Contents

Acknowledgements iv
Introduction v

Chapter 1 Managing in organisations 1
Chapter 2 Models of management 12
Chapter 3 The business environment 22
Chapter 4 The international context of management 38
Chapter 5 Corporate social responsibility 49
Chapter 6 Planning and strategy 63
Chapter 7 Managing marketing 86
Chapter 8 Organisation structure and culture 99
Chapter 9 Human resource management 109
Chapter 10 The developing organisation 119
Chapter 11 Managing change 130
Chapter 12 Influence and power 139
Chapter 13 Motivation 157
Chapter 14 Communication 168
Chapter 15 Teams 177
Chapter 16 Finance and budgetary control 186
Chapter 17 Managing operations and quality 197
Chapter 18 Managing information systems 210

PowerPoints
Most of the material in this manual has been written by the author who has also edited the text throughout. I am grateful to these colleagues who contributed material for chapters in the manual: Alison More, Chapters 3 and 6; Iain Fraser and Dr. Alison Price, Chapter 5; Dr. Eleanor Shaw, Chapter 7; Professor Phil Beaumont and Dr. Carol Boyd, Chapter 9; Douglas Briggs, Chapter 16; Professor Douglas Macbeth, Chapter 17 and Dr. Albert Boonstra, Chapter 18. I am also grateful to Janie Ferguson, the Business School librarian. Errors and omissions are my responsibility alone.

David Boddy
February 2002
Introduction

Thank you for the interest you have shown in the text, and in this Instructor’s Manual. This note is intended to introduce the manual and to explain the features which you and your colleagues may find helpful when teaching from the text.

The text
A feature emphasised throughout the text is that of encouraging active learning. Students show more interest in these topics if they can engage with them in an active way, rather than passively reading a chapter. So the text includes numerous Case questions, Activities and Review Questions, in the hope that this interactive approach will prove attractive to students and their teachers.

The manual
The manual is intended to support you and your colleagues when you design and deliver courses which use the text. Some will be experienced management teachers designing the courses, lectures, tutorials and assessments. Others will be younger or less experienced staff who are giving support by taking tutorials or generally being available to answer student queries. All will be very familiar with one or more of the topics covered in the text – and in those areas they will gain little from the manual.

However, it is in the nature of such a broad subject as management that staff often find themselves teaching a class, and even more often taking a tutorial, in an aspect of the course that is not their primary field of study. It is at this point that they will seek some ideas and support – and the manual is intended to provide that. It tries to do so by the following features:

Answers to the Case Questions, Activities and Review Questions
Many of these, especially in the Activities and Reviews, are designed to test students’ comprehension, and to encourage them to test their understanding as they go. The answers to such questions are in the text. Rather than repeat them, the manual refers you to the relevant pages on which the students will have been working. Other questions are less obvious, involving more reflection and comparison. In these the manual includes a few tips on the topics that students may reasonably be expected to bring into an answer: but in many cases you will want to add your own interpretation.

Answers to the Part Case Questions
These are again in the form of ideas about the answers that students may present. You may want to consider grouping these Part Case Questions together and using them as the basis for a tutorial discussion of one of the longer Part Cases, perhaps as a way of rounding off and integrating a group of lectures.

Data collection
Most students are very resourceful at getting data about real organisational practices. This data can provide an excellent element in a tutorial, as some of the tutorial designs suggest. A colleague has commented on one danger of student data collection – that a
large and enthusiastic class bent on collecting data from a household-name local company can seriously disrupt the business. So these activities need to be managed sensitively in the light of local circumstances, to maintain good relations.

**Tutorial suggestions**
The manual includes a variety of ideas that have proved useful in running tutorials for students of the kind who are likely to be using the text. They include additional case studies, exercises based on the activities and data collection, and several other formats. They are not tight tutorial plans, but ideas that could be used in designing a sequence of tutorials which fits your teaching programme.

**Examination questions**
These often have to be prepared in a rush, usually at the height of the teaching programme. So to help you get started, each chapter includes two draft examination questions or topics which you can use as a basis for setting a paper that meets your specific requirements. These are accompanied by an outline marking guide for each question, which external examiners often ask to see.

**Other material**
This short section includes, where available, some ideas about other teaching cases available from the European Case Clearing House at Cranfield, videos etc.

**Additional FT articles**
Additional *Financial Times* articles are also located on the lecturer-password-protected part of this site. The purpose of this is simply to give you an additional current source of ideas that you may wish to use to supplement the material in the text from time to time.

**Suggestions**
I welcome comments and suggestions about both the text and the manual, especially the things that work best and those that are difficult; the topics covered, and especially those which should be given more (or less) emphasis; and anything else that would improve the text. Please send any such comments to me at:

David Boddy  
Department of Business and Management  
Gilbert Scott Building  
University of Glasgow  
Glasgow G12 8QQ  
email: d.boddy@mgt.gla.ac.uk

David Boddy  
February 2002
Chapter 1

Managing in organisations

SYNOPSIS
This chapter (which combines Chapters 1 and 4 from the first edition) acknowledges that students will have many different views about the topic they have chosen to study. It tries to clarify some of the common confusions, especially by distinguishing between management as a human activity and as a specialist occupation. This helps people to understand better the roles of professional management and how that relates to other forms of human activity. The chapter outlines theories about the content and process of management work, and shows that managers act within a context, which shapes their role.

SUMMARY
• Management is an activity which everyone undertakes to some extent as they manage their daily lives. It is also an activity which shapes the performance of organisations.
• A functional perspective identifies the management tasks of planning, organising, leading, controlling and learning – making up the content of the management task.
• The content of management work involves developing objectives and dealing with both short-term and long-term issues. A primary aim is to create wealth and well-being for society – though views will differ on whether they do that, and some see organisational objectives as destroying rather than adding value.
• The range of organisational objectives extends far beyond providing goods and services. Planning involves securing and allocating resources of many kinds to support the prevailing objectives. It is the primary role of management to add value to those resources.
• A process perspective identifies how people perform the content of management. Research shows that managers typically work in a highly fragmented way, as they perform the interpersonal, informational and decisional aspects of their role.
• The process aspects of managing reflect the fact that managers need to get things done with the support of others. They cannot take that support for granted, and need to do things in a way that maintains an acceptable degree of internal and external support.
• Since management is not a neutral, technical activity, managers are more likely to support the interests of powerful stakeholders than those of disadvantaged or weak ones.
• A control perspective emphasises that people can monitor how they perform the content and processes of management. They can then identify areas for immediate corrective action, and opportunities for longer-term learning.
• Control reflects the fact that managing an activity effectively depends on periodically monitoring what is happening and taking corrective action. Separate activities
inevitably need co-ordination and control or they fail to achieve what is expected of them.

- Monitoring and reflection are also the basis for learning about ways of improving the effectiveness with which people deal with the content and process of management.

THE CHAPTER CASE

While the Part Case (The Body Shop) is about a company with which many students are familiar, the Chapter Case covers a small high-tech manufacturing business (with the pseudonym Chem-Tec). It shows how managers in the US parent adopted a conservative approach to an innovation, while the UK management were more entrepreneurial. The UK manufacturing manager interpreted this change in the technological context in a way that led him to initiate changes in other aspects of the working context. It illustrates the scope for managers to interpret their context in different ways, with different consequences for their role and for those they are managing. Bill Johnson is encouraging subordinates to use the control data to decide for themselves what to do, rather than passing such decisions to him. This develops the skills of all concerned, and indicates the fluidity of the boundaries between management and non-management work.

CASE QUESTIONS

Chem-Tec

Preliminary questions

Who is the manufacturing manager managing?
An unusually wide range of other people. Most evidently he is managing those reporting directly to him in the firm’s UK manufacturing operation – warehousing, production and packaging staff, for example. He has also grown the role into one where, as a leading player in the ERP project, he is managing relations with the supplier of the system. Finally he is actively managing the more senior managers at the US parent – persuading them to let him develop more radical uses of the system than they had envisaged. The point of this question is to illustrate that management is not just about managing subordinates, but also many other players.

How would you describe his relationship with corporate HQ?
Clearly he is unwilling to defer to their views, even though he is their subordinate. He realises the potential of the system, and is taking the lead in delivering this in the UK plant, sometimes against the wishes of the US parent.

What are the main demands in his job?
The formal demands of the job are to deliver the daily, routine production requirements, as determined by the success of the sales operation and the state of the semiconductor market. He has also added the demands in his own job of using the ERP system to challenge many existing processes – to overturn the status quo (while still meeting daily production needs).

Case question 1.1
What specialised management functions have been created at Chem-Tec?
At corporate level there is the head office management team in the US, and a local management team in charge of the UK operation. Within the latter there are specialised roles of chief executive, commercial manager (dealing with sales, contract negotiations etc.) and manufacturing. Manufacturing is headed by the manufacturing manager, who directs staff dealing with the specialist functions of material supply, planning, production, inventory and shipping.

**What is Bill Johnson doing to break the established boundaries?**
At corporate level he is wanting to bring greater integration between the US and UK plants, by having them use compatible information, derived from the same ERP system. This would enable more consistent reporting across the manufacturing sites.
Within his area of responsibility for the UK plant he is breaking the boundaries between management and non-management roles. He is encouraging, and indeed requiring, operators to take on aspects of the work (such as ordering raw materials) that were previously the responsibility of the manufacturing manager.

**How are others reacting?**
By performing these new roles effectively, since Johnson claims that he is ‘no longer part of the process’ (of ordering replacement supplies).

**Case question 1.2**

**Which of these four management functions are evident at Chem-Tec?**

**Planning**
The case refers to both production and materials planning, which will be based on information from the commercial director about actual and expected orders. On a bigger scale, the ERP system at the centre of the case refers to a computer-based system designed to link all activities of the business around an integrated plan.

**Organising**
The decision to organise to meet European market requirements by setting up a UK plant, rather than continuing to supply the market from the US plant. Also the management structures that the company has created, and which the company is changing in some ways to make good use of the ERP system.

**Leading**
Most clearly through the decision of Johnson to make fuller use of the ERP system than head office expected; and his decision to use it to change the work of his staff. He could have chosen to take a low-key approach, and fit the system to the existing arrangements; instead he has shown leadership in going for a radical change.

**Controlling and learning**
The ERP system is a computer-based way of monitoring and controlling all aspects of the business, using an integrated database. Bill Johnson’s changes to the way staff work is also an example of a manager delegating more control to the staff – he expects them to exercise more control over the processes, material supplies etc., rather than rely on external control by Johnson himself.
ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 1.1 What is management?
Write a few notes summarising what you think ‘management’ means. You might find it helpful to think of instances in which you have encountered ‘management’ – when you have been managed, or when you have managed something. Keep the notes where you can refer to them later.
Encouraging active learning, and this could be used as the basis of part of a tutorial discussion to share perceptions of management.

Activity 1.2 Managing in voluntary organisations
Voluntary bodies are organisations too...If you are connected with a voluntary group of any kind, reflect on how it is managed. How is it different from a business?
This should allow the students to draw on their (usually considerable) experience of charitable and similar work. The similarities are clearer than they initially think – voluntary bodies usually have objectives, which they pursue through processes, technologies structures and cultures, just as a business does. They have responsibilities to ‘customers’ to deliver benefits and to donors etc. to use resources effectively. They compete for donations with other uses of discretionary expenditure. Differences are harder to state – though could be found in the nature of ‘employing’ volunteers or in the wider nature of their objectives.

Activity 1.3 An accurate definition?
Does Rosemary Stewart’s definition accurately describe ‘management’?
Test it by choosing some domestic, community or business activity you have undertaken. Does it capture, very broadly, what you did?
What more specific things did you do to ‘get things done with the aid of other people’?
Data collection as an aid to comparison and understanding

Activity 1.4 Researching women and work
The female share of economic activity has increased etc.
Data collection as an aid to comparison and understanding

PART CASE QUESTIONS
How does The Body Shop compare...?
Probably not as distinctive as it once was. Many other companies include social and environmental concerns as part of their corporate mission, though few if any major companies gives it such a prominent position in their way of doing business. Companies like BP or Shell acknowledge environmental concerns, and seek to take these into account in their decisions: at The Body Shop they are the prime purpose of the business – the business itself is seen as a campaigning vehicle.
What clues are there in the case about ways in which the individual founder is trying to institutionalise her ideas in this now very large company?
The assertion that ‘not a single decision is taken without considering the environmental and social issues’ implies that she has tried to build these issues into the culture of the business. More formally, the arrangements for regular monitoring, auditing and disclosure mechanisms – making public the company’s performance in meeting its ethical objectives.

Dilemmas of two missions
When in conflict, or how far one can be given up to the other. As the company’s profits have suffered from competition, investors have expressed dissatisfaction by selling their shares, which have performed poorly since 1997.

Even in a company like this, basic management practices still need to be managed effectively. The company suffered in 2000–2001 from poor product and marketing decisions, and from too much inventory.

What organisational functions does The Body Shop perform?
Raising awareness of, and interest in, issues of corporate social responsibility, as well as providing goods and services profitably. It is also a way for potential entrepreneurs to set up a business, through the franchising system.

In what ways are the managers in The Body Shop adding value to the resources they use?
By taking raw materials from many places, and making them into something which is more valuable to the customer than the original materials.

What aspects of the content and process perspectives of management can you observe in the case?
The mission statement sets out the range of objectives which the company is planning to achieve, and the franchising operation is their way of organising much of the retail activity. Leading is clearly reflecting the founder’s charismatic personality in enthusing franchisees and staff, supported by weekly videos. Control is shown through the regular visits to the shops and through the audit and monitoring activities; the mission statement is a form of control. A particular aspect of process worth mentioning is the use of focus groups to discuss the ethical policies with interested parties.

What tensions may there be between the organisation’s objectives which managers have to reconcile?
See earlier question on ‘Dilemmas’.

TUTORIAL OR CLASS ACTIVITIES
1. Beliefs about management
2. Case – Management roles in banking

1. Beliefs about management
Aim – to encourage students to clarify their understanding of what management means and to understand how it contributes to the performance of all forms of organisation.

Preparation
Invite students to complete the activities for this chapter and bring them to the tutorial. In addition, invite them to gather information on managers’ experience, by using this brief:

*Arrange a discussion with one or more managers, and ask them about the four categories of manager set out in the chapter (line, general, staff, functional). Do their jobs fit into them? Do they combine parts of each? If so, what are the different demands they meet in the different categories? How much variety is there in the way the different managers describe their jobs?*

At the tutorial
Ask students to debate three or four of the review questions (such as 4, 5 and 9), emphasising that they are to back their discussions and conclusions with specific examples from practice. Work in small groups for 20 minutes, presentations by each group, and plenary discussion and clarification.

2. Case – Management roles in banking
This case study outlines the changing role of the branch managers in a bank. It allows students to compare an account of the job with the theories about the functions and processes of management, and to consider how external forces changed, and continue to change, the role.

The narrator works as a manager in a bank that has since merged with another bank. Part A describes the role of the typical branch manager as late as 1996. Students could be asked to prepare by reading the case in advance and, if possible, collecting some original data on question 4. Then compare answers in groups, summarise findings and share conclusions in plenary.

‘Managing a bank branch has come a long way since the days when customers could only deposit money, and the transactions were written up in leather-bound books. There was only one product, a savings account, but now (in 1996) there are many different accounts available to customers, depending on their requirements – low interest to high interest, and from free access to fixed term. There is also a wide range of lending products, from variable terms and interest to fixed term and interest.

In managing the operations of the branch the manager takes various inputs – staff, equipment, premises, products and so on and turns them into services to the customer. In doing so the manager is frequently allocating resources, to ensure continuous timely and accurate service. He or she also acts as a marketing manager, concerned with the customer and the service provided. So the manager is responsible for ensuring a friendly and efficient customer service is provided. They must organise staff to ensure a fast and efficient counter service, as customers do not like standing in queues. They also must
ensure that the sales team understand their sales targets and that they are well-trained and can provide a friendly, efficient and individual service to each customer.

Branch managers must also play their part in selling products and services to the customer, interviewing them and leading by example. They must also motivate staff to give their best performance. A critical factor for the bank is to understand the diverse requirements of different customers and to build a relationship with them by meeting their needs. The main function of the branch is to provide that service, and meet customer needs. The staff sell the products to the customer and follow that up to deliver the product as required.

To help branch managers focus on customer service, much of the administrative work done by branches has been transferred to customer service centres. They deal with tasks like processing standing orders, maintaining accounts and cheque processing. The branch staff still deal with the queries of customers who visit the branch, marketing bank products and lending funds to customers.

Managers consider staff motivation as one of their main tasks in running an efficient and profitable branch. The bank encourages branch managers to use an open management style to keep staff aware of all developments, at a local and national level. Staff have been given more training and more responsibility. Customer service executive jobs have been created, with the responsibility of increasing sales. Performance-related pay schemes have been introduced and staff have been told exactly what is expected of them. Branch managers are expected to enhance this motivation in staff by keeping them well-informed about customer satisfaction, and how they are doing in reaching sales targets and overall branch profitability.

The branch manager is expected to hold team meeting at least once a month. This is considered to be the best way to:
• provide an opportunity for managers and staff to discuss developments in their area, and in the bank as a whole;
• to provide feedback on subjects of concern;
• to encourage different teams and parts of the organisation to communicate effectively with each other.

These meetings are important as they allow face-to-face communication with the branch manager and enable all team members to receive the same explanations and to share questions and ideas.

Planning is one of the branch manager’s main functions – it is done in all their roles and duties. They make plans for everything – staff duties, staff requirements, profit budgets (set in negotiations with area management), marketing plans, customer service, and meetings with staff, customers and senior managers.

The branch manager is also a local symbol for the bank – attending social events in the community, meeting customers who are not happy with the service and signing loan
agreements. They spend a lot of time dealing with other branch managers, especially comparing experience on successes and failures, to try to find the best way of meeting targets. They also receive regular information on the profitability of the branch which they can use in making decisions, identifying possible new customers and trying to increase business by solving their problems.’

Questions
1. What evidence in the case is there that the work of the branch manager reflects the four management functions outlined in the chapter?
2. What evidence is there about the branch manager performing any of Mintzberg’s roles?
3. What clues are there in the case about the way the role of branch managers had begun to change at the time of this account?
4. Gather information about developments in banks in more recent years, by talking to someone who works in a bank. What conclusions can you draw about the continuing change in the work of managing in a bank?

Commentary on questions
1. What evidence in the case is there that the work of the branch manager reflects the four management functions outlined in the chapter?
All are mentioned in some way, with a particular emphasis perhaps on planning. But also organising, leading and controlling all feature in the account.

2. What evidence is there about the branch manager performing any of Mintzberg’s roles?
Similarly, there is evidence of most of the Mintzberg roles being recognised – though the emphasis inevitably varies.

3. What clues are there in the case about the way the role of branch managers had begun to change at the time of this account?
Centralisation of some administrative services.
A greater selling role.
A sense of much tighter management by the centre – profit targets etc. These in turn must have meant that the skills required to manage a branch changed considerably, from running a relatively stable administrative operation, to something much more entrepreneurial. Many managers were unable to cope with the change and left the bank at the time of this account.

4. Gather information about developments in banks in more recent years, by talking to someone who works in a bank. What conclusions can you draw about the continuing change in the work of managing in a bank?
More of the changes identified in 3. More competition from new entrants, more pressure to cut operating costs, and therefore many branch closures. More of the customer-service functions now conducted through telephone banking services or over the Internet which removes the need for a branch bank network. Customer satisfaction surveys often show high levels of discontent, over both charges and levels of customer-service.
Concluding points
By working on this case (which can be readily updated as new developments in the sector are widely reported) students can be shown how they can make connections between the theoretical models and practice; and that practice changes, perhaps requiring some variations or refinements to the models.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Apart from delivering goods and services, what other functions do organisations perform?
Comprehension and application, pages 9–11.

2. What is the difference between management as a general human activity and management as a specialised occupation? How has this division happened, and what are some of its effects?

3. What examples are there in the chapter of this boundary being changed, and what were the effects?
Relating the ideas of pages 8–13 to current practice. Implications could be changes in status, increased stress and responsibility, more satisfying work and many more.

4. Describe, with examples, the differences between general, functional, staff, line and project managers.
Comprehension, pages 13–14.

5. Summarise the four functions of management.

6. How does Mintzberg’s theory of management roles complement the functional approach?
By focusing attention on the way managers perform their functions (see page 23).

7. What is the significance of Luthans’ theory to management practice?
Emphasises the importance of networking skills or those who wish to rise rapidly in their organisation.

8. Give an example of the way in which an organisation has been managed in order to maintain or increase gender inequality? What are the consequences of such practices likely to be?
Comprehension and application of pages 27–29.

9. How can a critical perspective help managers do their job?
A critical perspective helps to ensure that proposals and arguments are well founded by encouraging them to:
• challenge assumptions;
• understand management in its wider context;
• be aware of alternative ways of doing thing;
• be generally sceptical towards what is presented.

This in no way implies a do-nothing cynicism – it is a constructive route to more effective (widely interpreted) organisations.

10. Review and revise the definition of management that you gave in Activity 1.1. To see what changes in understanding there have been since starting the chapter. Compare some before and after examples in a tutorial.

DRAFT ASSIGNMENT OR EXAMINATION QUESTIONS
1. Outline Mintzberg’s classification of management roles (10%); and analyse your own role as a manager in terms of that classification (40%). How useful is it as a guide to what managers do, in view of the diversity of the management role (50%)?

Outline… Expect a brief but accurate account of the elements of Mintzberg’s classification.

Analyse… They should then outline their role, and review it against the model. They should at the least consider all 3 large categories, and illustrate with specific examples how they do or do not recognise their activities in those headings.

How useful?… Good answers would also draw on work by Luthans and on some of the roles which many managers believe Mintzberg omitted.

2. Compare the model of management functions with the conclusions of Mintzberg’s research on management roles (25%). Set out the strengths and weaknesses of Mintzberg’s model (50%); and illustrate your answer with evidence from your work experience or from discussion with those who have worked in a management role (25%).

Compare and contrast
Answers should outline the functional model and an accurate account of Mintzberg; and make some explicit attempt to link the two.

Strengths
Empirically based.
Built on, and broadly consistent with, earlier research by Stewart, Carlsson etc.
Supported by some later studies.
Managers can identify the roles in their own activities.

Weaknesses
Empirical base small and unrepresentative.
Omits some key roles which managers experience, – e.g. as subordinate and as task expert/worker.
No attempt to relate to performance.
Illustration from experience
Up to 25% for convincing and critical integration of experience and theory, and also if properly summed up and concluded.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

The Body Shop  www.bodyshop.com

Contains information about the company and its policies, including the audits of its ethical policies.

BP-Amoco  www.BP.com

Information about the company and the business it operates to meet the needs of different consumer groups. There is a recently updated Company Facts entry on BP at the biz/ed site (see below).

Other websites

Biz/ed  www.bized.ac.uk

Contains files of company information and a vast amount of other resources that may be useful to students of business and management. The site has links to other educational sites and hosts primary materials not found elsewhere on the Internet. The Company Facts page is particularly useful, giving updated information about many of the companies quoted in the text.

Critical management  www.jiscmail.ac.uk

For information about current events, publications and discussion from a critical perspective, go to the site then click on ‘lists’ and ‘management’
Chapter 2

Models of management

SYNOPSIS
This chapter introduces the major models of management. Rather than present these in a historical sequence it uses Quinn’s competing values model as the organising framework. This allows the chapter to show that while the earlier models have been augmented by later ones, they are not necessarily displaced by them. The chapter also brings in some perspectives not always covered in such texts, such as chaos theory and a comparison of unitary, pluralist and critical perspectives.

SUMMARY
• The chapter reviewed four main approaches to understanding management within the competing values model. Each approach illustrates issues which arise in managing organisations.
• Rational goal models outline how management can meet its objectives by separating management from work activities, allowing people to concentrate on distinct tasks.
• Internal process models also stress how careful planning and clear structures help managers to control large public and private enterprises.
• Human relations approaches show how good social relationships amongst people at work affects their behaviour in a way that rational goal models overlooked. Human relations writers also studied the internal processes of organisations. Mary Parker Follett advocated involving groups in decision-making, given their capacity for creative problem-solving.
• Open systems models emphasise the influence of the external environment on internal events, and on the need to satisfy key stakeholders.
• A recurring theme is management’s search for better ways to control people on whose behaviour they depend. Some theories have focused on the individual worker, with a battery of fairly direct techniques of measurement and control. Others focused on broader organisational systems that would help to institutionalise and depersonalise this aspect of management.
• The Hawthorne studies drew attention to the way in which cohesive groups can themselves exert control over people, irrespective of management wishes. Control is not just a prerogative of management.
• The increasing turbulence and unpredictably of economic systems reduces the power of externally-imposed control. Theorists now place more emphasis on the scope for self-control that reintegrates this aspect of management with the work itself.

THE CHAPTER CASE
The case is an unusual one, but past events exert an influence on present activities in organisations. Taking a historical perspective on management leads naturally to Robert Owen, one of the earliest managers of large-scale business in Europe. The case gives
students an insight into early management problems and practices, which many may be able to relate to their knowledge of the social history of the period.

The continuing resonance of his ideas was recognised in 2001 when the mill and related buildings at New Lanark were designated a World Heritage site. They attract thousands of visitors each year keen to gain insight into the work of this early manager who in many ways was ahead of his time.

The Chapter Case also provides some surprising parallels with the Part Case, based on The Body Shop. Indeed these parallels and contrasts could feature in a tutorial discussion of the chapter.

CASE QUESTIONS
Robert Owen – an early management innovator
Preliminary Questions
What management issues was Owen dealing with at New Lanark?
An untrained workforce unfamiliar with industrial work; severe business fluctuation which made planning difficult; those with scruples about employing child labour threatened by competition from manufacturers who were willing to use this cheap supply. The New Lanark enterprise was innovative for the time, with little accumulated experience to go on. More broadly, students could be invited to note the similarities between the account of New Lanark and contemporary business issues – such as attempts to control staff behaviour; educational reform; training for work; child care provision and the controversy surrounding attempts to legislate on employment matters – especially in establishing common European standards.

How did the wider context affect Owen’s management activities, and how did Owen try to change that context?
A poorly educated and untrained labour force, with little experience of industrial life, meant that Owen invested time and effort in systems to control behaviour both in the factory and in the workers’ family and social lives. Severe business fluctuation made planning difficult. He faced severe competition from manufacturers who were willing to use child labour.

Owen tried to change some aspects of this context by campaigning for legislation to improve educational standards and to abolish child labour. He was active in the wider community, and in trying to influence political events and legislation.

What parallels can you see between Owen’s approach to management and that of Anita Roddick at The Body Shop?
Parallels include:
• combining deeply held moral principles with an ability to build substantial businesses;
• putting moral principles into practice within their business;
• both wanted a successful business to be the support for their campaigning work;
• both deeply involved in wider community issues and activities;
• both experienced disappointments and failures, as well as successes.
Case question 2.1

*Which of the variables in Figure 2.1 was Robert Owen attempting to influence?*

The main examples are:

- technology – factory modernisation, and housing built next to the factory
- structure – administrative rules and control system
- people – poorly trained and educated workforce.

*Which of the variables were influencing the performance of his mill?*

Several of the items above, plus those in the external environment such as economic fluctuations and a political system which allowed competition from factories offering poorer and cheaper working conditions.

Case question 2.2

*Which of the ideas in the rational model of management was Owen experimenting with at New Lanark?*

Obviously pre-dates the development of the model, but he was experimenting with production planning and control systems, and imposing discipline on workers.

*Would you describe Owen’s approach to management as ‘low involvement’?*

Not a lot of evidence on this but given his concerns over child labour and education and his provision of child care facilities, a reasonable inference is that he was closer to a high involvement view of the relations between worker and company.

*What assumptions did he make about the motivation of workers?*

Incipiently lawless, and needed to be tightly disciplined; attracted by financial incentives, especially if children could be looked after. Emphasis on education suggests he was aware of human potential.

Case question 2.3

*In what ways did Robert Owen anticipate the conclusions of the Hawthorne experiments?*

By his experiments in co-operation and community development he recognised the social interests of his workers.

*Which of the practices that he used took account of workers’ social needs?*

 Providing child-care showed awareness of the links between domestic life and work. No evidence about the internal arrangement of the work itself, but the control system implies that it was based on individual work rather than teams. Encourage students to visit the web site to see if they can find more.

Case question 2.4

*Draw a systems diagram detailing the main inputs, transformation and outputs of Robert Owen’s mill. Which aspects of the environment probably had most influence on his management practices?*

A chance for the students to practise a standard management technique.
PART CASE QUESTIONS

In what ways, if at all, are the models in the competing values framework supported by the evidence of The Body Shop case?

Open systems – clearly a company that is focused on the external world, trying to influence people’s attitudes and wider public policy through its campaigns.

Human relations – the emphasis on training and developing staff, and encouraging teamwork.

Internal process – extensive systems and procedures in place to support and guide operations in a geographically widespread business.

Rational goal – emphasis on growing the business rapidly to enable it to meet the primary goal of education and social change in relation to the environment.

How does the management approach of Anita Roddick compare with that of Robert Owen?

Both have social values and objectives beyond the business itself, and both sought to influence public policy and legislation. Both committed to education and training.

How do you imagine (on the evidence) that Body Shop managers view uncertainty?

As an opportunity to be used to the advantage of the business – continual stress on innovation, creativity and unconventional methods.

ACTIVITIES

Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 2.1 What assumptions did they make?
What assumptions did Frederick Taylor and Lillian Gilbreth make about the interests and abilities of industrial workers?

Taylor – that they would accept external control in return for financial reward; that they acted out of individual self-interest; that their abilities could be narrowly assessed in relation to the requirements of a specific manual job.

Gilbreth – that workers would be able to build their self-respect and pride by proper training and by management providing the necessary support systems for productive work.

Activity 2.2 Finding current examples
Try to find an original example of work which has been designed on rational goal principles. There are examples in office and service areas, as well as in factories.

Compare your examples with colleagues.

Data collection and comprehension.
Students should be able to draw examples either directly or indirectly from their experience in part-time or previous jobs, or the work experience of family or friends.
Activity 2.3  Bureaucratic management in education?
Reflect on your role as a student, and how rules have affected the experience. Try to identify one example of your own to add to those below, or which illustrates the point specifically within your institution:
Rules and regulations: the number of courses you need to pass for a degree
Impersonality: admission criteria, emphasising previous exam performance, not friendship
Division of labour: chemists not teaching management, and vice versa
Hierarchical structure: to whom your lecturer reports, whom they in turn report to.
Authority structure: who decides whether to recruit an additional lecturer?
Rationality: appointing new staff to departments that have the highest ratio of students to staff.

Compare your examples, and consider the effects of these features of bureaucracy on the institution and its students.
An opportunity to reflect on management practices from a customer’s or user’s perspective.
Could be the basis for a class or tutorial discussion.

Activity 2.4  Is bureaucracy always bad?
‘Rules and regulations’ often get a bad press, and we have all been frustrated at times by rules that got in the way of what we wanted to do. Are they always bad news?
Think back to a job that you or a friend has held.
Did the supervisors appear to operate within a framework of rules, or did they do as they wished? What were the effects?
Did clear rules guide selection and promotion procedures? What were the effects?
As a customer of an organisation, how have rules and regulations affected that experience?
Reflection and comprehension, to balance the negative connotations which bureaucracy arouses in many people. The ‘protection of rules’ argument (page 50).

Activity 2.5  Explaining the trend
Describe in your own terms the pattern shown in Figure 2.3.
Compare in particular the output in periods 7, 10 and 13.
Before reading on, what explanations would you put forward for this trend?
Interpreting data, page 55.

Activity 2.6  A comparison with Taylor
How does this evidence compare with Frederick Taylor’s belief that piece-rates would be an incentive to individuals to raise their performance?
Comparison of evidence with earlier theory (pages 44–46).

TUTORIAL OR CLASS ACTIVITIES
1. Understanding the competing values framework
2. Case – Contrasting cultures in the media business
Understanding the competing values framework
This suggested tutorial is designed to provide an opportunity for staff to clarify any difficulties students have with the four perspectives on management within the competing values framework. It draws particularly on The Body Shop case and some of the Activities from the chapter. The material in the chapter is quite theoretical, so using a current case like The Body Shop as the focus of the tutorial should help students to see the relevance of the material to practice.

Aim – to provide an opportunity to clarify any difficulties that students have had with this chapter.

Preparation
Ask the students to ensure that before the tutorial they
• read the chapter,
• read The Body Shop case at the beginning of the Part,
• collect any other publicly available information about the company,
• complete the Case Questions, Activities and Review Questions to inform their discussion.

At the tutorial
Set this task
In small groups,
1. Agree your answers to Body Shop Questions 1 and 2.
2. Compare your answers to any of the Review Questions that have caused members any difficulty.
3. Prepare a report to the class outlining your answers to The Body Shop Questions 1 and 2 and on at least two of the Review Questions that you wish to discuss further.

Plenary
Present reports, preferably on flipchart.
Staff comment and clarify, drawing if required on the suggested answers given above.

Concluding points
Similarities as well as contrasts between The Body Shop and Owen’s enterprise.
The competing values framework – reflects different parts of the whole, so need to be familiar with multiple perspectives on management.
The current dominance of open systems perspectives should not lead to ignoring the others, which contribute to different aspects of the management problem.

2. Case – Contrasting cultures in the media business
The media landscape is shifting rapidly, especially as established, popular newspaper brands consider how they can use the opportunities which the Internet provides to strengthen and expand their core business. While initial interest centred on establishing completely new dot.com companies, established media companies are recognising that
success in the new economy will go to those who can execute strategies that bridge the physical (offline) and the virtual (online) worlds.

The Internet represents a huge commercial opportunity for a publishing and media company. It offers an inexpensive way to publish information to a large audience, and to allow interaction by the user with the published information in a way that has never been possible before. In time, these technologies will transform the business of publishing beyond recognition. The Internet will also bring cost benefits through improved access to information and much cheaper business-to-business communication, though changes in this area will be minor in comparison with the effects on the core publishing business.

The Daily News (not the real name of the company in this case) has invested heavily in electronic publishing. ‘It is our intention to build on our long-standing commitment to quality and our unrivalled editorial excellence and experience to create the best media products of tomorrow’ (Corporate Profile, Annual Report and Accounts 2000).

Profile of the parent – The Daily News
The Daily News is one of the longest-established and most successful media companies in the UK. It was incorporated in 1992 but its origins date back to the 19th century. It has interests in national and regional newspapers, business publishing, television, radio, exhibitions, education and information publishing. The Group intends to build on its success by further investment in both existing and new products as well as through the acquisition of suitable assets.

Group structure
The Daily News is the publisher of the traditional papers, together with their respective magazine sections which are all based in London. It is also responsible for the plant at which all four newspapers are printed. The group has created Daily New Media (DNM) to oversee and develop the Group’s mass-market Internet properties. This company now publishes some of Europe’s most popular Internet sites. For examples of websites produced by other companies, visit

www.FT.com
www.thisislondon.co.uk The award winning online city guide in conjunction with the Evening Standard newspaper.
www.thisismoney.co.uk An online personal finance advisor.

The company was formed in 1998, and is located in separate premises in the West End of London. The offices were refurbished with a bright orange floor, a juke box, a young vibrant innovative team. The dot.com market was booming, and DNM was developing a distinctive culture.

By early 2000 the dot.com boom was over. Advertising revenue was slowing and many new companies had collapsed. The Daily News decided that rather than allow DNM to distance itself from the main companies it should be brought back under the umbrella of The Daily News. The focus now was to be in areas that are complementary to the national newspaper division. To take advantage of better cross-marketing opportunities
and other synergies DNM became the digital publishing division of The Daily News. DNM would help to form a communication bridge between the offline and online parts of the company.

The objectives to this end are:
- To create complementary content for existing newspaper readers on the Internet
- To attract new customers
- To protect and increase classified revenue
- To innovate cross-media solutions for advertisers
- To develop a profitable business.

Questions

In view of what you know about traditional newspaper companies and online companies,
1. What differences in culture are there likely to be between the two businesses?
2. Use Quinn’s model to assess this, and to consider the different management approaches in the two businesses.
3. How would the ideas associated with each of the four cultures contribute to managing the enterprise?

Commentary on questions

In view of what you know about traditional newspaper companies and online companies,
1. What differences in culture are there likely to be between the two businesses?
The Daily News is likely to be relatively structured and traditional, DNM to be much more flexible and entrepreneurial in outlook.

2. Use Quinn’s model to assess this, and to consider the different management approaches in the two businesses.
The Daily News is likely to combine elements of the Internal Process and Rational Goal models; DNM will reflect the open systems model. Students can then be encouraged to consider what this is likely to mean for how they are managed, using Figure 2.2 as a guide. Table 2.1 lists some modern applications of the rational goal model which are likely to be present in The Daily News, and Table 2.2 does the same for internal process models. These practices are likely to jar with the practices typical of a dot.com business valuing initiative and innovation.

3. How would the ideas associated with each of the four cultures contribute to managing the enterprise?
An opportunity to show how each may have some contribution to make – they are not competing, but complementary models.

Suggested answers to review questions

1. Name three ways in which theoretical models help the study of management.
   By:
   helping to understand complexity;
indicating a range of alternative perspectives on the same phenomenon (cf. Morgan’s metaphors); and by reflecting the context in which they were created.

2. What are the different assumptions of the unitary, pluralist and critical perspectives on organisations?

Unitary – members share and accept the common purpose of the organisation, and subordinate individual interests to the good of the whole.

Pluralist – organisations are coalitions of interest groups with their own objectives which may or may not coincide with those of other groups.

Critical – organisations reflect deep divisions and inequalities in society, and are used by the powerful to protect their interests.

3. Name at least four of Morgan’s organisational images.

Aid to comprehension, page 42.

4. Draw the two axes of the competing values framework, and then place the theories outlined in this chapter in the most appropriate sector.

Aid to comprehension, pages 42–44.

5. List the five principles of scientific management, and evaluate their use in examples of your choice.

Aid to comprehension, pages 44–46.

6. What was the particular contribution which Lillian Gilbreth made about how workers’ mental capacities should be treated?

By pointing out that given the chance workers could contribute to problem-solving themselves, rather than depend on management to do it for them.

7. What did Follett consider to be the value of groups?

Support for democratic principles, and a way of helping people to learn about taking responsibility for their actions, pages 54.

8. Compare Taylor’s assumptions about people with those of Mayo. Evaluate the accuracy of these view by reference to an organisation of your choice.

Aid to comprehension, pages 44–46 and 55–57.

9. Compare the conclusions reached by the Hawthorne experimenters in the relay assembly test rooms with those in the bank wiring room.

Aid to comprehension, pages 55–57.

10. Compare examples of open and closed systems.

Intended that students will struggle to find examples of completely closed systems. They may, however, note examples of what look like closed system thinking – acting as if a system was independent of the external world. Internally, this happens when people in a department or function make plans without reference to those outside who will be
affected by them. It can also be seen in the attitude of many people towards the natural environment – acting in a way that (say) increases air pollution, ignoring the evidence that this will affect other systems and ultimately themselves.

11. Outline an organisational system of your choice, paying particular attention to the feedback loops.
Comprehension and application, pages 58–61.

12. How does uncertainty affect organisations and how do non-linear perspectives help to understand this?
By making detailed forecasting and planning beyond the short-run difficult and probably unwise. The assumptions behind non-linear perspectives clarify and perhaps legitimise an incremental, step-by-step approach to business development.

**DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE**

1. Evaluate Taylor’s contribution to the development of management practice.
Weak answers will limit themselves to a description of the principles of scientific management, with some reference to the widespread use of the ideas. Better answers will set the ideas in their historical context, and use the competing values framework to consider the underlying rationale of the approach. Clearly the ideas conflict with other values and this was the source of much of the opposition to Taylorism at the time. Good answers will also show that many of the reasons behind the approach still apply in modern business and will cite examples of scientific management type approaches still being applied in some modern organisations. Their use can be managed in a way that acknowledges these other values and takes them into account.

