CHAPTER 15: MANAGERS AND COMMUNICATION

Without communication, nothing would ever get done in organizations. Managers are concerned with two types of communication: interpersonal and organizational. We look at both in this chapter and the role they play in a manager’s ability to be efficient and effective.

In the dynamic global environment of today’s organizations, the ability to communicate effectively is a vital skill for managers in every area of business. Students will learn in Chapter 15 that everything a manager does during the workday involves communication. Moreover, the fact that workforces are becoming increasingly diverse presents a number of challenges to successful communication. Chapter 15 examines key communication issues encountered by managers, including barriers to effective communication and suggestions for overcoming them. Students will read about the different directions in which communication flows within the organization and how managers use communication networks to acquire and disperse information needed for decision making and the production of goods and services. Since managerial communication is significantly affected by information technology, this chapter looks at fundamental concepts of networked computer systems and wireless capabilities.

LEARNING OUTCOMES

15.1 Define the nature and function of communication.
15.2 Compare and contrast methods of interpersonal communication.
15.3 Identify barriers to effective interpersonal communication and how to overcome them.
15.4 Explain how communication can flow most effectively in organizations.
15.5 Describe how technology affects managerial communication and organizations.
15.6 Discuss contemporary issues in communication.

CHAPTER OUTLINE

INTRODUCTION

Communication between managers and employees provides the information necessary to get work done effectively and efficiently in organizations. Chapter 15 presents basic managerial communication concepts including the interpersonal communication process, methods of communicating, barriers to effective communications and ways to overcome these barriers. Organizational communication issues such as communication flow and communication networks, and contemporary issues and
challenges associated with electronic communications and information technology are covered as well.

15.1 THE NATURE AND FUNCTION OF COMMUNICATION

The importance of effective communication cannot be overemphasized because everything a manager does involves communicating.

A. What Is Communication?

Communication is the transfer and understanding of meaning.

1. If no information or ideas have been conveyed or transferred, communication has not taken place.

2. For communication to be successful, the meaning must be imparted and understood.

3. Good communication does not require agreement with the message—only a clear understanding of the message.

4. Communication encompasses both interpersonal communication (between two or more people) and organizational communication (all the patterns, networks, and system of communication within an organization).

B. Functions of Communication

Effective communication serves four major functions: control, motivation, emotional expression, and information.

15.2 METHODS OF INTERPERSONAL COMMUNICATION

Exhibit 15-1 illustrates the seven elements of the communication process: the communication source (the sender), the message, encoding, the channel, decoding, the receiver, and feedback. Note that the entire process is susceptible to noise—any disturbances that interfere with the transmission, receipt, or feedback of a message.

A. Methods of Communicating Interpersonally. Exhibit 15-2 provides a comparison of various methods of communication.

1. Feedback—How quickly can the receiver respond to the message?
2. **Complexity capacity**—Can the method effectively process complex messages?

3. **Breadth potential**—How many different messages can be transmitted using this method?

4. **Confidentiality**—Can communicators be reasonably sure their messages are received only by the intended audience?

5. **Encoding ease**—Can senders easily and quickly use this channel?

6. **Decoding ease**—Can receivers easily and quickly decode messages?

7. **Time–space constraint**—Do senders and receivers need to communicate at the same time and in the same space?

8. **Cost**—How much does it cost to use this method?

9. **Interpersonal warmth**—How well does this method convey interpersonal warmth?

10. **Formality**—Does this method have the needed amount of formality?

11. **Scanability**—Does this method allow the message to be easily browsed or scanned for relevant information?

12. **Time of consumption**—Does the sender or receiver exercise the most control over when the message is dealt with?

### B. Nonverbal Communication

Nonverbal Communication is communication transmitted without words. The best-known types of nonverbal communication are body language and verbal intonation.

1. **Body language** refers to gestures, facial expressions, and other movements of the body that convey meaning.

2. **Verbal intonation** is an emphasis given to words or phrases that conveys meaning.

### 15.3 EFFECTIVE INTERPERSONAL COMMUNICATION

#### A. Barriers to Communication.

1. Filtering is the deliberate manipulation of information to make it appear more favorable to the receiver.
a. As information is communicated upward through the organizational levels, senders condense and synthesize it so that top managers will not experience information overload. These senders filter communication through their personal interests and perceptions of what is important.

b. The more vertical layers present in the structure of an organization, the more opportunities there are for filtering.

c. The more that organizational rewards emphasize style and appearance, the more managers will be motivated to filter communications in their favor.

2. Emotions influence how a receiver interprets a message when it is received. It is best for receivers to avoid reacting to a message when they are upset because they are not likely to be thinking clearly.

3. **Information overload** occurs when the information we have to work with exceeds our processing capacity.

   a. Receivers tend to select out, ignore, pass over, or forget information when they have information overload.

   b. Alternatively, receivers may put off further processing until the overload situation is over, which also results in lost information and less effective communication.

4. People become *defensive* when they feel threatened, and they may engage in behaviors such as verbally attacking others, making sarcastic remarks, being overly judgmental, and questioning others’ motives.

5. With a diverse workforce, different words mean different things to different people, even when they speak the same *language*.

   a. Age, education, and cultural background can influence language use and the definitions given to words.

   b. **Jargon** is specialized terminology or technical language that members of a group use to communicate among themselves.

6. **National culture** can affect the way a manager chooses to communicate.

B. Overcoming Barriers to Effective Interpersonal Communication

1. Use feedback; the feedback might be verbal or nonverbal, or both.
2. Simplify language
   a. The manager should consider characteristics of the intended audience, tailoring the message to the receiver.
   b. The sender should remember that understanding is improved when he or she uses language that is familiar to the receiver.

3. Listen actively
   a. In listening, two people are engaged in thinking: the receiver as well as the sender. Listening is an active search for meaning.
   b. Active listening is listening for full meaning without making premature judgments or interpretations.
   c. Active listening is enhanced by developing empathy with the sender—placing oneself in the sender’s position.
   d. Exhibit 15-3 lists additional behaviors demonstrated by active listeners.

4. Constrain emotions. A manager should strive to refrain from communicating until he or she has regained composure.

5. Watch nonverbal cues. Actions speak louder than words, so the sender should ensure that his or her actions are in alignment with and reinforce the verbal message.

15.4 ORGANIZATIONAL COMMUNICATION

A. Formal Versus Informal Communication

1. Formal communication is communication that follows the official chain of command or is required to do one’s job.

2. Informal communication is communication that is not defined by the organization’s structural hierarchy.
   a. Informal communication systems permit employees to satisfy their need for social interaction.
   b. Informal communication systems can improve an organization’s performance by creating alternative—and frequently faster and more efficient—channels of communication.
B. Direction of Communication Flow

1. **Downward communication** is communication that flows downward from a manager to employees. It is used to inform, direct, coordinate, and evaluate employees.

2. **Upward communication** is communication that flows upward from employees to managers.
   
a. Upward communication can be used to keep managers aware of how employees feel about their jobs, their coworkers, and the organization in general.

   b. The organizational culture influences the extent of upward communication. A climate of trust, respect, and participative decision making encourages a significant amount of upward communication. A highly mechanistic and authoritarian environment severely limits upward communication in terms of both style and content.

3. **Lateral communication** is communication that takes place among any employees on the same organizational level.

4. **Diagonal communication** is communication that cuts across work areas and organizational levels.
   
a. The increased use of e-mail facilitates diagonal communication in an organization.

   b. Diagonal communication has the potential to create problems if employees do not keep their managers informed about decisions they have made or action they have taken.

C. Organizational Communication Networks

1. **Exhibit 15-4** illustrates three common types of communication networks.

   a. The *chain network* represents communication flowing according to the formal chain of command, both downward and upward.

   b. The *wheel network* represents communication flowing between a clearly identifiable and strong leader and others in a work group or team. The leader serves as the hub through which all communication passes.
c. The all-channel network represents communication flowing freely among all members of a work team.

2. The grapevine is the informal organizational communication network.
   a. The grapevine is active in almost every organization. One survey reported that 63 percent of employees hear about matters first through rumors on the grapevine.
   b. The grapevine can act as both a filter and a feedback mechanism.

15.5 UNDERSTANDING INFORMATION TECHNOLOGY

A. How Technology Affects Managerial Communication

Two developments in information technology have a significant impact on current managerial communication: networked computer systems and wireless capabilities.

1. In a networked computer system, a company links its computers to form an organizational network.

2. The term wireless capabilities refers to wireless communication that depends on signals sent through air or space without the need for wired connections by using microwave signals, satellites, radio waves and radio antennas, or infrared light rays. “Wi-Fi and WiMAX hot spots” are locations where wireless Internet access is available.

B. How Information Technology Affects Organizations

1. Since communication and the exchange of information among organizational members are no longer constrained by geography or time, collaborative work efforts are enhanced and have the potential to increase efficiency and effectiveness.

