Principles of Management

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3.1 History, Globalization, and Values-Based Leadership

What's in It for Me?

Reading this chapter will help you do the following:

1. Learn about the history of principles of management.
2. Know the context for contemporary principles of management.
3. Understand key global trends.
4. See how globalization is affecting management principles and practices.
5. Appreciate the importance of value-based leadership (ethics) in management.

The planning-organizing-leading-controlling (P-O-L-C) framework is summarized in the following figure. In this chapter, you'll learn that some principles of management are enduring, but you'll also see that managers need to be continually adapting to changing times. Each facet of the framework—from planning, to organizing, to leading, to controlling—has to be adapted to take advantage of, and to manage in, our changing world. Global trends affect both the style and the substance of management. As the world becomes more global, managers find themselves leading workforces that may be distributed across the country—and the world. Workers are more educated, but more is expected of them.

Figure 3.2 The P-O-L-C Framework

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

The realm of managers is expanding. As a leader, you'll be a role model in the organization, setting the tone not just for *what* gets done but *how* it gets done. Increasingly, good business practice extends to stewardship, not just of the organization but of the environment and community at large. Ethics and values-based leadership aren’t just good ideas—they’re vital to attracting talent and retaining loyal customers and business partners.

3.2 Case in Point: Hanna Andersson Corporation Changes for Good

Figure 3.3

Jessica Lucia – pajama time – CC BY-NC-ND 2.0.

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

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

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

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

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

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

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

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

Case study based on information from Bollier, D. (1996). *Aiming higher: 25 stories of how companies prosper by combining sound management and social vision* (pp. 23–35). New York: The Business Enterprise Trust; Boulé, M. (2009, July 16). Hanna Andersson employee can't say enough of a thank-you to co-workers who helped her through cancer. *Oregonian*. Retrieved March 4, 2010, from http://www.oregonlive.com/news/oregonian/margie_boule/index.ssf/2009/07/hanna_andersson_employee_cant.html; Information retrieved February 28, 2010, from the Hanna Andersson Web site: http://www.hannaandersson.com; Muoio, A. (1998, November 30). Giving back. *Fast Company*. Retrieved March 1, 2010, from http://www.fastcompany.com/magazine/20/one.html?page=0%2C1; Goldfield, R. (2002, June 14). Hanna sees bricks-and-mortar future. *Portland Business Journal*; Peterson, G. (2010, March 5 and April 5). Personal communication; Information retrieved March 1, 2010, from http://www.answers.com/topic/hanna-andersson; Raphel, M., & Raphel, N. (1995). *Up the loyalty ladder* (pp. 83–90). New York: HarperCollins.

Discussion Questions

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

3.3 Ancient History: Management Through the 1990s

Learning Objectives

1. Early motivation for development of principles.
2. What problems did these principles solve?
3. What were the limitations of these early views?

Early Management Principles

Early management principles were born of necessity. The most influential of these early principles were set forth by Henri Fayol a French mining engineer. In 1888, Fayol became director of a mining company. The company was in difficulty, but Fayol was able to turn it around and make the company profitable again. When he retired, Fayol wrote down what he'd done to save the company. He helped develop an "administrative science" and developed principles that he thought all organizations should follow if they were to run properly.

Fayol's 14 Principles of Management

1. Specialization/Division of Labor

By specializing in a limited set of activities, workers become more efficient and increase their output.

2. Authority/Responsibility

Managers must have the authority to issue commands, but with that authority comes the responsibility to ensure that the work gets done.

3. Discipline

Workers must obey orders if the business is to run smoothly. But good discipline is the result of effective leadership: workers must understand the rules and management should use penalties judiciously if workers violate the rules.

4. Unity of Command

An employee should receive orders only from one boss to avoid conflicting instructions.

5. Unity of Direction

Each unit or group has only one boss and follows one plan so that work is coordinated.

6. Subordination of Individual Interest

The interests of one person should never take precedence over what is best for the company as a whole.

7. Remuneration

Workers must be fairly paid for their services.

8. Centralization

Centralization refers to decision making: specifically, whether decisions are centralized (made by management) or decentralized (made by employees). Fayol believed that whether a company should centralize or decentralize its decision making depended on the company's situation and the quality of its workers.

9. Line of Authority

The line of authority moves from top management down to the lowest ranks. This hierarchy is necessary for unity of command, but communication can also occur laterally if the bosses are kept aware of it. The line should not be overextended or have too many levels.

10. Order

Orderliness refers both to the environment and materials as well as to the policies and rules. People and materials should be in the right place at the right time.

11. Equity

Fairness (equity), dignity, and respect should pervade the organization. Bosses must treat employees well, with a "combination of kindliness and justice."

12. Stability of Tenure

Organizations do best when tenure is high (i.e., turnover is low). People need time to learn their jobs, and stability promotes loyalty. High employee turnover is inefficient.

13. Initiative

Allowing everyone in the organization the right to create plans and carry them out will make them more enthusiastic and will encourage them to work harder.

14. Esprit de Corps

Harmony and team spirit across the organization builds morale and unity.

Time and Motion

Figure 3.4

Today, coal is mined and moved by heavy machinery like this coal lift. In Taylor's time, it was moved by shovel to rail cars or trucks.

PublicDomainPictures – CC0 public domain.

Frederick Winslow Taylor, a contemporary of Fayol's, formalized the principles of scientific management in his 1911 book, *The Principles of Scientific Management*. Taylor described how productivity could be greatly improved by applying the scientific method to management; for this reason, the scientific approach is sometimes referred to as Taylorism.

Taylor is most famous for his "time studies," in which he used a stopwatch to time how long it took a worker to perform a task, such as shoveling coal or moving heavy loads. Then he experimented with different ways to do the tasks to save time. Sometimes the improvement came from better tools. For example, Taylor devised the "science of shoveling," in which he conducted time studies to determine how much weight a worker could lift with a shovel without tiring. He determined that 21 pounds was the optimal weight. But since the employer expected each worker to bring his own shovel, and there were different materials to be shoveled on the job, it was hard to ensure that 21-pound optimum. So, Taylor provided workers with the optimal shovel for each density of materials, like coal, dirt, snow, and so on. With these optimal shovels, workers became three or four times more productive, and they were rewarded with pay increases.