2. Throughout the twentieth century, management theorists’ approaches to the study of management have differed and developed. What are the key differences between these approaches?
This question requires students to analyse the work (and the study of the work) of management. Average answers would simply present and evaluate a range of theories of management. More sophisticated answers would discern different approaches to the study of management and place them within the context of a model such as the competing values. Or they may distinguish between prescriptive and descriptive, with the latter further distinguishing between operational and political accounts. Such an answer could also consider different views on management work in relation to the phases of management research.

**GUIDE TO FURTHER MATERIAL**

**Websites**

New Lanark  
www.newlanark.org

A brief introduction to the World Heritage Site at New Lanark, and a list of the facilities and educational publications available.
Chapter 3

The business environment

SYNOPSIS
Changes in the external environment impinge on virtually all aspects of business activity, and the way in which organisations are configured internally affects their ability to respond successfully. This chapter provides an essential foundation for later chapters such as those concerned with strategy and marketing.

SUMMARY
• The general and competitive environments have a major impact on what organisations do, affecting decisions on strategy, production, distribution, marketing and organisation.
• The general environment, sometimes known as the macro-environment, comprises political, economic, social and technological factors that affect all organisations.
• The competitive environment encompasses the organisation’s existing and new competitors, customers, suppliers and substitute products and services.
• The expectations of stakeholders also influence what organisations do.
• Management therefore needs to scan the environment, identify critical forces for their organisation, and assess how well the organisation’s internal environment can cope with external conditions.
• The PEST framework, Porter’s five-forces model and the stakeholder power/interest matrix can be used to analyse the different environmental elements.
• The processes of environmental analysis need to be organised, so management has to consider where intelligence-gathering is located in the organisation, and how frequently it is done.
• The closer forces are to the centre of the organisation the greater management’s ability to exert influence and even control over them. Internal factors are most easily controlled but some steps can be taken to influence external factors.
• Companies can seek to gain advantage over competitors by building relationships with suppliers or customers or by making it harder for other firms to enter their territory.
• Management will probably aim to satisfy the more powerful stakeholders rather than the weaker interests. But it does not always act passively and can try to influence both the power and the behaviours of some external stakeholders.
• Many factors, especially in the general environment, are mostly outwith the direct control of organisations. This underlines the need for management to scan, anticipate, plan and adjust organisational actions in response to environmental change.

THE CHAPTER CASE
Both of the cases selected for this chapter relate to well-known companies. This enables students to track further developments (for the purposes of group or individual work)
from other sources such as company websites and media coverage. Both cases can also be used to elaborate upon issues raised in other chapters. For example, the Laura Ashley case includes material on internal as well as external environmental factors, and can be used in conjunction with Chapter 6, as a basis for a SWOT analysis. Both cases allow the exploration of other topics such as strategic choice.

**CASE QUESTIONS**

**Nokia**

**Preliminary questions**

*How has the environment favoured the development of Nokia?*

See Case Question 3.1 (1990s).

*How could the same factors turn to the disadvantage of the company?*


*What are your conclusions for management in any organisation?*

They need to remain vigilant and cannot assume stability in the outside world. Changes are often unexpected and unpredictable, so they need to scan external factors constantly to be ready to react and adapt.

**Case question 3.1**

*Gather some information from current newspapers about the telecommunications industry. What are the main factors that are affecting it?*

The industry comprises different types of company, such as network operators, equipment (e.g. mobile handset) manufacturers, and component suppliers. There may be some variation in the factors affecting these and also differences between the markets for traditional (land line) services in contrast to mobile/Internet services. There will also be geographical variations, e.g. between Europe and the US. Taking the specific case of European network operators (e.g. BT, France Telecom, Deutsche Telekom), the main factors affecting the industry in 2001 were:

- Heavy debt burdens following government auction of 3G mobile licences;
- Forced sale of assets and/or raising of new equity in order to reduce the debt;
- Lower share values and downgrading of company borrowing status by financial institutions;
- Uncertainty over future growth in new mobile services;
- Increasing competition as deregulation continues; emphasis on ‘local loop unbundling’ required by EU legislation (opening up local exchanges to competitors);
- Technological change: broadband technology (for land lines) and 2.5–3G mobile technology;
- Global economic slowdown affecting demand for new products and services, and fall in share prices (also led to production overcapacity in telecoms equipment industry which was forced to make major layoffs in 2001).

*Also collect information on Nokia and the part of the market (mobile phones) in which it is operating.*
Use the PEST framework to identify the general environmental factors that 
(a) were important in Nokia’s development in the 1990s  
(b) are posing threats for Nokia and the mobile telecoms industry in 2001. 
What are the specific PEST factors that management needs to be taking into account?

<table>
<thead>
<tr>
<th>PEST factor</th>
<th>1990s</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political-legal</td>
<td>Supportive national government. EU adopts GSM technology at same time as Finland joins EU.</td>
<td>Auction of 3G licences by national governments has left network operators heavily indebted (and less able to subsidise handsets).</td>
</tr>
<tr>
<td>Socio-cultural</td>
<td>Nordic countries early and enthusiastic adopters of mobile communications. Consumers see mobile telephones as fashion accessories.</td>
<td>Customers may tire of Nokia brand. Demand for 3G phones may not be as high as anticipated.</td>
</tr>
<tr>
<td>Technological</td>
<td>Advent of 2G (digital) technology.</td>
<td>Delays in 3G technology. Convergence in mobile telephony/handheld computing technology.</td>
</tr>
</tbody>
</table>

Key factors for management: how soon will 3G technology be operating and widely available; predicting consumer demand for 3G phones; the existence of competing or alternative products

Case question 3.2
Conduct a five-forces analysis for Nokia.

Threat of new entrants
- Economies of scale are needed to compete on cost (but potential competitors may already have scale in related industries).
- Entry costs – components can be sourced and assembled externally, no need for direct investment in capital plant and machinery.
- Distribution channels – well established.
- Product differentiation – Nokia brand may command customer loyalty (but customers are fickle).
- Emergence of new technology may change the rules of the game.

Bargaining power of suppliers
For handset components (a major input),
• Number of suppliers is relatively large.
• Components not differentiated.
• Switching costs – Nokia has invested in developing good relations with major suppliers so switching costs could be high.
• Forward integration – unlikely.
• Nokia’s business is important to suppliers.

Bargaining power of buyers
• Individual buyers not important in relation to Nokia’s total output.
• But substitute products are available and costs of switching relatively low.
• No threat of backward integration.
• Intermediaries (retailers) can influence consumers’ purchasing.

Substitutes available?
What are substitutes? Fixed line telephones. Email (in place of text messaging).
• If mobile prices too high, consumers may restrict their usage (but this also depends on network operators’ call charges).
• Fixed lines/email do provide alternatives, but lack essential ‘mobile’ quality.

Competitive rivalry
• Several competitors, but Nokia has dominant share.
• Market growth slowing (at least in some geographical markets) and demand for 3G uncertain (possibly lower than first projected), so rivalry could increase.
• Fixed costs are high (production capacity owned by Nokia).
• Exit barriers? Capital tied up in factories, but these may have alternative use. But employee layoff costs also to consider.
• Lack of differentiation – yes, similarity in products, though Nokia so far has the edge in design/accessories (but can be imitated).

Summary
• Barriers to entry – relatively low.
• Supplier power – low.
• Buyer power – moderate to high (due to ease of switching).
• Threat of substitutes – moderate.
• Rivalry – fairly high/increasing.

Is this an attractive industry? Rivalry set to increase in some geographical markets as market growth slows (at least for current 2G phones). Buyer power relatively strong. New entrants possible. Substitutes available. Market maturing so less attractive in terms of potential margins and profitability. Growth prospects remain in some
countries, but overall unlikely to experience the spectacular growth and returns seen in the 1990s.

*How do these compare with the competitive forces facing BP Amoco?*
See the second Part Case Question below.

**Case question 3.3**

*How would you classify the form of environment in which Nokia operates?*

The importance of new technology in this industry implies a rapidly changing (dynamic) environment as new advances are made. The mobile phone market also grew very rapidly as mobile phones became an everyday commodity. As the market approaches saturation, however, sales and revenue growth are likely to slow, and the uptake of new 3G phones is uncertain. This earnings volatility is also associated with dynamic environments. The global nature of the mobile phone market – in terms of both supply and manufacture (components supplied and assembled in diverse locations across the world) and sales of handsets (also worldwide) – means that Nokia also faces a complex environment. The fact that the company produces a number of products – not just mobile handsets – adds a further layer of complexity.

**Case question 3.4**

*Who are the main stakeholders in Nokia?*  
*What are their interests in the success of the company?*  
*How could management ensure it maintained the support of the most important stakeholders?*

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Main interests</th>
<th>How to maintain support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Handsets which are available at reasonable cost, convenient to use and attractive.</td>
<td>Work with suppliers to keep costs as low as possible. Use of focus groups and observation to ensure good handset designs. Maintain good links with network operators.</td>
</tr>
<tr>
<td>Employees</td>
<td>Continued employment; income. Pleasant working environment.</td>
<td>Remain competitive to maintain production levels and avoid layoffs. Attention to management style and working environments. Involve employees in decisions that affect them.</td>
</tr>
</tbody>
</table>
PART CASE QUESTIONS

*Construct a PEST analysis for BP Amoco.*

<table>
<thead>
<tr>
<th>PEST factor</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Political-legal</td>
<td>OPEC controls on crude oil prices.</td>
</tr>
<tr>
<td>Economic</td>
<td>Economic slowdown reduces demand for oil/petrol.</td>
</tr>
<tr>
<td>Socio-cultural</td>
<td>Environmental concerns require investment in cleaner fuels;</td>
</tr>
<tr>
<td></td>
<td>and safe dismantling of redundant oil platforms etc.</td>
</tr>
<tr>
<td>Technological</td>
<td>New drilling technologies allow drilling at greater depths;</td>
</tr>
<tr>
<td></td>
<td>new extraction technologies allow previously uneconomical fields to be used.</td>
</tr>
</tbody>
</table>

*Analyse the five forces acting on BP Amoco. Which of them appear to bring the greatest threat to the company?*

**Threat of new entrants**
- Economies of scale are needed to compete on cost.
- Entry costs – high, due to investment required in exploration, extraction and refining.
- Product differentiation – low (though company brands, and associated loyalty schemes, may command some customer loyalty).

**Bargaining power of suppliers**
- What are inputs? Crude oil.
  - Number of suppliers limited (and main producers operate as cartel through OPEC).
  - Little differentiation.
  - Forward integration – unlikely.
  - BP’s business is important to suppliers.

**Bargaining power of buyers**
- Individual buyers not important in relation to BP’s total output.
- But substitute products are available and costs of switching relatively low.
- No threat of backward integration.

**Substitutes available?**
- What are substitutes? Other fuels: Electricity, non-fossil fuels.
  - Long term, and likely to be more expensive, requiring heavy subsidy.
  - Less convenient, and lack established distribution channels.

**Competitive rivalry**
- Several competitors, but none has dominant share.
Market growth slow.
Exit barriers? High exit costs given capital investments.
Lack of differentiation – yes, similarity in products.

Summary
Barriers to entry – high.
Supplier power – high.
Buyer power – relatively high (due to ease of switching).
Threat of substitutes – low.
Rivalry – fairly high.

Make a list of stakeholders for BP Amoco. Assess their sources of power, and rank them according to the likely degree of influence which they hold.
A list could look like this:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Stakeholder</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 3.1 Anticipating the future of Tesco online
How might continuing environmental change affect Tesco’s online business?
You could also consult the forecast for online grocery sales in Section 3.5.
Tesco’s current system allowed the company to avoid the start-up costs associated with the warehouse model and produces a break-even situation with a lower level of transactions. But if its US and UK markets grow by around three-quarters (as suggested by the forecast) the store-picking system could struggle to cope with the increased demand. Product availability and delivery time slots could become harder to guarantee and store aisles could become clogged up with store-pickers. Such a scenario would inconvenience not only online shoppers but also conventional customers who might be forced to shop elsewhere. Tesco might then need to switch to a warehouse system, with its associated costs and risks. At the same time, increased levels of online shopping are likely to help competitors’ warehouse systems become more competitive. Greater competition (economic factor) could in turn lead to falling margins and declining profitability. Thus with continuing technological development (technology factor) and
changing consumer attitudes (socio-cultural factor) towards online shopping, it is still too early to judge whether Tesco can remain a leader in the e-tailing business.

Activity 3.2 Explaining entry to eastern Europe
List the main factors that allowed multinationals to enter eastern European markets with relative ease. What barriers to entry were local firms able to put up?
The countries of central and eastern Europe are still striving to catch up with the west. While some have developed successful export markets and others have access to valuable natural resources, such as oil and gas, the region remains short of capital (banking systems are still underdeveloped), modern technology and managerial (as opposed to administrative) skills. In many industries, it was always going to be an uphill struggle for local firms to compete with multinationals. The latter already operated on a large scale, with access to established capital markets, more sophisticated technology and an accumulation of management expertise. Local firms are more likely to succeed where business depends upon access to raw materials, knowledge of local languages and cultures and, in some instances, government protection. Even with these competitive advantages, collaboration with foreign companies, for instance to provide access to necessary investment capital, may be necessary.

Activity 3.3 Conducting a five forces analysis
Conduct a five forces analysis for an organisation with which you are familiar. Discuss with a manager of the organisation how useful he or she finds the technique. Does it capture the main competitive variables in his or her industry? Are any variables missing?
Application and comprehension, pages 82–85.
Five forces model does not reflect growth in alliances and partnerships; (potential) partners may be regarded as sixth force.

Activity 3.4 Considering environmental factors
Consider the environmental factors that might explain the different levels of complexity and dynamism in Andersen’s industry groups.
For the purposes of his study, Andersen defined dynamism as the variability in an industry’s net sales and operating income, and complexity as the diversity of inputs and outputs in the particular industry. Examples of the factors that may affect these variables are:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Dynamism</th>
<th>Complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and household products</td>
<td>(Scale 1.5 = low)</td>
<td>(Scale 8.3 =Low/moderate) Sourcing of supplies and manufacture increasingly global. Many companies produce large product ranges.</td>
</tr>
<tr>
<td></td>
<td>Mature industries. Need for scale raises entry barriers; few new entrants. Products evolve relatively slowly. Staple products – affected less by changes in business cycle.</td>
<td></td>
</tr>
</tbody>
</table>
## TUTORIAL OR CLASS ACTIVITIES

1. **Analysis and comparison of cases**

2. **Case – Laura Ashley Holdings plc**

### 1. Analysis and comparison of cases
The two cases in this chapter (Nokia and Laura Ashley), perhaps with those from Chapter 6, can be used as the basis for group work. One possibility is to divide the class into four groups, each allocated one of the four cases. If desired, groups could be required to undertake some preparatory investigation (via newspapers, web, etc.) in order to supplement case material. Groups should be asked to conduct one or more of the following analyses:

- PEST
- Five forces
- Stakeholder matrix

And, if also using Chapter 6:

- Internal environment
- SWOT.

Results can be presented and compared, followed by discussion on which factors, if any, are common to each of the companies (and industries) involved, and which factors seem to be more industry-specific.
For the same, or a follow-up exercise, ask groups to link the results of these analyses to the strategic choices which the companies have made. In this instance, reference should again be made to Chapter 6. Students should seek to demonstrate how the results of their various environmental analyses seem to support the choices of strategic direction and methods of strategy development which have been followed by the companies concerned.

2. Case – Laura Ashley Holdings plc
Laura Ashley, the fashion and home furnishings group once best known for its ‘floral patterns and quintessentially English country image’,¹ was founded by Laura and Bernard Ashley in 1954. The company grew from a cottage industry based in Wales into an international group operating in the UK, continental Europe, North America and the Pacific Basin. Such had been its record of profits growth as a private company, that the share flotation in November 1985 was 33 times oversubscribed. Although this was a high point for the company, the year had also brought the sadness of Laura’s tragic death.

Nevertheless, the funds from flotation allowed the company to expand its vertically integrated operations. New textile and wallpaper plant was added to its existing production and distribution facilities in Wales, a new design HQ was opened in London, the worldwide shop opening and refurbishment programme gathered pace, acquisitions were made of clothing, perfumery and home furnishings companies in the UK and the US, and the mail order business was expanded. Turnover grew from £132m in 1986 to £328m in 1991, by which time it had over 500 outlets worldwide.

Despite the enthusiasm which met the flotation, the company struggled to meet expectations. By the early 1990s, expansion had left the company with high levels of debt at a time when UK trading was suffering from the effects of high interest rates followed by recession, with home furnishings badly affected by the downturn in the housing market. In the US, garment sales were affected by production problems and the home furnishings market proved difficult to penetrate. In both markets the company suffered high levels of unsold stock, then sold at discounted prices. In the 1990s the company made repeated losses, totalling over £120m.

A succession of chief executives over the decade attempted to revive the company’s fortunes. In the early 1990s, the company’s Japanese partner, Aeon, acquired a 15% stake, helping to reduce gearing levels, and attempts were made to unify the company’s computer systems (subsequently deemed too costly), recruitment and training of shop staff was prioritised, a strategic alliance was struck with Federal Express to reduce distribution costs and improve delivery times, and seven UK factories were closed. During 1995, central overhead costs (high relative to comparable retailers) were cut by reducing staff and office accommodation, ranges such as food, swimwear and furniture were dropped from the product portfolio, and the company withdrew from the unprofitable Australian market.

¹ Financial Times, 19.11.97
Ann Iverson, hired in 1995 in a further attempt to transform the company’s image and performance, found ‘a business not led by a single point of view’: she tried to focus the brand’s message by bringing designers, buyers and merchandisers under one roof, and creating common store layouts and a single catalogue. The brand, described by Iverson as ‘brilliant … with outstanding potential’, has long been regarded by management as the company’s main strength.

Product ranges were again rationalised, and updated to introduce a more modern, relevant appeal. Iverson also found serious supply chain inefficiencies in product sourcing, in-house manufacturing operations (still producing 80% of home furnishings) and distribution (where costs were well above industry standards). Iverson felt that shops were too small to display the company’s extensive range of products, and began a programme to alter the shop portfolio to a smaller number of larger and better located premises. In terms of market development, Iverson introduced concessions within Homebase in the UK, expanded licensing agreements (for fragrances, bridalwear, bed linen and paint) and franchise stores in Malaysia, and relaunched the mail order business in early 1997. Iverson chose not to expand in Europe where economic factors and exchange rates had created difficult trading conditions, instead embarking on a US expansion programme, opening several large stores focused on home furnishings.

Although Ann Iverson initially returned the group to profit, she left the company in November 1997 as further major losses loomed. US expansion had proved to be a strategic error. Principally because of poor US sales, Laura Ashley’s 1998 losses were the worst yet, and the company was saved from near bankruptcy by a Malaysian conglomerate, MUI, which took a 40% stake in the company, citing the potential of the Laura Ashley brand.

At this time, commentators concluded that Laura Ashley faced three main problems:

- The company had a fundamental need to update its image and supply the products the market wanted. It was being ‘squeezed in the younger women’s market by Next and Oasis, and in the older segment by Gucci, Ralph Lauren and Chanel’. Iverson had also cheapened the clothing brand by trying to make it too ‘young’.
- Strategic change was complicated by the integrated nature of the firm, and its paternalistic attitude towards its Welsh factory workers impeded efforts to improve supply competitiveness. Although manufacturing seconds and process loss rates had come within industry norms by 1997, distribution costs remained high and the cost-efficiency of product sourcing problematic.
- While turnover was over £300m a year, the company’s operations and costs – with extensive product ranges and licence/franchise operations across 13 countries – had become too large for a small company. Globalisation brought greater competition but the brand was not strong enough – especially in the US – to be a successful global retailer.

Since 1998, strategy has focused on cost-cutting and getting the right products to consolidate the brand in UK and European markets. The loss-making US stores were sold, and the remaining five clothing factories closed. The two remaining home
furnishings factories, however, have been retained, but they are now incorporated as a subsidiary company, allowing them to bid for third-party business. Administrative offices in Europe were closed, with functions centralised in the UK, and major investment has been made in IT systems to improve internal controls.

Home furnishings were expanded (now accounting for 60% of the business) and a new home design service, aimed at both home owners and corporate clients, introduced. Shorter lead-times have been achieved for custom-made furnishing products. In clothing, focus groups were used to assess the company’s ranges; these now have a more casual bias and include accessories, such as jewellery, handbags and shoes. Emphasis has been placed on providing value, to counter a perception that the company’s products were expensive.

The store portfolio is kept under continual review and programmes of store refurbishment and development are underway. Several underperforming Homebase units were closed during 2000, but these are being replaced by new stores in locations where changing demographics better match the profile of target customers. The company is also expanding in continental Europe, with a current emphasis on building economy of scale in Germany. Franchising and licensing are regarded as further growth opportunities and the company has expanded the range of products, including carpets, paint, ladies’ eyewear frames and fragrances. Mail order catalogues have been extended to include bedroom furnishings and gifts; the clothing catalogue has been relaunched and online shopping introduced.

The year to January 2001 saw the company return to profit. Current chief executive, K.C. Ng said the results ‘give us confidence that the action we have taken to improve our ranges and increase competitiveness is beginning to take effect’. In the summer of 2001, a greater demand for company shares prompted the Ashley family to sell the majority of its remaining interest, virtually ending the link between the company and its eponymous founder. Just as Laura Ashley recovers, however, external factors conspire against it. Although business had continued to grow, senior executives warned that the 11 September terrorist attacks in the US could affect trading in the months ahead.


Questions

Analyse the position of Laura Ashley in the 1990s by identifying:
(i) any PEST factors which hampered attempts to revive the company’s fortunes

Economic factors
(a) Recession of late 1980s/early 1990s and associated sluggish housing market impacted on consumer incomes and confidence – particular effect on sales of home furnishings, wallpapers etc.
(b) Exchange rates (high value of sterling), affected European sales in particular.
(c) Competition, especially in North American market where brand less well known.
(d) Competitors had begun to source products elsewhere, taking advantage of cheaper labour costs.

**Socio-cultural factors**
While Laura Ashley management continued to pronounce faith in ‘quintessentially English’ character of brand, market opinion was that company was ‘out of fashion’ with consumer tastes and preferences. In mid-1990s, a mistake was made in focusing on young fashions, when core customers were, in fact, in 30–50 age group (demographic change).

**Technological factors**
Inefficiencies in in-house manufacturing (e.g. high rate of seconds) suggested that company needed to invest in modern quality control systems.

(ii) how each of the five forces posed threats to the company

**Threat of new entrants**
- Company lacked scale needed to compete at global level.
- Entry costs – not particularly high.
- Distribution channels – well established, but LA channels costly.
- Product differentiation – LA brand offered some protection.

**Bargaining power of suppliers**
- Number of suppliers restricted by dependence on own factories.
- Switching costs – high, given investment in own factories.
- Forward integration – unlikely.
- Business was important to suppliers.

**Bargaining power of buyers**
- Individual customers unimportant in relation to total output but substitute products available and switching easy.
- No threat of backward integration.

**Substitutes available?**
- Yes.

**Competitive rivalry**
- Several competitors, none with dominant share.
- Markets mature, slow growth, so rivalry strong.
- Fixed costs high (production capacity owned by Laura Ashley).
- Exit barriers? Capital tied up in factories, and family loyalty to firm.
- Lack of differentiation – yes, similarity in products.

**Summary**
- Barriers to entry – fairly low.
- Supplier power – relatively high, whilst most sourcing in-house.
- Buyer power – high (due to ease of switching).
- Threat of substitutes – high.
- Rivalry – high.
In competitive, mature markets, companies battle for market share, very often on basis of price. With relatively high costs, Laura Ashley had to take action.

(iii) the position and power of stakeholders

<table>
<thead>
<tr>
<th>Consumers</th>
<th>Viewed products as unfashionable and expensive; dislike of long delivery lead-times. Consumers could buy elsewhere, so powerful.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>In-house supply meant many suppliers were employees.</td>
</tr>
<tr>
<td>Employees</td>
<td>Family interests in company and associated paternalistic attitude towards employees, gave employees more power than outside suppliers.</td>
</tr>
</tbody>
</table>

(iv) the nature of the environment in which the company operated.
Dynamic (strong competition, changing fashions, volatile earnings).
Complex (operating in 13 different countries, vertical integration of company).

Following analysis of the external environment, the case can also be used, in conjunction with material from Chapter 6, to examine internal factors and to form an overall assessment of the company. For example:

*Prepare a SWOT analysis for the company in the 1990s.*

**Strengths**
Brand (market research showed strong customer support).

**Weaknesses**
Product design perceived to be outmoded.
Frequent discounting (further evidence that something wrong with product styles/prices).
Allegiance to own factories (when sourcing cheaper elsewhere).
Lack of brand awareness in US.
Evidence of supply chain inefficiencies, i.e. overhead, distribution and product sourcing costs, high relative to industry norms, thus creating competitive disadvantage.
Unclear which customer segments being targeted.
Product range too extensive.

**Opportunities**
To take advantage of brand loyalty.
Cheaper sourcing possibilities.
Growth in catalogue markets.

**Threats**
Competitors (e.g. Next, Oasis).
Sterling’s high value.

The above analyses can then be re-examined in the current context, in the light of steps taken by the company since 1998 to improve its competitive position.

*PEST in 2001*

**Economic factors**
Further economic slowdown, but worse in US where company presence now limited to franchising/licensing.
Concerns about potential impact on sales of 11 September terrorist attacks. 
Competition still strong but company has improved its cost base

**Socio-cultural factors**
Sales suggest more in tune with customer tastes and preferences.
Growth in use of online ordering.

**Technology**
Company has invested in IT systems to improve internal cost/logistical control, and online shopping systems introduced.

*Five forces in 2001*

**New entrants**
Company trying to build scale in UK and Germany.
Distribution channels improved.
Brand still strong.

**Suppliers**
Clothing now outsourced (relationships with suppliers not specified but likely to be easier to switch). Textiles, paints, etc. still manufactured in-house.

**Buyers, substitutes and rivalry**
Similar to 1990s.

Company now in a stronger position within its chosen markets but competitive rivalry strong, so little prospect of high profitability; scale therefore needed to generate returns.

**Stakeholders in 2001**
Ashley family’s interests now marginal. Interests of shareholders/City now stronger, arguably therefore greater focus on cost control/profits.

**SUGGESTED ANSWERS TO REVIEW QUESTIONS**

1. *How should managers decide which of the many factors easily identified in a PEST analysis they should attend to? If they have to be selective, what is the value of the PEST method?*
Experience and judgement will help identify which factors especially critical to their own organisation. The value of the PEST method is to ensure that the potential impact of as wide a range of factors as possible is considered, and that no critical factors are overlooked.

2. *Identify the relative influence of Porter’s five forces on an organisation of your choice and compare your results with a colleague’s. What can you learn from that comparison?*
Organisations selected at Activity 3.3 could be used here. Aim of comparison is to reveal both divergence and similarity in the PEST factors that affect different companies in different industries and operating at different scales (local to global).

3. *Illustrate the stakeholder idea with an example of your own, focusing in particular on what affects the relative power of the stakeholders to influence an organisation’s policy.*
Application and comprehension, pages 90–93.
4. Evaluate Argenti’s comments on stakeholder power, in view of your answer to 3. Reflection and understanding, pages 90–93.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE
Use cases such as Nokia or Laura Ashley, where material spans a sufficient time period, to examine change over time. Students can be asked to conduct analyses such as PEST, five forces, etc. for two points in time and to contrast the company’s past position with its current situation. Students could then be asked to highlight, where relevant, actions taken by management to take advantage of opportunities, counter threats or address internal weaknesses between the two periods.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

Laura Ashley  www.lauraashley.com
Nokia  www.nokia.com

Other websites

Financial Times  www.ft.com/fttelecoms

Other materials

European Case Clearing House  www.ecch.cranfield.ac.uk

ECCH holds a series of cases on Nokia, including one with multimedia material in CD-ROM format, and on Laura Ashley Holdings plc. Details in the ECCH catalogue.

The Financial Times provides frequent surveys and updates on the telecoms industry – see, for example, FT telecoms survey, 18 July 2001. You can also keep up-to-date using its telecoms website (see web references). The Economist also provides regular commentary on developments in telecoms – see for example its article on troubles facing European telecoms firms in the 18 August 2001 issue, p.58.
Chapter 4

The international context of management

SYNOPSIS
This chapter reflects the fact that management is increasingly affected by events in other countries, so it needs to be aware of economic, legal and cultural differences. Even those who work for domestic or local concerns are affected by European treaties and regulations and will benefit from being aware of the context in which they are framed. Taking an international view inevitably draws on ideas from several other disciplines such as economics and politics: students familiar with such areas will see enriching links between them and management.

SUMMARY
• Political, economic social and technological factors encourage the regionalisation and globalisation of business activity. This affects the pattern of international contacts which many managers have, with diverse cultures and institutions requiring a new level of awareness of and sensitivity to differences.
• Political, economic and cultural factors have shaped contrasting national management systems which affect how people in those systems interpret generic functions of management.
• Increased opportunities for regional and global trade mean that the environment is bringing in new forms of competition to businesses – others can now compete in their home market.
• By the same token, businesses can develop their objectives towards extending their market into a wider area. Planning to achieve those objectives on a global scale raises new workflow and logistical challenges.
• New organisational structures are created to manage internationally, supported by developments in information technology. In shaping these changes, management and staff need to take account of the diversity of national cultures. This is particularly necessary in generating willing action and commitment from people who may have different perspectives on work.
• Internationalisation means more stakeholders, especially when companies develop complex trading networks across national boundaries. The interests and ways of working of these players will have been shaped by local cultures and institutions, so methods acceptable in one culture may not work in another.
• Communication internally assumes greater importance if the organisation is to be able to co-ordinate effectively over great distances.
• Relative power is affected by internationalisation or globalisation as it may reduce dependency on any single source. Similarly, the power of management in multinational companies is increasing at the expense of national states.
• However, national governments remain keen to encourage foreign direct investment by such companies in their country on account of the access to economic power they bring.
• Management can use the threat (real or imagined) of increased global competition to encourage their own staff to accept change which they might otherwise have opposed.
• The more widespread an organisation’s business, the more it must rely on institutionalised forms of control. Yet they can be open to different interpretations across cultures which have different views on the activity of control and how it should be exercised.

THE CHAPTER CASE
The chapter case is intended to alert students to the range of management issues that face a company as it shifts from an international to a global concern. It is in a high-profile industry, so additional and current data can easily be gathered about Lufthansa and other airlines to keep the discussion current. It can also be linked to political issues, through the varying willingness of governments to subsidise their state (or former state) airlines, and how that affects the management role.

CASE QUESTIONS
Lufthansa
Preliminary questions
What external pressures are persuading management to build a global airline?
Mainly competitive pressures from more efficient large carriers and low cost local ones. This in turn has been stimulated by legislative changes at the European level, which are slowly removing the protected position of national carriers. More generally governments are becoming less willing to subsidise national carriers, putting pressure on the airlines to become more profitable. The bankruptcy in 2001 of SwissAir and Sabena indicate the change that has taken place as the European Commission blocks attempts by government to subsidise losses at national carriers.

What issues do you think it will need to manage to achieve this?
This question is intended to alert students to some of the practical issues which have to be managed, below the surface of the global vision. The company will need to manage people from different cultures working much more closely together in an increasingly integrated system. Though the business inherently involves much cross-cultural contact, these are traditionally between people who are part of different and distinct parts of the supply chain. Globalisation through alliances means these systems and the people in them work much more closely together, raising the level of cultural integration needed. More generally the whole operation becomes more complex as it integrates with other airline partners, so change needs to be handled both consistently and simultaneously across all.

At the same time management has to avoid alienating its German customers, suppliers and government – upon whom it still depends in international negotiation on air transport policy.
Case question 4.1
*Consider Dicken’s two definitions in relation to Lufthansa.*
*From what you know about airline operations, how would a global airline differ from an international one?*

The key is the greater functional integration of dispersed operations. In this context it means having services and materials bought on a global basis and then delivered to wherever they are required by the customer. So for example it can mean buying materials (such as fuel) and services (such as weather forecasts or financial advice) from a small number of worldwide suppliers who then deliver it wherever Lufthansa requires. It may mean Lufthansa functions such as engineering, recruitment or marketing being organised globally rather than regionally or by business unit (irrespective of where the function is based). It may mean making arrangements with other global businesses to share functions and do each other’s work in different locations (maintenance, reservations or cleaning).

*What are the additional management issues raised by globalisation, compared with internationalisation?*

To be truly global the main shift would be the mental one, from a fundamentally national business to one which does not work from that particular perspective. Operationally it is managing many more relationships with major suppliers or partners. Also doing so in a way that recognises that the other company is an equal partner, able to influence the way Lufthansa managers work.

Case question 4.2
*What criteria would you use to decide if Lufthansa had succeeded in the aim of becoming a truly global airline?*

Clear measures would be the percentage of non-German board members, managers and staff, and symbolic matters like how many board meetings are held outside Germany. A move of the head office from Germany would be even more symbolic, if unlikely. At the operating level, criteria could be the proportion of supplies and services bought from foreign companies.

*Which stakeholders is management having to satisfy while moving in that direction?*

German public and passengers as well as German employees, trade unions and shareholders. There will also be new stakeholders to satisfy, in the form of new overseas partners, suppliers and staff – and the new customers whom it is hoping to attract by going global.

*What practical issues do you expect to arise if more managers and cabin staff are non-German?*

Interaction with German passengers who will have unfamiliar accents to deal with (but in this context would that matter?); interaction with German crew; overseas and German cabin staff may have different expectations and ways of working: if pay is different (one of the incentives for the change), how will that affect working relations and sense of fairness?
Case question 4.3
How would you expect these institutional arrangements to have influenced the management of Lufthansa?
Much more involvement by government and banks in the overall strategy of the company than would be expected in the US or UK. Against that the holding company structure is likely to offer management at the operating level greater freedom of action than subsidiaries in the M-Form.

Case question 4.4
Which of Thurley and Wirdenius’s models of management would you expect to shape management practice at Lufthansa? What examples of each approach can you find in the case study?
Predominantly the western European one, as the company is so deeply embedded in that area. The case extract is too short to give much on the second question, but the full case shows the processes of seeking consensus, pragmatism, and the recognition of the pluralist form of the enterprise, with the need to reach agreement with the trade unions before going ahead.

PART CASE QUESTIONS
In what ways is The Body Shop operating internationally?
At present it appears to be more an international than a global operation. It clearly has worldwide environmental and social concerns. It buys many raw materials from sources around the world in a way that benefits the local producers as much as possible; and sells the products in many countries. Manufacturing and distribution is still largely performed in the UK and the company is run by a board based there. A global equivalent would have more extensive overseas manufacturing plants and a network of arrangements with other worldwide suppliers and distributors.

What issues does the Lufthansa case suggest might also be on the agenda of management at The Body Shop?
Although both are service businesses, the delivery method is fundamentally different. Can ideas and lessons be learned from a comparison? Body Shop operates through local franchises so at the retail level clearly already has non-UK management. It also avoids the Lufthansa level of high European staff costs as in the retail business these are fixed locally. Not clear of the extent to which on the campaigning (or business) side Body Shop is developing non-UK managers. It is increasing the value added to raw materials by the producers so that they benefit more, rather than all the value being added by the company.

And vice versa?
So far as can be seen from the case, Lufthansa decisions are driven by conventional business criteria. Globalisation decisions driven by shareholder interests. Body Shop concerns that management could choose to put on their agenda include energy and material use (airlines being one of the greatest sources of harmful fuel emissions and other waste); local sourcing for the benefit of the countries in which it operates, rather than lowest cost (e.g. the maintenance point).
How does The Body Shop culture relate to the local cultures in which it has retail operations? Does national culture or company culture prevail?
No evidence on this, but it seems a good example of the debate between the two views. The culture as seen from the UK seems very strong and consistent, and is physically reflected in the store designs and so on. Yet are those values and concerns maintained at distant places from the centre, where local franchisees are part of the chain? If you have people from several countries in your class this could be examined in a tutorial.

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 4.1 Access the European Union website
Access the European Commission website at http://europa.eu.int/comm
Go to the page for the internal market (via the alphabetical index) and then to the Scorecard that the Commission regularly publishes on progress towards the single market.
What is the latest score, and what is the recent trend?
Check further and try to establish how the scorecard is compiled, and what it means.
Data collection and comprehension.

Activity 4.2 Understanding a critic of globalisation
Malaysia has attracted much foreign direct investment especially from IT companies. It is a leading player in South East Asia with, in 2001, almost no unemployment. Yet the architect of its economic success clearly has serious doubts about the emergence of the global economy.
What are his main concerns?
This is a big question which you may not be able to explore fully in limited time. At one level he is (rightly) expressing concern that open markets benefit those who are most powerful. There is also an angle that increased investment by foreign media reduces the ability of the state to control the information flow: during the Indonesian forest fire episode in October 1997 he criticised the Malaysian media for their reporting of the problem. And foreign-owned business is less susceptible to government influence than local ones which have benefited from political patronage.

Can you find examples of global companies using their economic bargaining power to take advantage of the weaker countries in which they operate?
You could link this to the chapter on corporate social responsibility, to consider what responsibilities managers in multinationals may have towards the countries in which they operate.

Activity 4.3 Comparing cultures
Form a group from amongst your student colleagues made up of people from different countries and cultures. Identify some of the main characteristics of the respective
cultures that affect management. Note them down and compare your findings with some more formal evidence presented later.
Data collection and comprehension, pages 111–116.

Activity 4.4 Implications of cultural differences
Consider what the implications of the differences on Hofstede’s first two dimensions of culture may be for management in the countries concerned. For example, what would Hofstede’s conclusions lead you to predict about the method that a French or Argentinian manager would use if he or she wanted a subordinate to perform a task, and what method the subordinate would expect his or her manager to use? How would your answers differ if the manager and subordinates were Swedish?
Designed to encourage the student to look closely at Hofstede’s results, rather than skimming over them. French = high PD, Argentinian = high PD. Sweden = low PD.

TUTORIAL OR CLASS ACTIVITIES
1. Management implications of global operations
2. Case a – Applying Hofstede
3. Case b – The English teacher in Japan

1. Management implications of global operations
Base a tutorial around the management implications of international/global operations. This could be done using the Lufthansa Case Questions, together with some recent information on developments in the industry. British Airways is following a similar strategy so students could be asked to gather information on the two airlines’ approach to globalisation and compare this. Also The Body Shop. The discussion could then be broadened by asking them to consider the issue from the perspective of Review Question 8.

2. Case a – Applying Hofstede
Case situation:
A manager is in charge of a team working on a project that has very clear guidelines and a clear plan. It depends on specified suppliers delivering different materials on time, otherwise the whole project is seriously delayed. The company will face severe financial penalties if it does not complete particular stages on time. The manager reports to a project director, who must authorise any changes to the plan.

One stage of the project is almost complete and is on schedule. The project director is called back to the distant head office for a critical meeting. He must leave at once, and needs to prepare some urgent reports for the meeting on the way. He therefore leaves the manager in complete charge of the project. Just after the director has left, the manager hears that a machine at one of the suppliers has failed and cannot resume production for at least a week. Another supplier has heard about this, and telephones to offer an alternative supply that would probably overcome the difficulty and avoid delaying the work. However, for technical reasons, using this supplier will require some temporary changes to other aspects of the project.
What would Hofstede’s conclusions predict the reactions of the manager would be if he was (a) Brazilian, (b) Greek, (c) British, (d) German?