2. However, managers must remember to address the possibility of psychological drawbacks. For example: What is the psychological cost of an employee’s being continuously accessible? Would employees feel pressured to “check in” even during off hours? What is the importance of maintaining a separation between work lives and personal lives?
15.6 COMMUNICATION ISSUES IN TODAY’S ORGANIZATIONS

Effectively communicating means being connected to employees and customers and having the ability to be connected to any of the organization’s stakeholders.

A. Managing Communication in an Internet World.
   The two main challenges created by new technology in the business world are legal and security issues and lack of personal interaction.
   
   1. Managers must be knowledgeable about potential legal problems that can arise from misuse of technology, including inappropriate usage of e-mails and blogs.
   
   2. Software that enables real-time collaboration can be chosen to ameliorate the lack of personal interaction posed by the Internet age.

B. Managing the Organization’s Knowledge Resources
   Managers need to facilitate communication among employees in order to encourage the sharing of their knowledge with one another. Managers can achieve this goal in several ways, including the following:
   
   1. Create online information databases.
   
   2. Create communities of practice, which are groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis.

C. The Role of Communication in Customer Service
   The content of an organization’s communication and how this communication takes place can have a significant impact on customer satisfaction.
   
   1. The quality of the company’s personal interaction between employee and customer has a significant impact on customer satisfaction.

D. Getting Employee Input
   
   1. Organizations need to get input from employees, even if all they do is provide a suggestion box for their employees. Employee suggestions can help with such things as something—such as reducing costs, improving delivery time, etc.
2. Exhibit 15-5 lists some suggestions for letting employees know that their opinions matter

E. Communicating Ethically

1. **Ethical communication** includes all relevant information, is true in every sense, and is not deceptive in any way.

2. Unethical communication can take several forms including: omitting information, selectively misquoting someone, misrepresenting numbers, distorting visuals, and failing to respect privacy or information security needs.

3. In a global survey by the International Association of Business Communicators, 70 percent of communication professionals said their companies clearly define what is considered ethical and unethical behavior.

4. If companies have no clear guidelines, then they should answer the following questions:
   a. Has the situation been defined fairly and accurately?
   b. Why is the message being communicated?
   c. How will the people who may be affected by the message or who receive the message be impacted?
   d. Does the message help achieve the greatest possible good while minimizing possible harm?
   e. Will this decision that appears to be ethical now seem so in the future?
   f. How comfortable are you with your communication effort?
   g. What would a person you admire think of it?

**DISCUSSION**

1. Define communication, interpersonal communication, and organizational communication. Why isn’t effective communication synonymous with agreement?

Communication is the transfer and understanding of meaning. Interpersonal communication is communication between two or more people. Organizational communication includes all the patterns, networks, and systems of communication
within an organization. Effective communication is not the same as agreement because if someone disagrees with us, we assume that the person just didn’t fully understand our position. In other words, many of us define good communication as having someone accept our views. But I can clearly understand what you mean and just not agree with what you say.

2. **What are the functions of communication?**

The functions of communication include controlling employee behavior, motivating employees, providing a release for emotional expression of feelings and fulfillment of social needs, and providing information.

3. **Explain the components in the communication process.**

Before communication can take place, a purpose, expressed as a **message** to be conveyed, must exist. It passes between a source (the sender) and a receiver. The message is converted to symbolic form (called **encoding**) and passed by way of some medium (**channel**) to the receiver, who retranslates the sender’s message (called **decoding**). The result is the transfer of meaning from one person to another. The entire process is susceptible to **noise**—disturbances that interfere with the transmission, receipt, or feedback of a message.

4. **What are the various communication methods managers can use? What criteria can managers use to evaluate those communication methods?**

The communication methods include face-to-face, telephone, group meetings, formal presentations, memos, traditional mail, fax, employee publications, bulletin boards, other company publications, audio- and videotapes, hotlines, e-mail, computer conferencing, voice mail, teleconferences, and videoconferences. Managers can evaluate the various communication methods according to their feedback, complexity capacity, breadth potential, confidentiality, encoding ease, decoding ease, time-space constraint, cost, interpersonal warmth, formality, scanability, and time of consumption.

5. **What are the barriers to effective communication? How can those barriers be overcome?**

The barriers to effective communication include filtering, emotions, information overload, defensiveness, language, and national culture. Managers can overcome these barriers by using feedback, simplifying language, listening actively, constraining emotions, and watching for nonverbal clues.
6. **Contrast formal and informal communication.**

   Formal communication is communication that takes place within prescribed organizational work arrangements. Informal communication is not defined by the organization’s structural hierarchy.

7. **Explain communication flow, the three common communication networks, and how managers should handle the grapevine.**

   Communication in an organization can flow downward, upward, laterally, and diagonally.
   The three communication networks include the chain, in which communication flows according to the formal chain of command; the wheel, in which communication flows between a clearly identifiable and strong leader and others in a work team; and the all-channel, in which communication flows freely among all members of a work team. Managers should manage the grapevine as an important information network. The negative consequences of rumors can be minimized by communicating openly, fully, and honestly with employees.

8. **How does technology affect managerial communication? How does it affect organizations?**

   Technology has radically changed the way organizational members communicate. It improves a manager’s ability to monitor performance; it gives employees more complete information to make faster decisions; it has provided employees more opportunities to collaborate and share information; and it has made it possible for people to be fully accessible, anytime anywhere. IT affects organizations by influencing the way that organizational members communicate, share information, and do their work.

9. **Discuss the five contemporary communication issues facing managers.**

   The two main challenges of managing communication in an Internet world are the legal and security issues and the lack of personal interaction. Organizations can manage knowledge by making it easy for employees to communicate and share their knowledge, which can help them learn from each other ways to do their jobs more effectively and efficiently. One way is through online information databases and another way is through creating communities of practice.

   Communicating with customers is an important managerial issue since what communication takes place and how it takes place can significantly affect a customer’s satisfaction with the service and the likelihood of being a repeat
customer. It’s important for organizations to get input from their employees. Such potentially valuable information should not be ignored. Finally, a company’s communication efforts need to be ethical. Ethical communication can be encouraged through clear guidelines and through answering questions that force a communicator to think through the communication choices made and the consequences of those choices.

10. **Which do you think is more important for a manager: speaking accurately or listening actively? Why?**

The sender is responsible for sending an accurate message and choosing the most appropriate channel for the message, while considering the receiver’s characteristics and environment. Active listening is critical so that the receiver can interpret the message as intended and send valuable feedback to the sender. In addition, the open communication that is vital between management and employees in a learning organization depends upon an atmosphere of trust. Employees must have confidence that their manager will listen actively to their comments and concerns.
CHAPTER 16: MOTIVATING EMPLOYEES

Motivating and rewarding employees is one of the most important and challenging activities that managers do. To get employees to put forth maximum work effort, managers need to know how and why they’re motivated.

The motivation of employees is a vital key to the success of managers and the business organizations they lead. Since the motivation of employees is so important, students will benefit from a careful study of Chapter 16 and will become better equipped to understand and manage human resources in the future and interact more effectively with other individuals in the present.

LEARNING OUTCOMES

16.1 Define motivation.
16.2 Compare and contrast early theories of motivation.
16.3 Compare and contrast contemporary theories of motivation.
16.4 Discuss current issues in motivation.

CHAPTER OUTLINE

INTRODUCTION

Managers need to understand and apply motivational concepts and practices to encourage their employees to devote maximum effort to their jobs. This chapter explores essential information on the concepts of motivation.

16.1 WHAT IS MOTIVATION?

Motivation is the process by which a person’s efforts are energized, directed, and sustained towards attaining a goal. Effort is a measure of intensity or drive. High levels of effort are unlikely to lead to favorable job performance unless the effort is channeled in a direction that benefits the organization.

16.2 EARLY THEORIES OF MOTIVATION

Three early theories of motivation provide the best-known explanations for employee motivation, even though their validity has been questioned.

A. Maslow’s hierarchy of needs theory was developed by psychologist Abraham Maslow. This theory states that there is a hierarchy of five human needs: physiological, safety, social, esteem, and self-actualization. (See Exhibit 16-1)
1. As each need is substantially satisfied, the next need becomes dominant.

2. The text describes these five needs as **physiological** (basic food, drink, water, shelter, and sexual needs); **safety** (security and protection from physical and emotional harm); **social** (affection, belongingness, acceptance, and friendship); **esteem** (internal factors such as self-respect, autonomy, and achievement, and external factors such as status, recognition, and attention); and **self-actualization** (a person’s drive to become what he or she is capable of becoming).

3. Maslow separated the needs into lower-level needs (including the physiological and safety needs) and higher-level needs (including social, esteem, and self-actualization).