Frank Gilbreth and Lillian Moller Gilbreth, his wife (who outlived Frank by 48 years!), were associates of Taylor and were likewise interested in standardization of work to improve productivity (Wikipedia, 2009). They went one better on Taylor's time studies, devising "motion studies" by photographing the individual movements of each worker (they attached lights to workers' hands and photographed their motions at slow speeds). The Gilbreths then carefully analyzed the motions and removed unnecessary ones. These motion studies were preceded by timing each task, so the studies were called "time and motion studies."

Applying time and motion studies to bricklaying, for example, the Gilbreths devised a way for workers to lay bricks that eliminated wasted motion and raised their productivity from 1,000 bricks per day to 2,700 bricks per day. Frank Gilbreth applied the same technique to personal tasks, like coming up with "the best way to get dressed in the morning." He suggested the best way to button the waistcoat, for example, was from bottom up rather than top down. Why? Because then a man could straighten his tie in the same motion, rather than having to raise his hands back up from the bottom of the waistcoat.

Limitations of the Early Views

Fayol, Taylor, and the Gilbreths all addressed productivity improvement and how to run an organization smoothly. But those views presumed that managers were overseeing manual labor tasks. As work began to require less manual labor and more knowledge work, the principles they had developed became less effective. Worse, the principles of Taylorism tended to dehumanize workers. The writer Upton Sinclair who raised awareness of deplorable working conditions in the meatpacking industry in his 1906 book, *The Jungle*, was one of Taylor's vocal critics. Sinclair pointed out the relatively small increase in pay (61%) that workers received compared with their increased productivity (362%). Frederick Taylor answered Sinclair's criticism, saying that workers should not get the full benefit because it was management that devised and taught the workers to produce more. But Taylor's own words compare workers to beasts of burden: The worker is "not an extraordinary man difficult to find; he is merely a man more or less the type of an ox, heavy both mentally and physically" (Sinclair, 1911; Taylor, 1911)

When work was manual, it made sense for a manager to observe workers doing a task and to devise the most efficient motions and tools to do that task. As we moved from a manufacturing society to a service-based one, that kind of analysis had less relevance. Managers can't see inside the head of a software engineer to devise the fastest way to write code. Effective software programming depends on knowledge work, not typing speed.

Likewise, a services-based economy requires interactions between employees and customers. Employees have to be able to improvise, and they have to be motivated and happy if they are to serve the customer in a friendly way. Therefore, new management theories were developed to address the new world of management and overcome the shortcomings of the early views.

Finally, early views of management were heavily oriented toward efficiency, at the expense of attention to the manager-as-leader. That is, a manager basically directs resources to complete predetermined goals or projects. For example, a manager may engage in hiring, training, and scheduling employees to accomplish work in the most efficient and cost-effective manner possible. A manager is considered a failure if he or she is not able to complete the project or goals with efficiency or when the cost becomes too high. However, a leader within a company develops individuals to complete predetermined goals and projects. A leader develops relationships with his or her employees by building communication, by evoking images of success, and by eliciting loyalty. Thus, later views of management evoke notions of leaders and leadership in discussing the challenges and opportunities for modern managers.

Management Ideas of the 1990s

Peter Drucker was the first scholar to write about how to manage knowledge workers, with his earliest work appearing in 1969. Drucker addressed topics like management of professionals, the discipline of entrepreneurship and innovation, and how people make decisions. In 1982, Tom Peters and Robert Waterman wrote *In Search of Excellence*, which became an international best seller and ushered a business revolution by changing the way managers viewed their relationships with employees and customers. On the basis of the authors' research focusing on 43 of America's most successful companies in six major industries, the book introduced nine principles of management that are embodied in excellent organizations:

1. Managing Ambiguity and Paradox

   The ability of managers to hold two opposing ideas in mind at the same time and still be able to function effectively.

2. A Bias for Action

   A culture of impatience with lethargy and inertia that otherwise leaves organizations unresponsive.

3. Close to the Customer

   Staying close to the customer to understand and anticipate customer needs and wants.

4. Autonomy and Entrepreneurship

   Actions that foster innovation and nurture customer and product champions.

5. Productivity through People

   Treating rank-and-file employees as a source of quality.

6. Hands-On, Value-Driven

   A management philosophy that guides everyday practice and shows management's commitment.

7. Stick to the Knitting

   Stay with what you do well and the businesses you know best.

8. Simple Form, Lean Staff

   The best companies have very minimal, lean headquarters staff.

9. Simultaneous Loose-Tight Properties (Peters & Waterman, 1982)

Autonomy in shop-floor activities plus centralized values.

Following up, Peters wrote a *Passion for Excellence*, which placed further emphasis on leadership, innovation, and valuing people. His book *Thriving on Chaos*, published the day of the biggest stock market crash of the time ("Black Monday," October 19, 1987), addressed the uncertainty of the times; and *Liberation Management*, published in 1992, laid out 45 prescriptions for how to lead companies in a rapidly changing world. The book called for empowering people by involving everyone in decision making and eliminating bureaucratic rules and humiliating conditions. Peters urged organizational leaders (i.e., managers) to celebrate and recognize employees for their contributions. His advice to leaders was to "master paradox" (i.e., develop a level of comfort with complexity and ambiguity) and establish direction for the company by developing an inspiring vision and leading by example.

Beginning in the 1970s, Warren Bennis pioneered a new theory of leadership that addressed the need for leaders to have vision and to communicate that vision. More than just a manager, an effective leader was defined as someone with the ability to influence and motivate others not only to perform work tasks but also to support the organization's values and meet the organization's goals. Different views of leadership through the ages are shown next.

Views of Leadership Through the Ages

A leader is a dealer in hope.