This short exercise is designed to require students to engage (perhaps critically) with Hofstede’s results, rather than pass over them quickly. Critical discussion more likely to arise from attempts to use the data in some detail. Possible answers could be:
Brazilian = high PD, high UA – so probably leave things to stop until the original supplier delivers.
Greek = high UA – so possibly same reaction as Brazil.
British = low PD, low UA – so more likely to take the risk of using initiative and trying to rearrange things.
German – low PD, higher UA than British – less likely to take the risk of changing an agreed plan.

In discussing Hofstede’s work it is always worth reiterating that he is predicting the central tendencies displayed in the cultures concerned, NOT predicting how individuals within those cultures will behave. The descriptions relate to the tendencies in the social systems which individuals have created, not to the individuals themselves.

3. Case b – The English teacher in Japan
‘In July 1996 I went to Japan where I was employed by a local authority as an English teacher. I knew little of the Japanese language and still less of the country’s culture. I reported to a section head in the education office who in turn reported to the town’s head of education.

‘In October of that year, I informed the head of education that I would be returning home for Christmas and planned to attend a family event on 7th January. This would mean taking an extra week of holiday than was usual in Japan. The head of education seemed surprised at what I had planned but did not comment on it directly. Later that day I booked a flight.

‘A few days later I received an official letter from an official in the education department. This stated that as my planned absence would fall outside of the Japanese winter holidays (27 Dec – 5 Jan), it would be impossible to be absent from work for such a long period. I would have to stay in Japan for Christmas.’

The teacher was annoyed and disappointed at her plans not working out. She felt that her request was reasonable by western standards. The organisation was small and she had communicated directly with top management in order to deal with the matter quickly.

From what you have read in the chapter about Japanese culture, why do you think the English teacher experienced the difficulty? What different approaches might have avoided the difficulty?
This can be set as an individual task to prepare, and then discussed in small groups in the tutorial. Groups present and compare their conclusions.

De-brief:
The reflections of the teacher were that the experience highlighted many areas that the European working in a foreign organisation must be aware of. Differences in cultural background caused different perceptions of the same incident. What exacerbated this particular instance was the problem of ethnocentrism – the tendency to interpret and evaluate others’ behaviour using one’s own standards. (Neither party was initially prepared to yield or compromise because both considered themselves to be right from their point of reference.) In the West, it is common for employees to group paid leave with statutory holiday, especially around Christmas and the New Year, so as make a longer break of some two to three weeks. This was clearly not the case in Japan.

In this case, more attention should have been paid to the way things are done in Japan. In contrast to western individualism, Japanese groupism requires subordination of the self to the goals and norms of the organisation. A high value is placed on work and the privilege of employment, and a corresponding suspicion of leisure. Bearing this in mind, it was perhaps tactless to have gone straight to the boss and made a request for a long holiday.

A more subtle approach may have worked better. Asking the section chief, as opposed to the more senior education chief, a few general questions such as ‘How long do people in this town get for their winter vacation?’ may have been less direct, thereby increasing the likelihood of a favourable outcome. Demands should not have been made: the dilemma could have been quietly explained, and left for the education chief to consider. This would have avoided confrontation and saved face on both sides. Better overall communication between members of staff would have indicated that a more senior member was also seeking time off.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. *What factors are stimulating the growth in world trade?*
As mentioned in the text, but could also stress the role of information technology. As part of a service or product delivery process, IT has made it practicable to co-ordinate distant activities in a way not previously possible, so encouraging specialisation and trading rather than doing things locally. IT is itself a major element in world trade – small components with high value ideally suited for dispersed manufacture in low-wage countries, brought together by air freight.

2. *Compare internationalisation and globalisation. Give a specific example of a company of each type about which you have obtained some information.*
Main difference in the move from internationalisation to globalisation is when there is more functional specialisation between firms operating globally: see pages 100–102.

3. *Outline the difference between a high- and a low-context culture and give an example of each from direct observation or discussion.*
Comprehension, page 113.
4. Explain accurately to another person Hofstede’s four dimensions of national culture. Evaluate his conclusions on the basis of discussions with your colleagues from any of the countries in his study. Comprehension and evaluation, pages 114–116.

5. Give some illustrations of your own about the way in which the history of a country has affected its culture, and how that in turn affects the management of organisations there. A difficult question, but some guidance is given in the text, on pages 106–108.


7. How is the growth of international business likely to affect management functions? Refer back to the management functions outlined in Chapter 1, and use that as a framework to build a systematic answer, such as:

   Planning
   - wider range of market opportunities and competitive threats to take into account;
   - diversity of international regulations affecting many management activities.

   Organising
   - creating a structure that reflects the international aspects of the business – a special case of the balance between central and local control;
   - developing managers’ ability to work with cultural differences.

   Leading
   - developing influencing skills to deal with a more diverse set of targets;
   - creating effective multinational teams.

   Controlling
   - problems of controlling geographically dispersed operations;
   - different cultural reactions to attempts to control.

8. Compare the implications of globalisation for (a) national governments, (b) their citizens, (c) the management of global companies, (d) the environment. Points could include:

   (a) national governments: able to attract FDI and to access overseas markets; but possible loss of local businesses to established competition, plants can easily move elsewhere if cheaper – limited long-term benefit of skill and technology growth.
   Possible loss of tax revenues as companies can trade products internally to minimise tax payable. Can small countries balance the economic power of organisations wealthier than they are?

   (b) their citizens: as above, plus job opportunities and threats.

   (c) the management of global companies: ever-growing possibilities of new competitors, not only in markets but for scarce resources; implies constant shifting and balancing of sources of supply; potential political problems if currently weaker national governments are able to constrain power of global businesses (unlikely at present as most countries eager to have new manufacturing facilities located on their territory).
(d) the environment: bad news, as one of the attractions for global businesses is their ability to locate facilities in areas where the costs of meeting western environmental standards are avoided. And globalisation implies huge transport effects, as components are shipped vast distances at successive stages of manufacture.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE

1. Why have so many companies extended their worldwide operations, and what are the main implications for management of this trend?

A very open-ended question, allowing students to demonstrate their knowledge of the underlying trends towards internationalisation and globalisation of economic activity, and what it means for management. Good answers would distinguish between internationalisation and globalisation and relate them to the growth of regional trading blocs, institutions such as GATT and the WTO. Better answers would consider the competition between companies for cheaper sources of supply and incentives from less-developed countries to attract international companies. They could also refer to the need for companies to have a presence within major trading blocs rather than being outside of them.

Management implications include dealing with cultural differences, more complex logistics and having to deal with a greater number of stakeholder interests which may not be compatible.

2. Explain how the differences in national culture indicated by Geert Hofstede’s research may affect the practice of management. What factors other than national culture is the manager of a company operating internationally likely to need to take into account in dealing with people and institutions in other countries?

Answers should outline the Hofstede categories accurately, with some illustration of the central tendencies observed in a few countries of the countries surveyed. They should then trace the effects of some of these on management practice (such as management or style, risk taking or the exercise of autonomy) if possible illustrated from evidence or experience. Good answers will also present evidence of individual behaviour that did not conform to the central tendency. Finally a more open part to the question, where answers could raise other issues such as the tension between company culture and national culture and broader issues such as the institutional and economic aspects of nations.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

Lufthansa  www.lufthansa.com
Click on “group” to find pages about the history of the company, the partners in the Star Alliance, and one called “Balance” which outlines Lufthansa’s approach to environmental and sustainability issues (see Chapter 5 of the text).

Other websites

Pricewaterhousecoopers  www.pwcglobal.com

The site map contains many links to potentially useful material - including those dealing with managing globally. Some only lead to a promotion for the consultancy, or to publications available to buy - but others are more useful. For example, from Global HR Solutions go to HR Advisory - a downloadable magazine with some features relevant to this chapter (and to other chapters in the text).

European Union website  www.europa.eu.int/comm

A great deal of information about developments in the European Union, from the perspective of the Commission - the administrative arms of the EU.

Other material

European Case Clearing House  www.ecch.cranfield.ac.uk

You may find it helpful to have a copy of the complete copy of the Lufthansa case as this gives much additional information. The reference is: 
Chapter 5

Corporate social responsibility

SYNOPSIS
The approach to teaching corporate social responsibility and business ethics differs from that used in many topics. There are many uncertainties, so a prescriptive approach is inappropriate. The topic is probably best taught with an evolving teaching plan which maximises the opportunity to use topical current events to engage student interest in the issues. The intention of the chapter has been to demonstrate how these issues can be raised with students and this part of the manual tries to offer ways of deepening that awareness.

The course can be responsive to student interests and reflect current events in the media and the corporate world. The changing nature of ethical standards and business responsibilities throughout Europe requires a flexible plan – not least since varying cultural concerns between countries will influence what society expects of business. They also affect considerations of what is seen as right and wrong.

The teacher may, most appropriately, find themselves taking on a new role: that of devil’s advocate. However, it may be necessary to explain to the class student group that as there are no clear ‘answers’, they need to explore new avenues of thinking – and so help to develop creative thinking and debating skills within the group. Issues within the media should easily prove sufficiently stimulating for student discussion and lively debate, with the role of the teaching staff being to ensure the debate takes into account a range of empirical and theoretical positions. Techniques in which the tutor prompts the group with challenging issues and then mainly monitors the debate based on prior reading work well. The tutor then takes on a role which emphasises –

- summing up the debate;
- isolating learning points;
- reflective learning; and
- developing student learning.

SUMMARY
- Most early industrialists acted in their self-interest without much regard for other considerations – yet there were exceptions such as Titus Salt and William Lever who brought wider principles to bear on the way they conducted their businesses.
- The Friedmanite position that ‘the business of business is business’ was contrasted with that which emphasises the virtues of corporate social responsibility.
- Moral philosophy offers four perspectives which can be used to justify an action.
• The social responsibility approach is one in which organisations recognise the legitimate claims of a range of stakeholders, and seek an acceptable balance among them.
• Some companies where management takes this approach have benefited commercially, but being socially responsible does not in itself ensure success.
• Choices about the objectives of the organisation are ethical decisions. The conventional practice is to emphasise the economic imperative: stakeholder analysis suggests that other perspectives are equally legitimate.
• Stakeholder analysis identifies those who will be affected by corporate action. They will have different interests, and will interpret ethical and corporate social responsibility issues in different ways.
• Devising and implementing policies that are accepted as more socially responsible will require developing processes and decision-making institutions that can take account of interests not usually included in such debates.
• At the macro level, the issue of corporate social responsibility is linked to the degree of control that society has over business institutions.
• Some companies that have introduced environmental or social policies have also developed appropriate ways of auditing the results of these policies. These check the effectiveness of the policy and open the policy to external scrutiny – in the same way as financial performance is visible.
• Such audits also help organisations and the wider interest groups to learn from these experiences.

THE CHAPTER CASE
The Pinto case is a classic example of a company which misjudged the significance of safety and social responsibility – although this needs to be understood in the context of the time. Ford overcame the negative publicity surrounding the Pinto, and is the world’s second largest manufacturer of motor vehicles. It has developed a range of community and social programmes and is in discussions about the environmental impact of motor vehicles. Yet controversy still follows the company. The battle with Firestone over responsibility for the Ford Explorer crashes continues, and it recently faced lawsuits in the US over a performance appraisal plan that the plaintiffs alleged discriminated against older workers. The company acknowledged these criticisms and withdrew the plan in July 2001.

CASE QUESTIONS
The Ford Pinto story
Preliminary questions
As a marketing or production manager at Ford at the time, what dilemmas would you face?
This question is designed to raise the issues of whether one’s loyalty is to the employer or to society as a whole. This influences a person’s choice between keeping quiet and following company policy, or passing information about the risks to someone in the media – the ‘whistleblowing’ debate.
How would you express these dilemmas within the company?
This is designed to open debate about which channels are appropriate. Internal channels of communication – direct line manager etc. – are likely to be the first suggestion. The tutor could then suggest that each level may have a vested interest in not reporting the problem to the next level, as they could be seen as troublemakers, so damaging their careers. That could lead students to debating whether newspapers are an appropriate medium for such dilemmas. Further, whistleblowing is usually forbidden, so anyone who did speak to the media on such a matter risks their job.

Case question 5.1
Did Ford act unethically at that time?
Probably yes; but consider the notion of ethical relativism, introduced on pages 135–136. It was a different time, with different consumer pressures and expectations about product safety. What would make a current parallel – do we expect all our products to meet, or exceed, safety standards?

Should the law be the only influence on a corporation’s actions?
Probably not, as most observers regard the law as the lowest common denominator of ethical action – it may be a necessary but by no means sufficient influence. Consumer expectations invariably play a large part in corporate motivation – as seen with the drive towards environmentalism in the 1990s.

What responsibilities do you think a major company has?
The discussion relating to responsibilities should start a lively debate, which can be distilled by the lecturer into the stakeholder model, if students agree that a duty to society exists.

Ford used a ‘cost-benefit’ analysis to decide what to do – could this have been improved? Was it a useful decision tool in this case?
Ford are guilty of miscalculation in judging figures in cost-benefit analysis and the ethical debate must surround whether it is appropriate to conduct a cost-benefit analysis in this situation? How to judge the suffering? And why assume only 180 deaths? More realistic calculations may have prompted a different result, so yes it could have been improved.

There is a problem in putting a figure on the cost of a human life: however, the figure Ford used was based on US Government figures.

So Ford acted with current information – but the ethics of costing a human life is worthy of debate. Possibly refer to the Bhopal case. Union Carbide wanted the case to be tried in India, as the cost of human life was lower there. The validity of the tool itself is much debated. However, it prompted a decision, which is what they needed – usefulness is therefore apparent to Ford.
Imagine you were a Ford manager at this time. What would you have done, and why? List the social costs and benefits to the company and society of the alternatives to help you determine your answer. Encourages students to consider the conflict between economic constraints and emotional response. This is a personal decision – but listing costs can aid decision making. However distasteful, figures are put on the costs of a human death, including the broader issues of hospital costs etc.

Imagine you worked for Ford as an engineer, and were aware of this potential design fault. What would you do? What, if any, are your responsibilities to the customer and/or your employer? This introduces the notion of ‘whistleblowing’, which is discussed in the further reading. Responsibilities will again depend on the stakeholder groups identified.

Case question 5.2
Did Ford make the right decision for that time?
Would it be the right decision now?
If you have given different answers, why is that?
These questions are designed to introduce the concept of ethical relativism and demonstrate that issues change over time – different answers at different times and places against the idea that there some absolute standard.

Case question 5.3
Do you agree with Carr’s comments?
Does this help you take a different view towards Ford’s action in the 1970s?
Is the following quote from Nash (1990) the logical conclusion to Carr’s view?
‘Suppose you are a business (wo)man. Now suppose you are of ruthless and greedy character...But I repeat myself’.
Comprehension and reflection, pages 132–134. The Nash comment is intended to prompt debate. Answers ultimately depend on personal ethics and how these shape the interpretation of, and response to, a situation.

Case question 5.4
What did customers of Ford expect of the Pinto at that time?
Why would customers today have different expectations?
Does that affect your view of the company’s actions?
Ford customers had no expectation of safety at that time – today’s customers buy on safety issues and this is a fundamental change.

PART CASE QUESTIONS
What has BP Amoco done to indicate that it is acting in a socially responsible manner? Amongst other things, it has sought the views of staff on environmental issues; begun to think of long-term alternatives to fossil fuels; and includes a regular commentary on environmental matters in the annual report.
A major issue for the company is to balance different stakeholder groups. What argument, from an ethical standpoint, could BP use to support the case for opening new oil fields in the Alaskan Wildlife Reserve?

It could use either the utilitarian or the egoism approaches. The first states that what is right for the greatest number of people is the morally acceptable thing to do. Given consumers’ unceasing demand for affordable energy, BP could argue that it is satisfying the requirements of the majority of people: concern for wildlife is a minority interest.

The egoism principle is that an act is justifiable if it serves the interests of the actor. People will tend to act in ways that serve their interests, and in the long run this meets the needs of others as well. Long-term survival depends on satisfying others’ needs, so BP would only act in this way if it believed that this would meet the needs of significant stakeholders.

Is BP Amoco a socially responsible enterprise?
Essentially a matter of judgement, as there are no absolute standards in this area.

ACTIVITIES

Activity 5.1 Looking for responsible business activity
Collect at least two new examples of organisations that seem to be taking the matter seriously, by introducing explicit policies on one or more of these matters. Find out what you can on these questions:
- What aspects of the company’s operations does the policy cover?
- How did management develop the policy (for example, which people or groups took part in forming the policy)?
- How does management ensure that people follow the policy and that it has the expected effects?
Data collection and comparison, linked to the content, process and control agendas of management.

Activity 5.2 Checking ethical unit trusts
Find out how the performance of ethical funds compares with equivalent funds which do not have that policy. Do so by consulting any full list of unit trust performance tables in the financial pages of a newspaper, where there is usually a separate section for ethical trusts.
Can the growth in ethical investment be explained in the light of Friedman’s assertions?
Data collection and comparison. The growth of this sector of unit trust investment suggests that while the Friedmanite purely economic view still exists, there are many people who work to different values.

Activity 5.3 Reflecting on your ethics
1. You are walking down the street. There is no one nearby and you see
   (a) a 50 pence piece; (b) a £5 note; (c) a £50 note; (d) a £100 note; (e) £1,000.
   Do you keep it? Yes or no?
2. The money you find was actually in a wallet with the owner’s name and address in it.
   Does this make a difference?
3. That name indicates to you that it belongs to: (a) a wealthy person, (b) a pensioner of modest means, (c) a single parent. Does this make a difference?
4. Suppose there were some people nearby. Does this make a difference? Explore your reasons for each of your decisions.

Intended to encourage discussion and a basic awareness that the ethical dilemmas that management face are also faced daily by individuals. How they respond depends on the circumstances – as will probably be shown as students found their answers changing as further information about the situation became available. See pages 132–135.

Activity 5.4  Justifying decisions
Think about times when you have justified a decision you have made on the grounds that it was: (a) for the good of the group/family/friends, (b) the right thing to do, (c) the best option for yourself, (d) the best way to get the job done. Which of the ethical philosophies outlined above matches each reason?

Comprehension and understanding, page 133. Answers are (a) utilitarianism, (b) deontology, (c) egoism, (d) teleology.

Activity 5.5  Visualising a management dilemma

Consider the situation facing the European car manufacturers. The industry has built too much capacity in Europe so that there is a gap of 7 million units between production capacity and forecast demand. Many manufacturers are considering the closure of one entire manufacturing plant.

Imagine you are the chair of a global motor company. While as a global company you are profitable, in Europe you are losing money. Your shareholders expect profits. You need to reduce costs across the group, and you are aware that this high level of overcapacity in Europe suggests closing a plant. You know that other car manufacturers are also considering this and that union and government opposition to that approach is growing.

Your company has several plants in Europe. What criteria should you use to select the one to close? Do you have enough information to make this decision? What other options are available? Do you ask for further information on the social impact that any closure might have? Might it be better to reduce the size of several plants rather than close one? Should you take social concerns into account in your decision? Can you determine the solution provided by each of the ethical philosophies?

Further comprehension and application, pages 132–135. Options include relocation; redundancy packages; further investment – students should be encouraged to be creative in their thinking, but also to think through the implications of their suggestions, and the longer-term or wider consequences.

Activity 5.6  Working on a bigger dilemma
What if the problem is not that of reducing capacity but of relocating it? …
What are the ethics of moving your production from your home country – and to whose standards should you operate when abroad? You could also consider the role of textiles across Europe as a relocating industry, moving to the developing countries – or discuss companies such as Nike and their labour record.

This is designed to test whether the students feel it is appropriate to operate double standards across the globe. Also the question of which stakeholders the company is responding to with each alternative. If students favour relocation, it may be worth following this up with study of the Union Carbide Bhopal case or to look at Nike, as opposed to Reebok, in relation to their labour records.

Activity 5.7 Accepting a gift?
In your job as a buyer for a multinational company, you receive a gift from one of your minor suppliers at Christmas. It is (a) a calendar with their brand name on it, (b) a pen set with their brand name on it, (c) chocolates, (d) a bottle of wine, (e) a bottle of whisky, (f) a case of whisky.

Which offer can you accept? If any, what should you do with it? What would stop you accepting these gifts?

Should your employer have a policy which outlines solutions to such ethical problems, so as to avoid the variety of approaches which may otherwise develop?

A personal decision – though many companies have specific rules. Another possibility would be to accept it but give it to charity. Is it appropriate for a company to rule on a matter of personal ethics?

Activity 5.8 Revising Activity 5.5
Using the stakeholders listed above, try again to solve the dilemma of closing the factory in Activity 5.5. Whose ‘stake’ within the company should be given priority above the others?

What did you decide?
Do you think that, as a global company, you have specific local responsibilities, or a major responsibility to maintain a profitable company for the good of shareholders, customers and workers worldwide?

Stakeholder theory invariably results in conflict between groups, and management choosing which to give priority to. Students can be asked to consider if it is appropriate to prioritise such groups and, if so, in what order, and why.

Activity 5.9 Visit the Co-operative Bank website
Why do you think ethical concerns change?
Make a list of your ethical worries and compare it with the Co-operative Bank’s current list on their website.

By engaging students at a personal and individual level, the hope is to then broaden out the debate, either within class, or using a corporation’s list (in this case, derived from its employees).
TUTORIAL OR CLASS ACTIVITIES
1. Assessing attitude change
2. Ethical eco-audit
3. Case a – Seaview Hotel, Isle of Wight
4. Case b – Comtechsa, Liverpool

1. Assessing attitude change
This exercise demonstrates the role of information and education in attitude change. For example, a poll of student attitudes to CSR before and after their work on the chapter could be taken. This in itself could launch a debate relating to the prevalence and accuracy of information on corporations and the media’s role therein and on any consequent implications emanating from such an interaction. This would obviously then broaden out to include topic areas such as the roles of the consumer (boycotts) or those of the corporation within society.

2. Ethical eco-audit
Groups could prepare an ‘ethical eco-audit’ for either a local organisation of their choice, or a corporation cited within the chapter (e.g. The Body Shop). This could be structured to result in comparative studies between ‘responsible’ and ‘traditional’ businesses, or to result in strategies for increasing the level of CSR within the corporation. This would be dependent on the context of the course as a whole and the students’ prior learning.

Design of market research questionnaires to determine local ethical priorities particularly in terms of purchasing habits might also enhance the students’ involvement in the subject – such as the boycott of animal tested products.

3. Case a – Seaview Hotel, Isle of Wight
Seaview Hotel is one of the first businesses to win KPMG accreditation under an ethical business charter, run by the Internet company GoodCorporation. This means that Seaview has agreed to an ethical commitment to its stakeholders, particularly its forty staff. To reduce turnover and improve the business, staff are allowed to stay at the hotel and eat at the restaurant for a minimal charge, as well eat elsewhere to benchmark the competition. They are also involved in a job swap approach which gives people a chance to work elsewhere.
(Institute of Business Ethics (2001) Ethical Performance and Practice, Summer, p.18)

Student questions
To develop critical thinking relating to the notion of corporate social responsibility, students should be asked:
Would you be more likely to stay at a hotel which is responsible?
If yes, why?
If not, what are the benefits to the company in following this approach?
Is an ethical approach too expensive for a small company to follow?
Why might the job swap idea be of benefit to the company? And the individual?
Related tasks
Search for information on ethical charters – what criteria do they judge companies on? Compare this with others (start with GoodCorporation on www.goodcorporation.com).

4. Case b – Comtechsa, Liverpool
Comtechsa is non-profit-making Community Technical Aid Centre that provides a wide variety of services in Liverpool and across Merseyside, funded by grant aid and fee income from architectural services. It aims to:
- help community groups and voluntary organisations make the best use of their land, buildings and environment;
- tackle the causes and consequences of fuel poverty;
- provide high quality accommodation for community groups and voluntary organisations.

With a staff of fourteen, its community focus, environmentally sustainable practices and highest commitment to equal opportunities are evident in all its practices, facilities and general approach to business.

In order to evaluate their practice, Comtechsa conducted a social audit (see Note on Social Auditing below).

Questions
What are the benefits of conducting a social audit?
Why would a small company want to audit its practice?
What issues / elements would you include in accounting for a company of your choice?

Related tasks
Students can explore the idea of social audits using the web, especially by consulting company websites which use this tool (examples include The Body Shop, BT and most recently, Camelot). They could be split into groups, each selecting a different company, and explore the categories used by each to explore their social profile.

Overall task
Having looked at two ways of evaluating company activity, compare the criteria, and approach, used. Why are different approaches needed? What are their audiences and purposes?

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Identify two recent examples of corporate philanthropy. What are the benefits to the donor and the recipient?
(a) The Barclay Brothers (owners of the Ritz Hotel and The Scotsman Newspaper Group, amongst other things) have donated over £40 million to medical charities. As they are famously secretive, the benefits are largely in the area of personal satisfaction – in giving away money which they can afford. Also received knighthoods in 2001.
(b) BP and Shell both give substantial amounts to environmental charities such as the Royal Society for the Protection of Birds and the Woodland Trust. They
believe that the benefits include an improved public image, and a sense of satisfaction amongst staff that their employer is acting to counter some of the inevitable negative consequences of their operations.

(c) Bill Gates, founder of Microsoft, gives substantial sums each year to AIDS charities, improving the image of the company.

2. List the reasons why you think ‘business ethics’ is important to the success of firms. Comprehension and reflection, pages 132–136 in particular, but other issues as well.

3. Summarise the Friedman and social contract positions on social responsibility with an example of each being applied. Comprehension and reflection, pages 129–132.

4. List three major ethical issues facing management at the present time, and give reasons for your choices.

Examples could include:
- whether to replace local suppliers with cheap imports from countries with lower labour and environmental standards;
- whether to win scarce orders by giving favours to people who can influence purchasing decisions;
- how rigorously to enforce health and safety rules, which add to costs.

5. Describe in your own terms each of the four schools of ethical thought and illustrate each with an example of how it has been used to justify a decision. Comprehension and reflection, pages 133–134.

6. Outline the ways in which the consumer can affect business practice, and decide whether this is effective or not. Comprehension, perhaps data collection, and evaluation, pages 141–143.

7. List the stakeholders in the Pinto case and prioritise them in order to justify the decision to manufacture. Comprehension and evaluation, pages 125–127.

8. What could Ford staff have done to promote the communication of these difficult issues to higher management? The point of this question is to raise discussion of how companies, if they recognise the dangers, can institutionalise ways of preventing errors becoming serious. A reference to the ideas on reducing the dangers of ‘groupthink’ (Chapter 15) could help here.

9. Who should determine a company’s level of acceptance of social responsibilities? While individuals can always act responsibly on their own initiative within the limits of their authority, sustained action is only likely when supported and rewarded from the top of a business unit.

10. Are The Body Shop International and the Co-operative Bank responsible companies, or are they operating a form of enlightened self-interest? Comparison and evaluation, pages 140–143.
DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE

1. ‘The phrase “Corporate Social Responsibility” has been used in so many different contexts that it has almost lost its meaning. Devoid of an internal structure and context, it has come to mean all things.’ (Sethi, 1975) Critically assess this statement with reference to the notion of corporate social responsibility and its practice within business.

2. According to Friedman, the social responsibility of business is ‘to make as much money as possible while conforming to the basic rules of society, both those embodied in law, and those embodied in ethical custom.’ Discuss Friedman’s belief that, ‘the business of business is business’, with reference to the notions of business ethics and corporate social responsibility.

3. The natural environment has now been accepted as part of the business agenda. Assess the role and effectiveness of government and business in protecting resources for future generations.

These questions draw on the ideas in Chapter 5. In order to allow the tutor scope for incorporating cultural, national and student interests, a detailed marking guide is not provided. However marks could be earned for:

- good use of corporate examples, recent events and analysis of corporate activities;
- good use of further reading;
- recognition of the debate within the question, particularly across cultures and between nations;
- understanding of the complex relationship between society and business;
- recognition of the evolving nature of social responsibilities;
- realistic discussion of the problems within the field, and pragmatic discussion of how issues can be alleviated;
- attempts at definition of core concepts and essential debates within the field.

GUIDE TO FURTHER MATERIAL

Company websites

BP-Amoco  www.BP.com

The Body Shop  www.bodyshop.com

As a traditional ethical organisation, whose future role as a leading ethical company has been in jeopardy, this website remains critical in understanding corporate ethical performance. It provides sufficient information to conduct a corporate profile which can be compared over time, or against other leading companies.

Co-operative Bank  www.co-operativebank.co.uk

© Pearson Education Limited 2002
The Co-operative Bank website details the company’s ethical policy, how it tries to balance profit and principles. You can also see the current mission statement and the ecology mission statement.

Ford Motor Company  
www.ford.co.uk

Marks & Spencer  
www.marks-and-spencer.co.uk

Sainsbury  
www.sainsburys.co.uk

The Marks & Spencer, Ford Motor Company and J Sainsbury sites give information on socially responsible and environmental initiatives adopted by the companies.

**Other websites**

www.bath.ac.uk/Centres/BUCEP/eb/sim.html

Includes an ethical investment simulation exercise,

www.ethicalperformance.com

A wide ranging source of up to date materials, cases and data.

www.socialenterprise.co.uk

More information on social auditing.

**Other materials**

**Note on social auditing**

A social audit is a systematic and objective method of assessing the social impact of an organisation. It assesses the social impact and/or ethical behaviour of an organisation in relation to its stakeholders.

The model for social accounting is traditional bookkeeping, and thus social accounts are prepared, checked and verified independently to allow a social audit report to be published. It uses a four-stage cycle:

1. Review statement of purpose and evaluate performance against targets
2. Review external relationships
3. Review internal systems
4. Set new targets and operational criteria.

From this process, improved management planning and decision making is achieved as well as providing an understanding of the financial and non-financial values which create a new form of viability for the organisation. A social audit is based upon a
concept of social and financial viability, which draws upon a notion of mutual viability within the organisation’s environment.

As a research tool it employs descriptive, quantitative and qualitative data to create a social account, which can then inform current strategy as well as form a dialogue with stakeholders.

**Principles**
- Multi-perspective – it should reflect the opinions of all stakeholders affected by the enterprise.
- Participative – the multi-perspective approach to the audit should be reflected in the design and realisation throughout the research process.
- Inclusive – the audit should embrace all elements of the organisation’s activities in a comprehensive manner considering social, environmental, cultural and community benefits.
- Learning – through regular auditing and comparative analysis, both year-on-year, and/or with similar organisations, performance can be related to appropriate benchmarks.
- Verifiable – social accounts should be verified annually against previously set criteria and targets that can be objectively verified by internal or external audit teams.
- Disclosure – the results should be made available to all those involved in the organisation and the wider community.

**Key motivations** to use such a methodology result from a dissatisfaction with traditional accounting methods and a need to assess the full performance of an organisation or initiative. However, it is more than a potential PR exercise or method of communicating organisational achievements.

There are two core arguments for conducting a social audit:
- Internal – to improve the performance of the organisation;
- External – to test (and prove) the benefits of the organisation and its activity; provide a rationale and justification, particularly in areas where ‘social capital’ is difficult to determine. This allows an organisation to both monitor its performance, whilst accepting the need for stakeholders to shape future direction.

**Who uses it?**
Traditionally social, community and co-operative initiatives, which require a measure for their social, environmental, cultural or community based objectives. This is now broadening out considerably, as the research tool is becoming more explicit and a wider range of organisations recognise their social responsibilities. Examples include The Body Shop, BT and, most recently, Camelot.

**Audit Validation**
As within traditional accounting, the accounts must be presented and verified, though in this case, the core questions relate to whether the organisation measures up to its own criteria and achieves what it set out to do. The audit is therefore not to evaluate the
work of the organisation (as that is the role of the organisation itself in relation to its stakeholders) rather to verify the process and accounts as presented.

**Validation as a research tool**

Core criticisms of social accounting as a research method relate to the use of ‘anecdotal’ use of qualitative data to create an overview of the organisation. Social auditing can appear to be ‘measuring the unmeasurable’ and is very dependent upon what is measured, by what methods etc. Such criticism of social accounting or, indeed, qualitative data are not new but, within this field, have been increasingly overcome by the acceptance of a standard method since its inception in 1970s.
Chapter 6

Planning and strategy

SYNOPSIS
This chapter details the stages and choices involved in developing organisational strategy. Strategy is concerned not just with formulating plans and tactics, but also with implementing those plans and monitoring their progress. A good strategy should therefore link long-term vision and short-term operations. Continuous change in the business environment means that strategy is not a one-off exercise ending with the production of a plan, but a continuous process.

SUMMARY
- Management needs to plan for the organisation’s future direction to help it survive. A strategy, sometimes expressed in a formal strategic plan, sets an overall direction establishing where it is now, where it wants to go, and how it is going to get there. It provides a framework for consistent operational decisions and actions.
- Corporate and operational strategies need to be closely linked throughout the stages of analysis, choice and implementation.
- Having understood external developments through their PEST and five forces analyses (Chapter 3), management can then analyse internal capabilities through the techniques of value chain and comparative analysis.
- A SWOT diagram summarises the most significant factors shaping the choice of strategy.
- The process of choice can be focused by the product/market matrix and by the choices of internal development, acquisition or alliance.
- The chapter also introduced the strategic choices of cost leader, differentiation or focus.
- Developing a strategy also involves planning how the organisation is to achieve the objectives set. Management needs to set out how internal resources and capabilities will be deployed or changed so that they support the strategy. It also needs to decide what links to have with other organisations.
- One of the benefits of a clear, if flexible, strategic plan is that it helps management to generate commitment and effort towards achieving the goals set out in it.
- The strategy developed usually reflects the interests of powerful individuals or groups. Strategy-making is not an objectively rational activity. Strategy models depicting the stages in the process are not prescriptive, but guiding frameworks and analytical tools.
- Strategy rarely unfolds as intended. Rather, it is an emergent process, which must be able to adapt in complex, changing and ambiguous situations. As well as the traditional approaches to strategic planning, learning and political models are offered as more accurate ways to represent the process.
Strategy does not end when plans have been drawn up. Progress needs to be constantly monitored as the plans are implemented. Activities and achievements need to be checked against plans and against competitors’ activities.

Managers also need to exercise control in the sense of monitoring the plans against market and other developments to ensure that the direction chosen is still appropriate.

To measure their performance against other organisations, managers can access published statistical data and/or league tables or undertake benchmarking to gather comparable performance data on a range of inputs, processes and outcomes.

THE CHAPTER CASE
The two chapter cases examine companies operating in competitive markets. Marks & Spencer has found itself struggling to maintain both its reputation and its place as the UK’s largest retailer, and has chosen to retract its global ambitions to focus on its core UK retail markets. KPMG, on the other hand, is endeavouring to become the world’s leading professional services firm. Both cases illustrate the ways in which company strategies must continuously develop and change in response to their environments, and the material allows students to use the techniques and frameworks described in the chapter to analyse the strategic choices made by these companies over time. The KPMG case includes material on operational matters and thus provides some insights into the task of strategic management.

CASE QUESTIONS
Marks & Spencer
Preliminary questions
Visit an M&S store, and also visit their website (www.marksandspencer.com).

• What have been the main additions to M&S business?

• Visit the Financial Times discussion forum about M&S (FT.com, then ‘Discussion Forums’). Identify two comments which you agree with, and two with which you disagree.

Main additions to M&S business:
Since starting as a clothing stall in the late nineteenth century, the M&S portfolio has grown to include foods, wines and financial services. Each of its product ranges is extensive. Foods, for example, include a wide range of international dishes, beginning in 1974 with the introduction of Indian and Chinese food. The company has also added new customer services within some of its stores, such as café bars, beauty shops and financial services centres.

Case question 6.1
What are the main factors which M&S believes give it an edge over its competitors?
M&S cites a number of factors it believes give it competitive advantage:
• the strength of its brand and its reputation for quality, value and trust (though the drop in sales in 2000 indicates that M&S can no longer trade easily on this reputation);
• its record of new product development and innovation, in foods (where it has a vast and ever-changing range of ready prepared meals) and in clothing (for instance its easy-care fabrics such as machine washable suits); and
• its commitment to society.
In its annual report, the company cites examples of more specialist products, such as fabrics for sensitive skins and low-cholesterol, gluten-free and vegetarian foods.

**Do you agree with them?**

While you may not personally agree with M&S’s own assessment, bear in mind that the food and clothing markets are segmented, so that M&S may have strong advantages in respect of certain customer groups rather than the population as a whole, e.g. the ready-meal range may appeal strongly to young professionals with good incomes. Similarly, relatively few retailers provide a comparable range of specialist foods, so that M&S does command some advantage in this regard.

**What does the company do in respect of its commitment to society? (See the website).**

M&S states that it aims ‘to be the most trusted retailer wherever we trade by demonstrating a clear sense of social responsibility and consistency in our decision making and behaviour.’ It divides its commitments into three categories relating to the environment, the community and ethical trading, and separately describes what it does in each. In relation to environmental responsibility, for example, it details steps taken, such as reducing waste and packaging and CO2 emissions, to limit environmental damage. In respect of ethical trading the company details its ‘global sourcing principles’, which include standards on child labour and working conditions, and in terms of its community commitments, M&S regularly donates over 1% of its pre-tax profits in the form of cash, employee time or gifts in kind to charitable causes.

**Do you think these commitments give M&S competitive advantage? Are they likely to encourage people to shop in M&S stores?**

In MORI’s annual opinion survey, M&S regularly features within the top ten most respected major companies in terms of social responsibility, suggesting a high level of awareness of its social commitments amongst those polled. The importance of these commitments is a matter of personal opinion – undoubtedly some customers will be attracted by them so that some competitive (though not distinctive) advantage may be gained. In its annual review 2001, M&S also draws attention to a research finding that people like to work for socially responsible companies, suggesting that this could enable the company to attract and retain good staff. This could also be a source of advantage (good customer service). In addition, the company might also attract shareholders who wish to invest only in ethical companies.

**Case question 6.2**

Referring to the analytical frameworks in Chapter 3,

- **What are the main external factors affecting M&S at present?**
- **Are there any differences between the food and clothing businesses?**

<table>
<thead>
<tr>
<th><strong>PEST factors</strong></th>
<th><strong>Effects on clothing and foods</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Clothing likely to suffer more than foods in economic downturn. Some of M&amp;S higher value (higher priced) foods could, however, suffer in recession. However, UK high street spending still strong (spring 2002).</td>
</tr>
<tr>
<td>– state of economy</td>
<td></td>
</tr>
</tbody>
</table>
- rising real incomes | Favours increased spending on convenience items (esp. foods).
- competition | Fierce competition, especially in clothing.
- labour costs | Globalisation affecting sourcing decisions (to lower-cost countries).
- exchange rates | High value of sterling badly affected continental European sales.

| Socio-cultural | Clothing: changing fashions; demographics (core customers ageing); market segmenting. Foods: changing lifestyles (increased demand for convenience foods, later opening hours, changing tastes – more international foods). |
| Technological | Growth in online shopping, mail order, challenging traditional distribution channels; technological advances that enable better stock and quality control, faster customer ordering and measurement of store energy consumption. (M&S also notes its return to ‘old’ technology – transporting wines from France by rail – less costly and more environmentally friendly than 48 separate lorry journeys.) |

| Five forces | Effects on clothing and foods |
| Barriers to entry | M&S has scale in both; and brand strength offers some protection. In foods, M&S also claims to have superior technological know-how. I.e. some barriers but new competitors could enter markets with relative ease. |
| Power of suppliers | Supplier power likely to be weak (M&S dominates its suppliers, though in clothes now uses fewer suppliers and may be more dependent on them). |
| Power of buyers | Buyer power strong – ease of switching between suppliers. |
| Substitutes | Not in Porter’s terms but plenty of alternative suppliers of both clothing and foods. |
| Competitive rivalry | High. Clothing is mature market; companies competing for market share. Some segments of food (e.g. fast food, ready meals) still growing with greater profitability potential. Some food products possibly more clearly differentiated (so customers less likely to switch) than clothing, where quality–value formula has declined. |
| Overall | M&S own assessment that it operates in ‘highly competitive and mature product markets’ (Annual Report, 2001). Thus, according to Porter’s thesis, less opportunity for high profitability; scale needed to achieve good returns. |
Case question 6.3
Using the concept of the value chain, give some examples of activities and linkages likely to be important to M&S in securing its commitment to ‘value’. Consider businesses, such as clothing (womenswear or menswear), foods, and financial services separately.