**B. McGregor’s Theory X and Theory Y** were developed by Douglas McGregor and describe two distinct views of human nature.

1. **Theory X** is the assumption that employees dislike work, are lazy, avoid responsibility, and must be coerced to perform.

2. **Theory Y** is the assumption that employees are creative, enjoy work, seek responsibility, and can exercise self-direction.

3. Theory X assumes that Maslow’s lower-order needs dominate individuals, while Theory Y assumes that higher-order needs are dominant.

4. No empirical evidence exists to confirm that either set of assumptions is valid or that altering behavior based on Theory Y assumptions will increase employees’ motivation.

**C. Motivation-hygiene theory**, developed by Frederick Herzberg, is the motivation theory that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction. (See **Exhibit 16-2**.)

1. Herzberg believed that the opposite of satisfaction was *not* dissatisfaction. (See **Exhibit 16-3**) According to Herzberg, simply removing dissatisfying characteristics from a job would not necessarily make the job satisfying.

2. **Hygiene factors** are factors that eliminate dissatisfaction. They include factors such as supervision, company policy, salary, working conditions, and security—i.e., extrinsic factors associated with job context, or those things surrounding a job.
3. **Motivators** are factors that increase job satisfaction and motivation. They include factors such as achievement, recognition, responsibility, and advancement—i.e., intrinsic factors associated with job content, or those things within the job itself.

5. Herzberg’s theory has been criticized for the statistical procedures and methodology used in his study. In spite of these criticisms, Herzberg’s theory has had a strong influence on how we currently design jobs.

D. The **three-needs theory**, developed by David McClelland, is the motivation theory that says three acquired (not innate) needs—achievement, power, and affiliation—are major motives in work.

1. The **need for achievement** (nAch) is the drive to excel, to achieve in relation to a set of standards, and to strive to succeed.
   a. McClelland found that high achievers differentiate themselves from others by their desire to do things better.
   b. High achievers like moderately challenging goals.
   c. They avoid what they perceive to be very easy or very difficult tasks.

2. The **need for power** (nPow) is the need to make others behave in a way that they would not have behaved otherwise.

3. The **need for affiliation** (nAff) is the desire for friendly and close interpersonal relationships.

4. A person’s levels of these three needs are typically measured by reacting to a set of pictures included in the Thematic Apperception Test, or TAT.

### 16.3 CONTEMPORARY THEORIES OF MOTIVATION

A number of contemporary theories represent state-of-the-art explanations of employee motivation. These contemporary theories have a reasonably strong degree of validity through supporting documentation.

A. **Goal-setting theory** is the proposition that specific goals increase performance, and difficult goals, when accepted, result in higher performance than easy goals. What is known about goals as motivators?
1. Intention to work toward a goal is a major source of job motivation. Specific and challenging goals are superior motivating forces. Specific hard goals produce a higher level of output than do generalized goals.

2. Is there a contradiction between achievement motivation and goal setting? No, as the following points explain:
   a. Goal-setting theory deals with people in general; achievement theory is based only on people who have a high need for achievement. Difficult goals are still recommended for the majority of employees.
   b. The conclusions of goal-setting theory apply to those who accept and are committed to the goals. Difficult goals will lead to higher performance only if they are accepted.

3. Will employees try harder if they participate in the planning and formulation of goals?
   a. It cannot be said that participation is always desirable.
   b. However, participation is probably preferable to assigning goals whenever a manager expects resistance.

4. Will people do better when they get feedback on how well they are progressing toward their goals?
   a. Feedback acts to guide behavior.
   b. Self-generated feedback has been shown to be a more powerful motivator than externally generated feedback.

5. What four contingencies exist in goal-setting theory?
   a. Feedback influences the goal-performance relationship.
   b. Goal commitment is most likely to occur when goals are made public, when the individual has an internal locus of control, and when the goals are set by the individual rather than assigned.
   c. Self-efficacy is an individual’s belief that he or she is capable of performing a task.
   d. National culture is a contingency that also affects goal-setting theory.
6. One may conclude that intentions, as defined by hard and specific goals, are a powerful motivating force in goal-setting efforts.

   a. In the proper conditions, intentions can lead to higher performance.

   b. However, no evidence exists that such goals are associated with increased job satisfaction.

   c. Exhibit 16-5 summarizes the relationships among goals, motivation, and performance.

B. Reinforcement theory is counter to goal-setting theory. It proposes that behavior is a function of its consequences.

   1. Reinforcement theory argues that behavior is externally caused.

   2. **Reinforcers** are consequences immediately following a response that increase the probability that the behavior will be repeated.

   3. Reinforcement theory ignores factors such as goals, expectations, and needs; it focuses on what happens when a person takes an action.

   4. How can the concept of reinforcement be used to explain motivation?

      a. People will most likely engage in a desired behavior if they are rewarded for doing so.

      b. These rewards are most effective if they immediately follow a desired response.

      c. Behavior that isn’t rewarded or is punished is less likely to be repeated.

   5. Managers can influence employees’ behavior by reinforcing the work behaviors they desire.

C. **Job Design Theory** can be used to influence employee motivation. Job design is the way tasks are combined to form complete jobs. Managers should design jobs to reflect the demands of the changing environment as well as the organization’s technology, and its employees’ skills, abilities, and preferences of its employees.

   1. One of the earliest efforts at overcoming the drawbacks of job specialization was through increasing **job scope**, the number of different tasks required in a job and the frequency with which those tasks are repeated.
a. This type of job design is called **job enlargement**—the horizontal expansion of a job or an increase in job scope.

b. Job design programs that focused solely on task enlargement have had little success.

c. When knowledge enlargement activities were implemented, however, workers were more satisfied and made fewer errors.

2. **Job enrichment**, another approach to designing jobs, is the vertical expansion of a job by adding planning and evaluating responsibilities.

   a. In job enrichment, **job depth**, the degree of control employees have over their work, is increased.

   b. Research evidence has been inconclusive about the benefits of job enrichment activities.

3. The **job characteristics model (JCM)** is a framework for analyzing and designing jobs that identifies five primary job characteristics, their interrelationships, and their impact on employee productivity, motivation, and satisfaction. These five job dimensions are described below (see *Exhibit 16-6*):

   a. **Skill variety** is the degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents.

   b. **Task identity** is the degree to which a job requires completion of a whole and identifiable piece of work.

   c. **Task significance** is the degree to which a job has a substantial impact on the lives or work of other people.

   d. **Autonomy** is the degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling the work and determining the procedures to be used in carrying it out.

   e. **Feedback** is the degree to which carrying out the work activities required by a job results in the individual’s obtaining direct and clear information about the effectiveness of his or her performance.

   f. Skill variety, task identity, and task significance combine to create meaningful work. Autonomy leads to an increased sense of
responsibility for outcomes of the work. Feedback leads to knowledge of the actual results of the work activities.

g. The JCM suggests that intrinsic (internal) rewards are gained when an employee learns (knowledge of results through feedback) that he/she personally (responsibility through autonomy of work) has performed well on a task that he/she cares about (experiences meaningfulness of work through skill variety, task identity, and/or task significance).

h. The more these three conditions characterize a job, the greater the employee’s work motivation, performance, and satisfaction and the lower his or her absenteeism and likelihood of resigning.

i. The JCM also provides specific guidelines to managers for job design (see Exhibit 16-7).

D. **Equity theory**, developed by J. Stacey Adams, is the theory that an employee compares his/her job’s input-outcomes ratio with that of relevant others and then corrects any inequity (see Exhibit 16-8).

1. **Referents** are the persons, systems, or selves against which individuals compare themselves to assess equity.

2. Equity theory recognizes that individuals are concerned with their absolute rewards as well as the relationship of those rewards to what others receive.

3. What will employees do when they perceive an inequity?

   a. Distort either their own or others’ inputs or outcomes.

   b. Behave in some way to induce others to change their inputs or outcomes.

   c. Behave in some way to change their own inputs or outcomes.

   d. Choose a different comparison person.

   e. Quit their job.

4. Historically, equity theory focused on **distributive justice**. Recent equity research has focused on issues of **procedural justice**.
E. **Expectancy theory** is the theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. Three relationships are important to this theory. (See Exhibit 16-9)

1. Effort-performance linkage (expectancy) is the probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance.

2. Performance-reward linkage (instrumentality) is the degree to which an individual believes that performing at a particular level is instrumental in, or will lead to, the attainment of a desired outcome.

3. Attractiveness of the reward (valence) is the importance that the individual places on the potential outcome or reward that can be achieved on the job.

4. Four features are inherent in expectancy theory:
   a. What perceived outcomes does the job offer the employee?
   b. How attractive do employees consider these outcomes to be?
   c. What kind of behavior must the employee exhibit to achieve these outcomes?
   d. How does the employee view his or her chance of doing what is asked?