—Napoleon

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

—Indira Gandhi

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

—John Kotter (Kotter, 1990).

Key Takeaway

Early management theorists developed principles for managing organizations that suited the times. A century ago, few workers were highly educated; most work was manual, tasks were repetitive, and rates of change were slow. Hierarchy brought unity and control, and principles of management in which managers defined tasks and coordinated workers to move in a unified direction made sense. As the economy moved from manufacturing to services, the need for engaging workers' minds and hearts became more important. Drucker, Peters, and Waterman presented ideas on how managers could achieve excellence in a continually changing business environment, while Bennis encouraged managers to become inspiring leaders who empowered people.

Exercises

1. What goals seem to dominate early management principles?
2. Do you see any commonalities between Fayol's principles of management from 1911 and those of Tom Peters in the 1990s?
3. Are there any jobs today for which time and motion studies would make sense to do? Would any other skills need to be taught as well?
4. What do early management principles leave out?
5. How would you put some of the ideas of the 1990s into practice?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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Wikipedia, retrieved January 28, 2009, from http://en.wikipedia.org/wiki/Cheaper_by_the_Dozen. *Cheaper by the Dozen* was made into a 1950 motion picture starring Clifton Webb and Myrna Loy as Frank and Lillian Gilbreth.

3.4 Contemporary Principles of Management

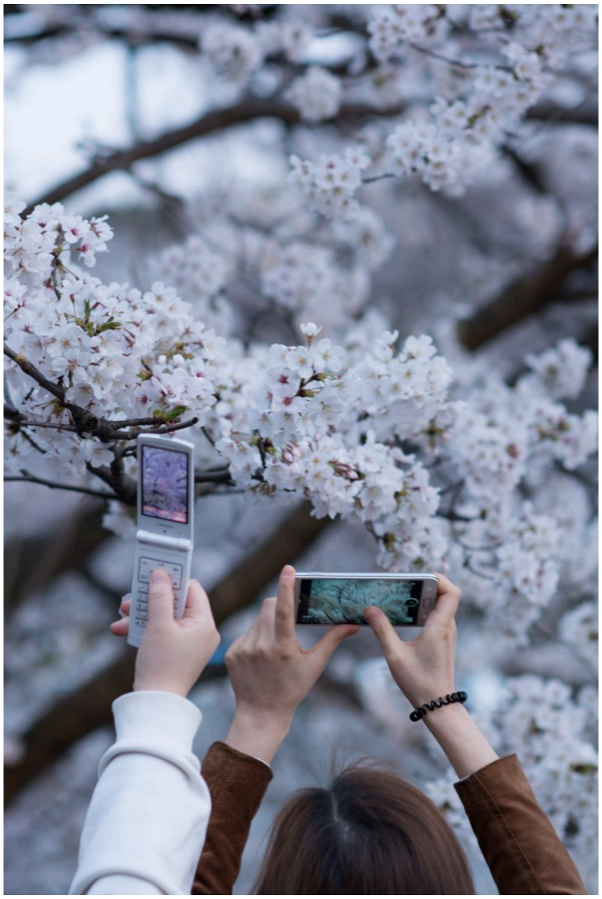
Learning Objectives

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

Corporations as Social Movements

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

Figure 3.5



We are more connected, at least virtually, than ever before.

Takashi Hososhima – Traditional cell phone vs Smart phone – CC BY-SA 2.0.

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

Social Networking

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

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

Today, social networks are starting points for corporate innovation: potentially limitless arrangements of individuals inspired by opportunities, affinities, or tasks. People feel better and work better when they belong to a group of other people like themselves (Rummler, 2007). This new attitude toward social networks in the workplace has been fueled by the growth of social networking sites like Facebook.

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

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

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

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

Learning Organizations

In a 1993 article, Harvard Business School professor David Garvin defined a learning organization as "an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights (Garvin, 1993)." The five building blocks of learning organizations are

1. *Systematic problem solving*: The company must have a consistent method for solving problems, using data and statistical tools rather than assumptions.
2. *Experimentation*: Experiments are a way to test ideas in small steps. Experiments let companies hunt for and test new knowledge, such as new ways of recycling waste or of structuring an incentive program.
3. *Learning from past experience*: It's essential for companies to review projects and products to learn what worked and what didn't. Boeing, for example, systematically gathered hundreds of "lessons learned" from

previous airplane models, such as the 737 and 747, which it applied to the 757s and 767s, making those the most successful, error-free launches in Boeing's history.

4. *Learning from others*: Recognizing that good ideas come from anywhere, not just inside the company, learning organizations network with other companies in a continual search for good ideas to adapt and adopt.

5. *Transferring knowledge*: Sharing knowledge quickly throughout the organization is the way to make everyone a smart, contributing member.

Virtual Organizations

A virtual organization is one in which employees work remotely—sometimes within the same city, but more often across a country and across national borders. The company relies on computer and telecommunications technologies instead of physical presence for communication between employees. E-mail, wikis, Web meetings (i.e., like Webex or GoToMeeting), phone, and Internet relay chat (IRC) are used extensively to keep everyone in touch. Virtual companies present special leadership challenges because it's essential for leaders to keep people informed of what they are supposed to be doing and what other arms of the organization are doing. Communication in a commons area is preferable to one-on-one communication because it keeps everyone up to speed and promotes learning across the organization.

The Value of Wikis

Wikis provide companies with a number of benefits (Tapscott & Williams, 2006):

- Wikis pool the talent of experts as well as everyone from across the company and beyond it—in all time zones and geographic locations.
- Input from unanticipated people brings fresh ideas and unexpected connections.
- Wikis let people contribute to a project any time, giving them flexibility in managing their time.
- It's easy to see the evolution of an idea, and new people can get up to speed quickly by seeing the history of the project.
- Co-creation of solutions eliminates the need to "sell" those solutions to get buy-in.
- Wikis cut the need for e-mail by 75% and the need for meetings by 50%.

