to at home. Dealing with employee stress resulting from jobs being moved overseas, retraining the workforce, and learning to compete with a global workforce on a global scale are changes companies are trying to come to grips with.

Changes in the Market Conditions

Market changes may also create internal changes as companies struggle to adjust. For example, the airline industry in the United States underwent serious changes as demand for air travel was reduced after the September 11 terrorist attacks. At the same time, the widespread use of the Internet to book plane travels made it possible to compare airline prices much more efficiently and easily, encouraging airlines to compete primarily based on cost. This strategy backfired when coupled with the dramatic increases in the cost of fuel that occurred beginning in 2004, and as a result, by mid-2008 airlines were cutting back on amenities that had formerly been taken for granted for decades. Meals, beverages, and checking luggage became add-ons to a regular ticket. Some airlines, such as Delta and Northwest Airlines, merged to stay in business. Ticket add-ons became the norm, even once things settled somewhat in the industry, but since the Covid-19 pandemic we have seen airlines around the world hit even harder. In fact, according to McKinsey & Company, "The pandemic wreaked financial devastation across the aviation value chain, most notably for airlines", although the sector had been in poor health for years (McKinsey, 2022). Since the war on Ukraine and the doubling of fuel prices in many areas, time will tell the effect this will have on an already decimated industry.

So how does a change in the environment create change within an organization? Environmental change does not automatically change how business is done. Whether the organization changes or not in response to environmental challenges and threats depends on the decision makers' reactions to what is happening in the environment.

Growth

It is natural for once small start-up companies to grow if they are successful. An example of this growth is the evolution of the Widmer Brothers Brewing Company, which started as two brothers brewing beer in their garage to becoming the 11th largest brewery in the United States. This growth happened over time as the popularity of their key product—Hefeweizen—grew in popularity and the company had to expand to meet demand growing from the two founders to the 11th largest brewery in the United States by 2008. In 2007, Widmer Brothers merged with Redhook Ale Brewery. Anheuser-Busch continues to have a minority stake in both beer companies. While 63 percent of Canadian startups survive their first five years (Archambault & Song, 2018), and only 50% of all new US startups make it through the same period (Pugsley, Sedlacek, & Sterk, 2018), those that succeed may evolve into large, complex organizations over time.

Figure 11.5.2: *In 1984, brothers Kurt and Rob Widmer founded Widmer Brothers, which has merged with another company to become the 11th largest brewery in the United States. "Widmer Brewing Company headquarters" by M.O. Stevens, licensed under CC BY-SA 3.0.*

Poor Performance

Change can also occur if the company is performing poorly and if there is a perceived threat from the environment. In fact, poorly performing companies often find it easier to change compared with successful companies. Why? High performance actually leads to overconfidence and inertia. As a result, successful companies often keep doing what made them successful in the first place. When it comes to the relationship between company performance and organizational change, the saying "nothing fails like success" may be fitting. For example, Polaroid was the number one producer of instant films and cameras in 1994. Less than a decade later, the company filed for bankruptcy, unable to adapt to the rapid advances in one-hour photo development and digital photography technologies that were sweeping the market. Successful companies that manage to change have special practices in place to keep the organization open to changes. In addition to the success of a business, change in a company's top leadership is a motivator for change at the organization level. Research shows that long-tenured CEOs are unlikely to change their formula for success. Instead, new CEOs and new top management teams create change in a company's culture and structure (Barnett & Carroll, 1995; Boeker, 1997; Deutschman, 2005).

Resistance to Change

Changing an organization is often essential for a company to remain competitive. Failure to change may influence the ability of a company to survive. Yet employees do not always welcome changes in methods. According to a 2007 survey conducted by the Society for Human Resource Management (SHRM), employee resistance to change is one of the top reasons change efforts fail. In fact, reactions to organizational change may range from resistance to compliance to enthusiastic support of the change, with the latter being the exception rather than the norm (Anonymous, 2007; Huy, 1999).

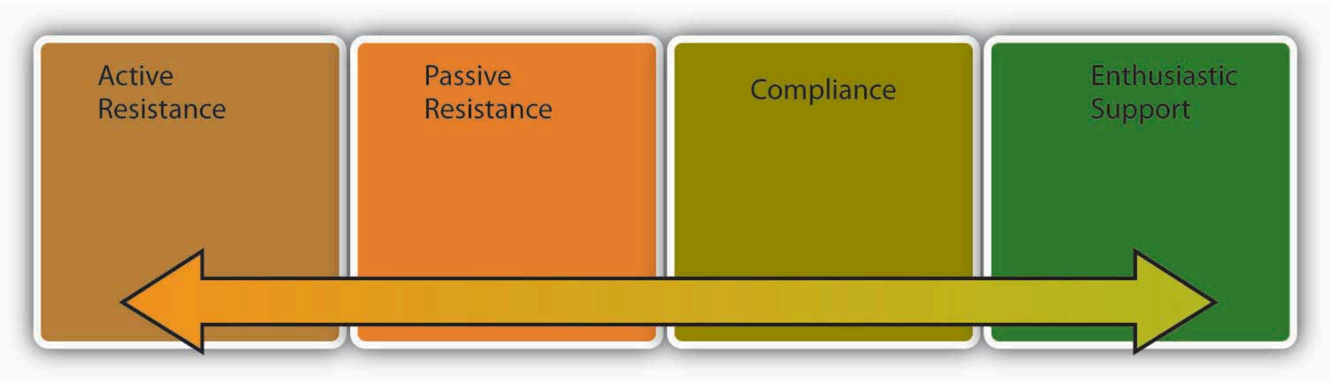


Figure 11.5.3: *Reactions to change may take many forms.*

Active resistance is the most negative reaction to a proposed change attempt. Those who engage in active resistance may sabotage the change effort and be outspoken objectors to the new procedures, encouraging those in their social networks to resist as well. In contrast, **passive resistance** involves being disturbed by changes without necessarily voicing these opinions. Instead, passive resisters may dislike the change quietly, feel stressed and unhappy, and even look for a new job without necessarily bringing their concerns to the attention of decision makers. In contrast, **compliance** involves going along with proposed changes with little enthusiasm. Finally, those who show **enthusiastic support** are defenders of the new way and actually encourage others in their networks to give support to the change effort as well.