M&S commitment to value implies concern with both quality and cost (see Case Question 6.5, part 3). Some examples:

<table>
<thead>
<tr>
<th>Activities</th>
<th>Quality</th>
<th>Cost</th>
</tr>
</thead>
</table>
| **Inbound logistics**  
– sourcing fabrics  
– clothing design | Quality of fabrics and designs.  
Relationships with suppliers. | Scale of purchases (buying power). |
| **Operations**  
– machining | Quality of finished garments. | Location of factories (labour costs); scale and throughput of operation. |
| **Outbound logistics**  
– distribution to warehouses and stores | Handling and storage conditions.  
Matching deliveries to store demands. | Degree of centralisation; locations important; loading foods in order that matches in-store display counters. |
| **Marketing & sales**  
– creating consumer awareness | In-store presentation, sales assistance.  
Style and ambience of fitting rooms. | Standardised store layouts and displays. |
| **Support Activities**  
**HRM**  
– Staff training | Attitudes of sales staff towards customers. | Sewing machinist training (to minimise waste, seconds). |
| **Technology/ firm infrastructure**  
– IT systems | Quality control.  
Market research, e.g. using IT to analyse customer purchasing patterns. | Stock control systems. |

Important linkages:
Relationships with suppliers: affect quality of inputs and finished products, and have impact on availability of products to match demand.
Supply chain logistics: links between suppliers, warehouses and stores important in reducing time goods in transit and in maintaining quality (especially of foods).
Customer service: determined by several factors including location of stores, store layout and displays, and staff attitudes; important to get all of these right as, together with product quality, they affect customers’ overall perception of M&S.
Case question 6.4

*Drawing on your answers to previous questions:*

- **Make a summary SWOT analysis for Marks and Spencer’s clothing business.**

**Strengths**

- Brand loyalty (market research showed strong customer support)
- Long established and major high street presence
- Scale of operation
- Reputation for quality, value, innovation, service and trust
- Staff commitment
- Ethical and environmental standards

**Weaknesses**

- Designs and styles seen as rather staid and unfashionable.
- Perceptions of falling quality (particularly where clothes made abroad, e.g. in Turkey and India)
- Unclear which customer segments being targeted; loss of focus on core customers – who are they?
- Store refurbishment slow?
- Slow in adapting to changing demographics and fashions

**Opportunities**

- To take advantage of brand loyalty (core customers still hold out hope that their confidence can be restored)
- Cheaper sourcing possibilities
- Market segmentation – opportunity to redefine target customers
- Growing demands for time-saving products

**Threats**

- Competitors (high street fashion stores and supermarkets)
- Falling market share

- *In your opinion as a consumer, does the company now appear to be following the right strategies for restoring its reputation in this market?*

Company appears to have recognised its main weaknesses and is attempting to address them. Sales improved during 2001, and by early 2002 the share price had almost doubled from its lowest point, reflecting growing investor confidence.

Case question 6.5

- *Use the product-market matrix to classify the various directions of Marks and Spencer’s business both before and after 2000.*
Note down the methods M&S has used to deliver changes in strategic direction. Consider why these methods might have been selected.

<table>
<thead>
<tr>
<th>Method</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchises</td>
<td>To benefit from partners’ local expertise e.g. in Far East.</td>
</tr>
<tr>
<td>Acquisition (US Brooks Brothers – though sold in 2001). Also acquired Littlewoods stores in UK in 1997.</td>
<td>Quick and easy access to new overseas market. Acquisition of Littlewoods to allow rapid market penetration.</td>
</tr>
<tr>
<td>Internal development e.g. developing/upgrading UK stores, employing own food technologists.</td>
<td>Better control retained over product/service development.</td>
</tr>
</tbody>
</table>

In the light of your reading and answers to previous questions, what kind of competitive strategy do you think M&S is following in respect of clothing and foods? Provide examples to support your answer.

Marks and Spencer’s emphasis on ‘value’ implies concern with both quality (differentiation) and price (cost). But on balance its strategy is one of differentiation. It is definitely not following a low price strategy (i.e. seeking to achieve a lower price than competitors while trying to maintain similar value of product to that offered by competitors). Instead it is operating what is termed a broad differentiation strategy by seeking to provide products/services of better quality at a similar price to those offered...
by competitors (e.g. affordable Italian suits). In the company’s words, ‘our value proposition is based on selling excellent products at competitive prices’. In foods, it is arguable that the company has a more focused differentiation strategy (at least in some lines) – where it provides high value/quality products that justify a price premium. See Johnson and Scholes (1999), pp. 269–285 for more detail on price-based versus differentiation strategies.

Case question 6.6
Review one of Marks and Spencer’s annual reports (the most recent is on the website), including the summary financial statements (not the detailed version).
• What are the main ways in which the company measures its performance in different parts of the business?

In its financial reviews, the company emphasises financial performance, giving figures for turnover, profit (before and after tax), earnings per share, dividend per share. It gives separate analyses of UK Retail, International Retail (with performance in like-for-like sales, selling space, sales margins and operating costs) and Financial Services (numbers of account cards, personal loans, life policies etc.).

In the main annual reviews, other means of measuring performance are mentioned. The 2001 review refers to customer surveys and mystery shoppers (to assess salesfloor service) but, perhaps not surprisingly (as this would be of great interest to competitors), it does not detail the results of these surveys. Its 1999 review also gives information on market share, noting that in clothing the share had fallen from 15.1% to 14.3%.

• What measures does it use (or is planning) in respect of its ‘commitment to society’ (see relevant web pages)?

The company’s annual review gives examples of actions taken to promote environmental and social well-being, such as cleaner transportation, better factory conditions and animal welfare. Its website adds detail, particularly in respect of environmental measures (for, as the company notes, this is where its products have the greatest impact). It already measures performance in areas such as energy use, CO₂ emissions, waste recycling, water usage and reductions in sales packaging, and plans to develop turnover-related targets for each of these by 2003.

• Is the emphasis on hard (quantitative) or soft (qualitative) measures?
Almost all of the performance areas reported rely on quantitative measures. Not only are the financial measures required in company reporting but these and the environmental measures are of course easier to define. Softer measures might cover customer satisfaction and quality of service. Such information appears to be collected but is not published. M&S, like most other companies, will hold a great deal more information on internal performance – ranging from margins achieved on individual product ranges to measures of staff absences – but such information is normally regarded as confidential and would not be widely reported.
• To whom are the measures you find likely to be of most interest?
The financial reports are likely to be of most interest to shareholders (private and institutional). Similarly the environmental information could be of interest to ethical investors. Internally held information is likely to be of greater interest to management and staff.

Case question 6.7
• Which functions or activities might M&S benchmark (be specific about which business unit)?
• Which comparators might it choose for this purpose?

<table>
<thead>
<tr>
<th>Business unit</th>
<th>Activities or functions</th>
<th>Comparators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>Warehousing and distribution costs. Frequency of new ranges.</td>
<td>Other clothing retailers.</td>
</tr>
<tr>
<td>Foods</td>
<td>Development of new products (speed to market).</td>
<td>Other retailers of ready meals.</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Interest rates on loans. Returns on unit trusts.</td>
<td>Banks and other financial institutions.</td>
</tr>
<tr>
<td>Support activities</td>
<td>Sickness absence per employee. Overhead costs per sq.ft. selling space. Customer service</td>
<td>Other retailers (any sector).</td>
</tr>
</tbody>
</table>

PART CASE QUESTIONS

What environmental influences have particularly affected The Virgin Group?
Which of these are similar to, and which different from, those facing Marks and Spencer?
Because Virgin is active in many geographical and sectoral markets, and thus open to a wide range of influences in local, national and global business environments, question requires consideration of different industries.

Taking the particular case of Virgin Atlantic, a number of major environmental factors can be identified. Because Virgin Atlantic is a long-haul carrier (with routes including the US, Hong Kong, Adelaide/Melbourne), some factors, especially in the competitive environment, will differ from those affecting short-haul/local markets, especially where alternative modes of transport exist.

General environment
(i) Political-legal
Regulation, availability of long-haul route licences (inter-governmental air agreements limit number and origin/destination of permitted routes).
Impact of 11 September 2001 terrorist attacks on US and subsequent war on terrorism.
(ii) Economic
Competition.
Swings in business cycle.
Demand for business travel (affected by business cycle).
Rising personal incomes.
(iii) Socio-cultural
Growing demand for leisure travel and family holidays.
(iv) Technological
New aircraft production e.g. Boeing 777, offering better speed, comfort, and accommodating more passengers, thus potential for competitive advantage.

Competitive environment
Highly competitive industry (following deregulation, as protection removed from national carriers). Main competitor on transatlantic routes is BA; new airline, Blue Fox, established in mid-2001 to compete on this route. High capital costs create barriers to entry but also require high % of seats filled to break even. Currently (2002) excess capacity in industry, exacerbated by US terrorist attacks which led to steep drops in demand. Airlines losing money, shedding staff, mothballing aircraft. Mergers and bankruptcies anticipated.

In relation to its airline and rail businesses, Virgin has been affected by political-legal factors (e.g. government regulation and subsidies) which have not been important considerations for Marks and Spencer. The airline is affected to a greater extent by downswings in the business cycle (due to fall in business travel). Retailers claim some effect from the September 11 attacks but minimal in comparison with effects on travel industry. Main similarity is strong competition, requiring close attention to costs as well as quality/service.

Which generic strategy has Virgin followed at different periods in its history?
Virgin Atlantic: as a new entrant to the transatlantic market, Virgin challenged existing players by charging lower prices. But as competitors responded, shift to differentiation on basis of service.

What factors would you suggest Virgin Atlantic should include in a benchmarking exercise?
Possible benchmarking factors:
- fares (for different classes of travel)
- journey times
- capacity utilisation (% seats filled)
- punctuality (% flights departing/arriving on schedule)
- business growth (business/leisure passengers and cargo)
- customer satisfaction
- incidence and cost of aircraft maintenance/defects
- employee numbers and costs
- various financial performance indicators e.g. turnover, profit margins, market share.
What other businesses would it need to work with to benchmark its performance?
Principally other transatlantic/long-haul carriers (e.g. BA, American Airlines, Singapore Airlines). Other forms of transport may be relevant comparators for certain routes, e.g. UK to Europe may need to compare with rail/Channel Tunnel alternative.

On balance, does the Virgin story support the planned or the emergent view of strategy?
Whether Branson explicitly planned to enter a wide range of markets is uncertain, but he appears to have taken advantage of changes in the regulatory environment to compete in what were, at the time of Virgin’s entry, uncompetitive markets e.g. entering the record business just as retail price maintenance was ending, and the airline business just before large-scale deregulation (although his entry into latter seems to have been prompted by Fields). Other developments, e.g. moves into rail travel, retail banking, followed similar pattern. Possible that some kind of broad plan existed, but actions had to be more opportunistic and emergent in response to external change. As in most organisations, strategy likely to combine planned and emergent dimensions.

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 6.1 Comparing practice with the model
- **How does Scottish Homes’ planning framework compare with the model in Figure 6.1?**
- **Which of the different stages in the strategy process can you identify?**

The framework matches the model closely, with Scottish Homes’ strategy process encapsulating most of the key stages: the agency has defined its overall purpose (mission); it carries out environmental analysis (at national and local levels); these analyses underpin both national strategic objectives and regional strategies; strategic option analysis allows the identification and assessment of alternative strategies (e.g. demolition and replacement of poor quality housing as an alternative to renovation of the existing poor housing); specific actions which are to be implemented are detailed in statements of activities; and, the process ‘ends’ with a review of performance against targets and with some more detailed evaluations of specific policy initiatives.

- **Can you identify the relationships between different plans?**

The annual planning process results in the production of a series of interrelated plans: the guiding framework is the agency’s strategic plan; each of its five regions produces a regional plan in which the strategic objectives are interpreted in more detail in the light of local circumstances; business plans are also produced by the agency’s central business support functions. These plans make up the Scottish Homes ‘family’ of plans: internal consistency is promoted as each aims to contribute to the achievement of overall strategic objectives; at the level of regions and business units, objectives will be specified in greater detail; business unit plans, in particular, will be more operational (than strategic) in focus.
Activity 6.2  Evaluating mission statements

- Do you think that the examples above satisfy all of the requirements of a good mission statement (as defined by Dobson and Starkey)?

<table>
<thead>
<tr>
<th>Statement indicates:</th>
<th>A&amp;L</th>
<th>Link</th>
<th>Shell</th>
<th>HEFC</th>
<th>M&amp;S</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main business</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(Financial Services)</td>
<td></td>
<td>(providing houses)</td>
<td>(oil, gas and chemicals)</td>
<td>(teaching and research)</td>
<td></td>
</tr>
<tr>
<td><strong>Key aims</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(deliver value)</td>
<td></td>
<td>but vague (make profit)</td>
<td>(promote and fund cost-effective sector)</td>
<td>(as vision and mission)</td>
<td></td>
</tr>
<tr>
<td><strong>Values</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(customer-focused)</td>
<td></td>
<td>(working with partners)</td>
<td>(efficiency, environmental responsibility)</td>
<td>Partnership? Otherwise not clear</td>
<td></td>
</tr>
<tr>
<td><strong>Stakeholders</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(shareholders, customers)</td>
<td>(communities, partners)</td>
<td>(though implies interest of environmental groups)</td>
<td>(Students, society as a whole)</td>
<td>Emphasises customers only.</td>
<td></td>
</tr>
<tr>
<td><strong>Short, clear etc.</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short, but not very clear.</td>
<td>Clear but omits some information.</td>
<td>Catchy, but omits some information.</td>
<td></td>
</tr>
</tbody>
</table>

- Does the M&S statement of vision, mission and values meet those requirements? See table.
- Give examples of the ways in which the company’s values are reflected in its business activities.

<table>
<thead>
<tr>
<th>Quality</th>
<th>Selecting high grade fabrics; removing GM ingredients from food products; overseeing the entire supply chain from raw materials to finished products.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Scale (buying power); improving distribution and logistics network.</td>
</tr>
<tr>
<td>Service</td>
<td>Increasing numbers of staff on sales floors; new display formats; new tills to speed up transaction times.</td>
</tr>
<tr>
<td>Innovation</td>
<td>Non-iron tumble dry shirts; washable pillows and duvets; food development capabilities.</td>
</tr>
<tr>
<td>Trust</td>
<td>Food safety policies; social responsibility; exchangeability of goods.</td>
</tr>
</tbody>
</table>

Activity 6.3  Explore some information websites

The Internet is now a major resource for collecting intelligence on competitors. Look up www.hoovers.com/uk or www.business.com to see what type of information is held on industries, companies and products.

Exploring data sources.
Activity 6.4 Identifying generic strategies

- Select three companies you are familiar with, and in each case gather evidence that indicates the generic strategy which they are following.
- Then consider what features you would expect to see if the company decided to follow the opposite strategy.

Low cost strategies: would expect companies to emphasise price and actions taken to reduce costs, such as efficiencies in procurement/manufacture, use of Internet ordering or booking systems, etc. Companies following differentiation strategies would place more emphasis on quality, distinctive product/service features, reliability, trust, etc.

Activity 6.5 Investigating benchmarking

To find out more about benchmarking, the industries and companies that are involved, and the processes that are commonly benchmarked, have a look at the following websites: The Benchmarking Exchange at www.benchnet.com and the Benchmarking Network at www.benchmarkingnetwork.com

Exploring data sources.

Activity 6.6 Reviewing mission statements

Refer back to the examples of mission statements earlier in the chapter. Do you consider any of these stated intentions to be unclear or vague? If so, consider why they might have been expressed in this way.

Expressions of organisational purpose are usually couched in terms which are fairly general and uncontroversial, with which few people could disagree, in order to facilitate stakeholder agreement and satisfaction that the organisation’s objectives are valid and appropriate. Who would object, for example, to aiming to be the best, or most efficient, or highest quality producer? But the result is often that terms are ambiguous and open to different interpretations.

Take the Higher Education Funding Council’s mission statement, for example. What exactly does ‘cost-effective teaching and research’ mean, and what does it imply in terms of more specific actions? Fewer staff and increased student/staff ratios? Greater use of the Internet or distance learning? More longer-term research programmes? Better management? It may imply all of these things, but if the mission statement spelt out exactly what was meant, it could be harder to reach agreement at this early stage in the strategy process. It is usually easy to agree on high-level strategic objectives but often harder to agree on the specific strategies or actions needed to achieve them. A generalised mission statement also gives management flexibility to determine more specific strategies in the light of changing external circumstances.

TUTORIAL OR CLASS ACTIVITIES

1. Class activity – Strategic planning in practice
2. Case – Strategy development at KPMG

1. Class activity – Strategic planning in practice

Provide students with a selection of strategic plans for public sector organisations and/or
annual reports for quoted companies. Public sector plans are useful for this exercise as their structure often mirrors the traditional strategic planning model.

Using the model at Figure 6.1 as a template, ask groups to select a plan or report and review how closely its content matches the model. They should look for:
- Statements of mission, purpose or values
- Evidence of stakeholder interests being reflected
- Assessments of external and internal environments and/or SWOT analyses
- Statements of strategic objectives
- Evidence of options analysis
- Statements of strategies to be followed
- Statements of actions taken, or action plans
- Performance targets and/or measures of achieved performance.

The aim is to familiarise students with the language and components of strategy, and to find out how different organisations say they develop and implement strategy. Subsequent discussion with managers from these or similar organisations would be useful to find out more about how strategy actually develops in practice.

2. Case – Strategy development at KPMG
KPMG is one of the Big Five international accountancy and consulting firms, providing assurance (audit), tax, legal, consulting and financial advisory services. The firm’s origins were in small professional accounting practices established as long ago as 1870 and it has grown through a series of amalgamations. The most important of these – described as ‘the accounting profession’s first mega-merger’ – was the formation of the current KPMG partnership in 1987. The partnership comprises a federation of national firms each carrying the KPMG name, and any changes in strategy must be approved by the partners. As the firm has grown in size, so too have its sights from local to international to global, and from accounting to integrated advisory services. In 2000, KPMG had 150 member firms employing more than 100,000 staff. According to its mission statement, ‘KPMG is the global advisory firm whose aim is to turn knowledge into value for the benefit of its clients, its people and its communities’.

From the mid-1990s, spearheaded by Colin Sharman, then KPMG International Chairman, KPMG sought to change its business approach from one focused on functional disciplines to one focused on industry sectors, where knowledge of the industry and of specific clients came ahead of professional specialism. Sharman felt that although the (then) big six firms were dominant, having created barriers to entry by virtue of the range of services and skills they could offer, there was little to distinguish between them. His idea was to differentiate KPMG by offering clients an integrated service based on competences in relationship management, teamwork and co-ordination. Implementing this new strategy meant many changes for the firm. First there was a restructuring to create industry-based business units. Secondly, in order to improve client focus the concept of lead partners was introduced. This was accompanied by a new competence framework for lead partners (including business, management, and social, analytical and proactive thinking skills), and by changes in promotion and reward.
systems to reflect performance rather than time served. Various changes in communication and financial control systems were also necessary.

Sharman’s assessment of the changing external and competitive environment continued to be a driving force in strategy development. In his view clients no longer wanted professional services but business solutions. ‘New challenges demand new solutions. Global competition and information technology are creating a new dimension of client needs which require a new type of business advisor – an integrated team of specialists who combine industry expertise with functional knowledge.’ Speaking in 1997, Sharman confirmed his belief in the multi-disciplinary ‘industry-facing’ approach, noting that ‘the proof of this strategy is the fact that all our competitors have followed it’.

In seeking to meet the needs of large global companies, KPMG continued to face the challenges of providing integrated services on a global scale, extending its reach to developing markets, such as eastern Europe, and developing a supporting IT infrastructure. In 1998 it abandoned merger talks with Ernst & Young and instead embarked upon an international restructuring to create three global operating regions – Europe/Middle East/Africa, the Americas and Asia Pacific. Although individual country practices cannot merge into single firms because of regulatory barriers, a new management structure, headed by an international executive team and board, was put in place to co-ordinate services, and ensure consistency of service across the world. At the same time, KPMG adopted a set of global values encouraging behaviours such as teamwork and collaboration, open and honest communication and integrity in all business dealings.

In developing its IT infrastructure, KPMG formed an alliance with Cisco Systems, the Internet equipment provider. This not only enabled the development of common systems across its global network, but has also led to the creation of six technology centres. In the UK, a Service Provider Solutions Centre has the capacity to develop, demonstrate and test innovative network services for telecommunications service providers, creating, for example, the IT, telephony and e-commerce infrastructure for Virgin Mobile.

Efforts to create integrated client services have been hampered by the concerns of regulatory bodies. The US Securities and Exchange Commission raised concerns over audit independence where consulting and audit teams share clients and, in November 2000, announced rules to prevent accounting firms offering certain types of consulting work to their audit clients. These rules were partly behind a decision to float KPMG’s US management consultancy arm in February 2001. Although KPMG currently retains a majority stake, the business is likely to become independent in future.

In a further step towards integrated services provision, KPMG developed a global legal network, establishing its UK arm, KLegal in 1999. Although the Big Five anticipate legal changes in Europe that will ease restrictions on accounting firms providing legal services, a MORI survey in 2001 found that companies had concerns over potential
conflicts of interest and would prefer to use established law firms with known reputations.

Through to 1999, KPMG benefited from strong growth in e-business, preparation for Y2K, and a surge in merger and acquisition activity. But by early 2001, financial results were beginning to reflect the industry-wide effects of weaknesses in the high tech sectors and the general global economic slowdown. The Big Five continue to compete vigorously as they seek to expand their presence in world markets, and there is an increasing tendency to recruit teams from each other’s firms rather than to grow organically. Despite its achievements so far in building a global multi-disciplinary firm, these circumstances suggest that the future for KPMG will continue to be challenging.


Questions
1. What have been the major environmental influences on KPMG’s strategy?
2. Which generic strategy has KPMG followed?
3. Can the product-market matrix be used to analyse KPMG’s strategic directions?
4. What methods has KPMG chosen to deliver its strategies?
5. In what ways does the case illustrate the nature of strategic management?

Possible answers
1. What have been the major environmental influences on KPMG’s strategy?
   Political-economic: change leading to emergence of new markets, e.g. in central and eastern Europe, creating opportunities for expansion.
   Political-legal: regulatory controls affecting ability to combine audit and consulting services; laws preventing merger between practices; audit and tax services affected by company law, tax policies etc.
   Economic: revenues affected by changes in business cycle; increased globalisation of client firms led to demands for integrated services at a global scale.
   Technological: developments especially in IT creating new demands from clients, and opportunities to develop new internal systems.
   Competitive environment: intense rivalry, especially among Big Five, competing for market share in global firm sector; buyers (clients) can switch easily between service providers, though Big Five have created some barriers to entry through their scale and range of services.
   Internal environment: strengths – reputation, range of services; weaknesses – disciplinary focus regarded as inappropriate, hence shift to industry-facing approach; federal nature of firm harder to manage, decisions require support of all partners.

2. Which generic strategy has KPMG followed?
KPMG’s emphasis has been on differentiation. First it established itself as a major international firm, with a wide range of skills (expanding from accountancy to consultancy), in many parts of the world. This differentiated it from the majority of
accounting firms, but five other firms pursued the same strategy, so that none was unique. Then developed its industry-based focus expressly to differentiate itself. But this was imitated by its competitors, i.e. competitive advantage, if any, proved short-lived and unsustainable. Differentiation continues to be important in striving to be the world’s largest firm – with a scale and range of skills beyond the capacity of competitors – but so too is cost. Part of rationale for new global structure and common processes is to reduce cost. Could argue that strategy one of ‘focused differentiation’, targeting global company segment.

3. Can the product-market matrix be used to analyse KPMG’s strategic directions?
Yes. Over the years, KPMG has followed a strategy of market development by expanding its presence into different countries around the world. It has also diversified, adding new services, such as management consulting and legal services to its original accounting/audit functions. Its shift from functional to multi-disciplinary industry-facing approach is a form of service development. Likely that, in early years, strategy was one of market penetration in UK; now following similar strategy in existing overseas markets, whilst continuing to seek new opportunities in new geographical territories. Strategy in more mature markets likely to be one of consolidation.

4. What methods has KPMG chosen to deliver its strategies?
Legal nature of professional practices/partnerships is such that they can’t be bought or sold, but growth has been achieved by agreed amalgamations which could be seen as a form of merger or alliance. Development with Cisco also an alliance. Some growth achieved by internal development, but growing trend towards ‘poaching’ other practices in hostile manner. Service development to industry-based focus was pursued largely by internal development (with a variety of training and other initiatives designed to support the changes).

5. In what ways does the case illustrate the nature of strategic management?
Moving from a disciplinary to a client focus was a complex task. Successful implementation involved not just changing the behaviour and skill sets of staff, especially partners, but tackling a wide range of issues across the organisation as a whole. These included changes to organisational structure, motivation and reward systems and measures to overcome resistance to change (for a detailed account of the changes and some of the difficulties in implementation, see Johnson, 1998). Similar issues faced in implementing new international structure since 1998. Managing across professions and national boundaries/cultures adds to complexity of managing this type of business, as does the federal nature of the firm.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. What are four benefits that an organisation can gain from planning?
Means of coping with uncertainty, by thinking about how future could unfold. Clear idea of what the organisation is aiming to achieve. Basis for directing/motivating employees, creating corporate sense of purpose. Provides guiding framework for action and basis for monitoring achievements.
2. **Distinguish between a corporate and an operating strategy.**
A corporate strategy describes the aim and/or intended actions of the organisation as a whole, and is likely to be expressed in broad terms. An operating strategy describes the contribution of a business unit or department to the achievement of corporate strategy and is likely, therefore, to be more detailed and more time-specific in nature.

3. **In what ways does the concept of competitive advantage apply to for-profit organisations, non-profits, cities and countries?**
Not-for-profit organisations are often not in the position of competing directly for customers (that is, there are no freely functioning markets, users do not buy services directly, goods/services are allocated by non-price mechanisms). But they do compete for funding resources. Competition takes place between individual organisations in the same sector (e.g. local authorities) and between sectors or ‘industries’ (e.g. particular fields of public policy such as education, health, and housing compete with each for political priority). In such cases, organisations are judged by the amount of value for money (or perceived user value) they provide, although the judges may be civil servants or politicians rather than the ultimate consumers. Finding ways to create and demonstrate better value for money than competitor organisations (in order to gain access to funding) is equivalent to finding sources of competitive advantage. Cities and countries also compete for custom by highlighting features (such as good weather, historical attractions, educated flexible workforce) or developing new capacities (e.g. sports stadia, transport infrastructure) which they believe bring competitive advantage.

4. **Describe the main elements in the strategy process in your own terms.**
Use Figure 6.1, page 160, as reference point.

5. **Discuss with a manager from an organisation how his or her organisation developed its present strategy. Compare this practice with that set out in the model. What conclusions do you draw from that comparison?**
Data collection and comprehension of the process.

6. **Compare the strategies of Marks & Spencer and The Body Shop, and list any similarities and differences.**
Analysis of their strategies reveals many similarities between the two companies. M&S and The Body Shop both operate in competitive consumer retail markets, based principally in the UK and are, therefore, subject to some similar environmental influences. Both have followed a strategy of differentiation rather than low cost. Body Shop’s differentiation strategy stemmed largely from its stance on environmental and humanitarian issues, and the way in which this was reflected in its products. M&S is also well known for its sense of social responsibility but this does not imbue its products to the same extent. However, both have faced tough competition and suffered declining sales in recent years. Competitors have, for instance, imitated their products (e.g. Body Shop’s natural cosmetics and Marks and Spencer’s ready-prepared meals). The two companies have been forced to reduce their costs, in order to remain competitive, as well as to continuously develop new products. In the past, both have also developed new markets overseas, e.g. in the US and Asia (and both have used franchising as one
means of doing this). In both cases, not all overseas ventures have been successful. M&S has recently withdrawn from loss-making and ‘non-strategic’ markets to focus on core UK retail; and The Body Shop has closed some of its loss-making US outlets.

7. What are the main steps to take in analysing the organisation’s environment? Why is it necessary to do this?

External environment:
(a) Assess how general environmental factors are changing and their likely impact.
(b) Assess competitive environment and activities of competitors (e.g. how are their strategies changing, are they developing new products/markets etc.)
(c) Analyse stakeholder interests and potential influence on organisation.

Internal environment:
Assess the organisation’s strengths and weaknesses, i.e. what does it do well, what badly, does it have the right mix of resources, how does it compare with its competitors, etc.

Overall aim is to ensure organisation suitably configured to deal with environmental challenges presented and/or to take advantages of opportunities that arise.

8. Can you describe clearly each of the stages in value chain analysis and illustrate them with an example? Why is the model useful to management?

Comprehension, pages 166–168.
(a) Identify all separate activities in value system.
(b) Assess which are most critical to achieving competitive advantage.
(c) Identify major drivers of cost and/or value.
(d) Identify important linkages between activities and which most likely to yield advantage over competitors.
(e) Assess whether scope for further advantage to be gained (by controlling drivers or by doing things differently).

Model is useful in highlighting fact that separate activities (and the linkages between activities) each make a contribution to cost and value dimensions of the end product or service; thus helps to identify (potential) sources of competitive advantage as well as weaknesses in way activities are currently configured. Managers should question why things are done in present way.

9. Why do firms conduct benchmarking exercises? What difficulties can arise in external benchmarking?

Performance information of greatest value when gauged against that of competitors. Benchmarking indicates whether firms are scoring well or badly on a range of measures (including resource inputs, processes, outputs/outcomes). Firms may compare themselves with industry norms, with the best performers in their sector, or with organisations in other industries. Helps to indicate areas where performance could improve. One difficulty may be obtaining comparable data – financial information often more readily available than other details. Another problem is identifying like organisations – this is a particular issue in the public service sphere (especially where
operating context affects ability to perform well), but also relevant issue for private organisations.

10. The chapter described three generic strategies that organisations can follow. Give examples of three companies each following one of these strategies.
Cost-leadership: Woolworth’s, B&Q, easyJet
Differentiation: The Body Shop (emphasis on natural products, social responsibility etc.); VW-Audi (image, style, performance, especially Audi range); R. Twinings & Co. (high quality and speciality teas)
Focus:
(a) cost focus – supermarkets such as Food Giant and Iceland (low-cost, lower income customer segment)
(b) differentiation focus – Cala Homes (quality homes, upper end of market); Evernat (a Swiss company producing healthy, organic foods)

These are examples of companies whose main focus is either cost or differentiation. Most companies have regard to both and, as Porter contends, make trade-offs between them.

11. Give examples of company strategies corresponding to each box in the product/market matrix.

<table>
<thead>
<tr>
<th>PRODUCT/SERVICE</th>
<th>MARKETS</th>
<th>Existing</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market penetration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tesco – increasing market share in UK (and overseas)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;S; Laura Ashley – attempting to protect market shares in UK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Withdrawal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virgin’s withdrawal from original record business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Many examples of companies entering overseas markets, e.g. McDonald’s moving into eastern Europe and Asia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– horizontal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virgin expanding from air into rail travel; water utility, South West Water, moving into landfill waste disposal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– vertical</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laura Ashley’s ownership of textile/paint factories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– unrelated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virgin’s move into banking</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© Pearson Education Limited 2002
12. Compare the main ideas of the learning and political approaches to strategy with the traditional planning model.

Traditional approach is the planning perspective which favours analysis and prediction and seems to assume that once made, plans can be neatly implemented. Inherent inflexibility of this approach is challenged by both learning and political perspectives both of which point out impossibility of predicting future and of having sufficient knowledge to plan everything in advance. According to learning approach, organisations learn in the process of doing and adapt to changing circumstances; strategies often emerge rather than being deliberately planned. Political approach emphasises conflicting interests; may result in ambiguous strategy statements which implementors must interpret; strategy development often incremental in nature as a result of bargaining between stakeholders.

13. Compare the ‘fit’ and ‘stretch’ perspectives on strategy. Evaluate the strengths and weaknesses of each approach.

Traditional view regards external environmental and industry factors as most important in shaping organisational strategy; emphasis is on trying to develop organisational resources to ‘fit’ or ‘match’ external circumstances, to position in industries and markets to which organisation is suited. Resource-based approach takes view that organisational resources and competences can be used or ‘stretched’ to create new opportunities and sources of competitive advantage. Essential difference is that former reactive, latter proactive. Each has strengths, not mutually exclusive.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE

1. Compare and contrast the resource-based approach to strategy with traditional approaches. What type of analytical techniques would each favour?

Answer should explain both approaches (40% each). Content in each case should:
(a) show appreciation of different emphasis (see Review Question 13);
(b) refer to some of the techniques which each would favour (i.e. resource-based would focus on internal competences, traditional view would focus on external analysis – PEST, five forces);
(c) show understanding through use of examples.

Remaining 20% for recognition and discussion of fact that not an either/or situation; each has value in devising strategy.

2. ‘Too much planning may lead us to chaos, but so would too little, more directly’ (Mintzberg, 1994). Discuss the validity of this statement with reference to alternative perspectives on the strategy process.

Answer should outline and contrast planning, learning and political views; review benefits of planning; and discuss problems in relying too prescriptive an approach.

3. As an assignment topic, student could be asked to conduct a SWOT analysis for an organisation of their choice and to assess how the organisation’s current strategies seek to address the weaknesses/threats and strengths/opportunities in the external
environment. Students could make use of either published reports or material on company websites.

4. An assignment could be used to explore the use of performance assessment and benchmarking by different types of organisation.
   (i) One option is to focus on the use of performance indicators by local councils, health authorities or similar organisations. Using an example of a local authority league table or similar published performance data, students should be asked to assess whether the reported performance measures relate to inputs, processes or outputs, and to discuss why the production of league tables is often contentious.
   (ii) Alternatively, students could be asked to contrast the performance reporting of private and public sector organisations, drawing on the annual reports of two organisations of their choice. Assignments could:
      (a) Describe the different types of performance information reported and whom they are targeting.
      (b) Identify areas of performance that could be benchmarked against other organisations, noting whether or not the reports contain any comparative analysis.
      (c) Assess the ways in which the performance analysis has been (or could be) used to support statements on current and future strategy.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

- Marks & Spencer  www.marksandspencer.com
- KPMG  www.kpmg.com
- Virgin Atlantic  www.fly.virgin.com
- The Body Shop  www.bodyshop.com

Other websites

- Business information  www.hoovers.com/uk
- www.business.com
- Airline industry  www.ft.com

For information on the airline industry go to the site then click on ‘industries’ and ‘transport’

Benchmarking

- Benchmarking Exchange  www.benchnet.com
- Benchmarking Network  www.benchmarkingnetwork.com
Other materials

European Case Clearing House  www.ecch.cranfield.ac.uk

ECCH holds a number of cases on Virgin (some on Virgin Group as a whole, some on Branson as leader and entrepreneur, others on Virgin Atlantic). Case designed to examine strategy (including environmental, competitor and overall industry analysis) focuses on Virgin Cityjet: Case ref. no. 597–031–1.


Regular commentaries on the airline industry can be found in publications such as the Financial Times (see, for example, special report, a series of four articles ‘The outlook for the aviation industry’, 15 March 2001) and The Economist (see, for example, articles in issues dated 7 July, 22 September and 13 October 2001). Articles such as these provide useful analysis of the changing external environment for the industry as a whole as well as detail on specific sectors (such as low cost airlines) or companies.
Chapter 7

Managing marketing

SYNOPSIS
The chapter has shown how the whole marketing process can be managed. It has focused on the implications of companies adopting a marketing philosophy as distinct from the alternative approaches which have their focus elsewhere. Another theme of the chapter is to show that marketing is not the preserve of the large commercial organisation. Examples and illustrations show how the underlying philosophies of marketing are equally relevant to charities, not-for-profit and small organisations.

SUMMARY
• A firm with a genuine marketing orientation focuses all activities on meeting consumer needs. It is organised with that in mind, since meeting consumers’ distinctive needs satisfactorily depends on internal capabilities and the way management organises these.
• The chapter outlined the components of the marketing mix – product, price, promotion and place – which a company can use to relate to consumers.
• Marketing represents an attempt by management to recognise explicitly the needs and interests of customers and other stakeholders. Meeting these needs is likely to add more value to the organisation’s activities than ignoring them.
• It places particular emphasis on keeping in touch with external (micro and macro) developments that affect customers’ needs and the organisation’s objectives.
• Adopting a marketing orientation wholeheartedly implies making the customer the centre of attention and is distinct from product, production and sales philosophies.
• Implementing the approach involves the increasingly precise targeting of defined segments of the whole market. It also implies restructuring to ensure that the whole organisation focuses on the customer and planning organisation-wide information systems to deal with marketing data.
• Understanding buyer behaviour draws on motivational theories described in Chapter 13.
• The primacy of marketing advocated by its professionals may challenge the needs of other professional groups. They are expected to support and be committed to the central position of marketing.
• A marketing orientation implies that marketing is active in major business decisions to ensure that management hears a consumer perspective, which implies creating mechanisms to do this.
• A major element in marketing is the management of communications. They need to ensure that information about external developments and customer needs is gathered, processed and transferred around the organisation. They also require various external means of communication to inform consumers about the product and to influence them to buy it.
• A marketing orientation implies that activity is monitored and controlled to ensure it is focused on customer needs, and also that much effort is put into monitoring and controlling customer opinions and satisfaction levels.

THE CHAPTER CASE
The Millennium Dome provides a familiar focus for many of the central marketing principles developed in the chapter. It also shows how effective marketing depends on effective performance of internal functions such as creating an appropriate structure within which marketing activities take place. It also shows how delivering services profitably depends not only on effective marketing management, but also on effective internal operating processes.

CASE QUESTIONS
The Millennium Dome
Preliminary questions
What were the marketing implications of the events on the opening night?
The opening night was a disaster in many ways. It generated bad publicity which could be magnified by an already sceptical media, and also demonstrated poor management of media relations and reputation. It also shows that marketing depends on many other business processes, such as those concerned with operations and quality (Chapter 17). This showed, for example, in the inadequate systems for distributing tickets, and for transporting large numbers of people to the site. There were also product problems in that many exhibits were not yet complete, or were closed for other reasons.

A marketing perspective suggests things which could have been done differently to ensure the opening night was a success, such as:
• invite fewer guests;
• invest in internal marketing and more effective training of staff to ensure that ticket problems did not occur;
• better use of forecasting to ensure appropriate levels of stock;
• provide transport for media;
• better media relations through the use of a media and reputation management strategy.

What might explain the visitor numbers for the year being below expectations?
Some ideas on this are mentioned on page 212 – critical press coverage, no car parking, and competition from other new attractions. A different perspective is that the original expectations were unrealistic, and were themselves the product of a flawed management process.

How might better marketing have helped the whole project?
This question can be used to illustrate one or more models from the chapter. For example, students could use the model of consumer buying behaviour (pages 210–214) to identify those factors that may have influenced purchase decisions. This model identifies a process:
• identify an unmet need (holiday, day trip, leisure break – which unmet need did the Dome seek to fulfil?)
• search for information (how could the Dome have created a more positive image to counter scepticism, and against competing attractions such as theme parks and museums?)
• compare alternatives (might compare Dome with other tourists places in London like the London Eye or theme parks like Alton Towers)
• buy product (as well as the broad decision, is the precise method for distributing tickets acceptable to potential buyers – see page 212 for the change in ticket channels)
• post-purchase evaluation (compare your experience with those of others in your reference group as well as with the media: curious that high customer-satisfaction figures did not translate into more purchases).