5. The key to understanding expectancy theory is understanding an individual’s goal and the linkage between effort and performance, between performance and rewards, and between rewards and individual goal satisfaction.

F. **Integrating Contemporary Theories of Motivation**

   **Exhibit 16-10** presents a model that integrates much of what is known about motivation.

1. The basic foundation is the simplified expectancy model.

2. The model also considers the achievement-need, reinforcement, equity, and JCM theories.

3. Rewards also play an important role in the model.
16.4 CURRENT ISSUES IN MOTIVATION

Understanding and predicting employee motivation continues to be one of the most popular areas in management research. Several significant workplace issues are important to examine in understanding motivation.

A. Motivating in Tough Economic Circumstances

Tough economic times leave companies with tight budgets, minimal or no pay raises, benefit cuts, no bonuses, long hours doing the work of those who had been laid off. As conditions worsen, employee confidence, optimism, and job engagement plummeted as well. During these times managers are have to be creative in keeping their employees’ efforts energized, directed, and sustained toward achieving goals. This means motivating employees in ways that don’t involve money or that were relatively inexpensive. Suggestions include:

1. Holding meetings with employees to keep the lines of communication open and to get their input on issues.

2. Establishing a common goal, such as maintaining excellent customer service, to keep everyone focused.

3. Creating a community feel so employees could see that managers cared about them and their work.

4. Giving employees opportunities to continue to learn and grow.

5. And, of course, an encouraging word always went a long way.

B. Managing Cross-Cultural Motivational Challenges

In today’s global environment, motivational programs that work in one location may not be effective in another. An American bias exists in some of the motivational theories. For example, in Japan, Greece, and Mexico, security needs would appear at the top of Maslow’s pyramid. The motivation concept of achievement need clearly has an American bias. Equity theory is relatively strong in the United States, based on pay-for-performance systems.

C. Motivating Unique Groups of Workers.

1. Motivating a diverse workforce requires managers to think in terms of flexibility. Lifestyle (e.g., single parenthood) is an important factor.

   a. A **compressed workweek** is a workweek where employees work longer hours per day but fewer days per week.
b. **Flexible work hours (flextime)** is a scheduling system in which employees are required to work a number of hours a week, but are free, within limits, to vary the hours of work.

c. **Job sharing** is the practice of having two or more people split a full-time job.

d. **Telecommuting** is a job approach where employees work at home and are linked to the workplace by computer and modem.

e. The advantages of telecommuting include a decrease in the time and stress of commuting and an increase in flexibility to cope with family demands.

f. Drawbacks of telecommuting center on the lack of social contact, the reward system used, and the separation of organization work and homework.

2. Motivating professionals

   This group of employees values challenging work, problem solving, and support

3. Motivating contingent workers

   a. Contingent workers do not have the security or stability that permanent employees do.

   b. Managers might use the opportunity for permanent status, opportunity for training, and equitable treatment to motivate contingent workers.

4. Motivating low-skilled, minimum wage workers is one of the most difficult motivation challenges a manager can face.

   a. Although money is important as a motivator, it is not the only reward that people seek and that managers use.

   b. Job design and expectancy theories can provide some answers to motivating low-skilled, minimum wage workers.

D. Designing Appropriate Rewards Programs

1. **Open-book management** is a motivational approach in which an organization’s financial statements (the “books”) are shared with all employees.
a. The goal of open-book management is to motivate employees to think as an owner would think as a result of being able to see the impact their decisions and actions have on financial results.

b. In order for open-book management to be effective, employees must be taught the fundamentals of financial statement analysis.

2. **Employee recognition programs** consist of personal attention and expressions of interest, approval, and appreciation for a job well done.

3. **Pay-for-performance programs** are variable compensation plans that pay employees on the basis of some performance measure.
   
a. Performance-based compensation is probably most compatible with expectancy theory.
   
b. The increasing popularity of pay-for-performance programs can be explained in terms of both motivation and cost control.
   
c. Do pay-for-performance programs work? Studies seem to indicate that they do.

**DISCUSSION**

1. **What is motivation? Explain the three key elements of motivation.**

   Motivation is the process by which a person’s efforts are energized, directed, and sustained toward attaining a goal. The *energy* element is a measure of intensity, drive, or vigor. The high level of effort needs to be *directed* in ways that help the organization achieve its goals. Employees must *persist* in putting forth effort to achieve those goals.

2. **Describe each of the four early theories of motivation.**

   In Maslow’s hierarchy, individuals move up the hierarchy of five needs (physiological, safety, social, esteem, and self-actualization) as needs are substantially satisfied. A need that’s substantially satisfied no longer motivates. A Theory X manager believes that people don’t like to work or won’t seek out responsibility so they have to be threatened and coerced to work. A Theory Y manager assumes that people like to work and seek out responsibility, so they will exercise self-motivation and self-direction. Herzberg’s theory proposed that intrinsic factors associated with job satisfaction were what motivated people. Extrinsic factors associated with job dissatisfaction simply kept people from being
dissatisfied. Three-needs theory proposed three acquired needs that are major motives in work: need for achievement, need for affiliation, and need for power.

3. **How do goal-setting, reinforcement, and equity theories explain employee motivation?**

   Goal-setting theory says that specific goals increase performance, and difficult goals, when accepted, result in higher performance than do easy goals. Important points in goal setting theory include intention to work toward a goal as a major source of job motivation; specific hard goals that produce higher levels of output than generalized goals; participation in setting goals as preferable to assigning goals, but not always; feedback that guides and motivates behavior, especially self-generated feedback; and contingencies that affect goal setting—goal commitment, self-efficacy, and national culture. Reinforcement theory says that behavior is a function of its consequences. To motivate, use positive reinforcers to reinforce desirable behaviors. Ignore undesirable behavior rather than punishing it. Equity theory focuses on how employees compare their inputs–outcomes ratios to relevant others’ ratios. A perception of inequity will cause an employee to do something about it. Procedural justice has a greater influence on employee satisfaction than does distributive justice.

4. **What are the different job design approaches to motivation?**

   Job enlargement involves horizontally expanding job scope by adding more tasks or increasing how many times the tasks are done. Job enrichment vertically expands job depth by giving employees more control over their work. The job characteristics model says five core job dimensions (skill variety, task identity, task significance, autonomy, and feedback) are used to design motivating jobs. Another job design approach proposed looking at relational aspects and proactive aspects of jobs.

5. **Explain the three key linkages in expectancy theory and their role in motivation.**

   Expectancy theory says that an individual tends to act in a certain way based on the expectation that the act will be followed by a desired outcome. Expectancy is the effort–performance linkage (how much effort do I need to exert to achieve a certain level of performance); instrumentality is the performance–reward linkage (achieving at a certain level of performance will get me a specific reward); and valence is the attractiveness of the reward (Is it the reward that I want?).
6. What economic and cross-cultural challenges do managers face when motivating employees?

During tough economic conditions, managers must look for creative ways to keep employees’ efforts energized, directed, and sustained toward achieving goals. Most motivational theories were developed in the United States and have a North American bias. Some theories (Maslow’s need hierarchy, achievement need, and equity theory) don’t work well for other cultures. However, the desire for interesting work seems important to all workers and Herzberg’s motivator (intrinsic) factors may be universal.

7. What challenges do managers face in motivating today’s workforce?

Managers face challenges in motivating unique groups of workers. A diverse workforce is looking for flexibility. Professionals want job challenge and support, and are motivated by the work itself. Contingent workers want the opportunity to become permanent or to receive skills training. Recognition programs and sincere appreciation for work done can be used to motivate low-skilled, minimum-wage workers.


Open-book management is when financial statements (the books) are shared with employees who have been taught what they mean. Employee recognition programs consist of personal attention, approval, and appreciation for a job well done. Pay-for-performance programs are variable compensation plans that pay employees on the basis of some performance measure.

9. Most of us have to work for a living, and a job is a central part of our lives. So why do managers have to worry so much about employee motivation issues?

Even though most of us have to work for a living in order to support ourselves and those who are dependent upon us, managers still have to worry about employee motivation because some employees are not always willing to put forth the effort to do their job to the best of their ability. Even when employees are willing to put forth their best effort, managers must take steps to ensure that their motivation will be sustained over time, in spite of personal or professional setbacks and factors in the external environment over which they and their employees may have no control. Managers must have knowledge of motivational theories and understand the individual differences and perceptions of their employees in order to choose rewards that will be effective in motivating them to work together to reach organizational goals.
CHAPTER 17: MANAGERS AS LEADERS

Leaders in organizations make things happen. But what makes leaders different from nonleaders? What’s the most appropriate style of leadership? What can you do to be seen as a leader? Those are just a few of the questions we’ll try to answer in this chapter.