To be successful, any change attempt will need to overcome resistance on the part of employees. Otherwise, the result will be loss of time and energy as well as an inability on the part of the organization to adapt to the changes in the environment and make its operations more efficient. Resistance to change also has negative consequences for the people in question. Research shows that when people react negatively to organizational change, they experience negative emotions, use sick time more often, and are more likely to voluntarily leave the company (Fugate et al., 2008). These negative effects can be present even when the proposed change clearly offers benefits and advantages over the status quo.

The following is a dramatic example of how resistance to change may prevent improving the status quo. Have you ever wondered why the keyboards we use are shaped the way they are? The QWERTY keyboard, named after the first six letters in the top row, was actually engineered to slow us down. When the typewriter was first invented in the 19th century, the first prototypes of the keyboard would jam if the keys right next to each other were hit at the same time. Therefore, it was important for manufacturers to slow typists down. They achieved this by putting the most commonly used letters to the left-hand side and scattering the most frequently used letters all over the keyboard. Later, the issue of letters being stuck was resolved. In fact, an alternative to the QWERTY developed in the 1930s by educational psychologist August Dvorak provides a much more efficient design and allows individuals to double traditional typing speeds. Yet the Dvorak keyboard never gained wide acceptance. The reasons? Large numbers of people resisted the change. Teachers and typists resisted because they would lose their specialized knowledge. Manufacturers resisted due to costs inherent in making the switch and the initial inefficiencies in the learning curve (Diamond, J., 2005). In short, the best idea does not necessarily win, and changing people requires understanding why they resist.

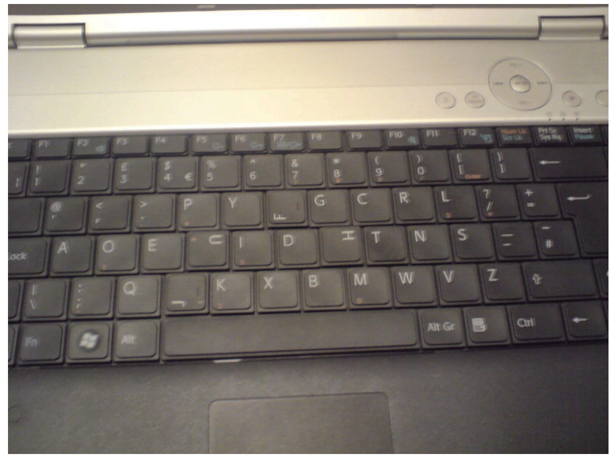


Figure 11.5.4: *Dvorak keyboard is a more efficient alternative to keyboard design. However, due to resistance from typists, teachers, manufacturers, and salespeople, a switch never occurred. "Sony laptop with Dvorak keyboard layout" by John Blackbourne, licensed under CC BY-NC 2.0.*

Why Do People Resist Change?

Disrupted Habits

People often resist change for the simple reason that change disrupts our habits. When you hop into your car for your morning commute, do you think about how you are driving? Most of the time probably not, because driving generally becomes an automated activity after a while. You may sometimes even realize that you have reached your destination without noticing the roads you used or having consciously thought about any of your body movements. Now imagine you drive for a living and even though you are used to driving an automatic car, you are forced to use a stick shift. You can most likely figure out how to drive a stick, but it will take time, and until you figure it out, you cannot drive on auto pilot. You will have to reconfigure your body movements and practice shifting until you become good at it. This loss of a familiar habit can make you feel clumsy; you may even feel that your competence as a driver is threatened. For this simple reason, people are sometimes surprisingly outspoken when confronted with simple changes such as updating to a newer version of a particular software or a change in their voice mail system.

Personality

Some people are more resistant to change than others. Recall that one of the Big Five personality traits is Openness to Experience; obviously, people who rank high on this trait will tend to accept change readily. Research also shows that people who have a positive self-concept are better at coping with change, probably because those who have high self-esteem may feel that whatever the changes are, they are likely to adjust to it well and be successful in the new system. People with a more positive self-concept and those who are more optimistic may also view change as an opportunity to shine as opposed to a threat that is overwhelming. Finally, risk tolerance is another predictor of how resistant someone will be to stress. For people who are risk avoidant, the possibility of a change in technology or structure may be more threatening (Judge et al., 2000; Wanberg & Banas, 2000).

Feelings of Uncertainty

Change inevitably brings feelings of uncertainty. You have just heard that your company is merging with another. What would be your reaction? Such change is often turbulent, and it is often unclear what is going to happen to each individual. Some positions may be eliminated. Some people may see a change in their job duties. Things may get better—or they may get worse. The feeling that the future is unclear is enough to create stress for people because it leads to a sense of lost control (Ashford et al., 1989; Fugate et al., 2008).