Decisions are also influenced by the views of external reference groups, especially media and sponsors: many of these expressed negative opinions, and so perhaps discouraged attendance.

Case question 7.1
What customer demands was The Dome seeking to satisfy at the time of the case study?
This is a challenging question as, being a service, the Dome was seeking to satisfy a diverse range of customer needs; this is something which better students will recognise and to this end, answers should mention that the Dome was seeking to satisfy several of the following customer demands:

Tourists and day-trippers who are seeking to satisfy leisure pursuits including entertainment, education, value for money, excitement, valuable family time etc. Secondary needs will also include food, drink etc. Better answers may also draw the distinction between individual and corporate or group customers.

What other demands was the Dome seeking to satisfy?
Good answers should mention that one of the biggest challenges facing the Dome was the fact that it was trying to meet the needs of a diverse range of stakeholder groups including:
• all political parties
• media
• employees
• funders
• sponsors
• designers.

What marketing tools are mentioned in the case?
The case identifies a range of marketing tools including: sponsorship, publicity, internal marketing (queues etc.), targets, pricing.
How did the management structure prevent the creation of a marketing orientation? See page 204 for suggestions on how the unclear responsibilities within the new and essentially temporary organisation may have impeded progress.

Case question 7.2
As part of the effort to understand how the opening night of the Dome impacted upon the public’s perceptions of the Dome experience, what type of market research would you have recommended using?

A range of research techniques including the following could have been employed to judge the impact of the opening night:
- Focus groups with different stakeholders;
- Familiarity scales;
- Favourability scales;
- Perceptual mapping;
- Semantic scales;
- Measurement of column inches in the media and the extent to which these are of a positive or negative nature.

More generally, answers should discuss the need to design a market research project by identifying the problem and then a sample with which to undertake the research. Better answers will also consider whether qualitative or quantitative research would be more effective. In the case of the Dome, it is likely that qualitative research would reveal more about the impact of the opening night although this would be expensive in terms of time and finance.

Case question 7.3
What segmentation criteria would you have recommended the Dome using to target the visitors it was seeking to attract?

A range of criteria could be used by the Dome and in suggesting criteria students should be encouraged to provide their logic and rationale for their suggestions. Possible criteria include:
- Gender
- Age
- Education
- Postcode
- Stage in life cycle (single, living together, with children, retired etc.)
- Length of stay in the UK
- Number of times visiting the Dome
- Various lifestyle criteria might also be mentioned.

PART CASE QUESTIONS
To what extent has Virgin implemented a marketing orientation?
Strong focus on customers rather than on internal departmental territories.
Cross-selling of products using information about customers from separate divisions.
Launching new products and services when demand is identified.

*Visit the website (Virgin.com) and comment on how it has used this to support its marketing activities.*

Clear pages showing the full range of products in an easy-to-navigate site. Data gathered on customers during transactions can be used to target them with other products likely to interest someone with that profile.

*Where do Richard Branson’s publicity stunts fit into the company’s marketing strategy? Unifying and strengthening the brand across all products; reinforcing the brand as an unconventional, rather unpredictable business.*

**ACTIVITIES**

**Activity 7.1 Describing marketing**

*Before reading this chapter, write a few notes which capture your description of marketing. You might find it helpful to think of some recent purchases you have made and consider the different ways in which you came across marketing before, during or after your purchase. Keep your definition safe as you will use it again at the end of the chapter.*

Data collection for later reflection. On completing the chapter, tutors could invite students to describe marketing once again, to compare their responses with those made before reading the chapter. Any differences in their opinion will make for interesting debate. If used as tutorial material, students could be asked to present each of their definitions, i.e. before and after their reading of the chapter and to comment on the reasons why their definition has/has not changed.

**Activity 7.2 Identifying consumers**

*A marketing orientation suggests that organisational success is best achieved by focusing on the consumer. Identify each of the following organisations’ consumers and suggest the benefits that a focus on their consumers will bring to each organisation: Microsoft, easyJet, Virgin Holidays, The Big Issue.*

Data collection and reflection.

**Activity 7.3 Evaluating market research**

*How might the information affect the decisions taken by the management of Saint Honoré Hospital? It might encourage management to ensure that in communicating with potential clients they emphasise the quality of the doctors and nurses which they employ. To this end, they might even acquire testimonials from previous clients commending the quality of service. They might also consider publicising the qualifications of the medical staff.*

*What other information would they be wise to take into account alongside the views of patients? Management might also consider ascertaining the opinions of the doctors and nurses which it employs as well as other health professionals.*
Can you identify another social care organisation that could use market research to assist it?
Almost any suggestion made will be suitable. Examples could include: health education boards; the anti-smoking group ASH; hospices and schools.

**Activity 7.4 Identifying the marketing environment**

Use Figures 7.5 and 7.6 to identify, for each of these organisations, those parts of their micro- and macro-environments that have most impact upon their marketing activities: British Airways, Abbey National, the Hilton Hotel group, Thomas Cook Holidays. How might they respond to these environmental influences?

Rather than describing the marketing environment of different organisations, this activity encourages students to identify and analyse those parts of the marketing environment which have most impact upon each of the organisations listed. To extend this activity for use during a tutorial session, students could be asked to comment on why certain parts of the environment have great impact on some organisations yet little on others. Tutors should also encourage students to compare and contrast those parts of the marketing environment which have most impact on each of the selected organisations. In recommending how these changes should be responded to, students are encouraged to support their recommendations.

**Activity 7.5 Why did you buy that?**

Pick a product which you buy on a regular basis, such as a magazine, a soft drink or a chocolate bar. Think of the last time you bought that product and try to identify the factors which influenced your choice.

This exercise will encourage students to realise that those factors which impact upon their buying decisions are often dependent upon the types of products which they are purchasing. To illustrate this, tutors are encouraged to invite students to compare and contrast the different influencing factors which they identify for each of these purchases.

**Activity 7.6 Reflecting on consumer information**

Select from one of the following expensive products: a DVD player, a mountain bike, a round the world air ticket. For your selected product, describe the type of information you would want before deciding which brand to buy, and why.

In contrast to Activity 7.5 this example asks students to select one product and describe the information they would require before purchasing an expensive, shopping product. To extend this activity for use in a tutorial, students could be invited to compare their answers to this activity with that in 7.5 to show that less information is required for routine purchases such as toothpaste while a more extended buying process involving the collection of more detailed information is typical of shopping purchases.

**Activity 7.7 Identifying market segments**

What market segments have the following identified: easyJet, Amazon.com, British Midland, Scream bars, Costa coffee houses, Borders book stores? What benefits do you think their segmentation strategies offer?

This activity encourages students to identify the different types of segments existing within markets. It is encouraging students to use examples with which they should be
familiar to identify the criteria which organisations use to segment markets and identify target markets. For example, easyJet targets the economy/budget-conscious consumer while British Midland targets business executives; Scream bars target students and Costa coffee targets coffee drinkers in cities. This activity encourages students to recognise that many organisations target particular segments of the market (easyJet) while others focus their marketing mixes on a variety of market segments (e.g. Costa).

What benefits do you think their segmentation strategies offer?
Comprehension. Students should be encouraged to compare and contrast the benefits which they identify.

Activity 7.8 Using the product life cycle
State the stage that you believe each of the products to be in and comment on how long, in years, you believe their life cycle to be: a drawing pin, mini disks, umbrellas.
The purpose of this activity is to encourage students to be critical of the product life cycle. By comparing their answers to each of the products listed it will be made apparent that while some products experience a (probably) short life cycle (mini disks), others have a much longer, almost timeless existence within the market (drawing pins, umbrellas).

Activity 7.9 Revising your definition
Having completed this chapter, how would you define marketing?
Compare this definition with the one that you were asked to make in Activity 7.1 and comment on any changes.
The purpose of this is to encourage students to identify how their learning has developed and progressed as they have worked through the chapter. In comparing answers students should be encouraged to comment on similarities, differences and the extent to which their learning has developed.

TUTORIAL OR CLASS ACTIVITIES
Each of the Activity and Review Questions could be used as a basis for tutorials. They will work best in a tutorial situation if students are encouraged to think about their answers before attending the tutorial and are given the opportunity to present, defend and debate their answers during tutorials.

Ethical debate
In advance of the tutorial, split the tutorial group into teams of no more than five people. Select two teams to prepare presentations, one for and the other against the motion that: ‘This house argues that marketing deceives the consumer, encourages consumerism and materialism and restricts rather than increases consumer choice’
At the tutorial, select a third team to act as a rebuttal group whose job it is to question each of the presenting teams on their arguments (questioning works best after both teams have presented). Ask the rest of the class to select which team:
(a) presented most effectively;
(b) defended their arguments when questioned by the rebuttal group.
Relevant examples of marketing activities

Before attending the tutorial, ask students working in teams of no more than five people to identify an organisation in which they have some interest and collect information about their marketing activities. Students should be advised that they can collect this information either from the library, newspapers, magazines, the Internet, friends and family or the organisation directly.

At the tutorial ask students to present the findings of their research and to comment on the extent to which they believe the marketing activities which they have identified are effective or otherwise.

Societal marketing

Working in teams of no more than five people, ask students to identify a not-for-profit organisation in which they have some interest, for example a charity, collect information about their selected organisation’s marketing activities and comment on the extent to which they believe that their selected organisation has adopted a marketing orientation.

At the tutorial, teams should be asked to:
- explain why they selected their organisation;
- outline some of the organisation’s marketing activities;
- evaluate the extent to which the organisation is marketing orientated;
- offer any recommendations.

SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. What advantages does the marketing orientation have over each of the following organisational orientations: production, product and sales?

Comprehension, pages 197–200. Marketing’s advantage is that it is an orientation which focuses on continually identifying and satisfying the needs, wants and demands of consumers. By doing so marketing seeks to produce products which consumers want rather than ‘forcing’ consumers to buy products which they do not need or want.

Organisations operating under a marketing orientation determine production on the basis of consumer demand rather than on the basis of cost and efficiency.

2. Outline the benefits which the marketing philosophy can offer each of the following organisations: a global brand, a university, a charity, a small firm and a high street retailer.

Comprehension, pages 200–203. This question encourages students to think about the benefits which the marketing philosophy can have for profit and not-for-profit organisations.

Suggestions:
- Global brand – can offer products to an international market which satisfy customer needs which are common across economies.
- University – offer courses in which students and employers are interested and demand, consequently attract both students and the funding which they bring with them.
- Charity – encourages individuals to donate money to causes which they identify as worthwhile and which, by contributing to, feel that they have also contributed to society.
Small firm – can help a small firm identify which consumers have needs, wants and demands which their scarce resources can be used to target and satisfy.

High street retailer – by providing consumers with products which they demand at prices which they are willing to pay, a marketing philosophy ensures that such organisations are able to meet their financial and other objectives.

This question could be extended for tutorial purposes by including a discussion of the extent to which a marketing orientation encourages organisations to develop relationships rather than one-off exchanges with their consumers.

3. **What are the key responsibilities of the marketing manager?**

Comprehension, pages 204–208. Better students will discuss the overlapping nature of each of these responsibilities in Figure 7.4 and will also be critical of the logical, cyclical approach portrayed by the marketing management process detailed in the chapter.

4. **In what way is an organisation’s micro-environment different from its macro-environment? Comment on those areas of the following organisations' marketing environment which have the greatest impact upon their marketing activities: Living Well health clubs, McDonald’s, your local library.**

Comprehension and application, pages 206–208. The micro-environment is that part of the marketing environment which the organisation is closest to. It interacts with it regularly and has some control over it as well as being controlled by it. Distinct also from the macro-environment as the micro-environment is unique to each organisation. The macro environment is that part of the environment over which the organisation has no direct control and little indirect control. Organisations competing in the same industry will have similar macro-environments, which indirectly affect marketing activities through their respective operating environments.

The examples suggested will encourage students to identify that the marketing environment impacts upon different organisations in different ways, e.g. while libraries face competition from other Internet information services, McDonald’s faces increasing pressure from various pressure and lobby groups.

5. **Outline various sources of marketing information and compare and contrast alternative ways of collecting and analysing information about an organisation’s market environment.**

Comprehension and comparison, pages 208–210, especially Table 7.2. In contrasting the sources, particular attention could be paid to the focused, scientific objective process involved in market research which seeks to collect information to help solve well-defined, specific problems and the process of environmental scanning involved in collecting marketing intelligence. A discussion of the extent to which loyalty cards have improved the quality and manipulation of customer databases could also be introduced. The rigidity of formal market research processes should be contrasted with the more flexible approaches employed by environmental scanning, for example.
6. Describe the processes of buying behaviour involved and identify the factors which might influence the purchase of: a new car, a soft drink, a present for a friend’s 30th birthday, a new outfit for work.

Comprehension and application, pages 210–214. This question is asking students to distinguish different types of products; routine, shopping and speciality. To extend the question, they could be asked to comment on the different processes and influencing factors involved in their purchase of each of the product types listed.

7. What are the advantages of market segmentation and what are the variables upon which consumer markets are commonly segmented?

Comprehension, pages 214–216. To extend the question for use during a tutorial session, students could be asked which segmentation variables work best and worst and to explain why this is so. It would also be useful to encourage discussion of how difficult it can now be to profile and identify market segments.

8. How are target markets identified and what is meant by product positioning?

Knowledge and comprehension, pages 214–216.

9. What position do each of the following have in the marketplace and what mix of marketing tools have been used by the organisation to achieve this position: Carrefour, Tango soft drinks, Irn-Bru, Save the Children Fund, Surf washing powder.

Comprehension and application, pages 216–222. An opportunity for students to apply their knowledge of product positioning to the examples. This question encourages students to consider marketing by both profit and not-for profit organisations.

Suggestions could include:
Carrefour: integrated marketing communications supported by facilities such as parent and child parking, changing facilities and crèches are used to target young parents.

Tango (soft drink): ‘off-the-wall’ unusual advertising combined with colourful and interesting product packaging are used to position Tango within the youth market for soft drinks.

Irn-Bru (soft drink): ‘copy-cat’ techniques used to position Irn-Bru, within Scotland at least, as a major rival to Coca-Cola.

Save the Children Fund: a charity which targets a wide audience and makes use of television and direct mail to encourage donations.

Surf washing powder: endorsement by well-known television actors used to convince the consumer that Surf is an economical but effective brand of washing powder.
DRAFT ASSIGNMENT OR EXAMINATION QUESTIONS WITH MARKING GUIDE

1. Organisations have many ways of focusing their activities. Explain why marketing orientations are becoming more popular and detail the ways in which this business philosophy differs from others such as selling, production and product. Illustrate your answer with examples

Marking guide
Students should seek to define what is meant by a marketing philosophy. In doing so they might suggest that it differs from product, production and sales philosophies as it is a philosophy which recommends that organisations should select to focus all of their activities around the customer and their satisfaction.

Students should also attempt to outline the benefits of a marketing orientation: long-term relationships with consumers which encourage them to come back and to advise others to interact with the organisation; the attainment of a satisfactory level of profit by attaining a satisfactory level of consumer satisfaction should also be reviewed to explain why more and more organisations are selecting this philosophy. Better answers may additionally comment on what is required for a marketing philosophy to be effectively implemented: support from top-level staff; an effective marketing information system; a marketing department which develops marketing strategy, selects markets to compete within and creates a marketing mix to effectively position the product in the marketplace.

In answering this question, students should provide evidence of their application of theory by including relevant examples of organisations which operate with a marketing philosophy – including public sector and not-for-profit organisations such as education, churches and political parties.

2. You have recently been employed on a graduate marketing training programme for an online recruitment agency. The first task which you are given is to produce a report which explains what is meant by a marketing orientation and outlines the challenges which services pose to the marketing manager. Your task is to produce the requested report, taking care that you include examples which illustrate and support the points which you make.

Marking guide
This answer is essentially in two parts. Firstly, students should explain what is meant by a marketing orientation and use examples to support the definition which they produce. Better students will also mention the advantages which such an orientation has for the recruitment agency as well as consider any specific implications of the ‘online’ proposition. The second part of the question is asking students to consider the differences between goods and services. The inseparability, intangibility etc. of services should be described and the problems which these create for the marketing of services should be detailed. Again, examples to support the points made should be included.
3. The task of analysing the marketing environment and making predictions about the future needs, wants and demands of targeted consumers, and the activities of competitors, are made difficult in many industries by the degree and pace of change. Using an organisation of your choice:

(i) undertake a critical review of their marketing environment and identify those factors which have to be taken account of when planning their future marketing activities (30%);
(ii) suggest the ways in which these factors can potentially impact upon their marketing activities (30%); and
(iii) make recommendations as to how this organisation can survive the environmental turbulence which surrounds it, explaining why you believe this advice will be effective (40%).

Marking guide
(i) Students should discuss the concept of the marketing environment; its micro and macro components and the degree to which each of these can be controlled. Candidates should present their analysis of the environment in which their selected organisation is situated; this should reveal which parts of the environment can be controlled and also identify the pertinent areas of the environment rather than provide a wide-ranging description of every aspect.
(ii) Candidates should discuss the reasons why certain parts of the environment have greater influence on the organisation’s marketing effort than others and, by using examples, should be able to illustrate the ways in which these aspects of the environment impact on the organisation’s marketing effort. Candidates should also recommend tactics which marketing departments can use to survive environmental turbulence, e.g. proactive approach to scanning and analysing the environment; the use of market research, the gathering of marketing intelligence, the effective use of salespeople to glean information from consumers.
(iii) Candidates should also explain that in seeking to scan and analyse the environment, marketing departments should be efficient in that they should concentrate their efforts on those parts of the environment which impact most heavily on their marketing activities.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

Benetton www.benetton.com

This informative site shows in particular the importance of marketing and knowledge of consumers to Benetton’s wider strategy.

Nike www.nike.com
This site demonstrates how electronic technology has been used to try to build relationships with customers.

Swatch  
www.swatch.com

Insight into the successful marketing which rejuvenated a traditional business.

**Other material**

**Cases**

European Case Clearing House  
www.ecch.cranfield.ac.uk

These have been found to work well at an introductory level and are available from the ECCH:

- Schweppes Europe TN; 9pp  
  597-019-8
- Hugo Boss AG; 9pp  
  597-023-1 (with Teaching Note)
- Complaint Management at Club Med (A); 14 pp  
  597-025-1
Chapter 8

Organisation structure and culture

SYNOPSIS
Structure provides the framework within which people act in organisations, and is itself shaped by management actions. This chapter therefore provides the basic vocabulary which helps to compare and discuss structural forms, distinguishing as usual between the vertical and horizontal division of tasks, and the alternative ways of co-ordinating them. It also introduces the theme of organisational culture.

SUMMARY
• Management creates a formal structure to help it achieve organisational objectives. Resources are acquired and arranged in some more or less stable pattern to encourage people to think and act in ways that help achieve current objectives. This brings some formality to management activity, and has both vertical and horizontal dimensions.
• The vertical dimension creates a hierarchy of authority and influence, and so shapes the (unequal) distribution of power through defining access to organisational resources.
• The horizontal dimension creates a degree of functional or other specialisation – and again influences the distribution of influence around the organisation.
• The chapter examined a variety of structural and cultural forms, including the evolution of informal structures alongside the formally created ones.
• The form of structure adopted affects the position of stakeholders in the organisation – their status, work, power, and ability to influence decisions.
• Structures affect the processes of management such as decision-making and communicating, by enabling or obstructing the involvement of people in them.
• Structures affect the ability of management to control other organisational members. Centralised structures tend to work in favour of those at the top, while decentralised structures enhance the positions of those lower in the hierarchy.
• Since the design of structure is not a technical matter, groups will try to influence structure to maintain or increase their access to institutional sources of power, such as knowledge and economic resources.
• Information technology is greatly increasing the ability of managers to monitor what is happening around the organisation, even if they are not personally present.
• Appropriate structures are also needed to support the learning opportunities identified in the control processes.

THE CHAPTER CASE
The main case is about a major company that is going through a period of structural change. Long associated with a matrix structure, and often quoted as an example of an effective organisation, ABB has performed poorly in recent years. As a prominent, European-based multinational company, it is easy to keep up-to-date with successive instalments of the strategy and structure of this diversified engineering company.
CASE QUESTIONS
Asea Brown Boveri – a global business

Preliminary questions
What might be the advantages and disadvantages of the matrix structure which ABB used for many years?

Table 8.4 (repeated below) summarises the general advantages and disadvantages of this structural approach.

Table 8.4 Advantages and disadvantages of a matrix structure

<table>
<thead>
<tr>
<th>Factor</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff focus</td>
<td>Staff gain variety of work experience, and develop understanding of customer needs.</td>
<td>Isolation from wider professional developments in functional base.</td>
</tr>
<tr>
<td></td>
<td>Functions develop professional expertise.</td>
<td>Conflicting demands of project and functional boss.</td>
</tr>
<tr>
<td>Resources</td>
<td>Dedicated facilities can be arranged to meet customer needs as required.</td>
<td>Costs of duplication across the organisation as demands vary.</td>
</tr>
<tr>
<td>Working relations</td>
<td>Project focus supports good internal relations.</td>
<td>Potential conflict with functional divisions over priorities.</td>
</tr>
</tbody>
</table>

What issues may have prompted the new CEO to change the structure?
A rational argument is that the costs of the approach may have become unsustainable in the face of smaller, more focused competitors concentrating on particular products or geographical markets. There is also the possibility that a new chief executive wanted to make his mark, by making a radical change from an organisation structure closely associated with his legendary predecessor, Percy Barnevik.

Case question 8.1
What problems would ABB have experienced with a centralised structure?
Slow innovation.
Slow response to strategically important customer requirements.

What advantages would they gain from such a structure?
Consistent treatment of a customer by different units.
Ensuring focus on strategically important customers by all units.
Freer flow of information throughout the organisation.

Case question 8.2
What benefits was ABB expecting to gain from the new structure it announced in 2001?
By moving to a more customer-focused structure, the company hoped to be able to interact more closely with their customers, and deliver customised information, products
and services. It wanted to introduce common processes worldwide to make it easier for customers to deal with the company, especially those who were dealing with several parts of this massive company at the same time. It was partly about breaking barriers to communication within the company, and also about breaking the divisions between suppliers, the company, and their customers.

What other issues will management need to deal with when implementing the change. This is a bigger task than it may sound, so you may want to make your own list, and then compare it with those of other students.

The purpose of this question is to encourage students to use the model of Figure 1.3 to structure their discussion. The change starts with a structural change, but to make that work the model predicts that some degree of change will also be needed in each of the other elements in the wheel. For example, technology (in the form of information systems) will need to be adapted to reflect the new structure; business processes may need to change to ensure that as different parts of the business deal with a customer, relevant data is available to all the players, to give the customer the impression of dealing with a unified company.

What disadvantages (such as those listed in Tables 8.3) may it experience?
Part of Table 8.3 is reproduced here for ease of reference.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Disadvantages of divisional structure (product or geographic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff focus</td>
<td>Isolation from wider professional and technical developments</td>
</tr>
<tr>
<td>Resources</td>
<td>Costs of duplication across the organisation (e.g. distribution networks, computer systems)</td>
</tr>
<tr>
<td>Working relations</td>
<td>Potential conflict with other divisions over priorities, and no incentive to support other divisions.</td>
</tr>
<tr>
<td>Control</td>
<td>Develop policies independently of wider organisational interests.</td>
</tr>
</tbody>
</table>

PART CASE QUESTIONS
Is The Royal Bank of Scotland becoming more centralised or more decentralised?
On balance it seems to be becoming more centralised, with innovations like the manufacturing division and the greater degree of central control over lending decisions.

Both RBS and ABB are geographically dispersed organisations. What do you expect would be the role of each of the methods of co-ordination within them?
Some possible answers are shown in the table. Clearly the businesses are very different, with different co-ordination requirements. RBS can rely on relatively structured methods to ensure staff work to the same procedures. ABB, a much more diversified business, needs less day-to-day co-ordination of operating methods, focusing instead on co-ordination of broad policies and areas of operation.
<table>
<thead>
<tr>
<th></th>
<th>The Royal Bank of Scotland</th>
<th>ABB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct supervision</td>
<td>Yes, within banks and amongst banks in a geographical area.</td>
<td>Limited possibilities except within a single unit, as tasks differ widely between units.</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>Yes</td>
<td>No, except in broad financial reporting terms.</td>
</tr>
<tr>
<td>Standardising inputs and outputs</td>
<td>Yes – staff carefully selected for either back-office or front-office work. Outputs (types of service) tightly specified.</td>
<td>Many products are innovative and custom-designed, so hard to specify in advance.</td>
</tr>
<tr>
<td>Rules and procedures</td>
<td>Yes, increasingly tightly set.</td>
<td>Limited scope.</td>
</tr>
<tr>
<td>Information systems</td>
<td>Yes</td>
<td>Yes – placing a lot of emphasis on this now, trying to ensure that the centre has an accurate picture of financial performance of distant operations.</td>
</tr>
<tr>
<td>Direct personal contact</td>
<td>Yes</td>
<td>Yes – more emphasis now in having managers report to a clearly defined line boss, as against the earlier matrix structure.</td>
</tr>
</tbody>
</table>

*Which type of culture would best describe RBS?*
Mixed – a tightly run, mechanistic culture in most daily operations, but with more flexibility being allowed to customer-facing staff than was once the case. But the balance here is shifting, and any rise in, say, bad debt provision could lead to tighter central control.

**ACTIVITIES**

**Activity 8.1  Gathering information on structures**
*How is your college or university structured? Focus on the parts most directly involved in delivering your education. How have the various parts of the task been divided up? Are all the teaching staff you see in one department or in several? Do you have a separate management library or computing suite or share a wider facility? Answers to such questions reflect how the overall task has been divided.*
This is a way of bringing home to students that they live in a structured organisation, and that senior managers have made choices on these and many other aspects of task division within the institution. If there are different approaches within the institution, students can be encouraged to consider why this is, and what the effects may be.

**Activity 8.2 Dividing and co-ordinating work**

*What broad division of work has been made in an organisation you are familiar with?*

*How is the task divided at strategic or operational levels?*

*How are the separate activities typically co-ordinated? You may want to focus on coordination between one or two specific groups or departments. List the main methods that are used, taking the list above as a point of reference.*

*How effectively does this structure support people’s work towards the objectives?*

Comprehension and application, pages 242–253. This can be readily developed into a tutorial activity, in which students can compare different approaches, and the effects which they have had. The alternative forms of co-ordination listed are:

- direct supervision
- hierarchy
- standardising inputs and outputs
- rules and procedures
- information system
- direct personal contact.

**TUTORIAL OR CLASS ACTIVITIES**

1. **Comparing structures**
2. **Case – Creating an organisation for Centrica**

1. **Comparing structures**

This activity has been used with undergraduate students for several years. Almost without exception students have been able to gather relevant data in the preliminary work. They then find the contrasts between their data and that which others have collected to be very revealing, giving significant insights into the variety and complexity of organisational structures.

**Preparation**

Ask students (well in advance) to select an organisation which they can use as the basis for this exercise – one where they or a colleague has worked, or in which a family member or friend currently works. Arrange to interview someone and then to describe:

1. *The organisation (or part of it) being discussed, and its main activities;*
2. *The main objectives and targets being followed;*
3. *The main technologies that are used;*
4. *The main aspects of structure (using the sub-headings in Activity 8.2);*
5. *The people in the organisation – their goals, and what evidence you have about how committed they are to their work;*
6. *What changes there have recently been in any of these factors;*
7. *The overall performance of the organisation;*
Bring their data to the tutorial.

**At the tutorial**

After introductory remarks about the variety of structures to be observed, divide the class into small groups (perhaps pairs and trios) and ask them to work on the following tasks:

1. Compare the information collected, and how changes in one element have affected others.

2. What views did the people interviewed express about the way aspects of objectives, structure or technology had affected performance?

3. Did the structures seem to be supporting the objectives or not?

4. What evidence was there about whether individuals needs were being met by the organisation? What effects did this have?

5. Is the organisation facing any major changes? How is the structure being adapted to cope with that?

Prepare a 3 minute presentation about one of the organisations that have been studied in the group, or

Prepare a 3 minute presentation summarising the main conclusions you can draw from the comparisons you have made.

**Plenary**

Groups present and compare.

**Staff**

Concluding remarks on:
variety of structures,
the effect of change in one element on others,
the links between structure and performance.

2. **Case – Creating an organisation for Centrica**

Centrica is a company that is not well-known, yet most people in the UK use its services at some time. When the state-owned British Gas organisation was privatised in 1986, managers soon realised that they were now running two businesses with different requirements for commercial success. One was an engineering business concerned with finding and delivering gas; the other was the business of selling that gas to millions of households. The board of British Gas decided to create a separate organisation to deal with the retail aspects of the business. It named the new company ‘Centrica’, which in 2001 had a market value of about £10 billion.
Many customers were dissatisfied with the quality of service they had received from British Gas, with staff often doing repairs slowly and inefficiently. Partly for this reason, but also to raise revenue, the government of the day decided to open the gas supply market to competition. The organisation which had once been a monopoly would now face competition from new gas suppliers. A new chief executive, Roy Gardner, joined the company from the private sector, and in turn recruited many managers from outside the traditional gas industry. The priorities of the new team were to improve service (and so retain customers) and to launch new products which would be more profitable than the original gas supply operation.

One source of competition would be the electricity companies, who were now allowed to sell gas. So one of Centrica’s earliest moves was to decide that it too would become a ‘dual fuel’ business, with the result that it now has about 3.5 million electricity customers. While energy supply is still the core of the business, and provides most of the profits, the company’s aim is that, by 2005, 40% of their profits will come from services other than gas. It now offers a range of other domestic repair services, and owns the Automobile Association. In September 2000 it launched a telephone service, hoping for one million customers by the end of 2001.

Questions
1. Is there a unifying theme behind the businesses which Centrica has developed?
2. What common skills may the company be able to apply across its activities?
3. Which form of structure would you expect it to adopt: function, product or matrix?
4. What aspects of the business would you expect to be centralised, and what decentralised?
5. What organisational issues are the diverse businesses likely to raise for Centrica managers?

Comments on questions
1. Is there a unifying theme behind the businesses which Centrica has developed?
The company uses the slogan ‘reducing the hassles of life’ to express the common core of the apparently disparate businesses – especially the problems associated with running a home and a car. The company aims to build a portfolio of services that people use in their daily lives. The three main businesses (energy supply, vehicle breakdown and financial services (the Goldfish brand of credit card) all require skilful use of branding, cross-selling, and call centres.

2. What common skills may the company be able to apply across its activities?
The company believes that the core skills of managing large volumes of customers; managing remote workforces; parts management; using data; and sales and marketing can be used across each of the businesses. The potential synergies make the combination of the businesses more rational than it might appear, the company claims.

3. Which form of structure would you expect it to adopt: function, product or matrix?
It has largely adopted a product structure, but with some strong links between the companies. There are separate management teams in charge of Energy Supply, Home
and Road Services, and Financial Services. Each brand has its own website, and Home and Road Services retains the AA’s name and distinctive yellow vans.

4. What aspects of the business would you expect to be centralised, and what decentralised?
   A major decision has been to manage customer data centrally, as this enables the company to use data about customers for one service to sell them another. Their cost of acquiring customers is said to be lower than that of their competitors. Most other aspects of the business are decentralised to the separate divisions, so that they can concentrate on the skills required.

5. What organisational issues are the diverse businesses likely to raise for Centrica managers?
   The businesses it is in are distinct, and while there are potential synergies, there are also differences. The company faces the danger that competitors who can focus their management and staff time on one distinct area may satisfy customers better, and be more profitable. Ensuring a consistent quality of service from a growing staff across all three areas will be challenging.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Describe what is meant by a model of an organisation, and compare two organisations using any model from the chapter.
   A model is simply a way of representing the main features of something, without getting absorbed in detail. Students could use the wheel model (Figure 1.3) to compare organisations in terms of each of the eight elements, or they could focus on a narrow aspect by comparing them in terms of tall or flat hierarchies, or the horizontal division of tasks.

2. Draw the organisation chart of an organisation or department that you know. From discussing it with people in one or more of the positions shown, compare their account of the structure with that shown on the chart.
   An opportunity to gather some direct empirical data about the shape of an organisation and to attempt to link that to the views of those inside it. Useful exercise to compare external and internal perceptions of the same thing.

3. What factors are encouraging companies to (a) centralise and (b) decentralise organisational functions?

4. Summarise the advantages and disadvantages of the various forms of horizontal specialisation outlined.
   Comprehension, pages 242–249. Students should be encouraged to gather original illustrations from their data collection exercises, not just memorise the lists in the text.

5. Several forms of co-ordination are described. Select two that you have seen in operation and describe in detail how they work – and how well they work.
   Comprehension and application, pages 249–252.
6. Describe an educational or commercial organisation that you know in terms of the competing values model of cultures. Students find it quite easy to identify organisational units with one or other of the four cultural types identified in the model. If they are familiar with a large organisation they usually find that different units have distinct cultures, such as:
- Open systems – business development units, entrepreneurial new ventures.
- Rational goal – sales or production departments.
- Internal process – back-office units, such as the IT or cheque processing operations of banks.
- Human relations – small internal consultancy or support units, social care organisations.

7. What is the significance of the idea of ‘fragmented cultures’ for those who wish to change a culture to support performance? That the task may be impossible, or certainly very difficult. Culture change programmes typically seem to start from the assumption of a unitary culture, which is probably only present in some parts of the organisation. While a change effort may work in that unit, the effect elsewhere would be less certain. A different way of approaching the issue could be to consider the scope for limiting change to identifiable sub-cultures, and then ensuring good relationships between that and the other, different, cultures.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE

An assignment task
In what ways can the way an organisation is structured affect the effort people put into their work? Base your answer on your knowledge of theories of motivation and of organisational structure, and on your observations of an organisation in which you or someone you know has worked.

Note for guidance
Your answer should build on the work you will have done for the tutorial. Consider using the following headings:
1. A brief description of the organisation (or part of it) which you are analysing;
2. The main objectives and targets being followed;
3. The main aspects of structure (using the sub-headings in Activity 8.2);
4. The people you are focusing on – their goals, and what evidence you have about how committed they are to their work;
5. In what ways, if at all, your observations at (4) can be explained by your observations at (2) and (3);
6. Your conclusions, including any questions which your analysis has raised for you.

Marking guide
Basic answers will do what is required in the brief, presenting the information and drawing what links there seem to be. Better answers will make fuller use of the underlying theories to organise their data (for example explicitly distinguishing hygiene and motivating factors and how structure has affected them). Good answers will end with some coherent conclusion and perhaps some questions about the underlying model.
GUIDE TO FURTHER MATERIAL

Websites

Company websites

ABB  www.abb.com

The Royal Bank of Scotland  www.rbs.co.uk

Centrica  www.centrica.co.uk
Chapter 9

Human resource management

SYNOPSIS
This chapter examines how the term ‘human resource management’ has become more prominent in management discussion. How people are managed affects the strategic performance of an organisation – and this raises issues wider than those traditionally dealt with by personnel or industrial relations staff. Issues of job analysis, recruitment, selection and appraisal are too important to be conducted in an isolated technical fashion, and need to be informed by the wider strategies of the organisation.

SUMMARY
• Many companies in the UK and the US now give more prominence to HRM issues (a status they have long had in countries like Japan and the former West Germany).
• HRM practices need to be evaluated for external and internal fit. There is some quantitative evidence that a good fit is likely to mean that the practices make a lasting contribution to business performance.
• HRM practices represent an attempt to institutionalise those aspects of management concerned with employees, and are intended to support the achievement of broader business objectives and strategy.
• Managers do this by organising activities such as HR planning and job analysis to ensure that available resources fit the requirements of the external world.
• An underlying principle is that employees can be motivated to appropriate behaviours by HRM practices which accurately reflect their needs.
• HRM initiatives are affected by the interests of other stakeholders. They may or may not see their interests served by HRM. Other senior managers may be more powerful than the HRM specialists, and have other priorities.
• HRM may also be opposed by trade unions if they see it as an attempt to shift the power balance against them or to remove some of their functions.
• Senior managers face a dilemma over whether HRM policies should be decided centrally, or delegated to the line managers responsible for each business unit.
• HRM is one way in which management seeks to exercise control over employees. Some accuse those promoting the approach of adopting a unitary perspective.
• It can also contribute to both individual and organisational learning through performance appraisal, though some doubt the effectiveness of such systems.

THE CHAPTER CASE
The case is a good example of the way in which strategic imperatives have been reflected in the human resources policies of a major player in the European motor industry. BMW has been one of the most successful players in that industry – and the case shows how that success is now being supported by a distinct and coherent strategy of human resource management.
CASE QUESTIONS
BMW

Preliminary questions
What issues concerning the management of people are likely to be raised in a group such as BMW that has rapidly expanded its production and distribution facilities?
How have these been affected by domestic developments in Germany?
How is the increased competition likely to affect the people who work for BMW?

Organisational practitioners frequently make the point that to introduce an organisational change programme successfully they require a prior ‘role model’ programme grounded in the specific context of their industry. For car manufacturing plants a viable and effective change programme is held to be the ‘lean production’ approach associated with certain Japanese car manufacturers. This is outlined in Chapter 4 of Womack and Jones’ The Machine that Changed the World, which identifies the essential elements of the lean production approach, and the factors stimulating its use. This reading, as well as examination of the case details, should inform answers.

Case question 9.1
When did HRM policies begin to be seriously developed at BMW?
What led management to take this initiative?
Comprehension of basic case information; also a specific illustration of the way in which external pressures in a competitive industry have prompted radical changes in the approach to managing staff.

Case question 9.2
What is your image of BMW cars? What words would you use to describe them?
In order to meet these expectations, what kind of behaviour would you expect of employees?
What management practices will encourage/discourage that behaviour?
Comprehension and application, pages 267–268. Expectation is that high quality products require committed employees, not those who are subject to detailed control. Theory Y rather than Theory X assumptions and practices most likely to encourage that behaviour.

Case question 9.3
How will the introduction of teamworking help to improve the external fit between HRM and broader strategy?
To achieve internal fit, what other changes will BMW need to make to support teamworking?
Comprehension and application, pages 267–268 and 271–272. Management expects that teamworking will not only improve commitment but will also cut costs and improve speed of response – all necessary parts of the external fit required. To achieve internal fit they may need to adjust appraisal and payment systems to give more explicit recognition to the contribution people make to their teams performance. Selection methods may also need to be adjusted to recognise team skills, and perhaps to involve teams themselves in selecting new colleagues.
Case question 9.4
In what ways are the developments in BMW already encouraging a ‘hire for the organisation, not the job’ approach?
What implications will that have for achieving internal fit in the company’s HRM policies?
Comprehension and application, pages 273–277, in relation to BMW policies such as on teamwork, pursuit of new goals and independence. This makes it all the more necessary that a reasonable degree of internal fit amongst HRM components is achieved, so that they become mutually supporting.

Case question 9.5
What internal business factors have prompted this review of the payment system at BMW?
How will it affect the management of the appraisal system?
How will it affect the demands on the management information system (see Chapter 18)?
Comprehension and application, pages 277–281. The range of different types of work that the multi-skilled employees can now do has been the main driver for change. The appraisal system is going to have to gather and process more information in establishing the personal supplements and bonus payments. The information system will need to be able to provide this data quickly and accurately, and process the results into salary payments.