In Chapter 17, you will explore the evolution of leadership theory and examine leadership issues in the twenty-first century. As you learn about leadership styles of effective leaders, you will discover the importance of striving to develop traits and to practice behaviors at the present time. By putting your knowledge of leadership into action, you will begin to acquire the ability to influence others to achieve the goals of the organizations you will serve in the near future.

LEARNING OUTCOMES

17.1 Define leader and leadership.
17.2 Compare and contrast early theories of leadership.
17.3 Describe the three major contingency theories of leadership.
17.4 Describe contemporary views of leadership.
17.5 Discuss contemporary issues affecting leadership.

CHAPTER OUTLINE

INTRODUCTION
The quality of leadership is an important element in an organization’s success, since leaders influence employees to work together toward the fulfillment of a company’s mission and the achievement of its goals.

17.1 WHO ARE LEADERS, AND WHAT IS LEADERSHIP
Certain distinctions can be made between managers and leaders.

A. While managers are appointed and have legitimate power within the organization, a leader is someone who can influence others and who has managerial authority.
B. Leadership is the process of influencing a group to achieve goals.

17.2 EARLY LEADERSHIP THEORIES
Researchers began to study leadership in the early twentieth century and developed behavioral theories that focused on the leader (trait theories) and how the leader interacts with his or her group members.
A. Leadership Trait Theories

1. Research in the 1920s and 1930s focused on traits of the leader, with the intent to isolate characteristics that might by used to differentiate leaders from nonleaders.

2. Identifying a set of traits consistently associated with the process of leadership proved to be more successful than one set of traits that would always differentiate leaders from nonleaders.

3. Six traits associated with effective leadership are described in Exhibit 17-1.

B. Leadership Behavior Theories

1. Researchers began to hope that a behavioral theories approach would provide more definitive information about the nature of leadership than did trait theories.

2. Four main leader behavior studies are summarized in Exhibit 17-2.


   b. The Ohio State Studies identified two important dimensions of leader behavior: initiating structure and consideration.

   c. University of Michigan Studies identified two dimensions of leader behavior: leaders who were employee oriented and leaders who were production oriented.

   d. The Managerial Grid is a two-dimensional grid used to appraise leadership styles using “concern for people” and “concern for production” as dimensions.

3. Predicting leadership success involved more than isolating a few leader traits or behavior. The lack of success in attaining consistent results led to a focus on situational influences.

17.3 CONTINGENCY THEORIES OF LEADERSHIP

A. The Fiedler contingency model, developed by Fred Fiedler, is a contingency theory proposing that effective group performance depended upon the proper match between a leader’s style of interacting with his/her
followers and the degree to which the situation allowed the leader to control and influence.

1. Fiedler developed the **least-preferred coworker (LPC) questionnaire**, which measures whether a person is task or relationship oriented. This questionnaire contained 18 pairs of contrasting adjectives. Respondents were asked to think of all the coworkers they had ever had and to describe the person they least preferred to work with, using the 18 sets of adjectives. Fiedler believed that a person’s basic leadership style could be determined on the basis of their answers.

2. Fiedler also isolated three situational criteria that he believed could be manipulated to create the proper match with the behavioral orientation of the leader:
   
   a. **Leader-member relations** described the degree of confidence, trust, and respect subordinates have in their leader.
   
   b. **Task structure** described the degree to which job assignments were formalized and procedurized.
   
   c. **Position power** described the degree of influence a leader had over power-based activities such as hiring, firing, discipline, promotions, and salary increases.

3. Next, Fiedler used the above variables to evaluate the situation. He defined eight different situations in which a leader could find himself or herself. (See **Exhibit 17-3**)

4. The Fiedler model proposes matching an individual’s LPC and an assessment of the three contingency variables to achieve maximum leadership effectiveness.

5. Fiedler concluded that task-oriented leaders tend to perform better in situations that are either very favorable or very unfavorable to them.

6. He concluded that relationship-oriented leaders perform better in moderately favorable situations.

7. Fiedler believed that an individual’s leadership style was fixed; he concluded that leader effectiveness could be improved in only two ways:
   
   a. Bring in a new leader whose style fits better to the situation.
b. Change the situation to fit the leader.

8. Research has generally supported the validity of Fiedler’s model. However, some drawbacks are associated with the model.

B. Hersey and Blanchard’s Situational Leadership Theory (SLT) is a leadership contingency theory developed by Paul Hersey and Ken Blanchard that focuses on followers’ readiness.

1. Hersey and Blanchard propose that successful leadership is achieved by selecting the right leadership style that matches the level of the followers’ readiness.

2. Readiness is the extent to which people have the ability and willingness to accomplish a specific task.

3. SLT uses the same leadership dimensions identified by Fiedler: task and relationship behaviors.

4. Each of the two leadership dimensions is considered either high or low and then combined into four specific leadership styles.

5. Research efforts to test and support this theory generally have been disappointing, possibly because of internal ambiguities or inconsistencies in the model itself.

C. Path-goal theory, developed by Robert House, is a leadership theory that purports that it is the leader’s job to assist his or her followers in attaining their goals and to provide the direction or support needed to ensure that their goals are compatible with the overall objectives of the organization. (See Exhibit 17-4)

1. Four leadership behaviors were identified by House:

   a. The directive leader lets subordinates know what is expected of them, schedules work to be done, and gives specific guidance on how to accomplish tasks.

   b. The supportive leader is friendly and shows concern for subordinates’ needs.

   c. The participative leader consults with subordinates and uses their suggestions before making a decision.

   d. The achievement-oriented leader sets challenging goals and expects subordinates to perform at their highest level.
2. The path-goal theory proposes two classes of situational or contingency variables that moderate the leadership behavior-outcome relationship:

a. Variables in the environment that are outside of the control of the follower

b. Variables that are part of the personal characteristics of the follower

3. The following hypotheses have evolved from path-goal theory:

a. Directive leadership leads to greater satisfaction when tasks are ambiguous or stressful than when they are highly structured and well laid out.

b. Supportive leadership results in high employee performance and satisfaction when subordinates are performing structured tasks.

c. Directive leadership leads to higher employee satisfaction when there is substantive conflict within a work group.

d. Achievement-oriented leadership increases subordinates’ expectancies that effort will lead to high performance when tasks are ambiguously structured.

e. Subordinates with an external locus of control will be more satisfied with a directive style.

f. Achievement-oriented leadership will increase subordinates’ expectations that effort will lead to high performance when tasks are ambiguously structured.

4. Although not every research finding has been positive, the majority of the evidence supports the following logic underlying path-goal theory:

a. Employee performance and satisfaction are likely to be positively influenced when the leader compensates for shortcomings in either the employee or the work setting.

b. However, if the leader spends time explaining tasks when those tasks are already clear or when the employee has the ability and experience to handle them, the employee is likely to see such behavior as redundant or even insulting.
17.4 CONTEMPORARY VIEWS ON LEADERSHIP

The most current approaches to looking at leadership are discussed in this section of the text.

A. Leader-Member Exchange (LMX) Theory states that leaders create in-groups and out-groups and those in the in-group will have higher performance, less turnover, and greater job satisfaction.

1. The leader will categorize a follower as an “in” or an “out.” Both leader and follower must “invest” in the relationship.

2. The leader does the choosing, but the follower’s characteristics drive the decision.

3. Research is supportive of the LMX theory.

B. Transformational-Transactional Leadership

What is the difference between transactional and transformational leaders?

1. Transactional leaders are leaders who lead primarily by using social exchanges (or transactions).

2. Transformational leaders are leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes. Evidence supporting the superiority of transformational leadership over transactional leadership is overwhelmingly impressive.

C. Charismatic-Visionary Leadership

1. A charismatic leader is an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

   a. Five personal characteristics of charismatic leaders have been identified. Charismatic leaders have a vision, are able to articulate that vision, are willing to take risks to achieve that vision, are sensitive to both environmental constraints and follower needs, and exhibit behaviors that are out of the ordinary.

   b. An increasing amount of research shows impressive correlations between charismatic leadership and high performance and satisfaction among followers. Most experts think that individuals can be trained to exhibit charismatic behaviors.
c. Charismatic leadership may not always be needed to achieve high levels of employee performance. This type of leadership may be most appropriate when an employee’s job has a significant amount of ideological content.

2. Visionary leadership is the ability to create and articulate a realistic, credible, and attractive vision of the future that improves upon the present situation.

   a. If the vision is properly selected and implemented, it can energize individuals to use their skills, talents, and resources to fulfill the vision.

   b. An organization’s vision should tap into people’s emotions and inspire enthusiasm. Visions that are clearly communicated are generally more accepted.

D. Team Leadership. As work teams become more prevalent in the workplace, the role of team leader becomes increasingly important.

1. The existence of work teams necessitates that managers learn how to become effective team leaders.

2. Skillful team leaders master the difficult balancing act of knowing when to leave their teams alone and when to become involved.