Fear of Failure

People also resist change when they feel that their performance may be affected under the new system. People who are experts in their jobs may be less than welcoming of the changes because they may be unsure whether their success would last under the new system. Studies show that people who feel that they can perform well under the new system are more likely to be committed to the proposed change, while those who have lower confidence in their ability to perform after changes are less committed (Herold et al., 2007).

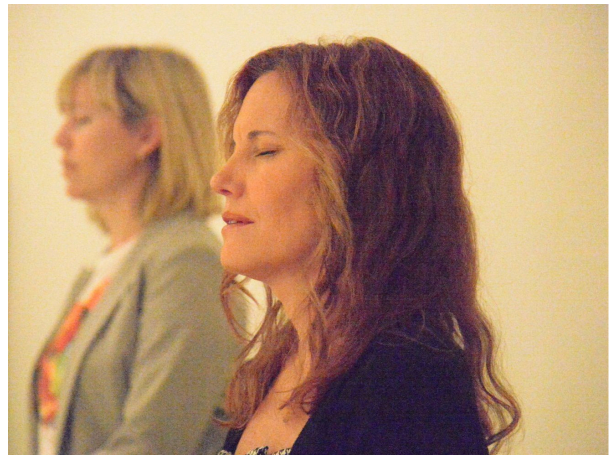


Figure 11.5.5: *One reason employees resist change is the fear of failure under the new system. "Lindsay van Driel and Anakha Coman Awake at Intel organizers" by Intel Free Press, licensed under CC BY-SA 2.0.*

Personal Impact of Change

It would be too simplistic to argue that people resist all change, regardless of its form. In fact, people tend to be more welcoming of change that is favorable to them on a personal level (such as giving them more power over others or change that improves quality of life such as bigger and nicer offices). Research also shows that commitment to change is highest when proposed changes affect the work unit with a low impact on how individual jobs are performed (Fedor et al., 2006).

Prevalence of Change

Any change effort should be considered within the context of all the other changes that are introduced in a company. Does the company have a history of making short-lived changes? If the company structure went from functional to product-based to geographic to matrix within the past five years and leadership is in the process of going back to a functional structure again, a certain level of resistance is to be expected because employees are likely to be fatigued as a result of the constant changes. Moreover, the lack of a history of successful changes may cause people to feel skeptical toward the newly planned changes. Therefore, considering the history of changes in the company is important to understanding why people resist. Another question is, how big is the planned change? If the company is considering a simple switch to a new computer program, such as introducing Microsoft Access for database management, the change may not be as extensive or stressful compared with a switch to an enterprise resource planning (ERP) system such as SAP or PeopleSoft, which require a significant time commitment and can fundamentally affect how business is conducted (Labianca et al., 2000; Rafferty & Griffin, 2006).

Perceived Loss of Power

One other reason people may resist change is that change may affect their power and influence in the organization. Imagine that your company moved to a more team-based structure, turning supervisors into team leaders. In the old structure, supervisors were in charge of hiring and firing all those reporting to them. Under the new system, this power is given to the team. Instead of monitoring the progress the team is making toward goals, the job of a team leader is to provide support and mentoring to the team in general and ensure that the team has access to all resources to be effective. Given the loss in prestige and status in the new structure, some supervisors may resist the proposed changes even if it is better for the organization to operate around teams.

In summary, there are many reasons individuals resist change, which may prevent an organization from making important changes.

Is All Resistance Bad?

Resistance to change may be a positive force in some instances. In fact, resistance to change is a valuable feedback tool that should not be ignored. Why are people resisting the proposed changes? Do they believe that the new system will not work? If so, why not? By listening to people and incorporating their suggestions into the change effort, it is possible to make a more effective change. Some of a company's most committed employees may be the most vocal opponents of a change effort. They may fear that the organization they feel such a strong attachment to is being threatened by the planned change effort and the change will ultimately hurt the company. In contrast, people who have less loyalty to the organization may comply with the proposed changes simply because they do not care enough about the fate of the company to oppose the changes. As a result, when dealing with those who resist change, it is important to avoid blaming them for a lack of loyalty (Ford et al., 2008).

Exercises

1. Can you think of an organizational or personal change that you had to go through? Have you encountered any resistance to this change? What were the reasons?
2. How would you deal with employees who are resisting change because their habits are threatened? How would you deal with them if they are resisting because of a fear of failure?

Key Takeaways

Organizations change in response to changes in the environment and in response to the way decision makers interpret these changes. When it comes to organizational change, one of the biggest obstacles is resistance to change. People resist change because change disrupts habits, conflicts with certain personality types, causes a fear of failure, can have potentially negative effects, can result in a potential for loss of power, and, when done too frequently, can exhaust employees.

11.6 Planning and Executing Change Effectively

Learning Objectives

1. Describe Lewin's three-stage model of planned change and how organizations may embrace continuous change.

How do you plan, organize, and execute change effectively? Some types of change, such as mergers, often come with job losses. In these situations, it is important to remain fair and ethical while laying off otherwise exceptional employees. Once change has occurred, it is vital to take any steps necessary to reinforce the new system. Employees can often require continued support well after an organizational change.

One of the most useful frameworks in this area is the three-stage model of planned change developed in the 1950s by psychologist Kurt Lewin (Lewin, 1951). This model assumes that change will encounter resistance. Therefore, executing change without prior preparation is likely to lead to failure. Instead, organizations should start with **unfreezing**, or making sure that organizational members are ready for and receptive to change. This is followed by **change**, or executing the planned changes. Finally, **refreezing** involves ensuring that change becomes permanent and the new habits, rules, or procedures become the norm.