PART CASE QUESTIONS
What are the main issues of an HRM nature that are likely to be topical within The Royal Bank of Scotland?
Fundamentally how to ensure that staff commitment is such that it supports the bank’s strategy. This includes ensuring that widely dispersed staff work in ways that ensure consistent service standards to all customers in a given segment, being willing to accept continuing and radical change, balancing the needs of the bank for revenue and profit, with customer needs for individual consideration and service. In the branches, staff need to be supported by HRM policies which encourage them to be more focused on sales than they have typically been in the past.

From your understanding of the material in the chapter, what aspects of HRM should The Royal Bank of Scotland be focusing its efforts upon?
Opinions will vary. But the ideas on internal and external fit, of recruiting for the organisation not the job, and the need for flexibility in payment systems seem to be three major areas to work on.

How will the merger with NatWest have affected this?
The aim of the merger was to cut costs, so as to bring shareholder benefits. This means especially merging duplicated back-office systems used to administer accounts, with significant economies amongst staff being possible. Ensuring that these savings are
achieved, while maintaining commitment amongst remaining staff will be a major HRM challenge.

In addition, the two banks developed distinct ways of working, and separate cultures: a challenge will be to ensure a degree of commonality in the culture. This matters especially in services where customers come into contact with both parts of the bank until it becomes a unified whole.

**ACTIVITIES**

Many of the Activity questions do not involve the identification of ‘right’ or ‘correct’ answers. Rather, their basic purpose is to help focus class discussion around certain key themes and debates. In doing so the following points may be noted.

**Activity 9.1 Defining HRM**

Before reading on, note down how you would define human resource management. What topics and issues do you think it deals with, and how does it relate to management as a whole? Keep your notes by you and compare them with the topics covered in the chapter as you work through it.

Intended to encourage student thought and reflection as a basis for later comparison.

**Activity 9.2 Assessing the changes needed**

An organisation has decided to pursue a quality enhancement strategy in which teamworking arrangements will be a central feature. It recognises the need to enhance its level of workforce training and to replace its individual performance-related pay arrangements. Are there any other changes in the human resource management area that it needs to consider? (Use Table 9.1 to assist your answer.)

Comprehension and understanding, pages 265–268. Discussion here could usefully focus on changing selection criteria and methods to identify individuals most suitable for team working, and on changing performance appraisal arrangements to a team, peer or 360 degree basis. Both the context of training and the possible new basis (team or plant wide?) for performance-related pay arrangements need to be discussed.

**Activity 9.3 Comparing HRM policies**

List the major differences in HRM policies that you would expect to observe between two organisations, one pursuing a low cost strategy and the other a quality enhancement strategy. (Use the Key Ideas on page 267 to assist your answer.)

The organisation pursuing the quality enhancement strategy is more likely to use the policies and practices listed in Key Ideas.

**Activity 9.4 Interviewing interviewees**

Arrange to talk to some friends or colleagues who have recently been interviewed for jobs. Ask them to describe the overall process and to identify any features or aspects of the experience which they particularly liked or disliked. Ideally you should talk to at least one person who was offered the job, and to one who was not.
As background work for this exercise, compile a checklist of the key features of ‘good practice’ interviews which should help inform the way you ask questions. A useful source here is Rebecca Corfield’s (1999) Successful Interview Skills. As well as practising your interviewing skills, you should compare the experience of the interviewees with best practice techniques.

Possible basis for tutorial discussion.

Activity 9.5  Deciding when performance-related pay is appropriate
Identify some of the key features of an organisation where performance related pay arrangements are likely to be appropriate.
The leading organisational prerequisites for an appropriate fit with PRP are typically held to be as follows: (1) high level of employee-management trust; (2) independent jobs where performance outcomes are largely under the control of the workers concerned; (3) managers/supervisors trained in appraisal interviewing skills; (4) objective-based measurement systems; and (5) a sizeable ability to pay.

TUTORIAL OR CLASS ACTIVITIES
1. A student data collecting exercise
2. Case a – Work–life balance policies at Ericsson
3. Case b – Akzo Nobel

1. A student data collecting exercise
The European Industrial Relations Review, Issue 274, November 1996, p. 22, reported that management at Adam Opel AG (the German subsidiary of General Motors) had developed several principles for effective teamworking arrangements. Some of these are listed below:

- a maximum of 15 workers;
- the distribution of functions, breaks and holidays is self-organised;
- the chance to improve qualifications should be available at every level;
- each group elects its own spokesperson;
- group goals are decided in consultation with the foreman;
- the foreman’s role focuses on solving particular problems, rather than general issues of productivity and quality;
- the foreman also leads the team by regulating the demands of the work, identifying training needs and relaying to management the results of team discussions.

Using this set of principles as a checklist, a tutor could arrange student access to a number of local companies which have experience with teamworking arrangements. Groups of students should carry out interviews in these companies (ideally with human resource specialists, line managers and employees) with a view to confirming (or not) the relevance and importance of these principles for effective teamworking, and possibly identify any other relevant principles.

The data they collect could be the basis of a tutorial session or possibly an assignment.
2. Case a – Work–life balance policies at Ericsson

Increasingly, organisations are implementing a range of policies aimed at shaping elements of human resource flows. Retaining highly skilled employees is a primary concern for them, not least because of the financial costs of replacing individuals, but also because of the cost of losing specialised and idiosyncratic knowledge from the company. A recent initiative from Ericsson, the telecommunications giant, highlights a growing awareness of the link between work–life balance policies and reduced attrition rates.

The Swedish-owned multinational Ericsson is one of the world’s leading telecommunications organisations. It has sought new ways to recruit and retain high-earning specialist employees in a tight labour market. A new parental leave scheme, which tops up the already generous state provision in Sweden, has particular appeal to high-earners in the company. The ceiling on the state parental leave means that high-earners will not receive 80% of their salary, unlike their lower-paid counterparts.

In the mid-1990s, the company decided that it would like to enhance the state scheme in order to encourage its female employees to return to work after having a child and also to act as a more general recruitment and retention tactic. Management therefore negotiated with the trade unions the introduction of an enhanced system of parental leave.

A pilot scheme was agreed in 1996, covering some 3000 workers. This was extended to a broader group of 12,000 white collar employees on 1 April 1999 and the company hoped to expand it further. The preamble to the agreement states that its purpose is to ‘make the company known as an attractive employer with the aim of facilitating recruitment of employees with a high level of skill and expertise.’

After some 18 months of operation, the take-up of parental leave for employees in the targeted high-earning category had increased by 27% for female employees, and 29% amongst male employees. Overall, the take-up of parental leave across the workforce increased from 8% to 10%. However, a decrease of 1% amongst women and of 19% amongst men below the earnings ceiling was observed during the same period – an employee group that has always had the option of statutory paternal leave. While both categories of workers – those above and below the pay ceiling – now benefit equally from receiving 80% of their salary during the parental leave period, a significant difference in uptake between the two groups was apparent. The company regards the initiative as a success in both statistical and cultural terms. According to the industrial relations manager, ‘It has sent a signal to employees, particularly male employees – that it is OK to take parental leave’. He estimates that the implementation of this scheme has increased expenditure slightly, although this is likely to be recouped from savings in recruitment and training costs, even though these are difficult to quantify.

In the UK, work–life balance strategies such as parental leave, are becoming increasingly popular and were recently energised by the Government’s Work–life Balance Initiative
launched by the Prime Minister in March 2000. According to Cully et al (1999), where new working patterns are fully integrated into the working practices, companies tend to have better business performance. However, UK companies in general are less than enthused by the changes and proposed further changes to working practices that will allow workers more flexibility and choice. One study reports that:

- Employers complained about the costs associated with family-friendly policies, management/HR time and employee relations.
- Parental leave is unpaid so many workers simply will not be able to afford to take time off.
- Many employees who wish to take advantage of family-friendly practices are often loath to do so as they fear they may damage their careers (IRS Employment Trends 709).

In addition, half of the 2500 employers surveyed by the Institute of Employment Research in an ongoing study said that work–life balance policies increased managerial workloads (IRS Employment Trends 709).


Questions
1. Identify the reasons for Ericsson’s parental leave initiative and consider the likelihood of British employers adopting a similar strategy.
2. Why might the promotion of family-friendly policies occupy a different level of priority in different organisations?
3. What are some of the constraints on UK employers in developing and implementing work–life balance/family-friendly policies?

Comments on questions
1. Identify the reasons for Ericsson’s parental leave initiative and consider the likelihood of British employers adopting a similar strategy.
   The main reasons were to encourage highly skilled female staff to return to work after having children and to enhance recruitment and retention activities. The extension of cover to other white-collar workers suggests that these same benefits are equally captured from occupational groupings other than the high-earners. In the UK, such a realisation is appearing slowly in terms of recognising the linkages between family-friendly policies and better recruitment and retention outcomes. The costs of such policies may however mean that most employers do not go beyond the legislative requirements, unlike the Ericsson case example.

2. Why might the promotion of family-friendly policies occupy a different level of priority in different organisations?
   Beyond compliance with legislation, labour shortages in particular occupational groups may affect companies’ level of interest in family-friendly policies. If labour shortages are not an issue, the adoption of such policies may be rooted in recruitment and retention initiatives although measuring the costs against the benefits may prove to be
problematic and, consequently, the viability of family-friendly policies may be threatened.

3. **What are some of the constraints on UK employers in developing and implementing work–life balance/family-friendly policies?**
   (a) Resources such as the financial costs of the policies and administrative costs in devising, implementing and monitoring the policies.
   (b) Employee interest in the policies – for example unpaid parental leave.
   (c) Organisational culture may not support the take-up of the policies. This point is illustrated by the Ericsson example where the role of organisational culture was regarded as central to the success of the parental leave initiative.

3. **Case b – Akzo Nobel**
   Akzo Nobel is a Dutch multinational chemicals company (created by merger in 1994) which employs nearly 71,000 employees worldwide, mainly in the Netherlands, Germany and Sweden. They have some 48 plants in the Netherlands, where union–management negotiations have been recently concluded on flexible working-time arrangements. The details and outcomes of these negotiations are set out in *European Industrial Relations Review*, Issue 285, October 1997, pp. 22–23. Provide students with a copy of this article. Their tasks are:

   1. Consider the reported details of the experiments in flexible working arrangements. How adequately were the experiments designed and conducted in terms of workforce coverage? Given the reported results of the trials, what sort of data and information must have been collected? Was there any other information that you feel should also have been collected?

   2. The trade unions representing the white-collar workers appear to be the least satisfied with the trial arrangements and outcomes. How could their concerns have been better addressed during the trials? Is there anything useful at this stage that management can do to help alleviate their concerns?

**SUGGESTED ANSWERS TO REVIEW QUESTIONS**

1. **What do the terms internal and external fit mean in an HRM context?**
   Comprehension, pages 267–268.

2. **What are the arguments put forward in favour of an organisation adopting a deliberate HRM strategy?**
   Comprehension, pages 265–267.

3. **Summarise the criticism of HRM that it is based on a unitary perspective (see Chapter 2) of organisations.**
4. There is little evidence that HRM has achieved the business objectives claimed for it. What evidence would you look for, and how would you show the link between cause and effect? Comprehension and reflection, pages 285–287, and of 265–268.

5. How can the concept of organisational analysis support the recruitment process? Comprehension, pages 275–276 – drawing attention to the longer-term and broader aspects of the work involved, rather than the immediate requirements of the current job.


8. What lessons can you draw from the way BMW has used the payment system to support other aspects of the HRM policy? More generally, summarise the lessons you would draw from the BMW case. Open-ended evaluation of the case in relation to the chapter. The case is a good example of comprehensive changes being made to payment systems as part of a wider HRM and corporate strategy.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE

1. ‘Human resource planning is easier to conduct in a multiple stakeholder organisation than in a shareholder one.’ Discuss.

Marking guide
The key differences between the two types of organisation need to be initially outlined. The longer time horizons, and the traditionally more influential role of the HRM functional area, are factors that assist human resource planning in multiple stakeholder organisations.

2. Does traditional job analysis need to be reformed to take account of the increased importance of teamworking arrangements?

Marking guide
The basic purpose, methods and issues involved in traditional job analysis should be outlined. The broader, more variable job tasks of team members where performance outcomes are jointly determined need to be indicated. This could point to the need for change in both the criteria and processes of job analysis, possibly embodying a competences-type approach.

3. ‘The validity of selection interviews is poor, whereas that of assessment centres is impressive. Hence interviews should be replaced by assessment centres.’ Discuss.

© Pearson Education Limited 2002
Marking guide
The evidence for the poor validity of selection interviews should be discussed, together with the reasons for this poor performance. The improved performance of structured interviews should be outlined. The evidence on the validity of assessment centres should be considered, together with the controversy about the reasons for this. The discussion should explicitly mention other (non-validity) issues involved in the choice of selection methods (e.g. cost, discrimination).

GUIDE TO FURTHER MATERIAL

Websites

Company websites

BMW www.bmw.com
The Royal Bank of Scotland www.rbs.co.uk

Other websites

People Management www.peoplemanagement.co.uk
The online version of the magazine, with useful search facility for issues covered since 1998.
Financial Times Career Point www.ft.com/careerpoint
Access to a wide range of HRM-related articles and surveys
Emerald Coolsites www.emeraldinsight.com/reviews/coolsites/hrm
Lists some high quality HRM-related sites.
Chapter 10

The developing organisation

SYNOPSIS
This chapter complements Chapter 8 by introducing the dynamic aspects of organisations – why they take the shape they do, and the forces that lead them to change. So it examines the contingency approaches to the structure of organisations and contrasts them with the opposed (or complementary?) management choice view. This discussion is centred on six contingent factors which appear to influence the balance between mechanistic and organic forms.

SUMMARY
• It is management’s task to establish and implement a structure that supports their strategy. Contingency approaches emphasise the rational basis of such decisions. The management choice view places more emphasis on personal preferences or political ambitions.
• External changes in the business or political environment can lead to changes in the objectives that management is following. This often prompts management to change other organisational elements to match the new strategy.
• A rational, contingency view is that planning how to deal with the change involves paying attention to factors such as strategy, technology, size, external environment and task interdependence. An alternative, ‘management choice’ perspective suggests that management has more scope to decide on structure with limited penalties.
• The form of structure adopted affects the processes of management, and the way people work together in organisation. The patterns of interaction differ markedly between mechanistic and organic structures.
• There is evidence of a dilemma emerging between the widely held belief that changing markets need organisations to be flexible (and so decentralised and relatively organic) and the observation that many companies are using the power of modern information systems to centralise control.
• Political considerations influence the process of change and signals about performance and external change compete for management attention.
• Successful strategies will depend on ensuring the right balance between central control and local autonomy. Changing a structure may itself be seen as threatening to alter the pattern of control, some may resist these attempts to control them.
• Those pushing such change will need to build their power to overcome resistance, especially by creating institutional support mechanisms.
• Organisational development often begins as a result of signals from the organisational control systems that corrective action is needed. However, the perception and interpretation of these external signals are not technical but human processes, and the interpretations are not unique.
THE CHAPTER CASE
The case is based on the Danish company Oticon which responded to severe external threat by creating a new structure. Because it is so unusual the preliminary questions encourage students to consider for themselves what they find strange. While radical, others companies are beginning to follow the same approach in some respects. The most immediate parallel is with W.L. Gore, the Part 5 case.

CASE QUESTIONS
Oticon
Preliminary questions
What factors persuaded management to change the structure at Oticon?
Severe changes in the environment, especially the growth of larger overseas competitors. Also a changing market, in which an ability to respond quickly to changing customer requirements and technological opportunities are becoming more important to survival.

How would you have expected staff to react to changes of this sort?
A lead into the ideas in Chapter 13 (Motivation). Being a well-educated staff it is likely that they would see opportunities to satisfy higher-level needs in the new arrangements. Many are research professionals, used to working with a degree of independence. Acceptance of the change may also have been made easier by the visible external threat, which was endangering staff’s most basic needs from work.

Case question 10.1
What was the role of strategy and technology in encouraging the change at Oticon?
Could analyse this by discussing the strategy which Oticon was following – cost leadership, differentiation, focus, or a combination. If the strategy is differentiation or focus, then the structure needs to be one which supports that – in other words a relatively organic structure.

Technology supported this in the sense that modern IT systems enable information to be easily shared amongst people, irrespective of their function or place in the hierarchy.

What features of the present form correspond to the organic model?
Comprehension, pages 293–294 – encourage analysis using Table 10.1.

Table 10.1 Characteristics of mechanistic and organic systems

<table>
<thead>
<tr>
<th>Mechanistic</th>
<th>Organic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialised tasks</td>
<td>Contribute experience to common tasks</td>
</tr>
<tr>
<td>Hierarchical structure of control</td>
<td>Network structure of contacts</td>
</tr>
<tr>
<td>Knowledge located at top of hierarchy</td>
<td>Knowledge widely spread</td>
</tr>
<tr>
<td>Vertical communication</td>
<td>Horizontal communication</td>
</tr>
<tr>
<td>Loyalty and obedience stressed</td>
<td>Commitment to goals more important</td>
</tr>
</tbody>
</table>

Source: Based on Burns and Stalker (1965)
How does management hope that the new structure will support their strategy?
By encouraging people to work together more closely and flexibly, sharing ideas and experience to meet customer needs more effectively than competitors. Satisfaction, development time and performance measures all appear to be benefiting from the change.

Case question 10.2
Oticon has had both mechanistic and organic structures: what prompted the change?
External competition from larger and more powerful players

Why has the new structure improved business performance?
By encouraging people to work together more closely and flexibly, sharing ideas and experience to meet customer needs more effectively than competitors.

Case question 10.3
Does the Oticon example support contingency or management choice approaches?
Broadly the contingency approach for the reasons cited above.

Does the role of management in the company support either of these approaches?
Given its business, contingency theorists would argue that the earlier move to a hierarchical structure was an aberration which damaged performance: the new CEO more accurately interpreted the environmental signals, and implemented a change to a more appropriate structure. An alternative explanation could be that the environment had changed, so that the earlier approach was as rational a response to conditions then, as the new approach is to conditions now.

PART CASE QUESTIONS

Does The Royal Bank of Scotland have a mechanistic or an organic structure?
Varies between parts – marketing and new business have organic forms, those in the manufacturing areas, where routine, low cost processing is vital, are mechanistic.

What contingency factors have probably shaped that structure?
The contingencies outlined in the chapter, and their possible effects, are:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Cost leadership points towards functional specialisation, such as the Manufacturing Division, while differentiation points towards the 8 customer-focused divisions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Enables either strategy, but (as in other organisations) has been used here to centralise (e.g. lending decisions) in a more mechanistic structure.</td>
</tr>
<tr>
<td>Size/life cycle</td>
<td>Mature, a tendency towards mechanistic.</td>
</tr>
<tr>
<td>Environment</td>
<td>Competitive points towards organic, customer focus, but RBS also works in a highly regulated sector, pointing towards mechanistic.</td>
</tr>
<tr>
<td>Interdependence</td>
<td>Largely pooled (branch network), favouring rules to ensure consistency – mechanistic.</td>
</tr>
</tbody>
</table>
Many other permutations possible within such a large business, and students will probably have other experiences and evidence to draw on from other banks.

*Does the evidence seem to support, or not, the contingency approach?*

Broadly yes, with a lot of variation between different parts of the bank – which is consistent with the contingency approach. A management challenge then is how best to get units with these different approaches to work together when they need to (cf. Lawrence and Lorsch).

**ACTIVITIES**

**Activity 10.1 Describing the pattern**

In your own words, describe the patterns shown in Figure 10.4. What differences does the diagram show between the structures most commonly found in the different types of production system?

Comprehension and understanding, pages 296–298.

**Activity 10.2 The structure where you study**

Is your college or university a mechanistic or an organic organisation? What about the department in which you study? Look for evidence of the characteristics in Table 10.1 to help you assess whether it is closer to one form than the other.

Interview someone who works in an organisation to find out if his or her organisation is, on balance, mechanistic or organic. See if you can establish why it has developed the form it has. Compare your conclusions with others, and see if you can identify any common themes emerging from the data you have collected.

Application and comparison, pages 293–294. This data-gathering exercise is the basis for a tutorial activity suggested below.

**Activity 10.3 Assessing an organisation’s structure**

Arrange an interview with someone who works in an organisation. Ask them to describe how their organisation or department is structured and to comment on whether that structure is right for the environment the business is working in.

Would you describe the organisation or department as relatively mechanistic or relatively organic? Does this fit the environment it is in?

Have there been major changes in structure recently? If so, what prompted management to make them?

See Activity 10.2.

**TUTORIAL OR CLASS ACTIVITIES**

1. Working on mechanistic and organic structures
2. How organisations are using the Internet
   a – The Internet and financial services
   b – E-business for a regional newspaper group
1. Working on mechanistic and organic structures
Between the cases and Activities the students have been asked to work on in this part, there is ample material which they can bring to a tutorial discussion related to this chapter. It is useful to illustrate contingency theory by focusing on an activity of the mechanistic–organic distinction. The brief below is a way of doing this.

Before the tutorial
Ask students to gather information about the mechanistic and organic features of a particular organisation, using Activities 10.2 and 10.3. Stress the value of being specific and detailed in the data collected.

At the tutorial
In groups
1. Compare the analyses group members have made of their organisations, using this table. (20 minutes)

<table>
<thead>
<tr>
<th>List examples of:</th>
<th>List the external factors encouraging those types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mechanistic types</td>
<td></td>
</tr>
<tr>
<td>Organic types</td>
<td></td>
</tr>
<tr>
<td>Mixed types</td>
<td></td>
</tr>
</tbody>
</table>

2. What conclusions do you draw from these comparisons? (10 minutes)

3. Be ready to present a summary of your work at __________

Plenary
Useful contrasts and similarities will probably be presented, leading to awareness of the variety of types. Most organisation will display examples of both, which leads well into a discussion of the Lawrence and Lorsch work. A theme which often comes up is that regulatory and safety pressures are encouraging the growth of mechanistic structures in many areas of business operations.

2. How organisations are using the Internet
Students are interested in the way organisations are using the Internet as a way of conducting business, and here are two activities.

a – The Internet and financial services
This activity is a good way of getting students to do some original research on the topic. It is focused on financial services, but the brief can be adapted to suit staff or student interests.

Before the tutorial:
Look at some of the financial services websites such as:
Barclays Bank (www.barclays.com/)
IF (www.if.co.uk)
Egg (www.egg.co.uk)
Tesco (www.tesco.co.uk)
Virgin (www.virgin.com)

One or more of your own choice,
and make notes on these questions:

1. Describe some of the ways in which banks are using the Internet.
2. How does this differ between banks?
3. What can you find about the owners and providers of these services?
4. Why is the Internet an attractive medium for providing financial services?
5. What problems do banks face in providing services over the Internet?
6. Why is the Internet particularly attractive to new entrants to the financial services markets?

Answers can be discussed and compared, and staff can respond using the information below.

Commentary on questions

1. Describe some of the ways in which banks are using the Internet.
   Advertising, contact-generation, account operation, links to personal finance packages (e.g. Virgin, Tesco).

2. How does this differ between banks?
   Compare the image and appearance of the sites operated by the conventional banks (Barclays and RBS) with those of the newer players (Egg, Virgin).

3. What can you find about the owners and providers of these services?
   Some trade under the name of the original company (e.g. Barclays), while others are deliberately separate (IF is owned by Halifax, Egg by the Prudential). This is an example of a structure being adapted to suit the strategy. The established players face a choice of how closely to integrate their Internet banking operations with the main bank, and here we see contrasting solutions to that structural choice.

4. Why is the Internet an attractive medium for providing financial services?
   High availability, high net worth customer segment, low cost, global reach.

5. What problems do banks face in providing services over the Internet?
   Security (perceived and actual); customers who can be secured easily, can just as easily move to another bank; integration of back-office systems if offering several channels (branches, telephone banking and the Internet).

6. Why is the Internet particularly attractive to new entrants to the financial services markets?
   Low entry cost, low operation cost (no branches), global reach (location not a problem).
b – E-business for a regional newspaper group
This case is presented in three parts. A useful method is to distribute Part A, and invite comments on the issues that management is likely to face, especially of a structural and motivational nature. Take reports and record on a flipchart. Then distribute and discuss Parts B and C.

The central theme is that the case illustrates the theme of the chapter: that developing organisations need to cope with several aspects of structure, not just the technological issues.

E-business for a regional newspaper group – Part A
The company owns many regional newspapers. Profit depends heavily on selling advertising space to retail outlets in the area covered by a newspaper. Management was concerned that they would lose this revenue if stores began to advertise online, rather than through the printed paper.

The papers have a strong brand image in their communities. Many of the retail advertisers are small firms with little or no experience of e-business. This represented an opportunity. The idea was to create a portal hosted by the (recognised) newspaper. Retail advertisers would be able, for a fee, to take shop-fronts within the portal. The company would develop the infrastructure and market the portal.

The benefits were that the company would protect advertising revenue and gain experience of e-business. The retailers would have an extra way to reach existing or new customers, with the assurance of working with an established and known partner.

The traditional process was that sales staff contacted retailers, sold advertising space and collected the money. They received commission on sales. The company had an IT department, but this had little Internet experience. The board was attracted by the idea, and had substantial financial resources. To limit the investment risk they agreed to test the feasibility of the idea by launching it in one region.

The board has appointed you as project manager, and asks you to report to them on the main issues that require attention to implement the idea successfully.

What issues would be on your list, and how would you recommend that the company deals with them?

E-business for a regional newspaper group – Part B
A manager connected with the project made these comments a few months later:

‘We recognised that we were dealing with clients who were not web-literate, so the idea had to be kept very simple. We believed that we could minimise the investment by running the new business alongside the old. For example, we would give the existing
sales staff an additional financial incentive to sell the new product, alongside their usual job of selling space in the paper. We knew which clients would be the most likely users, and the sales staff could use their established contacts. On the technology side, we decided to outsource the provision of the site to another company.’

**E-business for a regional newspaper group – Part C**

He continued:

‘We developed the idea into a very simple product that we felt was easy to understand – we could show other portals which worked in a similar way. The technology supplier found good technical solutions to what we wanted. The first real difficulty was with our salesforce. First, we had not included them in planning, until very late in the day. Second, we assumed that if they could sell advertising, they could sell e-commerce opportunities. This was an enormous mistake. We assumed that client knowledge and relationship was the core competence. These were useful, but we found that the brand was the relationship, not the people. Selling e-commerce is much more complex than selling space – it needs the pitch, explanation, understanding requirements, giving support and advice, delivery and back-up. They had no experience of this – and even if they tried, it had an unforeseen effect on their ‘normal’ job of selling space. So we lost revenue and they lost commission.

‘A third major mistake was what we assumed about our customers. Being so close to the project we assumed that retailers would be keen to get involved. However, many were unable to understand the concept; the sales staff’s contacts from selling space were not the ones they needed to sell this idea; therefore the amount of time needed to make a sale was much greater than we expected.

‘So after a year of little progress, falling core revenues and a dissatisfied salesforce, we reviewed the situation. We decided to create a separate operating division, and reduced the risk of internal conflicts by combining old and new staff in the unit. The old staff brought traditional experience, plus their knowledge of the project so far. Staff who returned to their old jobs were satisfied, the new team were committed to the e-commerce project, and clients became more confident about the product.’

**SUGGESTED ANSWERS TO REVIEW QUESTIONS**

1. *How does the structure of an organisation support or hinder its strategy?*

The basis of the theory is that people’s actions are shaped by their context, of which structure is a major element. Structure can encourage behaviour in line with strategy, (through the way the basic structure divides and co-ordinates tasks, through the various operating mechanisms such as the rewards available) and so make it more likely that the strategy is realised.
2. Explain the difference between a mechanistic and an organic form of organisation. Comprehension and understanding, pages 293–294.

3. Give an example to illustrate each of the factors that influence management’s choice between mechanistic and organic structures. Examples could include:
   - Strategy
   - Technology
   - Size/age
   - Environment
   - Political

4. What is meant by the term ‘a contingency approach’? Comprehension and understanding, pages 294–310.

5. If contingency approaches stress the influence of external factors on organisational structures, what is the role of management in designing organisational structures? Comprehension, page 310–312 – Donaldson’s argument about interpreting environment correctly, devising the right structure and implementing it.

6. What is the main criticism of the contingency approaches to organisation structure? Comprehension, pages 310–312. Scope for management to exercise a degree of choice without incurring severe economic penalties, so able to use structures different from those implied by the external environment.

7. What do you understand by the term ‘virtual organisation’, and what is the contribution of Venkatraman and Henderson to our understanding of the term? Comprehension and data collection, pages 314–316. Many artistic, performing and creative groups have characteristics of a virtual organisation, which students may find it useful to become familiar with.

8. Is the Internet fulfilling Bennis’s prediction about the emergence of less bureaucratic organisations? Not on the evidence so far. If anything, using the Internet to link different parts of the business together, and with customers and suppliers, is requiring more people to follow tightly prescribed procedures. There is often less flexibility than with manual systems. Also evidence of growing centralisation, supported by Internet-based systems.

ASSIGNMENT OR EXAMINATION QUESTIONS

1. Explain what you understand by the term ‘organisational structure’ (25%), and outline any one ‘contingency approach’ (such as that by Burns and Stalker) to organisation structure (75%).

Marking guide
The text contains a discussion on the meaning of structure, so expect a reasonably clear explanation of structure as ‘the defined set of relationships amongst the separate parts of
the organisation’; or the ‘broad, relatively permanent framework of task allocation, supervision and co-ordination’. Better answers will distinguish between basic structure and operating mechanisms.

Deal with the second part by a brief explanation of the idea that the most effective structure for an organisation depends on the characteristics of its environment, at the least linking stable markets and technologies with mechanistic forms, and unstable markets and technologies with organic forms. Illustrate by summarising Burns and Stalker (or Woodward, Lawrence and Lorsch etc.).

2. Explain what you understand by the term ‘organisational structure’ (10%); and summarise the main arguments of ‘contingency approaches’ to organisations (20%). Use this as a basis for outlining the most significant changes taking place in the structure of an organisation you are familiar with (40%), and evaluate the usefulness of the theory to managers (30%).

Marking guide
The text contains a discussion of the meaning of structure, so expect a reasonably clear explanation of structure as ‘the defined set of relationships amongst the separate parts of the organisation’; or the ‘broad, relatively permanent framework of task allocation, supervision and co-ordination’. Then a brief explanation of the idea that the most effective structure for an organisation depends on the characteristics of its environment.

Outline what is going on in the context of the chosen company, using the above (or similar) framework, and showing how these have, or have not, been linked to changes taking place in the business. E.g. a new line of business which was significantly different from their others, that a separate division has been created – and how that has led to new problems of co-ordination to be managed. Evaluation should be based on their internal evidence or Child’s criticisms.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

British Telecom  www.bt.com

Reports information on the changing structure of the company.

GlaxoSmithKline  www.gsk.com

Limited information about the company - mainly about products, but recent Annual Reports can be viewed which may contain information on structural changes.
The Royal Bank of Scotland  
www.rbs.co.uk

Well-designed site, with information about structure and recent developments.

Oticon  
www.oticon.com

Very limited information about the company - mainly about products and related companies.

**Other materials**

**Cases**

European Case Clearing House  
www.ecch.cranfield.ac.uk

**Arkel Manufacturing  397-024-1**

This 6-page case provides a relatively simple exercise in organisation structure, particularly in relation to business and corporate strategy. Arkel is a producer, importer and distributor of domestic appliances. It is growing quickly and so is considering the appropriateness of its organisation structure and strategy. A teaching note is available. Details from ECCH.
Chapter 11

Managing change

SYNOPSIS
This chapter focuses directly on a major aspect of the process of management. Earlier chapters in this part have shown how external events often lead to attempts to change substantive (content) aspects of an organisation. Some attempts at organisational change are highly successful, while others arouse intense opposition and fail, or are quietly abandoned. The chapter presented some perspectives on the success and failure of change. It did not offer easy prescriptions, but drew on extensive research to understand the nature of the change process, and the alternative ways managers approach it. This has included some practical diagnostic tools.

SUMMARY
- Management spends a great deal of time managing change, usually aiming to ensure that the organisation continues to add value to resources as the external world changes. Change can start in any of the elements of the organisation (Figure 1.3) and will usually have indirect effects on the others.
- Although change is widespread, it is often poorly managed. This is particularly damaging when the change is both novel and at the core of the business – the quadrant 4 projects (see page 341, final paragraph). The chapter described a technique which those managing change can use to assess where problems are most likely to arise.
- Change may challenge the interests of some stakeholders. While those promoting the change clearly see advantages, others have different goals – especially to protect their personal or departmental interests.
- Four alternative and complementary models were presented of how management typically tries to generate the action it requires in change – life cycle, emergent, participative and political.
- The first three will be adequate guides to action if the change is uncontroversial and does not threaten valued interests.
- However, they will not ensure progress if powerful interests oppose the change. If some think they are going to be worse off they will resist the change.
- Management may then need to use a range of political approaches to get things done, including combining public performance with backstage activity.
- Interpersonal skills and activities also need to be supported by appropriate institutions through which the change agents can exercise their skills.
- Some changes are introduced as one group attempts to gain more control over another. In that event, change is not a neutral activity for the benefit of the organisation but a reflection of sectional interests.
- Major change projects are especially difficult to control – which may be one of the reasons why so many do not meet expectations. Measures need to be established for both the content and the process aspects of the change.
THE CHAPTER CASE
The case is based on a structural change in a public body which has in the end been successful. There were difficulties on the way, and the case illustrates many of the management dilemmas raised when implementing significant organisational change.

CASE QUESTIONS
The Environment Agency
Preliminary questions
What has prompted the board to go ahead with this project?
A combination of external and internal forces. The agency is prominent in public discussion of environmental issues, and its high profile means that criticism tends to reflect on ministers. Staff had become unclear about where to concentrate their efforts, and were looking for clearer policy leadership from senior management.

What management issues is the head of human resources likely to face in implementing the change?
An open-ended question designed to encourage students to begin anticipating and prioritising the issues that management should have on the agenda. They could be encouraged to use Figure 1.3 or any similar model to organise their ideas. They should also reflect on other chapters they have studied for examples of the issues that are likely to arise (such as motivation, strategy, structure or HRM issues). The head of HR herself expressed concerns about:
• the fact that the board had initiated the change, with little internal consultation;
• the time within which it had to be achieved;
• the reaction of those senior managers who were likely to lose in the change.

Case question 11.1
How may the existing context of the Environment Agency affect how staff react to the change?
Likely answers could centre on how the fact that it is a public body will affect reactions. The staff in general have a relatively high degree of security (which would be protected under any change) and had themselves in part been suggesting that change was needed. However, some individuals could perceive themselves as losing status and career prospects if their present senior position is one of those to be abolished. Staff are capable practical scientists, but are less used to thinking about relatively abstract processes of organisational change.

How may this affect the way that the head of HR has to manage the change?
Implies that opposition may be come from a relatively small number of senior managers, rather than from the staff in general. Important therefore to ensure that nothing is done which aggravates staff, and to ensure that staff are kept fully informed about developments, to discourage rumours. Lack of experience of most staff (including senior managers) in dealing with these issues implies that the head of HR may need to lead the process more proactively than would be the case in organisations where staff were more familiar with change of this sort.
What three changes to the context is the change most likely to require, as well as the structure?
This question is meant to encourage students to think systemically about organisational change, in the sense of being aware that significant change is likely to generate ripples elsewhere. Referring to Figure 1.3, the most likely areas are:

- technology – information systems will need to provide financial and other reporting information to match the new structure;
- objectives – while in general terms the board has indicated these need to be clarified, substantial work needs to be done on these to give staff the clarity they, and the sponsoring ministers, require;
- people – changes in focus and areas of work are likely to require significant changes by some staff.

Case question 11.2
Identify the possible ripple effects that may need to be managed in the Environment Agency, using the elements in Figure 11.2 as a guide. Start by entering the move to a national structure in the structure area. Then think of the possible implications that this change will have for other elements. These begin to form the management agenda for this project. Which of these are likely to cause most difficulty for the head of human resources and the TPG?
Development of question 11.1.

PART CASE QUESTIONS
Which model(s) of change did The Royal Bank of Scotland management use to implement its new policies? What evidence is there to support this conclusion?
Mainly a life cycle approach, with many structured techniques in place, such as the black-box reporting mechanisms.

What are the differences and similarities between The Royal Bank of Scotland and the Environment Agency in terms of (a) the causes of change, and (b) the methods used to manage it?

(a) Causes
Differences – competitive pressures used to make the case for change in RBS; broader, less tangible sources of dissatisfaction in the Environment Agency.

Similarities – external forces driving the change.

(b) Methods
Differences – RBS uses more complex project monitoring techniques, as described under Programme management, reflecting the greater complexity of the change. Also RBS change lasted years, the Environment Agency months.

Similarities – led from the centre, with limited participation over the broad direction of change; both used project management tools such as Gantt charts.
What aspects of the inner context at The Royal Bank of Scotland helped or hindered change?
Helped – clear structure was created within which to manage and monitor the programme of projects; led by people with considerable formal power; supported by senior management.
Hindered – pressures of other work, competing with project requirements.

ACTIVITIES

Activity 11.1 Recording a major change
From discussion with colleagues or managers, identify a major attempt at change in an organisation. Make notes on these questions and use them as a point of reference throughout the chapter.
What was the change?
Why did management introduce it?
What were the objectives?
How did management plan and implement it?
How well did it meet the objectives?
What lessons have those involved taken from the experience?
Data collection, and suitable as the basis for a tutorial.

Activity 11.2 Assessing the effects of the context
What aspects of the contemporary context, shown in Figure 11.2, have had most effect on a project you are familiar with?
How have historical factors affected people’s reaction?
Were the effects positive or negative for the project?
Did those managing the project take sufficient account of these contextual factors?
Data collection, and suitable as the basis for a tutorial.

Activity 11.3 Using the project life cycle
If you are unfamiliar with this approach, you can gain some insight into it by using it on a practical task. For example:
if you have a piece of work connected with your studies to do, such as an assignment or project, sketch out the steps to be followed, by adapting Figure 11.4;
alternatively do the same for some domestic or social project.
After doing the assignment or project, reflect on how the life cycle approach affected the way you worked.
Data collection, and suitable as the basis for a tutorial.

Activity 11.4 Reflecting on participation
Have you been involved, or affected by, a change in your work or studies?
(a) If so:
What evidence was there that those managing the change agreed with the participative approach?
In what way, if any, were you able to participate?
How did that affect your reaction to the change?
(b) If not:
Identify three advantages and three disadvantages for the project manager in adopting a participative approach.
Suggest how they should decide when to use the approach.
Data collection, and suitable as the basis for a tutorial.

**Activity 11.5 Identifying the pitfalls of change**
Review a project against these features, by drawing a circle round the number on each of the scales which most accurately describes the project. High scores indicate where trouble is most likely to arise.
Data collection, and suitable as the basis for a tutorial.

**Activity 11.6 Discussing resistance**
Discuss with someone who has tried to introduce change in an organisation what evidence there was of resistance.
Which of the forms listed by Keen (in Key Ideas above) were in evidence?
Can they identify any other forms?
Have you ever resisted a proposed change?
What form did your resistance take?
Comprehension and reflection, pages 344–346.

**TUTORIAL OR CLASS ACTIVITIES**

**Case – Freight Connect**
This case is useful in illustrating the value of attending to stakeholder needs. Ideally give out Part A and ask groups to prepare a group response to the questions. When they have compared and discussed their answers, give out Part B and invite them to consider what the company should do to get the project back on track.

**Freight Connect**

**Part A – the IT project**

The Freight Group is a large European transport and logistics company. It grew rapidly during the 1990s, mainly by mergers and acquisitions. Most of these businesses brought legacy systems with them, resulting in a diverse range of purpose-built applications in operation throughout the business.

An IT development strategy formulated in late 1998 identified the core information system requirements for the group to meet its business goals. These included a single freight management system, warehouse management systems, financial, human resource and executive information systems.