3. A team leader has two priorities:

   a. Managing the team’s external boundaries

   b. Facilitating the team process

4. These two priorities can be broken down into four specific leadership roles (see Exhibit 17-5):

   a. Liaisons with external constituencies

   b. Troubleshooters

   c. Conflict managers

   d. Coaches
17.5 LEADERSHIP ISSUES IN THE TWENTY-FIRST CENTURY

The concept of leadership is continually being refined. This section of the text examines several contemporary issues in leadership.

A. Managing Power

Power is the capacity of a leader to influence work actions or decisions. Because leaders must influence others, we need to look at how leaders acquire power. French and Raven identified five sources or bases of power.

1. **Legitimate power** is the power a leader has as a result of his or her position in the organization.

2. **Coercive power** is the power a leader has because of his or her ability to punish or control.

3. **Reward power** is the power a leader has because of his or her ability to give positive benefits or rewards.

4. **Expert power** is influence that is based on expertise, special skills, or knowledge.

5. **Referent power** is power that arises because of a person’s desirable resources or personal traits.

6. Most effective leaders rely on several different bases of power.

B. Developing Trust

1. **Credibility** is the degree to which followers perceive someone as honest, competent, and able to inspire.

2. **Trust** is the belief in the integrity, character, and ability of a leader.

3. Research has identified five dimensions that make up the concept of trust:

   a. **Integrity** (honesty and truthfulness)
   b. **Competence** (technical and interpersonal knowledge and skills)
   c. **Consistency** (reliability, predictability, and good judgment in handling situations)
   d. **Loyalty** (willingness to protect a person, physically and emotionally)
   e. **Openness** (willingness to share ideas and information freely)
4. Given the fact that many organizations have moved to self-managed work teams, establishing trust in the leadership is critical.

5. Some suggestions for leaders to use in building trust are found in Exhibit 17-6.

C. Empowering Employees

Another method of leadership increasingly used by contemporary managers is the empowerment of employees.

1. The increased use of empowerment is being driven by two considerations:
   a. Quick decisions often need to be made by the individuals who are most knowledgeable about particular issues.
   b. Organizational downsizing has given managers larger spans of control, and in order to cope, managers are turning to employee empowerment.

D. Leading Across Cultures

National culture is an important situational variable in selecting the most appropriate style.

1. Findings from research are provided in Exhibit 17-7.

2. The GLOBE research program (introduced in Chapter Four) identifies universal aspects, including vision, foresight, trustworthiness, dynamism, positiveness, ability to provide encouragement, and proactiveness.

E. Becoming an Effective Leader

1. Leadership training takes many different forms, however, not everyone has what it takes to make a great leader. Depending on the type of training, leaders may learn skills such as vision creation, trust building and mentoring.

2. Substitutes for Leadership. Certain individual, job, and organizational variables can act as “substitutes for leadership,” negating the importance of having an individual leader. Possible variables of this type include characteristics of followers (e.g., experience, training, professional orientation, or the need to be independent).
a. Routine, unambiguous, or intrinsically satisfying jobs may require little leadership.

b. Cohesive work groups, explicit formal goals, and/or rigid rules and procedures may serve as substitutes for leadership.

**DISCUSSION**

1. **What does each of the four behavioral leadership theories say about leadership?**

   The University of Iowa Studies explored three styles of leadership: autocratic, democratic, and laissez-faire. Initial results found that a democratic style leader was more effective. However, later studies had mixed results. When group member satisfaction was examined, it was found that a democratic style was more effective than an autocratic one. The Ohio State Studies found that a leader who was high in both initiating structure and consideration sometimes achieved high group task performance and high group member satisfaction, but not always. The University of Michigan Studies presented two dimensions of leadership: employee orientation and production orientation. Researchers concluded that leaders who were employee oriented were able to get high group productivity and high group member satisfaction. Finally, the Managerial Grid attempted to categorize various leadership behaviors. Ultimately, the grid offered no answers to the question of what made a manager an effective leader; it only provided a framework for conceptualizing leadership style.

2. **Explain Fiedler’s contingency model of leadership.**

   Fiedler’s model proposed that group performance was based upon the leader’s style and the amount of control in a given situation. After a leader’s style is assessed through the least-preferred coworker questionnaire, three contingency dimensions are examined: leader-member relations, task structure, and position power. Ultimately, the model suggests that effectiveness is achieved when a leader is matched to a particular situation or if the situation is changed.

3. **How do situational leadership theory and path-goal theory each explain leadership?**

   Situational leadership theory focuses upon the readiness of followers. It treats the leader and follower relationship like that of a parent and child. As the child (follower) matures, the parent (leader) relinquishes more control. Path-goal theory puts the focus on the leader and his or her ability to guide followers and remove obstacles.
4. **What is leader-member exchange theory and what does it say about leadership?**

   Leader-member exchange theory states that leaders establish “in-groups” and “out-groups.” Those in the in-group will have higher performance, lower turnover, and greater job satisfaction. This is due to the leader and follower investing in the relationship.

5. **Differentiate between transactional and transformational leaders and between charismatic and visionary leaders.**

   A transactional leader guides and influences followers by exchanging rewards for the followers’ productivity. A transformational leader stimulates and inspires followers to achieve extraordinary outcomes. A charismatic leader is an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways. A visionary leader is one who articulates an appropriate vision for the future.

6. **What are the five sources of a leader’s power?**

   The five sources of a leader’s power are legitimate, coercive, reward, expert, and referent.

7. **What issues do today’s leaders face?**

   Today’s leaders face the issues of managing power, developing trust, empowering employees, leading across cultures, and becoming an effective leader.

8. **Do you think that most managers in real life use a contingency approach to increase their leadership effectiveness? Explain.**

   As managers participate in mentoring, development training, networking, and on-the-job experience, they should become more comfortable and adept in their use of a contingency approach to increase their leadership effectiveness. Organizations that offer leadership training often include contingency approaches.

9. **Do the followers make a difference in whether a leader is effective? Discuss.**

   It is the leader’s ability to get the follower to carry out the goals of the organization that ultimately determines a leader’s success. However, if the followers are not skilled or do not have the appropriate knowledge to accomplish the task then the effectiveness of the leader suffers.
CHAPTER 18: INTRODUCTION TO CONTROLLING

Managers must monitor whether goals that were established as part of the planning process are being accomplished efficiently and effectively. That’s what they do when they control. Appropriate controls can help managers look for specific performance gaps and areas for improvement. Focus on the following learning outcomes as you read and study this chapter.

LEARNING OUTCOMES

18.1 Explain the nature and importance of control.
18.2 Describe the three steps in the control process.
18.3 Explain how organizational performance is measured.
18.4 Describe tools used to measure organizational performance.
18.5 Discuss contemporary issues in control.

CHAPTER OUTLINE

INTRODUCTION

Even when managers carefully and thoroughly plan, a program or decision may be poorly or improperly implemented if an effective control system has not been established.

18.1 WHAT IS CONTROLLING, AND WHY IS IT IMPORTANT?

Control is the process of monitoring, comparing, and correcting work performance. Control is important for three main reasons:

A. Control serves as the final link in the functional chain of management. Exhibit 18-1 show the planning-controlling link.

B. Controlling is also important to delegation. The development of an effective control system may decrease resistance to delegation.

C. Finally, control serves to protect the company and its assets.
18.2 THE CONTROL PROCESS

The control process is a three-step process including measuring actual performance, comparing actual performance against a standard, and taking managerial action. (See Exhibit 18-2)

A. Measuring is the first step in the control process.

1. Measurement is frequently achieved through four common sources of information:
   a. Personal observation
   b. Statistical reports
   c. Oral reports
   d. Written reports

2. What we measure is probably more critical than how we measure. What is measured often determines the area(s) in which employees will attempt to excel.

B. Comparing is the next step in the control process.

1. Comparing determines the degree of variation between actual performance and the standard.

2. Of critical importance to the control process is determining the range of variation. The range of variation is the acceptable parameters of variance between actual performance and the standard. (See Exhibit 18-4)

3. An example of comparing actual performance to standards is presented in Exhibit 18-5.

C. Taking managerial action is the final step in the control process. Although the manager might decide to “do nothing,” two additional alternatives may be taken.

1. Correct actual performance. Once the manager has decided to correct actual performance, he/she must make another decision:
   a. To take immediate corrective action, which is corrective action that corrects problems at once to get performance back on track, or
b. To take **basic corrective action**, which is corrective action that looks at how and why performance deviated and then proceeds to correct the source of deviation.

c. After analyzing deviations, effective managers identify and correct causes of variance when the benefits of doing so justify the cost involved.

2. *Revise the standard.* If the standard was set too high or too low, a manager may decide to revise the standard.

D. Summary of Managerial Decisions
The control process is a continuous flow among measuring, comparing, and managerial action. **Exhibit 18-6** summarizes the manager’s decisions in the control process.