With more and more companies outsourcing work to other countries, managers are turning to tools like wikis to structure project work globally. A wiki is a way for many people to collaborate and contribute to an online document or discussion (see "The Value of Wikis"). The document remains available for people to access anytime. The most famous example is Wikipedia. A wikified organization puts information into everyone's hands. Managers don't just talk about empowering workers—the access to information and communication empowers workers directly. People who are passionate about an idea can tap into the network to make the idea happen. Customers, too, can rally around an issue and contribute their opinions.

Many companies that are not solely virtual use the principles of a virtual organization as a way to structure the work of globally distributed teams. VeriFone, one of the largest providers of electronic payment systems worldwide, has development teams working on software projects around the world. In what the company calls a "relay race," developers in Dallas working on a rush project send unfinished work at quitting time to another development center in Laupahoehoe, Hawaii. When the sun sets there, the project is handed off to programmers in Bangalore, India, for further work, and by morning, it's back in Dallas, 16 hours closer to completion. Similarly, midwestern Paper Converting Machine Co. (PCMC) outsourced some design work to Chennai, India. Having U.S. and Indian designers collaborate 24/7 has helped PCMC slash development costs and time, enabling the company to stay in business, according to CEO Robert Chapman. Chapman said, ""We can compete and create great American jobs, but not without offshoring (Engardio, 2006)."

Virtual organizations also pose management challenges. In practical terms, if everyone is empowered to be a decision maker but various people disagree, how can decisions be made? If all workers can work at the times they choose, how can management be sure that workers are doing their work—as opposed to reading Web sites for fun, shopping, or networking with friends—and that they are taking appropriate breaks from work to avoid burnout? There are also challenges related to the virtual environment's dependence on computers and Web security.

Key Takeaway

In today's fast-changing world, organizations are becoming more like social movements, with more fluid boundaries and more participation in leadership across all levels. Social networks within corporations let employees find out about one another and access the people who have the skills, knowledge, or connections to get the job done. Continuous learning is important, not just for individuals but for organizations as a whole, to transfer knowledge and try out new ideas as the pace of change increases. Virtual organizations can speed up cycle time, but they pose new challenges for managers on how to manage remote workers. Communications technologies and the Web let employees work from anywhere—around the corner or around the world—and require special attention to managing communication.

Exercises

1. What commonalities do you see between organizations and social movements?
2. How would you use a social network to solve a work-related task?
3. Why do social networks inspire employees?
4. How do social networks help managers plan, organize, lead, and control?
5. What steps would you take to help your organization become a learning organization?
6. What are the advantages of a virtual organization?
7. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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3.5 Global Trends

Learning Objectives

1. What are the top 10 ways that the world is changing?
2. What is the pace of these changes?

As the summary “Top Trends” suggests, we are living in exciting times, and you’re at the forefront of it. The world is changing in dramatic ways, and as a manager, you’re in the best position to take advantage of these changes. Let’s look at 10 major ways in which the world is changing; we’ll characterize the first five as challenges and the next five as solutions.

Top Trends

Top 5 Challenge Trends

1. Increasing Concern for the Environment
2. Greater Personalization and Customization
3. Faster Pace of Innovation
4. Increasing Complexity
5. Increasing Competition for Talent

Top 5 Solution Trends

1. Becoming More Connected
2. Becoming More Global
3. Becoming More Mobile
4. Rise of the Creative Class
5. Increasing Collaboration

Top 5 Challenge Trends

Increasing Concern for the Environment

We all seem to believe that the weather has been getting weirder in recent decades, and analysis by the National Oceanic and Atmospheric Administration (NOAA) suggests that there have been more catastrophic weather events in recent years than 10–20 years ago (NCDC, 2008). People are seeing the growing threat of global warming, which is leading to failing crops, rising sea levels, shortages of drinking water, and increasing death tolls from disease outbreaks such as malaria and dengue fever. Currently, 175 nations have signed the Kyoto Protocol on climate change and pledged to begin the long process of reducing greenhouse gas emissions. According to McKinsey's Global Survey of Business Executives, executives across the world believe that business plays a wider role in society and has responsibility to address issues such as environmental concerns beyond just following the letter of the law to minimize pollution. More and more companies now watch the "triple bottom line"—the benchmark of how they benefit, not just (1) profits but also (2) employees and (3) the environment as a whole. Companies realize they have to take bold steps to minimize their carbon footprint, create environmentally friendly products, and manage the company for more than just the next quarter's profits. Managers can't simply "greenwash" (pretend to be green through tiny steps and heavy advertising).

Figure 3.6

Wind power is a high-growth business that takes advantage of increasing interest in sustainable energy sources.

TumblingRun – Into the Night – CC BY-ND 2.0.

Greater Personalization and Customization

We're no longer happy with cookie-cutter products. Consumers are demanding more say in products and services. One size no longer fits all, and that means tailoring products and services to meet specific customer preferences. And as companies sell their products globally, that tailoring has to meet vastly different needs, cultural sensitivities, and income levels. Even something simple such as Tide laundry detergent can come in hundreds of potential variants in terms of formulations (powders, liquids, tablets), additives (whiteners, softeners, enzymes), fragrances (unscented, mountain fresh, floral), and package sizes (from single-load laundromat sizes to massive family/economy sizes). Customization and the growing numbers of products mean managing more services and more products. For example, for just $4.99 plus shipping, you can create your own Kleenex oval tissue box (Mykleenextissue, 2008)! Managing for mass production won't suffice in the future.

Faster Pace of Innovation

We all want the next new thing, and we want it now. New models, new products, and new variations—companies are speeding new products to market in response to customer demands. The Finland-based mobile phone maker Nokia sells 150 different devices, of which 50–60 are newly introduced each year. The new variations are tailored to local languages, case colors, carriers, add-ons, and content. David Glazer, engineering director at Google, explained how his company adapts to this fast pace: "Google has a high tolerance for chaos and ambiguity. When we started OpenSocial [a universal platform for social-network applications], we didn't know what the outcome was going to be." So Google started running a bunch of experiments. "We set an operational tempo: when in doubt, do something," Glazer said, "If you have two paths and you're not sure which is right, take the fastest path (Fast Company, 2008)."