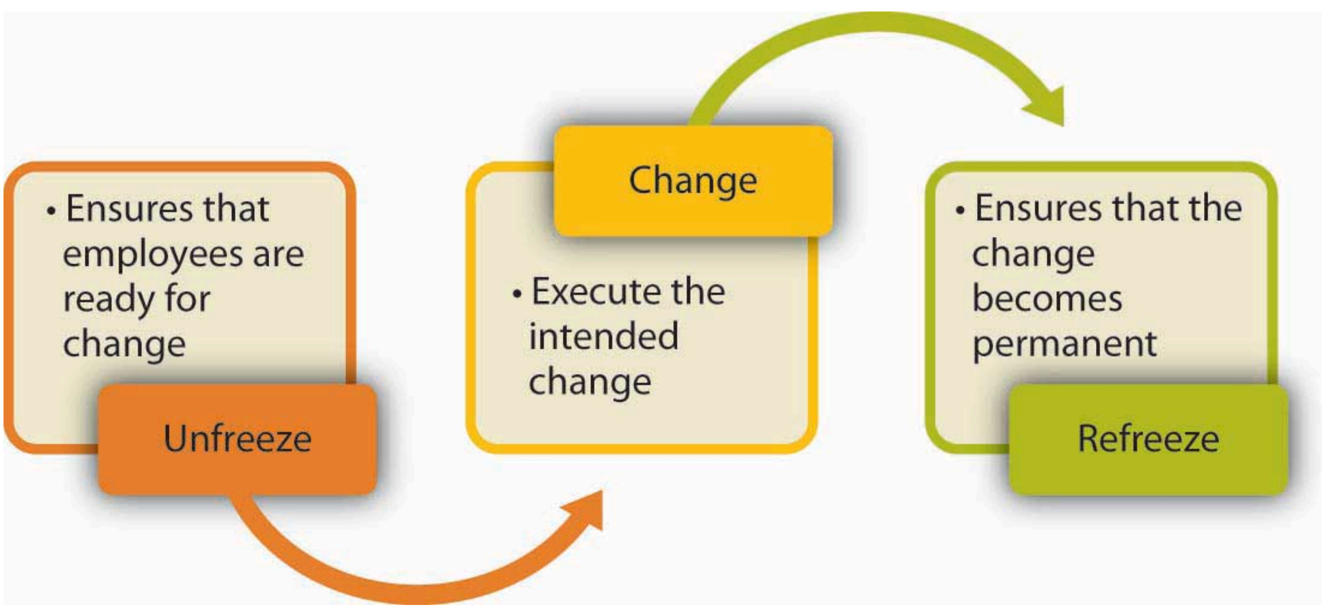


Figure 11.6.1: *Planning and Executing Change Effectively*

Unfreezing Before Change

Many change efforts fail because people are insufficiently prepared for change. When employees are not prepared, they are more likely to resist the change effort and less likely to function effectively under the new system. What can organizations do before change to prepare employees? There are a number of things that are important at this stage.

Communicating a Plan for Change

Do people know what the change entails, or are they hearing about the planned changes through the grapevine or office gossip? When employees know what is going to happen, when, and why, they may feel more comfortable. Research shows that those who have more complete information about upcoming changes are more committed to a change effort (Wanberg & Banas, 2000). Moreover, in successful change efforts, the leader not only communicates a plan but also an overall vision for the change (Herold et al., 2008). When this vision is exciting and paints a picture of a future that employees would be proud to be a part of, people are likely to be more committed to change.

Ensuring that leadership communicates with employees about the upcoming changes also has symbolic value (Armenakis et al., 1993). When top management and the company CEO discuss the importance of the changes in meetings, employees are provided with a reason to trust that this change is a strategic initiative. For example, while changing the employee performance appraisal system, the CEO of Kimberly Clark made sure to mention the new system in all meetings with employees, indicating that the change was supported by the CEO.

Develop a Sense of Urgency

People are more likely to accept change if they feel that there is a need for it. If employees feel their company is doing well, the perceived need for change will be smaller. Those who plan the change will need to make the case that there is an external or internal threat to the organization’s competitiveness, reputation, or sometimes even its survival and that failure to act will have undesirable consequences. For example, Lou Gerstner, the former CEO of IBM, executed a successful transformation of the company in the early 1990s. In his biography *Elephants Can Dance*, Gerstner highlights how he achieved cooperation as follows: “Our greatest ally in shaking loose the past was IBM’s eminent collapse. Rather than go with the usual impulse to put on a happy face, I decided to keep the crisis front and center. I didn’t want to lose the sense of urgency” (Gerstner, 2002; Kotter, 1996).

Building a Coalition

To convince people that change is needed, the change leader does not necessarily have to convince every person individually. In fact, people's opinions toward change are affected by opinion leaders or those people who have a strong influence over the behaviors and attitudes of others (Burkhardt, 1994; Kotter, 1995). Instead of trying to get everyone on board at the same time, it may be more useful to convince and prepare the opinion leaders. Understanding one's own social networks as well as the networks of others in the organization can help managers identify opinion leaders. Once these individuals agree that the proposed change is needed and will be useful, they will become helpful allies in ensuring that the rest of the organization is ready for change (Armenakis et al., 1993). For example, when Paul Pressler became the CEO of Gap Inc. in 2002, he initiated a culture change effort in the hope of creating a sense of identity among the company's many brands such as Banana Republic, Old Navy, and Gap. For this purpose, employees were segmented instead of trying to reach out to all employees at the same time. Gap Inc. started by training the 2,000 senior managers in "leadership summits," who in turn were instrumental in ensuring the cooperation of the remaining 150,000 employees of the company (Nash, 2005).