In October 1998 Freight acquired Nextday, a parcel delivery business. The deal included an arrangement whereby Nextday’s previous owners would maintain a proprietary freight management systems until December 1999. This system enabled customers to enter their freight pick-up and delivery requirements to the Nextday system. Freight did not currently have a system able to do this, though e-commerce functions such as this had been identified within the IT development strategy.
Freight proposed to develop a proprietary e-commerce system for use within the Nextday business and then across the entire Freight Group. A secondary objective of this system was to eliminate the divisional boundaries caused by the many existing systems. The system therefore needed to be able to handle all kinds of freight requirement, from single parcel pick-ups to large container loads.

The December 1999 requirement to be off the Nextday systems resulted in a re-prioritising of projects and the commencement of the e-commerce project. The e-commerce project is known as Freight Connect. The objective was to develop a PC-based application which would allow customers to enter consignment information online. The documentation and labels would be generated automatically to provide printed consignment information. Drivers then receive the pick-up information and the movement of the parcel commences. Customers can use the Internet to track parcel deliveries. Proof of delivery documents are scanned and can be viewed by customers. Freight Connect also allows customers to analyse and report on their shipments with Freight. The system shifts the responsibility of data entry for pick-up and delivery details from Freight to the customer.

The project commenced with a brief user needs analysis which developed a base specification for functionality of the required new system. One key objective was to differentiate – develop something that was not available to competitors. The designers used a prototype development method to build the system in an explorative way. Having sought the views of users on their needs, developers then set about developing a model of the proposed system. This model was then put to users for feedback regarding functionality, screen design, layout and ease of use. Responses were incorporated into a final product.

In late 1999 software development was largely complete, and management was putting pressure on systems staff to clear the product for roll-out to customers. However, other managers were concerned that little time had been devoted to product testing, in particular user acceptance testing.

Figure 1 shows the stakeholder map prepared for the Freight Connect project.

Figure 2 shows the commitment of the main stakeholders, as assessed by a manager involved in the project.

Questions
1. What particular problems would face the project manager leading this project?
2. Why do you think the analysis of stakeholder commitment produced the pattern shown in Figure 2?
3. What power would the project manager have to influence the stakeholders?
4. Identify one issue that should be at the top of project manager’s agenda for each of the stakeholder groups.
Figure 1  Stakeholder map for the Freight Connect project
Source: Boddy (2002), Managing Projects, p. 84.

Figure 2  Stakeholder commitment at Freight
Freight Connect
Part B – Stakeholder commitment

Freight Nextday were clearly the project owners. However, poor project management had resulted in a lack of control and direction. Key stakeholders therefore slipped to a relaxed ‘will let it happen’ mode instead of the proactive ‘will make it happen’. Other business priorities had encroached on the other divisions. The key stakeholder had not pressed them, so the project slipped in priority and focus.

The company gave little information to customers about the new product. They did not explain additional benefits, such as that the customer would be able to use the product for all dealings with the Freight Group. Customers were therefore unclear about the benefits to them, and were reluctant to release staff for training, (even though Freight would provide this, and the product, without charge). The software vendors too had not been convinced of the value of the project, and took an indifferent approach to it.

SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. What types of change are likely to be the most difficult to introduce?
Comprehension and comparison, pages 340–343. Purpose here is to enable students to begin distinguishing systematically between the different types of change.

2. What are the implications for management of the systemic nature of major change?
Comprehension, pages 325–328 – anticipating and managing the ripple effects.

3. Review the change that you identified in Activity 11.1 and compare its critical dimensions with those at The Royal Bank of Scotland or the Environment Agency.
Comparison and comprehension, using and evaluating the analytical model.

4. Explain what is meant by the inner context of change, and compare at least two organisations in these terms.
Comprehension, application and comparison, pages 325–328.

5. How does the culture of an organisation affect change? Compare two examples, one where the prevailing culture helped change and one where it hindered it.
Comprehension, application and comparison, pages 325–328, and could also bring in ideas from Chapters 8 and 10.

6. Outline the project life cycle model of change and explain when it is most likely to be useful.
Comprehension, pages 328–331.

7. How does it differ from the emergent perspective?
Mainly in the assumption that the stages to be completed in a change can be predicted accurately, and corrective action taken to get things back in line with the planned route. The emergent perspective places more emphasis on the idea that the route itself, and the destination, may change substantially as new information and conditions emerge during the project.
8. What are the distinctive characteristics of a participative approach?

9. What skills are used by those employing a political model?
Comprehension, pages 334–338.

10. Is resistance to change necessarily something to be overcome? How would you advise someone to resist a change to which he or she was opposed?
Comprehension and reflection, pages 344–347. Question should be answered with reference to political perspectives: the change may be mainly in the interests of one group of stakeholders, and others may legitimately question the benefit to the organisation. And some proposed changes are simply wrong-headed, quite apart from political considerations. Advice on resistance is in Key Ideas on page 345.

11. Evaluate an example of change management in view of the models in this chapter.
Comprehension and application – and perhaps a basis for a tutorial, building on Activities 11.1, 11.2 and 11.3.

ASSIGNMENT OR EXAMINATION QUESTIONS
1. Someone you know works for a company that is undergoing rapid change. She has recently been appointed to a project team responsible for implementing one aspect of the new system, namely a new system for gathering and distributing financial information. She wants the project to be a success as this will help her career prospects. What advice would you suggest to her about the management of the change?

Marking guide
This is an opportunity for students to show how deeply they have understood the points of this chapter. Basic answers will repeat material about project management techniques and participation. Better ones will refer explicitly to some of the analytical tools in the chapter (and elsewhere) to suggest ways of identifying what kind of project is being dealt with, and what the implications are. Good answers will emphasise more questions about the context of the change, and will consider the alternative, complementary perspectives from which change can be viewed. They are likely to pay particular attention to issues of stakeholder power and the exercise of influence to get things done.

GUIDE TO FURTHER MATERIAL

Video
An excellent video – Negotiating Corporate Change – has been produced by Harvard Business School. Based on a project to introduce a new financial information system it illustrates the political nature of the problem and the interests involved. It also shows how they seek to resolve the issues. Details:
Negotiating Corporate Change, 1996
Harvard Business School Management Productions
J.K. Sebenius
Chapter 12

Influence and power

SYNOPSIS
This chapter has introduced students to theories about the way managers fulfil their role by influencing other people. It has outlined the interpersonal perspective on the topic (for example decision-making styles) and the power perspective. Since power underlies all the other approaches the chapter starts by clarifying the sources of power, and distinguishing between personal and institutional sources. It then reviewed the main theories of influence – trait, behavioural and contingency – and concluded with a theory which emphasises position as the primary source of power.

SUMMARY
• Managers influence others by using a range of interpersonal skills, and by building and maintaining power which derives from the organisation.
• Achieving objectives usually depends on the willing commitment of other people. Objectives that are seen as divisive or serving one interest will undermine that commitment.
• Transformational leadership methods use higher-level objectives to gain fuller employee commitment. How management seeks to influence people affects how those people react. Dominant use of power may ensure compliance, but that may not help achieve the objectives.
• Managers seeks to influence others by using one or more sources of power – coercive, reward, expertise and referent which themselves have a personal or an institutional origin.
• Situational (or contingency) approaches stress that the most effective way to influence others depends on the situation – made up of factors such as task, subordinates and external conditions.
• One of the paradoxes of management is that managers who delegate control to others are able to enhance their power and control. Delegation increases a manager’s power by freeing time to build and use external contacts.
• A reluctance to delegate and share power reflects managers’ (misguided, as not serving their long-term interests) attempts to retain control.

THE CHAPTER CASE
Both the Part Case and the Chapter Case are unusual in that they stress the exercise of influence outside a formal hierarchy. Managers exercise influence in many directions, not just over their subordinates. This is becoming more common as changes in the business world mean that people need to exercise more lateral and upward influence than was once the case. The cases show this, and also how the exercise of personal influence can be backed by powerful institutions.
CASE QUESTIONS
Digital Europe
Preliminary questions
What other people was the manager at Digital Europe trying to influence?
Mainly other planning and scheduling managers in the other European plants, the senior
managers of those plants, and management at European headquarters.

Which of them, if any, were his direct subordinates?
None are mentioned directly, though he had staff in his own department whom he would
be able to involve to some degree.

What aspects of the company’s history will influence his attempts at influence?
In the short run he can use the evidence the company has recently not been doing as well
as competitors in fulfilling orders on time. This can help his case. The factor working
against him is that previous pan-European attempts at change have failed, so people will
be reluctant to commit their resources.

Case question 12.1
In what ways did the actions of the manager at Digital Europe fit the definition of
leadership?
By spotting a difficulty in the operation, taking a lead in articulating this, making it
more visible, and persuading others to join him in trying to do something about it.

What role did creating a vision play in the manager’s influence attempts?
By raising the wider benefits to the company as a whole, and the European operation in
particular, of improving this aspect of the business. The balance between plant and
corporate interests is clear, and he needed to show them a wider vision than their
immediate local interests to persuade them to support the European project.

What lay behind the different degrees of enthusiasm that the plant managers showed for
the plan?
Local interests and previous failures of European projects. The ‘flowering of feudalism’
example in the chapter shows how common this is.

Case question 12.2
Which of the sources of power in Table 12.1 has the manager at Digital Europe used?
He is relying mainly on expertise, both personal and positional. He clearly has personal
expertise, and is also able to draw on (with persuasion) volunteers from around the
organisation who understand the topic. He is also able to access his functional boss
which enables him to signal that this project has high-level support and is in line with
company values of innovation and competitive customer service.

What has he done to increase his power and legitimacy in the eyes of those he is trying
to influence?
Giving a week of his own time (resource) to Valbonne; understood the difficulties the
Valbonne manager was facing and showed he was trying to deal with them, rather than
ignoring or seeing them as ‘Valbonne’s problem’ (information); and lobbying senior
European managers for support.
What other forms of authority has he been given?
The gold card.

Which of the influence tactics in Table 12.6 did the manager at Digital Europe use?

**Influence tactics and definitions**

<table>
<thead>
<tr>
<th>Tactic</th>
<th>Example of use by the manager at Digital Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational persuasion</td>
<td>Preparing the presentation to senior management about the order fulfilment problem, and possible solutions.</td>
</tr>
<tr>
<td>Inspirational appeal</td>
<td>Possibly used this approach to develop initial enthusiasm amongst the team.</td>
</tr>
<tr>
<td>Consultation</td>
<td>Seeking ideas and inputs from team members, and from the managers of the other European plants, and willing to adapt the proposal to suit local needs.</td>
</tr>
<tr>
<td>Ingratiation</td>
<td>No direct evidence quoted.</td>
</tr>
<tr>
<td>Exchange</td>
<td>Secures extra resources for the manager at Valbonne, to try to persuade him to commit to this project.</td>
</tr>
<tr>
<td>Personal appeal</td>
<td>No direct evidence quoted.</td>
</tr>
<tr>
<td>Coalition</td>
<td>Bringing together a widely representative team of committed people, to show support for the idea.</td>
</tr>
<tr>
<td>Legitimating</td>
<td>Seeking, and securing, the support of the European management team for the action he proposed. They responded by legitimating him with the ‘gold card’, enabling him to call on whatever resources he required.</td>
</tr>
<tr>
<td>Pressure</td>
<td>No direct evidence quoted.</td>
</tr>
</tbody>
</table>

Is the pattern of use consistent with that found by Yukl and Tracey?
Broadly yes – using a range of tactics, and varying them between targets.

**PART CASE QUESTIONS**

*How does W.L. Gore and Associates influence staff to work on vital projects?*

The intrinsic attraction of new projects is supported by the sponsor system, who can indicate the prospects of a project within the wider company plans. Also through the reward system, in which the contribution can be weighted according to the value of a
project to the company. This could act as an incentive to work on projects seen to be valued by the company.

*How do research staff influence each other? Compare the way that project managers at Gore and the project managers at Digital Europe influence other members of the company.*

The companies differ in that the R & D element is stronger at Gore than at Digital. So there is probably more individual expertise used to influence other research team members at Gore than is the case at Digital.

*How is W.L. Gore and Associates balancing personal and institutional sources of power and influence?*

They are aware of the dilemma of too much structure in a creative environment. If a case can be made for a procedure to control something then it is used – but the presumption is against formal procedures.

**ACTIVITIES**

Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

**Activity 12.1 Identifying power sources**

Try to identify at least one example of each of the personal and positional power sources. Examples could come from observing a manager in action (including people in your university or college) or from your reading of current business affairs.

Comprehension and identification, pages 361–364.

**Activity 12.2 Which traits do employers seek?**

Collect some job advertisements and recruitment brochures. Make a list of the traits that the companies say they are looking for in those they recruit.

Data collection and application pages 364–366. A critical discussion could be held around the data collected here, if students were asked to consider what behaviours they would expect to be displayed by someone with the traits listed, and speculate on the assumptions about organisational life that are expressed in the traits.

**Activity 12.3 Applying the managerial grid**

Reflect on two managers you have worked with, one effective and one ineffective from your point of view. Which of the positions in the Blake and Mouton grid most closely described their style? Note specific behaviours which come to mind that typified their approach.

Comprehension and application, pages 366–370.

**TUTORIAL OR CLASS ACTIVITIES**

1. The Vroom and Yetton decision-making style model
2. Case – Power and change in a university

**1. The Vroom and Yetton decision-making style model**

This contingency approach to decision-making style is widely used and the exercise
below is a frequently used way of surfacing the intuitive judgements people make in deciding how much to involve subordinates in a decision. It can be used most easily with a group of experienced managers – though the less-experienced also find it a useful way of bringing out the contingency idea. The activity can take up to 40 minutes, depending on how you choose to manage it.

Aim
To illustrate the contingency approach to decision-making styles by working on examples which surface the implicit factors in choosing a style, and then making them explicit.

Preparation
Prepare copies of these pages, either distributing in advance or at the tutorial. Prepare an OHP or flipchart of the grid below.

At the tutorial
1. Ask students to do the following:
   - Read ‘Five ways of reaching decisions’, below.
   - Then read each of the four cases in ‘How to get a decision’, below.
   - For each one write down the decision-making style you would use, and a few words indicating why you would use that method.

2. If done in class, allow about 10 minutes for this individual work.
3. Take each case in turn and use a show of hands so that students can indicate the choices made. Record the number selecting each method for each case on the chart.
4. Draw comparisons
   - between the cases (some usually attract most scores in one or two styles), suggesting the situations differ in some way;
   - within each case – with the same data, people choose to reach the decision in different ways.

What are the intuitive or implicit reasons that shaped our views?
5. Ask class members in turn to indicate why they reached each decision (the case they base it on is unimportant), and chart responses. Continue until most possible reasons have been charted. Ask class to review and collate/combine them to build a collective picture of the implicit criteria they (and others) used to approach this kind of decision-problem.
6. Introduce the Vroom and Yetton analysis, with the seven diagnostic questions and the decision-tree from the text (p. 373).

Five ways of reaching decisions
Autocratic – A I
In this case, the leader solves the problem using the information which he or she possesses. The leader does not consult with anyone else or seek information from other sources. It assumes that the leader has sufficient information and skill to generate high quality decisions.
Autocratic (information- or skill-seeking) – A II
The leader does not possess sufficient information or skill to make an effective decision. The leader therefore has to obtain (from others) the information or skill which will enable him or her to generate a high quality decision. He or she may not tell others what the problem is – usually they simply ask for information. The leader then evaluates the information and makes a decision.

Consultation – C I
The leader explains the situation to a group or individual and provides relevant information; together they generate and evaluate solutions. Alternatively he or she may ask either the group or the individual to conduct a survey/investigation and make recommendations. Finally, the leader evaluates the solutions or recommendations which the group or individual has put forward and then makes a decision which may or may not take these views into account.

Negotiation – C II
The leader explains the situation to the group/individual and provides the relevant information. Together they attempt to reconcile differences and negotiate a solution which is acceptable to all parties. The leader may consult with others before the meeting in order to prepare the case and generate alternative decisions which are acceptable to him or her.

Delegation – G
Responsibility and authority for making the decisions are given to the group/individual. The leader provides all the relevant information which he or she possesses. The leader’s role is very much like that of a chairman. The leader guides and controls the discussion but does not attempt to force an opinion on the group. He or she is prepared to accept and implement any solution proposed by the group/individual.

‘How to get a decision’
Case 1
You are the manager of a small television, radio and electronics business and for some time you have had complaints from your sales staff about the need to redecorate the large shop in which they work. You recently agreed to do this and you have received three tenders from reliable and well-known local contractors. They are all capable of doing the work to the required standard and there is little difference in the quoted costs or times for the job.

You recently asked your employees for their suggestions on suitable colour schemes and there was considerable difference of opinion. You now have to decide which tender to accept, and to tell them the colour scheme.

Decision method? Why?
Case 2
You are an engineer in charge of commissioning a chemical plant and it is necessary for you to estimate the rate of progress of the various stages of the work in order to schedule the materials and equipment required. You are familiar with the work in hand and possess all the necessary information about the materials and equipment required. With this information it is possible to estimate the times at which materials and equipment will be required at the various commissioning stages. It is very important that your estimates are accurate since if materials are not available at the right time work will be held up. Equally, if materials and equipment arrive too soon they will be lying around idle. Your commissioning team are all committed to the plant being commissioned on time.

Decision method? Why?

Case 3
You are a training manager employed by a firm of consultants and you have to select three of your eight training advisors to work on an assignment abroad. The assignment involves a training needs analysis, preparation of training programmes and the training of local instructors.

The assignment is expected to last about six months and is in a remote part of the Middle East with poor facilities and a ban on the consumption of alcohol. Your advisors are all experienced personnel and each of them is capable of performing the task satisfactorily.

Decision method? Why?

Case 4
You are a project leader and your main objective is to commission a new plant, Line 2, on time without adversely affecting production on the existing plant, Line 1.

Most of the operatives working on Line 1 want to transfer to Line 2 because it is expected that working conditions will be much better on this new line and the rates of pay higher. Senior operatives working on Line 1 expect to be given preference over less senior ones and all of the operatives on Line 1 expect to be given preference over operatives working in other departments of the work.

You, however, want to transfer only the best operatives from Line 1 to Line 2 and make up the balance with operatives from other departments. Your reason for wanting to do this is that the speed of operation on Line 2 will be significantly faster than on Line 1. This means that operatives working on Line 2 will need to be much more skilled at fault rectification than those working on Line 1. The ability to react quickly to control panel and video display unit (VDU) cues is essential.

Decision method? Why?
Prepare a grid in this form on an OHP or flipchart:

<table>
<thead>
<tr>
<th>Method</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>AI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AII</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CII</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Diagnostic questions**

1. Is there a quality requirement such that one solution is likely to be more rational than another?
2. Do I have sufficient information to make a high quality decision?
3. Is the problem structured?
4. Is acceptance of the decision by subordinates critical to effective implementation?
5. If you were to make the decision by yourself, is it reasonably certain that it would be accepted by your subordinates?
6. Do subordinates share the organisational goals to be obtained in solving this problem?
7. Is conflict among subordinates likely over preferred solutions?

The decision tree shows the leadership styles appropriate to the various situations. The seven diagnostic questions appear across the top of the figure. To use the decision tree, start with your answer to question 1. Then work along the branches indicated by your answers to the other questions until you come to the end of a branch. There you will find one of the five leadership-style codes: AI, AII, CI, CII, G. This decision-making style is the most appropriate to that particular situation.

**2. Case – Power and change in a university**

This case is based on events in a university, which must remain anonymous. The original account was written by a well-informed member of the personnel department at the institution.

The introduction to Part A briefly sets the context, and separate pages then set out the perspective of some of the main players. These can be given to individuals or subgroups before a tutorial. Their task is to understand their role as described on the sheet, interpret that in the light of their understanding of the educational sector, and put forward their preferred solution to the questions posed. They are also asked how they would use the power sources which go with their role to influence the outcome in their favour.

When each group has reported from their perspective, staff could give out part B and ask them to read the sequel. Discuss this with the class before concluding with points similar to those made.
The university had been formed in 1996 by amalgamating several previously independent institutions within the area. They were brought together on a single site occupied by the largest of the institutions in the region’s major town. It consisted of three faculties – Education; Technology and Management; and Arts. Many courses within each faculty had been taught in the previously separate institutions, and could therefore be rationalised and merged. The staff was far larger than the university could afford, and for the first two years the personnel departments concentrated on reducing staff by arranging early retirement, voluntary redundancy and dismissal. In 1998 each faculty had its own personnel department, and often the Faculty Director took overall responsibility for personnel policy.

In 1999 the Chairman, nominally the senior member of the top management team, instructed the Director of the Central Personnel Department to produce a new personnel strategy for academic staff. While overall salary levels were set by the national government, institutions could make their own policies on matters such as:

- systems to give extra rewards to some staff
- the system of appraisal
- welfare systems, such as parental leave or child care facilities
- career development and training
- redundancy and redeployment of staff.

One early example of such a policy was to require faculties to try to offer vacant jobs to staff who were redundant in other faculties.

Like many aspects of the new institution, top management announced that they favoured a decentralised personnel policy, though they retained a central personnel department with a director and five staff, as well as creating personnel departments in the faculties, each with three staff.
Some of the main roles

Top management

Such institutions are normally governed by a three-member top management team, responsible for the overall running of the university. In this case there are at present only two members, and your goals are to ensure the survival and growth of the institution, and your own reputations and jobs. The Chairman is responsible for personnel and financial affairs, and the other member is responsible for educational and student affairs. The member has good relations with the Director of the Technology and Management Faculty, and they often discuss policy matters together. The member has better relations in this direction than with the Chairman, nominally his boss.

As a group you have positional power over the faculty directors.

*Do you support the efforts of the Central Personnel Director to develop a strategic personnel policy?*
*Do you enforce the policy of some staff redundant in one faculty being offered vacant posts in others?*
*How will you try to influence policy in a direction that favours your views?*
Faculty directors

There are three of you, each in charge of your faculty. Your goals are the survival and growth of your faculty, and the maintenance of a high level of professional autonomy over how you and your staff work. You have considerable positional power in relation to top management, as the institution is one in which policies can only be introduced by consent. If one or more of you disagree with a proposal, top management cannot impose it. As a group, you each have position power in relation to your faculty personnel departments. One of your number, the Director of the Technology and Management Faculty, has a close relationship with the member of the top management board, which often prevents that board from agreeing on a policy.

As a group,

Do you support the efforts of the Central Personnel Director to develop a strategic personnel policy?
Do you enforce the policy of some staff redundant in one faculty being offered vacant posts in others?
How will you try to influence policy in a direction that favours your views?
Faculty personnel departments

Your goals are autonomy of your faculty policies, and achieving professional excellence. You are personnel professionals, with close knowledge of the needs and interests of the professional staff within your faculty. Although you have the expertise, you have had difficulty in agreeing local policies, as the directors of your faculties are themselves professionals who value autonomy. In the previous early years they managed these issues themselves, without much professional personnel advice or guidance.

As a group,

*Do you support the efforts of the Central Personnel Director to develop a strategic personnel policy?*

*Do you enforce the policy of some staff redundant in one faculty being offered vacant posts in others?*

*How will you try to influence policy in a direction that favours your views?*
Central Personnel Director

Your goals are professional excellence, influence and control over faculty rules in the personnel area, to try to develop coherent and consistent personnel policies across the institution. The Chairman has asked you to develop strategic personnel policies which you believe will encourage best practice being commonly applied.

How do you try to influence the faculties to support the policy of having a strategic personnel policy?
How do you enforce the policy of some staff redundant in one faculty being offered vacant posts in other faculties?
How will you try to influence policy in a direction that favours your views?
Part B – What happened

It soon became apparent that the faculties were unable or unwilling to work with central personnel. For example the faculties were unwilling to reappoint staff who were being made redundant in other faculties. Even under pressure from the trade unions, the faculties were very reluctant to provide the information necessary to implement the policy. Staff are key to a faculty’s success, and none of the directors wanted to be forced to appoint staff no longer required in other faculties. The faculties would not co-operate, and the top management team preferred to maintain good relations with the faculty directors, than with the Central Personnel Director.

What top management did
Although they had positional power over the faculty directors, top management failed to use it to:

- overcome faculties’ reluctance to appoint redundant staff
- overcome faculties’ obstruction of a strategic personnel policy
- back the Director of Central Personnel.

The main explanation seems to be that the coalition between one member of the top management team and the Director of the Faculty of Technology and Management meant that top management did not present a unified position to the organisation, and did not build a strong position. The two were able to block attempts in wider meetings to discuss the lack of personnel policy by challenging details or asking for more information.

What faculty directors did
Faculty directors used their positional power to prevent central personnel introducing rules and policies in the personnel area, which would have diminished their autonomy. They did this mostly by not attending meetings at which personnel matters were discussed, or by withholding their consent in the consultative process. They also withheld or delayed information that central staff needed to develop a strategic personnel plan. The Director of the Faculty of Technology and Management used his personal power with the member of top management to prevent top management operating in a unified way, thus undermining top management’s ability to use its positional power.

The faculty directors all valued autonomy, so never formed a unified coalition against top management. If they had, it is unlikely that central personnel department would have become as large as it did.

What faculty personnel departments did
Although they tried to use their expert power to gain influence in their faculty, they had difficulty in agreeing local policies within their faculties, especially in the early years. The faculty directors were professionals who valued autonomy and in the previous smaller schools they had dealt with personnel matters themselves. The faculty directors could, and did, ask for advice from Central Personnel Department.
The faculty personnel departments developed the habit of withholding or delaying information from Central Personnel, or of not consulting Central Personnel when they should have done. Even if they had wanted to, they could not make agreements with Central Personnel without the agreement of their faculty director.

**What the Director of Central Personnel did**
He found that he had poor relations with the top management team, and they did not always support him against the objections of the faculty directors. He had expertise in some legal matters, which he sometimes used to require the faculty directors to follow certain policies. This frustrated the heads of the faculty personnel departments, who felt their director was ignoring their advice. They then became less inclined to co-operate with the centre.
Part C – In conclusion

Very little progress has been made in developing a strategic personnel plan. The case illustrates the influence of political tactics in situations where management has not fully implemented management structures and systems, which leaves room for a power struggle. This is especially likely where the situation involves professionals with a strong sense of autonomy. For example, although the policy was meant to be one of decentralisation, top management had not implemented this – there were more staff in Central Personnel than in the faculties. Top management was reluctant to lose influence to faculties, so they kept a large central staff to keep a check on the faculties. Not implementing decentralisation contributed to the use of power as both parties continued to fight for position.

SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. Why is the ability to influence others so central to the management role?

   Nothing gets done unless someone is able to influence the actions of one or more other people in a particular direction. Organisations are a web of influence, as everyone seeks to shape events in particular ways. A person who is unwilling or unable to influence others will achieve little in their management role.

2. Explain in your words the main sources of power available to managers. Give examples of both personal and institutional forms of each.

   Comprehension and application. For example, a colleague may derive power from her comprehensive knowledge of the literature in a particular field (personal technical) and use this to shape a course design; she may also have favourable access to organisational resources because she is the department’s representative on the library committee and can influence which book requests are purchased (economic positional).

3. What is meant by the phrase a ‘9,9 manager’?

   Comprehension of the ideas in pages 368–370 and especially the managerial grid diagram on page 368.

4. What were the strengths and weaknesses of the behavioural approaches to leadership?

   They are still widely used in training events, but can be criticised for lack of consideration to contextual and political influences on effective leadership. The behavioural approaches stress the personal skills of leading: these are only part of the requirement, as influencing others can also be supported by institutional arrangements.

5. Discuss with someone how he or she made a particular decision. Compare this person’s approach with one of the situational or contingency approaches to leadership.

   The point of this question is to have the student cope with the complexity of real-world decisions, and use that to challenge the tidy theories. Above all, it will show them the range of ‘off-stage’ considerations that people take into account in deciding how to act in a management situation. This does not necessarily invalidate the theories we are presenting to them, but will make students more critical of them.
6. Evaluate the situational theory in the light of the evidence acquired in review question 5 and other considerations.
Comprehension and evaluation, pages 370–375.

7. List the ‘lines of power’ that Kanter identifies, and give an example of each.
Comprehension, page 377.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE.
1. How can managers influence their staff to act in a particular way, and how can staff influence managers (50%)? Illustrate your answer with at least two examples of a power source being used (50%).
Define influence, and set in the organisational context. Text definition is in terms of ‘influence is the capacity or power to affect others’, and this will have been discussed in class. Then discussion of why influence is central to organisational functioning – probably locate it in a definition of management (e.g. getting things done with the aid of others), which implies that some process has to take place whereby others are persuaded to do things. They should then outline the sources of power lying behind attempts at influence.

2. Imagine that you are asked to lead a project to introduce a major change into your organisation. The project is important for the business, and senior management have set very tight deadlines for completion. You need to persuade the managers of two other departments to allocate staff to work on the project, which will also affect the way those departments work.
What power bases do you have that would help you to complete the project (50%)? How would you use these to influence other people (50%)? In doing so, make clear the assumptions you are making about the context in which you are trying to exercise influence (such as the relative power of the other departments).
Expect students to begin by defining influence in the organisational context in terms of the capacity or power to affect others.10% for any reasonable attempt at definition, and another 10% for stressing that in this case they are influencing without formal authority.
Expect students then to use a model of power sources (see Table 12.1 for example) to review where they are, paying particular attention to the fact that they are here having to influence upwards and across, rather than down. A good answer will bring in the difference between personal and positional sources of power, which may be significant in the situation envisaged. They should discuss each source explicitly, and indicate how they could use it.

GUIDE TO FURTHER MATERIAL

Websites

People Management www.peoplemanagement.co.uk
The online version of the magazine, with useful search facility for issues covered since 1998 - including some on influencing and leadership.

**Video**
A novel way to use video to illustrate the idea of influencing styles has been suggested by Andrzej Huczynski. It is based on the Kipnis and Schmidt model of influence and is described in:

**Cases**

European Case Clearing House  
[www.ecch.cranfield.ac.uk](http://www.ecch.cranfield.ac.uk)

Good examples of charismatic leaders and the issues that raises for the long-term future of the organisations they create can be found in the cases of Anita Roddick and Richard Branson. The Body Shop case was mentioned in Chapter 2 of this manual. The Virgin Case includes a lot of insights into Branson’s style of leadership:
*Branson’s Virgin: The Coming of Age of a Counter-Cultural Enterprise*, INSEAD, Fontainebleau, Reference 495-014-1, available from the ECCH.
Chapter 13

Motivation

SYNOPSIS
Management assumptions about other people have a fundamental effect on how they go about their role. The chapter reviewed evidence that can guide people in generating the commitment of others to behave in particular ways. Central to this is the idea of the psychological contract, representing how people perceive the fairness of an evolving relationship. It linked these theoretical perspectives to the topical issue of empowerment, a natural successor to earlier concerns about job design. It also acknowledged the increasing uncertainty of careers, and how this may affect what people want from work.

SUMMARY

- The early approaches of Taylor and the scientific management school assumed that people would do what was required in return for financial or other extrinsic rewards. This was a reasonable assumption in the context of the economic and social context in which these theories were developed.
- Later theories stressed the value of meeting people’s social needs, and have then developed to show the full complexity of human needs. Different needs will become dominant at different times, or as others are blocked.
- Employees are not isolated individuals, but people with responsibilities and commitments outside work. This has encouraged more managers to devise approaches to motivation that are family-friendly and promote work–life balance.
- In many organisations, managers try to secure people’s commitment to the goals of the organisation as a way of securing their willing and flexible co-operation. They seek to integrate individual and organisational needs, so that people use their talents to benefit the organisation without constant direction by management. Jobs designed to meet human needs are more likely to help meet organisational objectives than jobs that ignore them.
- Employees have different and variable needs, and can choose how they react to influence attempts, though their degree of choice will be constrained by their relative power.
- There is evidence that many employees are able and willing to contribute more fully to the management activities of the enterprise. Managers with Theory Y assumptions will offer employees opportunities to take part in wider roles where they can learn to exercise more responsibility.
- Greater involvement in decisions beyond the day-to-day may foster commitment by meeting higher-level needs for autonomy and decision-taking.
- How management deals with control reflects their Theory X or Y assumptions – the former emphasising external control, the latter internal or self-control. High performance probably depends more on encouraging internal commitment from people than on imposing external control.
THE CHAPTER CASE
The case is drawn from the public sector, and illustrates well how a situation can be examined systematically with the aid of a particular theoretical approach. Another attraction of this case is that it shows the dynamic nature of the environment in which management evolve their motivational policies. Students may also find it interesting to compare the Chapter Case and the Part Case – completely different organisations and approaches to the same management issue.

Note: The Benefits Agency no longer exists. It became part of the Department of Work and Pensions, and in 2002 those functions dealing with people of working age were merged with parts of the Employment Centre to form JobCentrePlus.

CASE QUESTIONS
The Benefits Agency
Preliminary questions
What attracted staff to work in the Benefits Agency before these changes?
The prospect of stable, long-term jobs and secure promotion possibilities. Low-risk jobs and many staff attracted by the public service element.

How are they likely to react to the changes introduced in 1991?
As the chapter will show, the psychological contract was changed. Hard to know in advance how different staff would react, so management was taking a risk in changing the basis of the relationship. May open discussion of individual differences, rather than thinking of staff as a single group.

Case question 13.1
What rewards did management of the Benefits Agency use when it was operating as part of the Department of Social Security?
This is an opportunity to practice using Maslow’s hierarchy (the answer is in effect in Table 13.2). The question can nevertheless be used as a basis for discussing the changing psychological contract.

How were these different after the change in approach?
Rewards (in widest sense) varied between area. In those which used the opportunity to manage differently,
• rewards were less predictable and more individually determined;
• staff had more autonomy to interpret cases;
• less need to refer decisions up the hierarchy;
• innovative behaviour encouraged and rewarded;
• managers expected that staff would be more highly motivated by less bureaucratic approach; and that
• greater fairness among staff would follow from rewarding effort not length of service

How did staff react to the changes?
Considerable variation, reflecting their interests and needs from work.
Case question 13.2
In the 1980s what were the main elements of the psychological contract between the DSS and its employees? List what each was expecting of the other.
DSS lists could include conforming to rules, continuing in DSS employment, diligent work, not expecting to be highly paid; in return it offered secure employment and regular promotion to those who chose to stay. Employee lists could include a guaranteed job and a lifelong career; regular if slow promotion, limited responsibility for decisions so little stress.

How did that change in the early 1990s?
DSS now expected managers and staff to be more innovative and creative, willing to change rather than follow rules. Also to accept that rewards would be on different criteria.

How did staff respond?
Not given much choice about the new approach. Case shows variations in response, some welcoming the change and forming a new psychological contract. Others felt their traditional contract had been broken by the other side.

Are there possible links between that response and later events in the organisation?
Speculative, but the enthusiasts’ entrepreneurialism was encouraged to an extent that some of the rationales behind the earlier methods (equality of treatment, avoiding fraud) were forgotten. Hazardous in a politically sensitive organisation. Those disaffected may also have reacted by being less diligent, as a way of getting even with an organisation they felt had changed the rules.

Are there any lessons which that suggests?
Very open question, but consider the effects on a range of interests; the boundaries to be placed on autonomy, consider likely differences between response from staff and how to maintain motivation of those who oppose the change.

Case question 13.3
Which needs were being met, and in what ways, under the new policy at the Benefits Agency?
You could prepare a grid like that on Table 13.2 (page 396) and ask the class to offer suggestions, such as:

<table>
<thead>
<tr>
<th>Needs</th>
<th>How they were met</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physiological</td>
<td>Pay, for some higher than otherwise</td>
</tr>
<tr>
<td>Safety</td>
<td>Increments depended on performance</td>
</tr>
<tr>
<td>Belongingness relationships</td>
<td>Less secure benefits than before</td>
</tr>
<tr>
<td>Esteem</td>
<td>Mainly the same, but damaged by different reaction to changes</td>
</tr>
<tr>
<td>Self-actualisation</td>
<td>More selective promotion</td>
</tr>
<tr>
<td></td>
<td>Part of a more enterprising organisation</td>
</tr>
<tr>
<td></td>
<td>Chance to innovate and experiment</td>
</tr>
<tr>
<td></td>
<td>A larger and more responsible job</td>
</tr>
</tbody>
</table>
Case question 13.4
What evidence was there at the Benefits Agency of perceived inequity?
Some evidence that less enthusiastic staff who opposed the changes resented that other staff got promotions etc. based on new performance criteria. Relative inputs perceived to be the same but relative rewards different.

How did people react?
Some evidence of people leaving, others resisted the changes – which could be overtly or covertly (perhaps allowing errors to build up etc.).

PART CASE QUESTIONS
Which theories of human needs appear to be supported by the reported policies and attitudes at W.L. Gore and Associates?
Theory Y assumptions predominate, with staff appearing to be willing to act responsibly, exercise self-control and so on. They seem to be valuing, and receiving, esteem and recognition for their work and to be trusted to act in a way that meets their needs and those of the company.

What similarities and contrasts are there between the motivational practices at W.L. Gore and Associates and at the Benefits Agency?
Similarities – during the new regime at the Benefits Agency empowerment of the kind long experienced at Gore flourished. Many staff reacted positively to that.

Contrasts – mainly between the older practices of the DSS and the long-term practices at Gore. A more striking contrast is perhaps between the long-term nature of Gore’s approach, and the brief experiment at the Benefits Agency that was then partially reversed. What does this stability vs. instability do for staff attitudes towards the two organisations?

In what ways are the associates at Gore empowered?
Choice of workgroup to join, and considerable choice of method of doing the work – since much is in the nature of scientific research and development it cannot be prescribed. In most areas they can choose whether they have formal leadership or not.

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 13.1 Mutual expectations
Identify a time when you were working in an organisation, or think of your work as a student. Describe what was expected of you.
What policies or practices did the organisation use to encourage these?
What did you expect of the organisation?
How well did the organisation meet your expectations?
What was the effect on your behaviour?
Data collection and/or reflection, pages 390–392.
Activity 13.2  Was Taylor  wrong?
Many managers believe that money is a powerful incentive. If you can, find someone who works for an organisation where incentives or commissions make up a significant part of their pay. Ask them how it affects their behaviour, and about any negative effects.
Data collection and reflection

Activity 13.3  Working with the theories
Which of the needs identified by Maslow did Jean Parker’s changes at the nursing home help to satisfy?
Physiological through better working conditions.
Safety, through providing secure lockers and related security measures.
Belongingness, through the signs that the manager cared for staff, and wanted them to feel part of the working community caring for residents.

Do your studies and related activities on your course satisfy needs identified by Maslow?
Reflection and relating personal experience to the theory.

Does that reflection tend to support or contradict his theory?
Reflection and comprehension, pages 394–397.

What evidence can you gather from your colleagues on the relative importance to them of these needs?
Data collection and reflection, pages 394–397.

Activity 13.4  Assessing your needs
The McClelland exercise on page 399.
This is intended to aid reflection and comprehension of McClelland’s theory. As part of a tutorial activity students could be asked to compare their answers with others in the class. They could then discuss whether the results were in line with what they would have expected, given what they already knew of each other.

Activity 13.5  Evaluating Herzberg’s theory
Comment on Gamma Chemical’s assumptions about motivating the re-engaged staff.
The new terms focus exclusively on the hygiene factors, and the reaction confirms the predictions of Herzberg’s theory.

Evaluate the empirical base of Herzberg’s research. What reservations do you have about the wider applicability of the theory?
Comprehension and evaluation, pages 400–402. Concerns could include sample size, occupationally specific, culturally specific?

Gather other evidence of changes in working practice, and decide whether it supports or contradicts Herzberg’s theory.