Increasing Complexity

Because we want more sustainability, more customization, and more innovation, companies face growing complexity. Nokia's 50–60 new phone models a year all have 300–400 components, some of which contain millions or hundreds of millions of transistors. Those components have to arrive at the right manufacturing location (Nokia has 10 worldwide) from whichever country they originated and arrive just in time to be manufactured.

Increasing Competition for Talent

We need people who can solve all these tough problems, and that's a challenge all by itself. According to McKinsey's global survey of trends, business executives think that this trend, among all trends, will have the greatest effect on their companies in the next five years. Jobs are also getting more complex. Consider people who work in warehouses doing shipping and receiving. At Intel, these workers were jokingly called "knuckle-dragging box pushers" and known for using their brawn to move boxes. Now, the field of transportation and shipping has become known as "supply chain management" and employees need brains as well as brawn—they need to know science and advanced math. They're called on to do mathematical models of transportation networks to find the most efficient trucking routes (to minimize environmental impact) and to load the truck for balance (to minimize fuel use) and for speed of unloading at each destination. Intel now acknowledges the skills that supply chain people need. The company created a career ladder leading to “supply chain master” that recognizes employees for developing expertise in supply chain modeling, statistics, risk management, and transportation planning. Overall, demand will grow for new types of talent such as in the green energy industry. At the same time, companies face a shrinking supply of seasoned managers as baby boomers retire in droves. Companies will have to deal with shortages of specific skills.

Top 5 Solution Trends

Becoming More Connected

We can now use the Internet and World Wide Web to connect people with people as never before. By mid-2008, more than 1.4 billion people were online, and that number continues to increase each year as the developing world catches up with the developed world on Internet usage (Internetworldstats, 2000). Through over a 100 million Web sites, we can access information, words, sounds, pictures, and video with an ease previously unimaginable.

Becoming More Global

We can now tap into more global suppliers and global talent. Whatever problem a manager faces, someone in the world probably has the innovative products, the knowledge, or the talent to address the problem. And the Internet gives managers to the tools to help problems find solutions, customers find suppliers, and innovators find markets. The global problems we face will require people to work together to solve them. Ideas need to be shaped and implemented. Moving ideas around the world is a lot less costly and generates less greenhouse gases than moving people and products around the world. Organizations and social movements alike are using social networking to help people find others with the skills and talents to solve pressing problems.

Becoming More Mobile

We can now reach employees, suppliers, and customers wherever they are. By the end of 2008, 60% of the world’s population—4 billion people—were using mobile phones (Itu, 2008). And, like Internet use, mobile phone adoption continues to grow. The penetration of mobile phones is changing the way we do business because people are more connected and able to share more information. Two-way, real-time dialogue and collaboration are available to people anytime, anywhere. The low cost of phones compared with computers puts them in the hands of more people around the world, and the increasing sophistication of software and services for the phone expands its use in business settings. Phones are not just a voice communication device—they can send text as well as be a connective device to send data. The fastest mobile phone growth is in developing countries, bringing connectivity to the remotest regions. Fisherman off the coast of southern India can now call around to prospective buyers of their catch before they go ashore, which is increasing their profits by 8% while actually lowering the overall price consumers have to pay for fish by 4% (Corbett, 2008). In South Africa, 85% of small black-owned businesses rely solely on mobile phones. Nokia has 120,000 outlets selling phones in India, where half the population lives in rural areas, not cities.

Rise of the Creative Class

With blogs, Flickr, and YouTube, anyone can post their creative efforts. And with open source and wikis, anyone can contribute ideas and insights. We have ubiquitous opportunities for creativity that are nurturing a new creative class. For example, *OhmyNews*, a popular newspaper, is written by 60,000 contributing "citizen reporters." It has become one of South Korea's most influential news sources, with more than 750,000 unique users a day (Hua, 2007; Schonfeld & Vi-Wyn, 2007). The demand for workers and ability for workers to work from anywhere may lead to an "e-lance economy." Workers may become free agents, working temporarily on one project and then moving to another when that project is done. Mobile connectivity means these new workers can live anywhere in the world and can work from anywhere in their community. For you as a manager, this means managing workers who might be in a cubicle in Columbus, Ohio, an apartment in Amsterdam, or an Internet café in Bangalore.

Increasing Collaboration

These solution trends combine to foster a rise in collaboration across space and time. We can now bring more people together to solve more problems more quickly. To design new products quickly—and make sure they meet consumer needs—companies are now looking beyond their four walls for innovation. Google, for example, identifies itself as an organization that believes in open, decentralized innovation. "Google can't do everything. And we shouldn't," said Andy Rubin, senior director of Mobile Platforms. "That's why we formed the Open Handset Alliance with more than 34 partners (Fast Company, 2009)." While the handset alliance is about open cell phones (i.e., phones that aren't tied to any particular phone company and can be programmed by users just like Apple or Palm's "apps"), collaboration means much more than communications. People can now not just communicate but actually collaborate, building coalitions, projects, and products (Friedman, 2005). Groups self-organize on the Web. For example, the MIT-based Vehicle Design Summit is virtual, so students from around the world can participate. The goal is to make a low-cost, 200-mpg four-seater for the Indian market; in 2008, about 200 students participated in this international open-source project (Fast Company, 2008). A cross section of more trend predictions follows.

Trends, Trends, Trends

It seems that trend-tracking has become somewhat of a business. Glance over these top trends from the editors of *Wired*, *McKinsey Quarterly*, and *USA Today*.