Provide Support

Employees should feel that their needs are not ignored. Therefore, leaders may prepare employees for change by providing emotional and instrumental support. Emotional support may be in the form of frequently discussing the changes, encouraging employees to voice their concerns, and simply expressing confidence in employees' ability to perform effectively under the new system. Instrumental support may be in the form of providing a training program to employees so that they know how to function under the new system. Effective leadership and motivation skills can assist managers to provide support to employees.

Allow Employees to Participate

Studies show that employees who participate in planning change efforts tend to have more positive opinions about the change. Why? They will have the opportunity to voice their concerns. They can shape the change effort so that their concerns are addressed. They will be more knowledgeable about the reasons for change, alternatives to the proposed changes, and why the chosen alternative was better than the others. Finally, they will feel a sense of ownership of the planned change and are more likely to be on board (Wanberg & Banas, 2000). Participation may be more useful if it starts at earlier stages, preferably while the problem is still being diagnosed. For example, assume that a company suspects there are problems with manufacturing quality. One way of convincing employees that there is a problem that needs to be solved would be to ask them to take customer calls about the product quality. Once employees experience the problem firsthand, they will be more motivated to solve the problem.

Executing Change

The second stage of Lewin's three-stage change model is executing change. At this stage, the organization implements the planned changes on technology, structure, culture, or procedures. The specifics of how change should be executed will depend on the type of change. However, there are three tips that may facilitate the success of a change effort.

Continue to Provide Support

As the change is under way, employees may experience high amounts of stress. They may make mistakes more often or experience uncertainty about their new responsibilities or job descriptions. Leaders have an important role in helping employees cope with this stress by displaying support, patience, and continuing to provide support to employees even after the change is complete.

Create Small Wins

During a change effort, if the organization can create a history of small wins, change acceptance will be more likely (Kotter, 1996; Germann, 2006). If the change is large in scope and the payoff is a long time away, employees may not realize change is occurring during the transformation period. However, if people see changes, improvements, and successes along the way, they will be inspired and motivated to continue the change effort. For this reason, breaking up the proposed change into phases may be a good idea because it creates smaller targets. Small wins are also important for planners of change to make the point that their idea is on the right track. Early success gives change planners more credibility while early failures may be a setback (Hamel, 2000).

Eliminate Obstacles

When the change effort is in place, many obstacles may crop up along the way. There may be key people who publicly support the change effort while silently undermining the planned changes. There may be obstacles rooted in a company's structure, existing processes, or culture. It is the leader's job to identify, understand, and remove these obstacles (Kotter, 1995). Ideally, these obstacles would have been eliminated before implementing the change, but sometimes unexpected roadblocks emerge as change is under way.

Refreezing

After the change is implemented, the long-term success of a change effort depends on the extent to which the change becomes part of the company's culture. If the change has been successful, the revised ways of thinking, behaving, and performing should become routine. To evaluate and reinforce ("refreeze") the change, there are a number of things leaders can do.

Publicize Success

To make change permanent, the organization may benefit from sharing the results of the change effort with employees. What was gained from the implemented changes? How much money did the company save? How much did the company's reputation improve? What was the reduction in accidents after new procedures were put in place? Sharing concrete results with employees increases their confidence that the implemented change was a right decision.

Figure 11.6.2: *"Cheerful young woman screaming into megaphone" by Andrea Piacquadio, Pexels License.*

Reward Change Adoption

To ensure that change becomes permanent, organizations may benefit from rewarding those who embrace the change effort (an aspect of the controlling function). The rewards do not necessarily have to be financial. The simple act of recognizing those who are giving support to the change effort in front of their peers may encourage others to get on board. When the new behaviors employees are expected to demonstrate (such as using a new computer program, filling out a new form, or simply greeting customers once they enter the store) are made part of an organization's reward system, those behaviors are more likely to be taken seriously and repeated, making the change effort successful (Gale, 2002).

Embracing Continuous Change

While Lewin's three-stage model offers many useful insights into the process of implementing change, it views each organizational change as an episode with a beginning, middle, and end. In contrast with this episodic change assumption, some leadership and management experts in the 1990s began to propose that change is—or ought to be—a continuous process.

The learning organization is an example of a company embracing continuous change. By setting up a dynamic feedback loop, learning can become a regular part of daily operations. If an employee implements a new method or technology that seems to be successful, a learning organization is in a good position to adopt it. By constantly being aware of how employee actions and outcomes affect others as well as overall company productivity, the inevitable small changes throughout organizations can be rapidly absorbed and tailored for daily operations. When an organization understands that change does indeed occur constantly, it will be in a better position to make use of good changes and intervene if a change seems detrimental.

Exercises

1. What are the benefits of employee participation in change management?
2. Imagine that you are introducing a new system to college students where they would have to use a special ID number you create for them for activities such as logging on to campus computers or using library resources. How would you plan and implement the change? Explain using Lewin's three-stage framework.
3. Why are successful companies less likely to change? What should companies do to make organizational change part of their culture?

Key Takeaways

Effective change effort can be conceptualized as a three-step process in which employees are first prepared for change, then change is implemented, and finally the new behavioral patterns become permanent. According to emerging contemporary views, it can also be seen as a continuous process that affirms the organic, ever-evolving nature of an organization.

11.7 Creating Culture Change

Learning Objectives

1. Describe the process of culture change.

How Do Cultures Change?