### 18.3 CONTROLLING FOR ORGANIZATIONAL PERFORMANCE

A. What Is Organizational Performance?

**Performance** is the end result of an activity. Managers are concerned with **organizational performance**—the accumulated end results of all the organization’s work activities.

B. Measures of Organizational Performance

Employees need to recognize the connection between what they do and the outcomes. The most frequently used organizational performance measures include organizational productivity, organizational effectiveness, and industry rankings.

1. **Productivity** is the overall output of goods or services produced divided by the inputs needed to generate that output. The management of an organization seeks to increase this ratio.

2. **Organizational effectiveness** is a measure of how appropriate organizational goals are and how well an organization is achieving those goals.

3. **Industry and company rankings** are often used as a measure to describe organizational effectiveness. **Exhibit 18-8** and **PowerPoint slide 18-24** list some of the more popular industry rankings used to measure organizational performance.
18.4 TOOLS FOR CONTROLLING ORGANIZATIONAL PERFORMANCE

Three basic types of controls are used to control organizational performance: feedforward controls, concurrent controls, and feedback controls. (See Exhibit 18-8)

A. Feedforward, Concurrent, and Feedback Control. Feedforward control is a type of control that takes place before a work activity is done. Concurrent control is a type of control that takes place while a work activity is in progress. Feedback control is a type of control that takes place after a work activity is done.

B. Financial Controls
   Traditional Financial Control Measures (See Exhibit 18-9)
   a. Financial ratios are calculated by taking numbers from the organization’s primary financial statements—the income statement and the balance sheet. Financial ratios can be organized into four categories:

      1) Liquidity ratios measure an organization’s ability to meet its current debt obligations.

      2) Leverage ratios examine the organization’s use of debt to finance its assets and whether the organization is able to meet the interest payments on the debt.

      3) Activity ratios assess how efficiently the firm is using its assets.

      4) Profitability ratios measure how efficiently and effectively the firm is using its assets to generate profits.

   b. Budgets were discussed in Appendix B as a planning tool. Budgets also function as control tools; budgets provide managers with quantitative standards against which to measure and compare actual performance and resource consumption.

C. The Balanced Scorecard
   The Balanced Scorecard is a performance measurement tool that looks at four areas—financial, customer, internal processes, and people/innovation/growth assets—that contribute to a company’s performance.

D. Information Controls
   Information controls can be viewed in two ways: (1) as a tool for controlling other activities in an organization and (2) as an area that managers should control. The use of management information systems is
an important development in the control of information used to monitor and measure an organization’s activities and performance.

1. A **management information system (MIS)** is a system used to provide management with needed information on a regular basis.

2. Managers need *information*, not merely *data*.

3. *Data* are raw, unanalyzed facts. *Information* is processed and analyzed data.

E. Benchmarking of Best Practices

**Benchmarking** is the search for the best practices among competitors or noncompetitors that lead to their superior performance.

The benchmark is the standard of excellence against which to measure and compare.

a. Benchmarking can be used to monitor and measure organizational performance.

b. This practice can be used to identify specific performance gaps and potential areas of improvement.

c. **Exhibit 18-10** provides a summary to guide managers in implementing benchmarking programs.

18.5 **CONTEMPORARY ISSUES IN CONTROL**

A. Adjusting Controls for Cross-Cultural Differences

Should global organizations use particular control systems? What should global managers know about adjusting controls for national differences?

1. Methods of controlling people vary in different countries.

2. Technology has an impact on control, depending on the level of sophistication of technology in a particular country.

3. Managers must consider the legal constraints in different countries.

4. Managers face challenges in making comparisons of goods and services among countries, even when comparing similar products and services.
B. Workplace Concerns

Chapter 18 explores the following three areas of potential concern for managers: workplace privacy, employee theft, and workplace security.

1. Workplace privacy. Many employers monitor employees at work. Employers monitor workers for a number of reasons.
   
   a. Web surfing while at work is thought to cost billions of dollars in lost work productivity each year. Exhibit 18-11 lists the most viewed video sites at work.
   
   b. Employers do not want to risk being sued for creating a hostile workplace environment because of offensive messages or material displayed on an employee’s computer screen.
   
   c. Managers want to ensure that the company’s secrets are not being leaked by employees.

2. Employee theft. Employee theft is any unauthorized taking of company property by employees for their personal use. Exhibit 18-12 presents actions taken by managers to deal with employee theft.

3. Workplace violence. Anger, rage, and violence in the workplace adversely affect productivity. Exhibit 18-13 provides results from a survey addressing office rage. Exhibit 18-14 provides actions managers can take in dealing with workplace violence. A number of primary contributors to dangerously dysfunctional work environments have been identified:
   
   a. Work driven by TNC (time, numbers, and crises)
   b. Rapid and unpredictable change
   c. Destructive communication styles of managers
   d. Authoritarian leadership
   e. Little or no feedback
   f. Double standards in terms of policies
   g. Unresolved grievances
   h. Emotionally unstable employees
   i. Repetitive, boring work
   j. Faulty equipment or deficient training
   k. Hazardous work environments
   l. Culture of violence
C. Controlling Customer Interactions

The **service profit** chain is the service sequence from employees to customers to profit.

D. **Corporate governance** is the system used to govern a corporation so that the interests of corporate owners are protected.

1. The role of boards of directors is to have a group, independent of management, looking out for the interest of stockholders

2. Financial reporting. Senior managers are now required by law (Sarbanes Oxley Act) to certify their companies’ financial results.

**DISCUSSION**

1. *What is control and how is control related to planning?*

   Controlling is the process of monitoring, comparing, and correcting work performance. As the final step in the management process, controlling provides the link back to planning. If managers didn’t control, they’d have no way of knowing whether goals were being met.

2. *What are the three steps in the control process? Describe in detail.*

   The three steps in the control process are measuring, comparing, and taking action. Measuring involves deciding how to measure actual performance and what to measure. Comparing involves looking at the variation between actual performance and the standard (goal). Deviations outside an acceptable range of variation need attention.

3. *What is organizational performance?*

   Organizational performance is the accumulated results of all the organization’s work activities. Three frequently used organizational performance measures include (1) productivity, which is the output of goods or services produced divided by the inputs needed to generate that output; (2) effectiveness, which is a measure of how appropriate organizational goals are and how well those goals are being met; and (3) industry and company rankings compiled by various business publications.
4. Contrast feedforward, concurrent, and feedback controls.

Feedforward controls take place before a work activity is done. Concurrent controls take place while a work activity is being done. Feedback controls take place after a work activity is done.

5. Discuss the various types of tools used to monitor and measure organizational performance.

Financial controls that managers can use include financial ratios (liquidity, leverage, activity, and profitability) and budgets. One information control managers can use is an MIS, which provides managers with needed information on a regular basis. Others include comprehensive and secure controls such as data encryption, system firewalls, data backups, and so forth that protect the organization’s information. Balanced scorecards provide a way to evaluate an organization’s performance in four different areas rather than just from the financial perspective. Benchmarking provides control by finding the best practices among competitors or noncompetitors and from inside the organization itself.

6. What workplace concerns do managers have to deal with? How might those concerns be controlled?

Workplace concerns include workplace privacy, employee theft, and workplace violence. For each of these issues, managers need to have policies in place to control inappropriate actions and ensure that work is getting done efficiently and effectively.

7. Why is control important to customer interactions?

Control is important to customer interactions because employee service productivity and service quality influences customer perceptions of service value. Organizations want long-term and mutually beneficial relationships among their employees and customers.

8. In Chapter 6 we discussed the white-water rapids view of change. Do you think it’s possible to establish and maintain effective standards and controls in this type of environment? Discuss.

An organizational environment that is characterized by the white-water rapids view of change must establish and maintain effective standards and controls in order to provide the stability necessary for effective production of goods and services in the midst of continuous hyperchange. The white-water rapids
atmosphere requires the establishment and implementation of a control system that is flexible and clearly focused on the performance measures of significant importance to the success of the company.

9. What are some work activities in which the acceptable range of variation might be higher than average? What about lower than average? (Hint: Think in terms of the output from the work activities, who it might affect, and how it might affect them.)

For some jobs, measuring employee performance is as simple as looking at total sales or the number of units produced in a day. However, there are many jobs where the uncertainty of outcomes and the unstructured nature of the work create wide variations in performance. Students might want to think about jobs such as a research scientist, a firefighter, or a police detective. In these jobs, it is difficult to predict and measure outcomes due to the variability of what they do and how their jobs affect others.

10. “Every individual employee in an organization plays a role in controlling work activities.” Do you agree with this statement, or do you think control is something that only managers are responsible for? Explain.