Wired 2008 Business Trends

1. Open Source Tycoons
2. Social Networks Grow Up
3. Green on the Outside
4. Invisible Internet
5. Rise of the Instapreneur
6. Building a Better Banner

7. Invented in China
8. VCs Look for a New Life
9. The Human Touch (Wired, 2008)

Top business trends likely to have the greatest effect on business over the next five years

1. Competition for talent will intensify, become more global.
2. Centers of economic activity will shift globally, regionally.
3. Technological connectivity will increase.
4. Ubiquitous access to information will change economics of knowledge.
5. Demand for natural resources will grow, as will strain on environment.
6. Population in developed economies will age.
7. Consumer landscape will change, expand significantly.
8. Role, behavior of business will come under increasing scrutiny.
9. Organizations will become larger, more complex.
10. New global industry structures will emerge (e.g., private equity, networked)(McKinseyquarterly, 2007)

Countdown of the biggest trends in small business

1. Web 2.0
2. Rise of e-marketing
3. Little is the new big
4. The new consumer
5. Fragmentation
6. The world is getting flatter
7. Personalization
8. Work anywhere, any place
9. Global warming may put you out of business (USAtoday, 2009)

Key Takeaway

Today's world faces many challenges, from the need to protect the natural environment to the rapid pace of innovation and change. Technological connectivity is bringing the world closer together and enabling people to work from anywhere. Demand for talent and low-cost workers gives rise to outsourcing and employees working remotely, whether from home or from remote different countries. At the same time, information is now available to more and more people. This drives demand for personalization. It increases complexity but at the same time gives us the collaboration tools needed to solve tough problems.

Exercises

1. How do you manage innovation if ideas can come from anywhere, including people who aren't your direct employees—or aren't even part of the company?
2. If, according to some trends, you can work anytime and anywhere, how do you decide when to work? When do you stop working?
3. What advantages do you see from a global workforce?
4. What commonalities do you see across the trends presented in "Trends, Trends, Trends"?
5. Which of the trends depend on technology?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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3.6 Globalization and Principles of Management

Learning Objectives

1. Why might global trends influence management principles?
2. What is the GLOBE project, and why is it relevant to management?
3. What is a cultural dimension, and how do cultural dimensions affect business dealings and management decisions?

Globalization and Cross-Cultural Lessons

Despite the growing importance of global business, *Fortune* 500 companies have reported a shortage of global managers with the necessary skills (GMAC Global Relocation, 2008; Gregersen, et. al., 1998). Some experts have argued that most U.S. companies are not positioned to implement global strategies due to a lack of global leadership capabilities (Hollenbeck & McCall, 2003)

It's easy to understand the problem: communicating and working with people from different countries can be a challenge—not just because of language issues but also because of different cultural norms. For example, in the United States, we tend to be direct in our communication. If you ask a U.S. manager a question, you'll tend to get a direct answer. In other cultures, particularly in southern Europe and Japan, the answer to a question begins with background and context—not the bottom line—so that the listener will understand how the person arrived at the conclusion. Similarly, in some cultures, it is considered rude to deliver bad news or say "no" to a request—instead, the speaker would give a noncommittal answer like "we'll see" or "we'll try."

Figure 3.7

Our places of work are more diverse than ever before.

Oregon Department of Transportation – Diversity – CC BY 2.0.

Country-by-country differences are so prevalent that a worldwide team of scholars proposed to create and validate a theory of the relationship between culture and societal, organizational, and leadership effectiveness. Called the GLOBE Project, it included 170 researchers working together for 10 years to collect and analyze data on cultural values and practices and leadership attributes from more than 17,000 managers in 62 societal cultures. In its 2006 report, GLOBE identified the following nine dimensions of culture (Javidan, et. al., 2006).

Performance Orientation

Should you reward people for performance improvement and excellence? In countries like the United States and Singapore, the answer is yes. Organizations in these countries use employee training and development to help people improve their skills and performance. In countries like Russia and Greece, however, family and background count for more than performance.

Uncertainty Avoidance

Life often brings unpredictable events, and with them anxiety. Uncertainty avoidance reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. Should you establish rules, procedures, and social norms to help your employees deal with uncertainty? In countries where uncertainty avoidance is high, like Brazil and Switzerland, the answer is yes. People in such societies want strict rules, laws, and policies to eliminate or control the unexpected. Employees in these countries tend to seek order, consistency, and structure. Countries with low uncertainty avoidance, in contrast, are less rule-oriented. They tolerate a variety of opinions and are open to change and taking risks. Countries with low uncertainty avoidance include Hong Kong and Malaysia.

Assertiveness

How assertive, confrontational, or aggressive should you be in relationships with others? In highly assertive countries like the United States and Austria, competition between individuals and groups is encouraged. Managers may set up incentives that reward the best idea, even it it's contrary to established practices. People in less assertive countries, like Sweden and New Zealand, prefer harmony in relationships and emphasize loyalty and solidarity.

Power Distance

Power distance reflects the extent to which the less powerful members of institutions and organizations expect and accept that power is distributed unequally. Should you distribute decision-making power equally among the group? In high-power-distance countries like Thailand, Brazil, and France, the answer is no. People in these societies expect unequal power distribution and greater stratification, whether that stratification is economic, social, or political. People in positions of authority in these countries expect (and receive) obedience. Decision making is hierarchical with limited participation and communication. Australia, in contrast, has a power distance rating that is much lower than the world average. The Australian view reinforces cooperative interaction across power levels and stresses equality and opportunity for everyone.

Gender Egalitarianism

Should you promote men rather than women? Counties with low gender egalitarianism are male dominated. Men hold positions of power to a much greater extent in low-gender-egalitarianism countries like Egypt and South Korea. Companies operating in more gender-egalitarian countries such as the Nordic countries, Germany, and the Netherlands encourage tolerance for diversity of ideas and roles regardless of gender.

Institutional Collectivism

Institutional collectivism refers to the extent to which people act predominantly as a member of a lifelong group or organization. Should you reward groups rather than individuals? In countries with high institutional collectivism such as Sweden, the answer is yes. Countries with low institutional collectivism, such as in the United States, emphasize individual achievement and rewards.

Humane Orientation

Should you reward people for being fair, altruistic, generous, and kind to others? In countries such as Malaysia, this practice is more prevalent and encouraged than in low-humane-orientation countries such as Germany.