As emphasized earlier in this text, culture is a product of its founder's and leader's values, the organization's history, and collective experiences. Hence, culture is part of a company's DNA and is strongly resistant to change efforts. Unfortunately, many organizations realize that their current culture constitutes a barrier against organizational productivity and performance. Particularly when there is a mismatch between an organization's values and the demands of its environment, changing the culture becomes key to the company's turnaround.

Achieving culture change is challenging, and there are many companies that ultimately fail in this mission. Research and case studies of companies that successfully changed their culture indicate that the following six steps increase the chances of success (Schein, 1990).

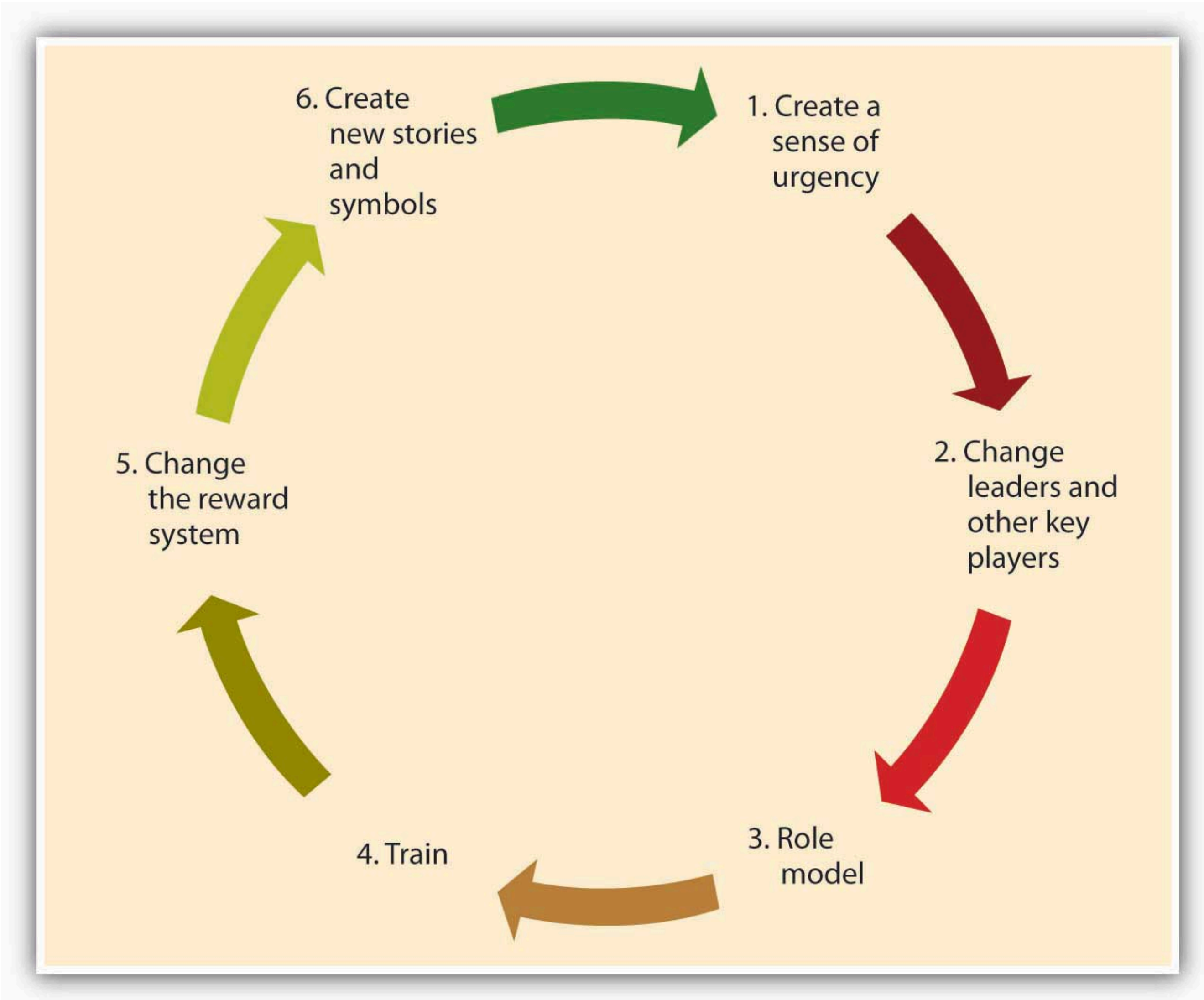


Figure 11.7.1 *Process of Culture Change*

Creating a Sense of Urgency

For the change effort to be successful, it is important to communicate the need for change to employees. One way of doing this is to create a sense of urgency on the part of employees, explaining to them why changing the fundamental way in which business is done is so important. In successful culture change efforts, leaders communicate with employees and present a case for culture change as the essential element that will lead the company to eventual success. As an example, consider the situation at IBM in 1993 when Lou Gerstner was brought in as CEO and chairman. After decades of dominating the market for mainframe computers, IBM was rapidly losing market share to competitors, and its efforts to sell personal computers—the original PC—were seriously undercut by cheaper "clones." In the public's estimation, the name IBM had become associated with obsolescence. Gerstner recalls that the crisis IBM was facing became his ally in changing the organization's culture. Instead of spreading optimism about the company's future, he used the crisis at every opportunity to get buy-in from employees (Gerstner, 2002).