Every individual employee plays a role in controlling the quality of goods and services produced by their company, particularly in organizations where employees have been empowered by management. Even in organizations where employees have not been extensively empowered, employees play a role in measuring, comparing, and correcting performance. In any case, managers remain responsible for establishing and maintaining standards, approaches, and guidelines for measuring, comparing, and correcting the work of the organization.
CHAPTER 19: MANAGING OPERATIONS

Every organization “produces” something, whether it’s a good or a service. This chapter focuses on how organizations do that through a process called operations management. We also look at the important role that managers play in managing those operations.

As you have learned throughout this course, organizational success in today’s highly competitive marketplace is based on effective and efficient management of all available resources. In Chapter 19, you will have an opportunity to gain a fundamental understanding of important principles of operations management, which encompasses both manufacturing and services.

LEARNING OUTCOMES

19.1 Explain the role of operations management.
19.2 Define the nature and purpose of value chain management.
19.3 Describe how value chain management is done.
19.4 Discuss contemporary issues in managing operations.

CHAPTER OUTLINE

INTRODUCTION

Studying the operating system of an organization is essential to an understanding of how a company’s efficiency, productivity, value chain management, e-manufacturing, and controls contribute to its success in producing goods and delivering services.

19.1 THE ROLE OF OPERATIONS MANAGEMENT

Operations management is the design, operation, and control of the transformation process that converts resources into finished goods or services. Exhibit 19-1 illustrates a simplified operations system. Operations management is important for three key reasons:

A. Services and Manufacturing. Operations management encompasses both manufacturing and services.

a. Manufacturing organizations are organizations that produce physical goods.

b. Service organizations are organizations that produce nonphysical outputs in the form of services.
Managing Productivity.

a. Productivity is the overall output of goods or services produced divided by the inputs needed to generate that output.

b. W. Edwards Deming believed that managers, rather than workers, were the primary source of increased productivity. Deming presented 14 points for improving management’s productivity.

B. Strategic Role of Operations Management. Through mistakes learned in the 1970’s when the U.S. lost their position as the dominant force in manufacturing, organizations today realize the importance of operations management to the overall strategy of the organization.

19.2 WHAT IS VALUE CHAIN MANAGEMENT, AND WHY IS IT IMPORTANT?

This section of Chapter Nineteen examines several aspects of value chain management, including its definition, goals, benefits, and potential obstacles to successful implementation.

A. What is value chain management?
In order to understand the term value chain management, students must first grasp the meaning of several individual terms.

1. **Value** is the performance characteristics, features and attributes, and other aspects of goods and services for which customers are willing to give up resources.

2. The **value chain** is the entire series of organizational work activities that adds value at each step from raw materials to finished product.

3. **Value chain management**, then, is the process of managing the sequence of activities and information along the entire product chain.

B. Goal of Value Chain Management
Ultimately, customers possess the power in the value chain. The goal of value chain management, therefore, is to create a value chain strategy that meets and exceeds customers’ needs and desires, allowing full and seamless integration among all members of the chain.
C. Benefits of Value Chain Management. Value chain management offers several benefits, including:

1. Improved procurement
2. Improved logistics
3. Improved product development
4. Enhanced customer order management

19.3 MANAGING OPERATIONS USING VALUE CHAIN MANAGEMENT

Today’s dynamic competitive environment demands new solutions from global organizations. Understanding how and why value is determined by the marketplace has led some organizations to experiment with a new business model, a concept we introduced in Chapter 9.

A. Value Chain Strategy

See Exhibit 19-2 and for a summary of six main requirements for effective value chain management.

1. Coordination and collaboration among all members of the value chain
2. Investment in information technology
3. Organizational processes, which are the ways that organizational work is done. Changes must be made, as illustrated below:
   a. Improved demand forecasting is necessary and is enabled through closer ties between customers and suppliers.
   b. Selected functions may need to be accomplished collaboratively with other partners in the value chain.
   c. New measures are needed for evaluating performance of various activities along the value chain.
4. Strong leadership is essential for successful value chain management.
5. An organization’s employees play an important role as well.
   a. Traditional, functional job roles are inadequate in a value chain environment.
   b. Flexibility is the key to job design in a value chain management organization, and the hiring of employees who have the ability to
learn and adapt to changing situations is a prerequisite for successful value chain management in an organization.

6. Supportive organizational culture and attitudes are important as well.

B. Obstacles to Value Chain Management (See Exhibit 19-3)

In successfully implementing value chain management, organizations face several potential obstacles.

1. Organizational barriers. These barriers are among the most difficult to handle. They include refusal or reluctance to share information, reluctance to shake up the status quo, and security issues.

2. Cultural attitudes. Unsupportive cultural attitudes—especially trust and control—are also obstacles. In addition, organizations are vulnerable to theft of intellectual property—proprietary information that is critical to an organization’s efficient and effective functioning and competitiveness.

3. Required capabilities. A number of capabilities are required, including: extreme coordination and collaboration, the ability to configure products to satisfy customers and suppliers, and the ability to educate internal and external partners.

4. An organization’s people must be committed and willing to do whatever is required to implement value chain management; in addition, employees must be motivated to expend high levels of effort.

19.4 CURRENT ISSUES IN OPERATIONS MANAGEMENT

Three issues currently top managers’ lists for improving operations management: capitalizing on e-manufacturing technology, and successfully implementing quality initiatives.

A. Technology’s Role in Manufacturing

Savvy companies are exploring ways to harness technology to improve operations management.

B. Quality Initiatives

According to many experts, organizations that do not produce high-quality products will be unable to compete successfully in the global marketplace.

1. Quality is the ability of a product or service to reliably do what it’s supposed to do and to satisfy customer expectations.
2. How is quality achieved? A good way to address this question is in terms of the four management functions: planning, organizing, leading, and controlling.

C. Quality Goals

Numerous organizations worldwide have pursued challenging quality goals. Two of the most widely recognized quality goals are ISO 9000 and Six Sigma.

1. **ISO 9000** is a series of international quality management standards that set uniform guidelines for processes to ensure that products conform to customer requirements.

2. **Six Sigma** is a quality standard that establishes a goal of no more than 3.4 defects per million parts or procedures.

3. In summary, the key benefit of implementing value chain management comes from the quality improvement journey itself, rather than the achievement of a particular quality certification.

D. Mass Customization

Mass customization provides consumers with a product when, where, and how they want it. Mass customization requires flexible manufacturing techniques and continual dialogue with customers. Technology plays an important role in both of these efforts.

DISCUSSION

1. **What is operations management?**

   Operations management is the transformation process that converts resources into finished goods and services.

2. **Do you think that manufacturing or service organizations have the greater need for operations management? Explain.**

   Both manufacturing and service organizations have a great need for operations management. Productivity is a key concern for both manufacturing and service organizations. Many of the concepts and techniques that have proven to be successful in manufacturing industries are now being implemented in service organizations. Because a service is often produced by a company and received by
its customer almost simultaneously, the effective and efficient management is a particular challenge for service organizations.

3. **What is a value chain and what is value chain management? What is the goal of value chain management? What are the benefits of value chain management?**

The value chain is the sequence of organizational work activities that add value at each step from raw materials to finished product. Value chain management is the process of managing the sequence of activities and information along the entire product chain. The goal of value chain management is to create a value chain strategy that meets and exceeds customers’ needs and desires and allows for full and seamless integration among all members of the chain. Value chain management provides four main benefits: improved procurement, improved logistics, improved product development, and enhanced customer order management.

4. **What is required for successful value chain management? What obstacles exist to successful value chain management?**

The six main requirements for successful value chain management include coordination and collaboration, investment in technology, organizational processes, leadership, employees or human resources, and organizational culture and attitudes. The obstacles to value chain management include organizational barriers (refusal to share information, reluctance to shake up the status quo, or security issues), unsupportive cultural attitudes, lack of required capabilities, and employees unwilling or unable to do it.

5. **How does technology play a role in manufacturing?**

Companies are looking at ways to harness technology to improve their operations management by extensive collaboration and cost control.

6. **What are ISO 9000 and Six Sigma?**

ISO 9000 is a series of international quality management standards that set uniform guidelines for processes to ensure that products conform to customer requirements. Six Sigma is a quality standard that establishes a goal of no more than 3.4 defects per million units or procedures.
7. **Describe lean management and explain why it’s important.**

Mass customization provides customers with a product when, where, and how they want it. It requires flexible manufacturing techniques and continual customer dialogue. A lean organization is one that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer’s perspective.

8. **How might operations management apply to other managerial functions besides control?**

Successful operations management is essential in the planning, organizing, and leading functions of management, as well as in control. To establish realistic strategic and operational plans that maximize available resources, managers on each level of the organization should have an understanding of operations management gained through study and experience. In the organizing function, managers must develop appropriate organizational structures for the management of their operations. In leading, managers must consider the diversity of backgrounds, cultures, abilities, and skills of their most important resource, the people who perform the operations in the organization.