Future Orientation

Will your employees favor activities that involve planning and investing in the future for long-term payoff? Or do they want to see short-term results? Future orientation is defined as one's expectations and the degree to which one is thoughtful about the future. It is a multifaceted concept that includes planning, realism, and a sense of control. Companies in countries with high future orientation, such as China and Singapore, will have a longer-term planning horizon, and they will be more systematic about planning. Corporations in countries that are the least future-oriented, such as Argentina and Russia, will be more opportunistic and less systematic. At the same time, they'll be less risk averse.

Global Ventures Gone Awry

When Corning proposed a joint venture with a Mexican glass manufacturer, Vitro, the match seemed made in heaven. But just two years later, the venture was terminated. What happened? Cultural clashes eroded what could have been a lucrative partnership. To start, American managers were continually frustrated with what they perceived to be slow decision making by Mexican managers. Mexico ranks higher on the power distance dimension than the United States—company structures are hierarchical, and decisions are made only by top managers. Loyalty to these managers is a high priority in Mexico, and trying to work around them is a big taboo. Mexicans also have a less urgent approach to time. They see time as more abundant than their U.S. counterparts. As a result, Mexicans thought that Americans wanted to move too fast on decisions, and they perceived American directness in communication as aggressive (Brake, 1996). Additional vignettes on managing across borders are shared next.

Managing Across Borders

Lines on the Map Miss the Real Story

Diversity is deeper than variations between countries. Sometimes those differences appear in different regions of the same country. For example, some parts of Mexico don't use Spanish as the primary language. Wal-Mart's Mexico's Juchitan store, therefore, conducts business in the local Zapotec tongue, encourages female employees to wear traditional Zapotec skirts, and does the morning company cheer in Zapotec.

Talent Abroad

With so much variation across countries, it's no surprise that countries vary in level of talent and the supply of managerial, skilled, and unskilled labor. Companies shouldn't assume that emerging market countries offer inferior labor pools. GM, for instance, found that 50% of its assembly-line workers in India have college degrees—a ratio much higher than in other countries.

Local Solutions by People Who Understand Local Needs

Nokia uses local designers to create country-specific handset models. The models designed in India for Indians are dust resistant and have a built-in flashlight. The models designed in China for the Chinese have a touch screen, stylus, and Chinese character recognition. Local designers are more likely to understand the needs of the local population than headquarters-located designers do.

Strategies in emerging markets conference, held by the MIT Center for Transportation and Logistics (CTL) on March 7, 2007, Cambridge, MA.

Key Takeaway

Because the business environment increasingly depends on collaboration across regional and national borders, a successful global manager needs to be culturally sensitive and have an understanding for how business is done in different cultures. In some countries, loyalty to the group is key. Other countries celebrate mavericks and rule breakers if they can get things done. Knowing how best to communicate with your coworkers and employees—whether to be direct or indirect, whether to follow strict protocol or be more causal, whom to involve in decisions—are all important considerations.

Exercises

1. You've just been made a manager in Sweden, known for its institutional collectivism. What incentives and reward structures would you use to motivate your employees?
2. How would you prepare workers for an overseas assignment?
3. Your company has 12 branches in the United States and will be opening its first branch in Brazil. Your company prides itself on its self-managed teams. Will you keep this policy in the new country? Why or why not?
4. You're a manager in Japan, and you've just discovered that a team leader under your supervision has made a mistake that will result in a quality problem. How will you handle this mistake?
5. You work in Hong Kong for a Swiss-owned firm. The Swiss are known for their high uncertainty avoidance. What differences might you expect to see from your Swiss bosses compared with your Hong Kong employees?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

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3.7 Developing Your Values-Based Leadership Skills

Learning Objectives

1. What ethical challenges do managers likely face?
2. Why are ethics relevant to principles of management?
3. What decision-making framework can you use to help integrate ethics into your own principles of management?

Ethical Challenges Managers Face

It's late at night and the office is quiet—except that you've got a nagging voice in your head. Your product is already two weeks behind schedule. You've got to get it out this week or lose the deal. But you've discovered a problem. To correct the problem would mean another 3-week delay—and you know the client won't go for that. It's a small error—it'll probably never become an issue. What do you do?

Managers face these kinds of issues all the time. Ethical dilemmas can arise from a variety of areas, such as:

- Advertising (desire to present your product or service in the best light)
- Sourcing of raw materials (does the company buy from a supplier who may be underpaying their people or damaging the environment?)
- Privacy (should the company have access to private e-mails that employees write on company time? or the Web sites they visit during work hours?)
- Safety (employee and community)
- Pay scales (relation of the pay of top executives to the rest of the company)
- Product pricing policies (variable pricing, discounts)
- Communication (with stockholders, announcements of plant closings, etc.)

It's easy to think that people who behave unethically are simply bad apples or have a character flaw. But in fact, it's often the situation or circumstances that create the ethical pressures. A global study of business ethics, published by the American Management Association, found that the main reasons for a lapse of ethics are:

1. Pressure to meet unrealistic business objectives/deadlines.
2. A desire to further one's career.
3. A desire to protect one's livelihood. [1]

You may have developed your own personal code of ethics, but the social environment of the organization can be a barrier to fulfilling that code if management is behaving unethically. At Enron, vice president Sherron Watkins pointed out the accounting misdeeds, but she didn't take action beyond sending a memo to the company's chairman. Although she was hailed as a hero and whistleblower, she in fact did not disclose the issue to the public. Similarly, auditors at Arthur Andersen saw the questionable practices that Enron was pursuing, but when the auditors reported these facts to management, Arthur Andersen's managers pointed to the $100 million of business they were getting from the Enron account. Those managers put profits ahead of ethics. In the end, both companies were ruined, not to mention the countless employees and shareholders left shattered and financially bankrupt.