Changing Leaders and Other Key Players

A leader's vision is an important factor that influences how things are done in an organization. Thus, culture change often follows changes at the highest levels of the organization. Moreover, to implement the change effort quickly and efficiently, a company may find it helpful to remove managers and other powerful employees who are acting as a barrier to change. Because of political reasons, self-interest, or habits, leaders may create powerful resistance to change efforts. In such cases, replacing these positions with employees and managers giving visible support to the change effort may increase the likelihood that the change effort succeeds. For example, when Robert Iger replaced Michael Eisner as CEO of the Walt Disney Company, one of the first things he did was to abolish the central planning unit, which was staffed by people close to ex-CEO Eisner. This department was viewed as a barrier to creativity at Disney and its removal from the company was helpful in ensuring the innovativeness of the company culture (McGregor, et. al., 2007).

Role Modeling

Role modeling is the process by which employees modify their own beliefs and behaviors to reflect those of the leader (Kark & Van Dijk, 2007). Leaders need to model the behaviors that are expected of employees to change the culture because these behaviors will trickle down to lower-level employees. For example, when Robert Iger took over Disney, to show his commitment to innovation, he personally became involved in the process of game creation, attended summits of developers, and gave feedback to programmers about the games. Thus, he modeled his engagement in the idea creation process. In contrast, the modeling of inappropriate behavior from the top will lead to the same behavior trickling down to lower levels. A recent example to this type of role modeling is the scandal involving Hewlett-Packard board members. In 2006, when board members were suspected of leaking confidential company information to the press, the company's top-level executives hired a team of security experts to find the source of the leak. The investigators sought the phone records of board members, looking for links to journalists. For this purpose, they posed as board members and called phone companies to obtain itemized home phone records of board members and journalists. When the investigators' methods came to light, HP's chairman and four other top executives faced criminal and civil charges. When such behavior is modeled at top levels, it is likely to have an adverse effect on the company culture (Barron, 2007).

Training

Well-crafted training programs may be instrumental in bringing about culture change by teaching employees the new norms and behavioral styles. For example, after the space shuttle *Columbia* disintegrated on reentry from a February 2003 mission, NASA decided to change its culture to become more safety sensitive and minimize decision-making errors that lead to unsafe behaviors. The change effort included training programs in team processes and cognitive bias awareness. Similarly, when auto repairer Midas felt the need to change its culture to be more committed to customers, they developed a program to train employees to be more familiar with customer emotions and connect better with them. Customer reports have been overwhelmingly positive in stores that underwent this training (Anonymous, 2004; Barbian., 2001).

Figure 11.7.2: *"Female Engineer Holding Presentation" by ThisIsEngineering, Pexels License.*

Changing the Reward System

The criteria with which employees are rewarded and punished have a powerful role in determining the cultural values of an organization. Switching from a commission-based incentive structure to a straight salary system may be instrumental in bringing about customer focus among sales employees. Moreover, by rewarding and promoting employees who embrace the company's new values and promoting these employees, organizations can make sure that changes in culture have a lasting effect. If the company wants to develop a team-oriented culture where employees collaborate with one another, then using individual-based incentives may backfire. Instead, distributing bonuses to intact teams might be more successful in bringing about culture change.

Creating New Symbols and Stories

Finally, the success of the culture change effort may be increased by developing new rituals, symbols, and stories. Continental Airlines is a company that successfully changed its culture to be less bureaucratic and more team-oriented in 1990s. One of the first things management did to show employees that they really meant to abolish many of the company's detailed procedures and create a culture of empowerment was to burn the heavy 800-page company policy manual in their parking lot. The new manual was only 80 pages. This action symbolized the upcoming changes in the culture and served as a powerful story that circulated among employees. Another early action was redecorating waiting areas and repainting all their planes, again symbolizing the new order of things (Higgins & McAllester, 2004). By replacing the old symbols and stories, the new symbols and stories will help enable the culture change and ensure that the new values are communicated.

Exercises

1. Can new employees change a company's culture? If so, how?
2. Are there any conditions under which change is not possible? If so, what would such conditions be?
3. Have you ever observed a change process at an organization you were involved with? If so, what worked well and what didn't?
4. What recommendations would you have for someone considering a major change of culture within their own organization?

Key Takeaways

Organizations need to change their culture to respond to evolving conditions in the environment, remain competitive, and avoid complacency or stagnation. Culture change is difficult, but the first step in promoting change is creating a sense of urgency. Next, a change of leaders and other key players is sometimes necessary; these leaders must serve as effective role models of new behavior. Training can also be targeted toward fostering these new behaviors. Reward systems must evolve within the organization. Finally, the organization creates new stories and symbols. Successful culture change requires strong leadership skills to create and communicate the vision, model the expected behaviors, design effective reward systems and ultimately achieve the vision of the new culture.