Since 2002, when the Sarbanes-Oxley Act was passed, companies have been required to write a code of ethics. The act sought to reform corporate governance practices in large U.S. public companies. The purpose of the rules is to "define a code of ethics as a codification of standards that is reasonably necessary to deter wrongdoing and to promote honest and ethical conduct," including the ethical handling of actual or apparent conflicts of interest, compliance with laws, and accountability to adhere to the code (SEC, 2009). The U.S. financial crisis of late 2008 pointed out that other areas, particularly in the financial services industry, needed stiffer regulations and regulatory scrutiny as well, and those moves will begin to take effect in early 2009. Some companies go a step further and articulate a set of values that drives their code of conduct, as "Procter & Gamble's Values and Code of Ethics" shows.

Procter & Gamble's Values and Code of Ethics

Procter & Gamble Company lives by a set of five values that drive its code of business conduct. These values are:

1. *Integrity*

   We always try to do the right thing.

   We are honest and straightforward with each other.

   We operate within the letter and spirit of the law.

   We uphold the values and principles of P&G in every action and decision.

   We are data-based and intellectually honest in advocating proposals, including recognizing risks.

2. *Passion for Winning*

We are determined to be the best at doing what matters most.

We have a healthy dissatisfaction with the status quo.

We have a compelling desire to improve and to win in the marketplace.

3.
Leadership

We are all leaders in our area of responsibility, with a deep commitment to delivering leadership results.

We have a clear vision of where we are going.

We focus our resources to achieve leadership objectives and strategies.

We develop the capability to deliver our strategies and eliminate organizational barriers.

4.
Trust

We respect our P&G colleagues, customers and consumers, and treat them as we want to be treated.

We have confidence in each other's capabilities and intentions.

We believe that people work best when there is a foundation of trust.

5.
Ownership

We accept personal accountability to meet our business needs, improve our systems, and help others improve their effectiveness.

We all act like owners, treating the Company's assets as our own and behaving with the Company's long-term success in mind (Procter & Gamble, 2009).

Importance of Ethics in Management

Figure 3.8

Trust is the cornerstone of ethical leadership.

Casa Thomas Jefferson – shaking hands – CC BY-NC-ND 2.0.

Ethical behavior among managers is even more important in organizations because leaders set the moral tone of the organization and serve as role models. Ethical leaders build trust in organizations. If employees see leaders behaving unethically, chances are the employees may be less inclined to behave ethically themselves. Companies may have printed codes of ethics, but the key standard is whether leaders uphold those values and standards. We tend to watch leaders for cues on appropriate actions and behavior that the company expects. Decisions that managers make are an indicator of their ethics. If the company says it cares about the safety of employees but then does not buy enough protective gear for them, it is not behaving in line with its code. Likewise, if managers exhibit unsafe behavior or look the other way when employees act unsafely, their behavior is not aligned with their stated code.

Without integrity, there can be no trust. Leadership is based on trust. Ethics drive effectiveness because employees know they can do the right thing decisively and with confidence. Ethical behavior earns the trust of customers and suppliers as well. It earns the public's good will. Ethical managers and ethical businesses tend to be more trusted and better treated. They suffer less resentment, inefficiency, litigation, and government interference. If top management cuts corners, however, or if they make shady decisions, then no matter how good the code of ethics sounds, people will emulate the questionable behavior, not the code.

As a manager, you can make it clear to employees that you expect them to conduct business in an ethical manner by offering seminars on ethics, having an ethics hotline via which employees can anonymously raise issues, and having an ombudsman office or ethics committee to investigate issues.

Integrating Ethics into Managerial Decision Making

Ethics implies making a choice between decision-making rules. For instance, when choosing between two suppliers, do you choose the cheapest (decision rule 1) or the highest quality (decision rule 2). Ethics also implies deciding on a course of action when no clear decision rule is available. Dilemmas occur when the choices are incompatible and when one course of action seems to better serve your self-interest but appears to violate a moral principle. One way to tackle ethical dilemmas is to follow an ethical decision-making process, like the one described below.

Steps in an Ethical Decision-Making Process

1. Assess the situation: What are you being asked to do? Is it illegal? Is it unethical? Who might be harmed?
2. Identify the stakeholders and consider the situation from their point of view. For example, consider the point of view of the company's employees, top management, stockholders, customers, suppliers, and community.
3.

   Consider the alternatives you have available to you and how they affect the stakeholders:

   - consequences
   - duties, rights, and principles
   - implications for personal integrity and character
4. How does the action make you feel about yourself? How would you feel if your actions were reported tomorrow in the *Wall Street Journal* (or your daily newspaper)? How would you explain your actions to your mother or to your 10-year-old child?
5. Make a decision. This might involve going to your boss or to a neutral third party (such as an ombudsman or ethics committee). Know your values and your limits. If the company does nothing to rectify the situation, do you want to continue working for the company?
6. Monitor outcomes. How did the decision work out? How did it turn out for all concerned? If you had it to do over again, what would you do differently (Hartman & DesJardins, 2008)?

If you see unethical behavior in others, confronting it early is better. Early on, you have more of an opportunity to talk with the person in a fact-finding (rather than an accusatory) way. The discussion may nip the problem in the bud and prevent it from escalating. Keeping silent because you want to avoid offending the person may lead to much greater problems later on. As French playwright Jean-Baptiste Moliere wrote, "It's not only for what we do that we are held responsible, but for what we do not do."

Key Takeaway

Management involves decision making, and decisions often have an ethical component. Beyond personal ethics or a moral code, managers face making decisions that reflect the company as a whole, affecting its future success and vitality. Ethics doesn't just mean following the law but acting in accordance with basic values.

Exercises

1. What are the consequences of unethical behavior?
2. If you were writing a code of ethics for your company, what would you include?
3. In times of economic downturn, is ethical behavior a luxury?
4. How would you handle an ethical violation committed by one of your employees?
5. Nobel laureate economist Milton Friedman said that companies should focus on maximizing profits, not social responsibilities or purposes. Do you agree with this view? Why or why not?
6. What aspects of P-O-L-C would be most likely to change based on what you have learned in this section?

[1]The Ethical Enterprise: A Global Study of Business Ethics. (2005). New York: American Management Association.

References

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