11.8 Building Your Change Management Skills

Learning Objectives

1. Identify guidelines for overcoming resistance to change.

Overcoming Resistance to Your Proposals

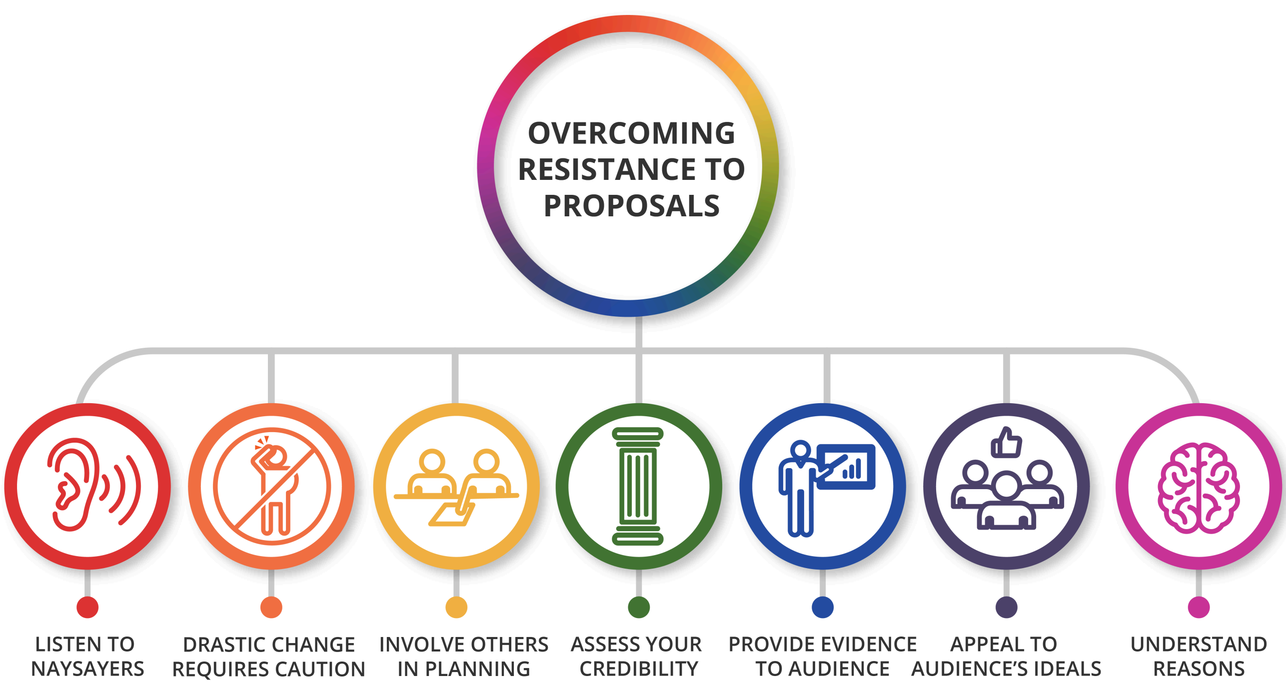


Figure 11.8.1: *"Overcoming Resistance" by Alyssa Giles, CC BY-NC-SA 4.0.*

You feel that a change is needed. You have a great idea. But people around you do not seem convinced. They are resisting your great idea. How do you make change happen?

- *Listen to naysayers*. You may think that your idea is great, but listening to those who resist may give you valuable ideas about why it may not work and how to design it more effectively.
- *Is your change revolutionary*? If you are trying to change dramatically the way things are done, you will find that resistance is greater. If your proposal involves incrementally making things better, you may have better luck.
- *Involve those around you in planning the change*. Instead of providing the solutions, make them part of the solution. If they admit that there is a problem and participate in planning a way out, you would have to do less convincing when it is time to implement the change.
- *Assess your credibility*. When trying to persuade people to change their ways, it helps if you have a history of suggesting implementable changes. Otherwise, you may be ignored or met with suspicion. This means you need to establish trust and a history of keeping promises over time before you propose a major change.
- *Present data to your audience*. Be prepared to defend the technical aspects of your ideas and provide evidence that your proposal is likely to work.
- *Appeal to your audience's ideals*. Frame your proposal around the big picture. Are you going to create happier clients? Is this going to lead to a better reputation for the company? Identify the long-term goals you are hoping to accomplish that people would be proud to be a part of.
- *Understand the reasons for resistance*. Is your audience resisting because they fear change? Does the change you propose mean more work for them? Does it affect them in a negative way? Understanding the consequences of your proposal for the parties involved may help you tailor your pitch to your audience (McGoon, 1995; Michelman, 2007; Stanley, 2002).

Exercises

1. What do you think are some key reasons why people resist change?
2. Do you think some people are more resistant to change regardless of what it is? Why do you think this is?

Key Takeaways

There are several steps you can take to help you overcome resistance to change. Many of them share the common theme of respecting those who are resistant so you can understand and learn from their concerns.

11.9 Key Terms

Key Terms

Balanced innovation portfolio is a combination of core, adjacent, and transformative innovation initiatives.

Innovative culture is a work environment that fosters and rewards employee creativity instead of focusing on deadlines and revenue.

Innovation Strategy is about mapping an organization's mission, vision, and value proposition for defined customer markets.

Innovation Council evaluates ideas and allocates funding.

Organizational change is the movement of an organization from one state of affairs to another.

Organizational structure is a way or method by which organizational activities are divided, organized, and coordinated.

Refreezing involves ensuring that change becomes permanent and the new habits, rules, or procedures become the norm.

Unfreezing refers to ensuring that organizational members are ready for and receptive to change.

11.10 Knowledge Check

Knowledge Check

An interactive H5P element has been excluded from this version of the text. You can view it online here:
https://ecampusontario.pressbooks.pub/leadershipandmanagement/?p=4738#h5p-11

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Ancillary Resources

Instructor Slide Decks

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Versioning History

This page provides a record of edits and changes made to this book since its initial publication. Whenever edits or updates are made in the text, we provide a record and description of those changes here. If the change is minor, the version number increases by 0.1. If the edits involve a number of changes, the version number increases to the next full number.

The files posted alongside this book always reflect the most recent version.

Version	Date	Change	Affected Web Page
1.0	August 25, 2022	First Publication	N/A
1.1	December 13, 2023	Moved references from the bottom of the page to the end of the book.	All pages in addition to References.
1.2	January 16, 2024	Added H5P Knowledge Checks to each chapter.	End of each chapter.