Activity 13.6  Examples of Theory X and Theory Y
Write down the Theory X assumptions demonstrated in the first company in the motivating sales teams Management in Practice, and the Theory Y ones in the second.
Comprehension, pages 402–404.
Theory X reflected in setting targets, ignoring staff experience, detailed work guidance, not replying to comments.
Theory Y reflected in allowing staff to develop own business plan, autonomous working methods, giving more responsibility to sales people who have customer-information.

Make a list of management practices that you have experienced which reflect the assumptions of Theory X and Theory Y respectively. What were their effects?
Reflection and comprehension.

Can you identify someone who behaves in a way consistent with Theory X, and someone else who behaves according to Theory Y?
Reflection and comprehension.

Did this reflect the way they themselves were managed, or some other reason?
Comprehension, and intended to encourage discussion of the way in which behaviour is shaped by the context in which people work and have their experience.

TUTORIAL OR CLASS ACTIVITIES.
The chapter contains many activities that can be used to design a tutorial. They can be combined to suit your teaching plan and other material you want to use.
1. Comparing ideas and understanding
2. Case – The Packaging Company

1. Comparing ideas and understanding
As an example, and assuming the tutorial follows a lecture on the chapter:
1. Ask students to ensure that before the tutorial they complete Activities 13.1, 13.4 and 13.5; the Case Questions and the Review Questions.
2. Divide them into small groups.
3. Ask them to compare their answers to the Activities (as time is limited share them between groups), Review Questions 5, 6 and any others you choose (20 minutes). Also encourage them to record any questions they are not clear about.
4. Presentations from groups on their topic, and any outstanding questions (20 minutes).
5. Lead discussion on the lessons from the presentations, clearing up any questions (15 minutes).

2. Case – The Packaging Company
This case is designed to illustrate how some managers in a small company handled a motivational problem. It allows students to practise applying Herzberg’s theory to a real situation in a manufacturing business.

Distribute Part A This gives the background, the problem and management’s initial response. I suggest that groups are given about 10 minutes to read the case and agree a collective response to the questions raised. One or at most two of the groups should then present their answers to the rest of the class, with staff commenting briefly on the reports.
Distribute Part B and repeat the above.

Learning points
Shows both hygiene and motivating factors contributing to improved performance. The company concluded that hygiene factors had to be fixed first, before motivators would have an effect – they were not seen as alternatives. Clarifying roles and adding responsibility encouraged staff to seek training (they could see the benefits). Generally, an example that supports the ideas in Herzberg’s theory, though stresses the value of fixing the hygiene factors even though they are not motivating in themselves.

Part A – The Packaging Company

The company employs 80 people manufacturing packaging material. Three of the four directors who founded the company recently left to pursue other interests so the management team is young and experienced. The business is strong with a healthy order book and is working two shifts to meet demand. However, the managing director can see that there are serious absenteeism problems, and also that waste of materials is very high, with about 18% of the raw material being scrapped during conversion. Too many mistakes were being made at the material cutting and preparation stages. Staff were not required to check quality so mistakes were only identified further into the manufacturing process. By then more expense had been incurred on material which had to be scrapped.

The (new) directors decided to issue a questionnaire to the shopfloor employees inviting volunteers to undertake training in production methods to try to reduce waste. No one responded to the invitation, from which the directors concluded that there was a motivational problem. They suggested that the managing director should review the recruitment policy as clearly they were not getting staff of the appropriate quality. The management team also carried out a survey of pay in comparable jobs in the industry and found that they paid the lowest hourly rates.

Questions
1. Is changing the recruitment system likely to solve the problem?
2. What solutions can you suggest by using Herzberg’s theory?
3. Would you deal with the hygiene factors or the motivating factors first, and why?

Part B – What the managing director decided to do

The managing director was reluctant to increase pay without evidence that productivity would improve. He therefore introduced a phased pay increase, dependent on staff completing a training programme on the better use of the machines. He also made each worker responsible for the quality of their work and for checking the quality of work in the stage immediately prior to their own. Workers began to ask for training in technical issues. The MD also began to inform workers about future plans and asked for their ideas.

In the last six months absenteeism has dropped and wastage has been reduced to 7%.
Group tasks
Are these results consistent with Herzberg’s theory?
How do the MD’s actions compare with your own suggestions?
Any comment on the order in which motivation policies were changed?

Be ready to present your conclusions to the class in 10 minutes.

SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. Outline the idea of the psychological contract. What are you expecting (a) from a future employer in your career; (b) from an employer who provides you with part-time work while you are studying?
Comprehension and application, pages 390–392.
The idea that intangible mutual expectations are as important aspects of the relationship as the tangible aspects. How people perceive these being met will affect their behaviour. Comparing student answers to (a) and (b) may bring out the transient and changing nature of expectations.

2. What are the three things which are pinpointed when using behaviour modification.
Comprehension, pages 392–394.
Specific behaviour that is causing concern – not meeting targets, long telephone calls. External cues that seem to be consistently associated with the behaviour and trigger it. Payoff the person gets from the behaviour – such as avoiding overwork, maintaining contact with friends.

3. How does Maslow’s theory of human needs relate to the ideas of (a) Frederick Taylor and (b) Elton Mayo and the Human Relations movement?
Comprehension.
Incorporates the needs they identified into a wider model.

4. How does Alderfer’s theory differ from Maslow’s? What research lay behind the two theories?
Comprehension and comparison, pages 394–399.
Fewer categories, no hierarchical progression. Maslow’s was a by-product of his extensive practise as a clinical psychologist, while Alderfer’s theory was tested in an explicitly designed research setting.

5. How did you score on the McClelland test? How did your scores compare with those of your fellow students?
Comprehension and comparison, pages 399–400.

6. Explain the difference between Herzberg’s hygiene and motivating factors. Give at least three examples of each.
Comprehension and application, pages 400–402.

7. Explain the difference between E→P and P→O in expectancy theory.
Comprehension and application, pages 406–408.
8. Outline the basic assumptions of Theory X and Theory Y that Douglas McGregor used to characterise alternative ways in which managements view their workers. List three management practices associated with each. Comprehension and application, pages 402–405.

9. What are the five job design elements that are expected to affect people’s satisfaction with their work? Encourage students to give specific examples of each of the elements in Figure 13.7, to show understanding.

10. Give an example of an implementing concept associated with each element. Comprehension and application of Figure 13.7.

ASSIGNMENT OR EXAMINATION QUESTIONS

1. Aileen works for a company where she manages a group of IT staff who maintain existing systems and design some new ones. Demand for their services is high within the company and there is constant pressure on them to complete projects. She wonders if they are as committed to the work as she would like them to be. Equally there are many opportunities elsewhere for such staff and recruiting replacements will be difficult if anyone leaves. Aileen knows that you are attending a management course and asks if any ideas on motivation theory might help her to devise a solution.

Use either Maslow’s or Herzberg’s theory to suggest topics you would want to raise to help her find a practical way to proceed (50%). Evaluate the usefulness of the theory chosen as a guide to examining motivational problems of this kind (50%).

Marking guide

Must begin with a brief outline of the chosen theory, pointing out the hierarchy or the differences between the motivating and hygiene factors in sufficient detail to be able to apply them. Ideally set them out in tabular form, with questions that would be asked of the other manager to enable some judgement to be made of the situation. A discussion also of each of the factors in sufficient detail to indicate understanding. Then some discussion of the strengths and weaknesses of their chosen theory as a guide to management practice. This should cover the internal validity of the theory (sample, nature of evidence etc.) and aspects of its external validity (currency, usability etc.).

2. One of your acquaintances works for a bank, and has recently been promoted to her first management position. She is in charge of a group of staff in their new telephone banking service, dealing with customer enquiries about mortgages, insurance, or accounts. Staff work at computer terminals, and lead the customer through a series of questions shown on their screen. Most enquiries are straightforward, and the answer which must be given to the customer appears on the screen – the staff member conveys this answer to the customer, and the transaction is complete. The five members of staff deal with calls on any of these topics, and calls are allocated automatically to any member of staff who is free at that moment.

About 10% of enquiries are not straightforward, and require imagination and a greater knowledge of the bank’s services to ensure that customers get the correct
advice. These must be passed to the manager (your acquaintance) to deal with. The tradition in the bank has been to have rather tightly defined job descriptions, and to control staff very closely – for example a time-recording system is used to record when they arrive and leave, and lateness is penalised by a deduction from pay.

Your acquaintance has quickly realised that her staff are not as careful as they could be in dealing with customers over the phone, and that they pass queries to her that are in reality not very complex. She feels they should be able and willing to deal with more queries themselves. Customer complaints about the time they have to wait on the telephone have risen.

She has heard of Douglas McGregor’s Theory X and Theory Y, and has asked you if that might give some guidance on how she could improve the motivation of her staff.

Outline your answer, including an analysis of whether current practice in the bank reflects Theory X or Theory Y assumptions, and what practices she might want to introduce if she took a Theory Y view of her staff.

Marking guide
The answer should begin with a brief outline of McGregor’s approach, followed by correct identification of practices. There are several examples of Theory X assumptions in current practice, such as the system prescribing an answer rather than leaving an element of staff responsibility; having to pass difficult cases to the manager; tight job descriptions; and timeclocks. Better answers will suggest that the system is meeting physiological, affiliation and possibly security needs, but not doing much for esteem or self-actualisation.

Good answers will make reasonable suggestions for improvement, such as having the system recommend, rather than prescribe; renegotiating the simple/complex division so that staff deal with steadily more complex cases as they gain experience; perhaps having staff become expert in one or two of the areas, rather than covering all at a low level, and routing enquiries accordingly. The best answers will give a coherent summing up, and perhaps also point out the possible limitations of a Theory Y approach in this department. For example it may conflict with wider bank or other policies and the need for consistent responses to customers.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

W.L. Gore  
www.gore.com

Information about the Part Case company, including its unusual approach to geographic expansion as an aid to motivation.
Other websites

*People Management* www.peoplemanagement.co.uk

The online version of the magazine, with useful search facility for issues covered since 1998 - including some on motivation.

Other materials

**Videos**

If you have not seen it you may want to consider using the Video Arts video *The Best of Motives*, available from Video Arts, Dumbarton House, Oxford Street, London W1N 0LH, www.videoarts.com. Alternatively, The Body Shop video mentioned earlier can also be used to illustrate aspects of human motivation.
Chapter 14

Communication

SYNOPSIS
This topic is deeply bound up with all management activities, since unless people communicate information they have little influence on their context. Conversely, aspects of that context such as power, motivation and organisation structure, shape the effectiveness of communication. The stages in the communication model are outlined in the chapter, as are the micro- and macro-barriers. Particular attention is paid to the use of information technologies which are transforming communication – but which still rely on the fundamental themes in the chapter.

SUMMARY
• Managers can only perform their roles effectively if they are able to communicate with those they are trying to influence. To develop objectives and plans, to create an organisation, lead people and exercising control they depend on useful information about external events and internal resources.
• The chapter outlined the main steps in the communication process, and the points at which communication failure occurs. Taking care to encode the meaning, choose the right medium and to seek feedback is likely to support attempts to influence others as the message is more likely to be accurately interpreted and acted upon by individuals and teams.
• Communication also depends on understanding the influence of perception, choice of communication channels, non-verbal signals and the skills of listening.
• Managers create formal communication systems to pass information in both vertical and horizontal directions, though the form of these will depend on the nature of the task and the wider organisational structure – lateral in changing environments, vertical in a stable environment.
• Managers also acknowledge, and use, powerful informal channels of communication.
• While effective interpersonal communication is vital, achieving this depends on more than interpersonal skills. It can be obstructed or distorted by macro- as well as micro-barriers unless managers create appropriate structures to encourage good communication.
• Stakeholders can be kept well informed through effective communication or they can be ignored. They may also be threatened by information and may distort it.
• Information can also be used and sometimes distorted to control people, support particular interests and maintain an existing balance of power. As part of the control agenda, managers monitor performance and communicate corrective action.
• Organisational learning depends on information flowing around the enterprise; communication barriers inhibit learning.
THE CHAPTER CASE
This is drawn from a long-term evolution of new communication systems within an ambulance service. It illustrates both the technological and the human aspects of communication – and how both are affected by the context in which the service operates.

CASE QUESTIONS
The Ambulance Service
Preliminary questions
What external changes are affecting the management and staff of the service?
Government policy is putting pressure on for greater efficiency and effectiveness, as are the changing circumstances of the organisation’s major customer. What used to be a free service, funded by central government is now to become a charge on the hospitals which use it. So they become much more interested in what it costs, and in the quality of the service provided.

How would you describe the existing communications system?
Old and labour intensive, and which had difficulty coping at busy times, increasing the stress on staff. This would become worse as more control rooms were shut to save costs, adding to the volume of calls directed to those that remain. Hence the call for the new system.

What questions would you have about the possible effects of the new system on communications amongst staff?
How can management ensure that the communication is at least as good as that before, and that staff and public have confidence in the system. Will it enable control and operating crews to deal with more calls, more effectively? Will it provide management information efficiently, as a by-product of the operation, which will help management improve their understanding and control of the service being provided?

Case question 14.1
Which aspects of communication would you want management to improve first if you were (a) a member of the public, (b) an employee, (c) a senior manager of the ambulance service?
Comparison of the priorities of different stakeholders:
Public – speed of response.
Employee – accurate information, and less stress.
Senior management – cost-effectiveness, quality, other management information about resource use etc.

The case focused on one aspect of communication within the service. What other forms of communication will also be taking place within the organisation?
Intended to get students thinking about the breadth of the topic before they get deeply into it. The section on organisational communication identifies several forms of communication, and examples in this organisation could include:
Downwards – news about new appointments, vacancies, changes in procedures.
Upwards – grievances about an assault on staff by members of the public; complaints about equipment failure; suggestions about a change to local arrangements. Horizontal – regular meetings between middle and senior staff of different areas to compare practices and share improvements.

Answers should also mention the non-verbal communication between staff that will also take place during face-to-face discussions.

**Case question 14.2**

*Use the model in Figure 14.2 to describe systematically the communication processes involved in dealing with an emergency call to the ambulance service (a) under the old system, (b) under the new system.*

Opportunity to practise using the model to become familiar with it.

*Note on the model where the old system tended to interfere with the communication process.*

Examples could include:
- receiver (control assistant) decoding inaccurately a message from a member of the public;
- control assistant may then (under stress) send inaccurate message;
- congestion could shut off some transmission channels.

**Case question 14.3**

*How has the balance shifted between verbal and electronic communication in the ambulance service?*

Identify where in the whole system each form has increased or decreased. What are the likely advantages and disadvantages from that change in pattern?
- Much more electronic, though verbal can still be used if essential.
- Advantages – greater accuracy and easier monitoring of the sequence of events – all transmissions are filed electronically for review. Less ‘noise’ in the system.
- Disadvantages – some psychological separation between control staff and crews, though that was countered by giving staff some experience with crews.

**Case question 14.4**

*One issue that management needed to decide was how to deal with the system’s recommendation on which ambulance should go to an incident. There are two possibilities: (a) the recommendation is sent directly as an electronic signal from the system to the crew; or (b) the recommendation is presented to the control officer who decides whether or not to accept it, and then sends the decision as an electronic signal to the crew. Both are technically possible. Which would you recommend and why? This can be presented as a class activity, with students asked to indicate which they would choose. Opinions are usually divided with most favouring (b). This allows the reassurance of human intervention, and can be justified by reference to motivation or work design theories. The organisation chose (b).*
PART CASE QUESTIONS

What are the main methods of communication at W.L. Gore and Associates and which methods does management encourage?

A great deal of direct face-to-face communication within the teams, with formal and procedural communication kept to a minimum. Management deliberately keeps the size of plants small to encourage face-to-face communication.

Use the Lengel–Daft model to explain why communication practices differ between Gore and the 'command and control’ system in the ambulance service.

Management problems in Gore tend to be non-routine and unique, requiring intense discussion between the parties to devise an innovative solution. Face-to-face and physical presence give a rich medium, appropriate for non-routine problems.

Management problems in getting an ambulance to a patient tend to be more routine (though they do not seem like that to the patient). More use is made of leaner communication devices such as computer-based messaging, with some interactive media. This is appropriate for more routine problems of vehicle despatch and control.

How could a groupware product such as that used by Price Waterhouse help W.L. Gore and Associates?

By allowing ideas from their many small plants to be pooled and accessed rapidly, speeding the flow of expert knowledge around the firm, and reducing the risk of scientific work being duplicated.

ACTIVITIES

Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 14.1 Collecting symbols and actions

The definition of communication refers to words, symbols and actions. Try to identify examples of symbols and actions which intentionally or unintentionally communicate a message to you. Some clues:

symbols: someone’s style of dress or manner, or the appearance of the entrance to your college or university;
actions: someone taking time to offer directions to a visitor or looking bored during a meeting; interrupting someone.

Comprehension and application, pages 425–428.

Activity 14.2 Understanding communication practices

Think of an example where communication between two or more people failed. Note down why you think that happened, using the model in Figure 14.2.

More communication now takes place electronically: make a preliminary list of the advantages and disadvantages of that medium compared with face-to-face communication.

Comprehension and application, pages 428–434. Intended to help students develop their ideas, before getting deeply into the theory behind communication failure.
Similarly for the advantages and disadvantages of electronic versus face-to-face. See also pages 440–441.

Activity 14.3 Evaluating communication methods
Think of a task you have done with a group of other people where you created a small organisation to do something. It could be a voluntary or charity project, or a group assignment as part of your course. How did you communicate with each other? List all the methods used, and any advantages or disadvantages they had.
Data collection, reflection, comprehension, pages 428–431.

Activity 14.4 Assessing university communications
List the communications channels that your university or college uses to send you information about these aspects of your course:
(a) changes to rooms, timetables, or dates;
(b) reading lists and other study materials;
(c) ideas and information intended to stimulate your thinking and to encourage discussion and debate;
(d) your performance so far and advice on what courses to take.
Were the methods appropriate or not? What general lessons can you draw?
An opportunity to reflect on the best way to communicate different types of information, perhaps using the Lengel–Daft model to help the decision. See pages 428–431.

Activity 14.5 Researching opinion surveys
Gather some evidence from a company about its experience of using employee opinion surveys or suggestion schemes. What are their purposes? Who designs them and interprets the results? What have the benefits been?
Application and data collection, pages 437–438. Intended to encourage students to begin thinking beyond the interpersonal aspects of communication and to consider some of the wider organisational and political aspects of the process.

Activity 14.6 Researching the benefits of new systems
Try to gather information on the practical use of at least one of these systems. Scan computer or professional journals for articles about the systems, so that you are broadly familiar with them. Then try to discuss the system with someone who has some experience of using it in a working organisation. Ask that person about matters such as: What are the advantages and disadvantages compared with (a) traditional communication devices, (b) the options realistically available in the particular situation for which it was used.
How has it affected the way people communicate with each other? Is it a satisfactory substitute for face-to-face, spoken communication?
Data collection to aid comprehension and comparison, pages 440–441. Important to guide the discussion from the technical issues to the organisational and theoretical points made in this chapter. This will help students to structure their answers and to generalise to other communication questions.
TUTORIAL OR CLASS ACTIVITIES
1. An exercise in listening skills
Aim
To increase students’ awareness of listening as an aspect of communication.

Preparation
Prepare sufficient copies of the exercise below.

At the tutorial
Introduce the topic.
Distribute the question sheets and invite students to complete them.

Group task – as in the exercise.

Scoring – after 10 minutes of group work give out scoring sheets and ask individuals to complete them. Then continue group discussion for a further 10 minutes, inviting each group to agree (3) practices members will try to use in future.

Plenary
Exchange group ideas on practices.
Concluding remarks.

Listening skills exercise
Individually: Please answer True or False to each of these statements:

1. People’s thoughts can interfere with their listening.
2. People may resist listening to others who blame or get angry with them.
3. People are more likely to talk to those with whom they feel safe than to those with whom they do not.
4. People who have something they are keen to say are good at listening.
5. Some people listen too much because they are afraid of revealing themselves.
6. Talking is more important than listening.
7. People who feel very emotional about issues make good listeners.
8. People who are very angry are rarely good listeners.
9. People are less likely to hear messages which agree with their view than messages which challenge those views.
10. Fatigue never affects the quality of people’s listening.

In groups:

(a) Agree a group response to each statement.

Identify any where there are still disagreements.

(b) Whom do you know that you would regard as a good listener?

What do they do (or say) which makes you see them that way?

List the practices you identify.

How did you score? (separate sheet)

The correct answers to the good-listening test are:

1. True; 2. True; 3. True;
4. False; 5. True; 6. False;
7. False; 8. True; 9. False;
10. False.

Give yourself 2 points for each correct answer. Most accomplished listeners will score 16 or more. A score under 10 suggests you don’t understand very much about listening. The chances are you are missing a lot of useful information.

2. To look at the more macro aspects of communication you could base part of a tutorial around the ambulance service and the Price Waterhouse cases considering the questions raised in those cases plus some of your own.

3. If you use (2), you could arrange for the groups to make presentations of their conclusions to the class. This will allow them to practise presentation skills as a further theme of the tutorial. If you do so, a good technique is to ask the class to call out, and then agree, what they regard as the features of a good presentation. The class can then evaluate each presentation against those criteria, giving constructive feedback on this vital communication skill.

SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. Draw a diagram of the communication process, showing each of the stages and elements. Then illustrate it with a communication episode you have experienced.
Comprehension and understanding, page 427.

2. What is the difference between formal and informal communication?
Comprehension and understanding, page 441.
3. What is non-verbal communication, and why is it important to effective communication?
Application and comprehension, page 431. Examples include situations in which
(a) someone nods enthusiastically as they say they are interested in your proposal, maintains eye contact, sits upright and alert etc.;
(b) someone looks bored, avoids eye contact and looks out of the window while saying the same thing as in (a).

4. What do you understand by the term ‘media richness’ and how does it affect the choice of communication method?
Comprehension and understanding, page 429–430. Media richness is the capacity of a medium to convey information and promote learning – most appropriate in non-routine tasks.

5. What is team briefing?
Comprehension and understanding, page 436.

6. What are the weaknesses of technologically supported communications?
Comprehension and understanding, pages 440–441.

7. What is the meaning of the statement that information is a form of currency?
Comparison and understanding, pages 443, especially the point that managers can gain power by sharing information with others, while some managers see information as something that they can hold on to in order to increase their power.

8. Explain and illustrate one micro- and one macro-barrier to communication.
Comprehension and understanding, pages 442–443.

9. How does feedback help or hinder communication?
Helps it by providing confirmation or otherwise to the sender that the message has been received as intended.

ASSIGNMENT OR EXAMINATION QUESTIONS
What are the barriers to effective communication within organisations (50%); and what can people do to overcome them (50%)?
A summary of the stages in the communications process, followed by a discussion of the barriers. These were presented in terms of micro and macro barriers. The former include the familiar topics of differences in background, perception and other interpersonal aspects. The latter include issues such as information overload, structural differentiation reinforcing differences in attitude, and the fact that information is a source of power, and may be deliberately withheld or distorted. Answers which stress the macro aspects will do much better than those which focus only on micro aspects.
GUIDE TO FURTHER MATERIAL

Video
A good insight into many aspects of communication is provided in:
Chapter 15

Teams

SYNOPSIS
Managers often use teams rather than individuals as the basic organisational unit, for motivational and performance reasons. Creating a team does not ensure that it is effective, and to reach that stage teams need to pass through observable, if iterative, stages of development. Their form is also shaped by external factors which together with internal developments shape the role which people take. Teams also have disadvantages, ranging from the cost of building effective teams to the danger that they become too cohesive and stifle rather than encourage innovation. This has led some to propose that managers use teams more sparingly, and only when the nature of the work justifies their use.

SUMMARY
• Teams are becoming more common as a basic building block of organisational structure. As managers face new expectations about cost and quality, many see teams as a way of using the talents and experience of the organisation more fully, to meet these tougher objectives.
• In that sense they reintegrate some management functions with direct work. The organising tasks that were traditionally performed by specialist groups of managers can be done by teams themselves. Many see organisations structured around teams as the way to improve both performance and the quality of working life.
• Teams also meet important motivational needs – for social contact and to be part of a collective achievement.
• Teams are a way of making sure that relevant stakeholders are visible and represented in management processes. But creating teams can threaten other stakeholders who may fear their power sources (personal or organisational resources and knowledge) will be eroded.
• However, teams vary greatly in performance and the chapter introduced the team performance curve to provide a benchmark against which team members can assess their performance. It compared different types of teams and introduced the Tuckman and Jensen model of the stages through which a team must pass if it is to become effective.
• That led to a theory about the sources of team effectiveness, highlighting that teams need to have members with motivation, appropriate skills and who have developed suitable team processes.
• Teams also have costs as well as benefits, and these costs, such as groupthink, were examined. The last section introduced a way of judging whether a team is worth the effort – notably where there is scope for joint work products.
• Many self-managing teams take on responsibility for monitoring performance.
• Groupthink leads members of a team which is too cohesive to ignore or fail to recognise the need for corrective action.
• Teams can powerfully support organisational learning by passing ideas across functional boundaries.

THE CHAPTER CASE
This case illustrates a company which is organised around teams, as a fundamental reflection of the kind of work that it does. It organises new projects around teams, one of which is illustrated in the case, which describes several ways in which teams can develop effective working methods. There are parallels between this case and the Part Case: W.L. Gore is another company based on teams, yet in a completely different industry.

CASE QUESTIONS
Quintiles
Preliminary questions
What actions did management take which helped to get the team off to a good start?
Selecting members who were likely to be team players.
Initial brainstorming session with an emphasis on social rather than task activities.
Appointing a strong and skilled manager to lead the team, which signalled that senior managers took the project seriously.

Why do you think the team members found the task challenging and energising?
High status task which senior managers regarded as important.
High quality of team leadership and other team members – builds sense of self-esteem.
Team was largely self-organising, and had accepted this responsibility.
Completing an important task would bring sense of achievement.

Case question 15.1
What were the business reasons that led Quintiles to use teams?
Variable demand from customers to which they needed to be able to respond easily.
Each job would need a slightly different combination of skills, which the team principle allows the company to deliver.

What were the motivational reasons?
Students can be encouraged to structure answers by using a model such as Maslow or Herzberg to prepare them. Within that, points to make could include:
• People generally welcome doing significant work in the company of others;
• Professional staff likely to welcome the degree of autonomy and self-organisation which the use of teams implies;
• They are also likely to gain from the varied pattern of work as they move between teams and projects.

Case question 15.2
What kinds of team do Quintiles use, in Hackman’s typology?
Production teams for the regular conduct of research business, these being formed around each customer contract.
Task forces for particular internal projects, such as that described in the case.
Probably also professional support teams, such as in information systems.

*What other kinds of team from the list have you experienced?*
Reflection and observation. Can be used as basis of class or tutorial discussion, by inviting students to identify risks and opportunities associated with each form. They can compare this with Hackman’s list in Table 15.2.

**PART CASE QUESTIONS**

*What are the benefits which W.L. Gore gains from its team-based organisation?*
Quite similar to the reasons at Quintiles:
- People generally welcome doing significant work in the company of others;
- Projects require a slightly different combination of skills, which the team principle allows the company to deliver;
- Work has a high non-routine, scientific content, and professional, scientific staff welcome the degree of autonomy and self-organisation which the use of teams implies – analogous to research departments in a university;
- They are also likely to gain from the commitment of staff able to work in this way.

*What, if any, differences are there between Gore’s approach and that used by Quintiles?*
Main difference is probably that Quintiles is more dependent on immediate customer needs, so more likely to direct people to work in Team X, rather than await sufficient voluntary commitments.

*What lessons about the benefits can you draw from the two examples?*
Reflection and comparison.

**ACTIVITIES**

Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

**Activity 15.1 Gathering data on teams**
Gather some original information on how at least two organisations have used teams to get work done, or where an organisation has abandoned teamwork. Use the questions below as a starting point for your enquiry. The data you collect may be useful in one of your tutorials, as well as adding to your knowledge of teams.

*What is the main task of the organisation or department?*
*How are the staff in the area grouped into teams?*
*Use the definition (page 458) to describe the team – how many people are in the team, what is their shared purpose, how do they share and co-ordinate responsibilities, do they see themselves as part of the group?*
*What type of team is it (using the ideas in Section 15.5 as a guide)?*
*What do management and team members see as the advantages and disadvantages of teamworking in this situation?*
*Have there been any recent changes in the organisation of the teams, such as members taking on new tasks? If so, why?*
Data collection, which could readily be used as the basis for a tutorial discussion. The briefing is quite comprehensive, so should enable students to gather enough data about the teams and their contexts.

**Activity 15.2 Crowds, groups and teams**
*Note down a few words that express the differences between the examples given. Do some sound more like a group than others?*
Comprehension and understanding, pages 456–457.

**Activity 15.3 Teams or not?**
*Consider a Davis Cup tennis or Ryder Cup golf team, in which most of the action takes place between individual participants from either side. No significant co-ordination occurs between the members during each of the matches. In what ways would such teams meet the definition above?*
Examples could include:
meeting before a match to share information and increase common understanding of their opponents;
meeting after a match to review performance and agree any changes in tactics;
discussing how to support, or react to, a sponsorship or similar opportunity.

*Can you think of other examples of people who work largely on their own but are commonly referred to as a team?*
Application and reflection, page 456.

**Activity 15.4 Team composition**
*This activity is intended to encourage you to reflect critically on this section about team composition.*
Evaluate a team you have worked with using Belbin’s team roles.
Which roles are well represented, and which are missing?
Has that affected the way the team has worked?
Which of the roles most closely matches your own preferred role?
What are the strengths and weaknesses of Belbin’s model to the manager?
*Have you any evidence of managers using it to help them manage teams? If so, in what way was it used, and with what effect?*
Data collection – possible basis for tutorial or class discussion.

**Activity 15.5 Advantages and disadvantages of teams**
*This activity is intended to encourage you to reflect critically on the previous two sections.*
Which of these advantages and disadvantages have you observed or experienced in teams?
*Does your experience suggest that teams have always performed well? What have been the reasons for any difficulties?*
Data collection – possible basis for tutorial or class discussion.
SUGGESTED ANSWERS TO REVIEW QUESTIONS

1. Why has the balance shifted recently in favour of teamwork? What are the main business and motivational reasons?
Comprehension, pages 452–456.

2. Katzenbach and Smith distinguish between working groups and real teams. Summarise their argument that real teams are often not necessary.
For many tasks, a well-trained working group is adequate for the job, since the task can be done adequately by well-motivated individuals. If there is little scope for collective work products, the costs of developing a real team will not be worthwhile, and may even be counter-productive. (Note: the question in the text should read as above.)

3. W.L. Gore and Associates is beginning to form more distant teams. What management issues are likely to arise in this form of team?
Ideas could include:
- lack of opportunities for informal interaction, and the development of tacit understandings;
- infrequent (if any) face-to-face interaction removes the opportunity for small misunderstandings to be spotted and dealt with – they may develop into bigger conflicts;
- perhaps a lack of clarity over evolution of respective roles.

All of these can be overcome, but the evidence is that distant teams require deliberate management as distant teams, to get the full benefits.

4. How many stages of development do teams go through? Compare, in terms of what happened at each stage and what was done to move to the next stage, two teams that have tried to develop.
Comparison and application, pages 463–466.

5. List the main categories of behaviour which can be identified in observing a group.
Comprehension, pages 470–472.

6. Compare the meanings of the terms ‘task’ and ‘maintenance’ roles.
Comprehension, page 468.

7. Evaluate Belbin’s model of team roles. Which three or four roles are of most importance in an effective team? What is your own preferred role?
The main point raised in discussing this is usually that few teams have nine people, and other factors than preferred roles shape team appointments. These points are true, but do not in themselves diminish the benefits of being aware of the effects of the balance of roles on team performance. Smaller teams, just as in teams that lack some roles, have to double up and take on the additional roles. On selection, the counterpoint is that the model is sometimes used to help select people to balance a team – such as deliberately appointing a completer-finisher to a team that was always starting projects, but rarely finishing them.
8. Give examples of the external factors that affect group performance. Compare the model with your experience as a group member. Application and comparison, pages 466–467.


TUTORIAL OR CLASS ACTIVITIES
1. Comparing data on teams
2. Groupthink
3. Case – The evolution of a project team

1. Comparing data on teams
A tutorial could easily be based around the data collected in Activities 15.1 and 15.4.

2. Groupthink
To explore this aspect of teams, use the groupthink video and associated exercises in the package detailed below.

3. Case – The evolution of a project team
Note: This repeats the case on pages 465–466 of the text as this may in some circumstances make it easier to distribute, and also adds some discussion questions to guide class discussion.

A local authority created a project team to select and implement a computer-based Housing Management System for a local authority. The Chief Executive appointed the Assistant Head of the Information Technology (IT) Department as project leader, who then asked some members of the Housing Department to join the team. The Director of the Housing Department allocated some project duties to his staff without reference to the project leader. The Housing Department believed the IT department was invading their territory. Both incidents caused relationship problems until managers clarified roles and expectations. To help get the group’s commitment the project leader explained the plan to the team. They discussed and agreed it in principle.

The group members pointed out that they could not work on the project as well as on their normal duties. They believed that if they worked in their normal open-plan offices alongside other Housing staff this would distract them. The Chief Executive agreed to a limited amount of time off for the project, and allocated a separate room for those working on it. One member still refused to commit to timescales. The other members told him forcefully that they were equally busy but able to comply, implying his behaviour was affecting team performance. This was enough to persuade him to participate more fully. There was another early conflict when members of two functional groups put forward opposing system requirements and were reluctant to specify in writing what their joint requirements would be. The team, with the encouragement of the project leader, established some guidelines on the working practices they would use.
Members contacted suppliers and other sites that had installed similar systems, to gather information about potential systems. The project leader noted that team members enjoyed these visits, and used them as a motivator to encourage the completion of more boring but essential tasks like systems documentation. Performance improved as the project continued. Each member had prepared a checklist for meetings with suppliers and users. As they learned how each other worked, this process improved, with each evaluation increasing their effectiveness as a team. They completed document preparation, evaluation and recommendation on time and to the level of performance required. The group adjourned once they had implemented the project.

Questions
1. Use the Tuckman and Jensen model to note behaviours that indicate the stages the group had reached, such as establishing norms.
2. Also note any actions that helped the group move to the next stage.
3. Was the Housing Director right in the way he made appointments?
4. Is the project leader using intrinsic or extrinsic factors to motivate staff?
5. What have (a) the project leader and (b) the team members done to make the team work effectively?
6. Was the Chief Executive wise to appoint the Assistant Head of IT to lead the team? What are the consequences of that likely to be?

ASSIGNMENT OR EXAMINATION QUESTIONS
1. What are the characteristics of effective teams, and what factors impede team development (40%)? Critically evaluate one model of team development discussed in the course, in terms of its value in understanding and improving team performance (60%).

Marking guide
Probably base an answer on Hackman’s model of different levels of team effectiveness, and identify some of the commonly cited barriers, differentiating between internal (process) and external (structural). They should then use Belbin or possibly Tuckman and Jensen as their model for evaluation. This could be in terms of relating the categories to how well or otherwise the team worked, with more detail getting better marks. Crucial to a good mark will be the lessons learned, including the question of whether a team was really necessary in that situation.

2. Describe briefly a group of which you have been a member, either in a work, study, or leisure activity, and indicate whether or not you consider the group was effective. Then
   EITHER
   analyse the stages of development through which the group passed,
   OR
   analyse the interaction pattern that evolved within the group, using the categories of communications shown in Table 15.8.
What lessons does your analysis suggest about working in groups, and how would you apply these lessons in other groups of which you become a member?

Marking guide
This is a very structured essay, though with an open-ended conclusion. It gives students the opportunity to practise using a model to analyse a situation with some precision, and to draw practical conclusions about a transferable skill.

They should identify a group (whether at work, a social group, a team, or whatever) of which they have been a member, and reflect on the experience using one of the models prescribed. Good answers will illustrate each of the elements in the respective models, or say why any particular category is not appropriate in that particular case. They should then relate what happened to how well or otherwise the group worked, and what that implies for how it could have worked better – again basing the answer on the framework used.

Finally a link to what they would do, in groups of which they are a member. At least one convincing practice is necessary here, based on the analysis (either repeating a successful one, or doing something to overcome a difficulty identified). Better answers will give two or three examples.

3. Many managers now place increased emphasis on teams in designing their organisation. What are the reasons for this (50%)? What difficulties do managers face in implementing teamworking concepts (50%)?

Marking guide
The chapter has considered both the benefits and disadvantages of teamwork, from the perspectives of both the organisation and the people within it. Students should use this material to reflect on changing practice in their own organisation, ideally drawing contrasts between different parts of it, and between those which are, and are not, using teams more extensively. The latter part of the question invites candidates to consider issues of training for team leadership, appraisal and team rewards.

4. Outline the meaning of groupthink and how it affects the performance of groups. Give examples of situations in which you have seen one or more symptoms operating. What can group members do to avoid the dangers?

Marking guide
If the topic has been developed using the package mentioned below students will have plenty of material with which to deal with this question. The basic ideas are set out in the text, and answers should therefore show that they appreciate the significance of the concept for organisational teams. They are unlikely to remember all eight symptoms – a full discussion of some may be acceptable. The ways of minimising the effects include having outsiders join the team for critical discussions (as in non-executive directors); encourage a climate in which dissent is acceptable; and for the formal leader to leave the meeting for a time to avoid discouraging opposing views.
GUIDE TO FURTHER MATERIAL

Videos
A useful video on the Belbin model is:
Building the Perfect Team, available from Video Arts, Dumbarton House, Oxford Street, London W1N 0LH, www.videoarts.com. It takes viewers clearly through the model and prompts discussion of the way it can be used.

An excellent video package on groupthink is produced by CRM Video in the USA (1991, revised edition), which is distributed in the UK by Bookpoint Ltd, 150 Milton Park, Abingdon, Oxon. OX15 4SB. Tel: 01235 827730.
SYNOPSIS
This chapter is not intended to develop accounting skills. Accounting standards are fluid and vary between countries, so there is no value in discussing their details in an introductory text. Instead the chapter focuses on broader issues of the meaning and relevance of financial information to managers. Managing the financial resources of an organisation is fundamental to its success, but no more so than other aspects of management. Without a good product and a receptive market the best financial management in the world cannot create a profitable company. Conversely, an otherwise successful company can soon fail without proper financial information to assist decision-making and control.

SUMMARY
- Management needs funds, along with other resources, to help achieve the objectives of the business.
- It also needs to decide which of many opportunities facing the business it should invest in. Shareholders expect management to invest in projects and gradually develop a strategy that add to shareholder value.
- Management depends on adequate financial information if it is to make the right strategic choices. The budgeting process can help to give focus and direction to the plans that management makes to achieve objectives.
- It also helps to co-ordinate the activities of different functions and departments by giving them a common framework and plan within which to work.
- The finance function offers a system for assessing the financial consequences of decisions in a relatively objective way – though there are also many uncertainties in financial information.
- The levels at which budgets are set have effects on motivation – impossible budgets or very slack ones have little beneficial effect. Those that are challenging but achievable have a positive effect on commitment.
- Organisations normally have a regular cycle of budgeting activity, conducted between those at the centre and those in the operating units. This is to ensure that the separate parts work towards the overall objectives.
- This process may challenge local interests and may be contentious. Hence budgets are typically set through a process of negotiation, with varying degrees of participation by line managers in the process.
- These alternative styles affect the degree to which employees and managers accept ownership of the budgets.
- Management is also required to communicate financial information about the company to actual and prospective shareholders.
- Owners and shareholders, and the capital market generally, exercise significant control over managers. This is institutionalised in legislation such as the Companies Acts and by the regulations of the Stock Exchange.
- The capital markets’ reaction to reports of financial performance affects the ability of the company to raise capital.
• Financial information also helps to measure management performance internally – as when actual expenditure can be compared with the budget. Routine financial information is also used to help control the management of projects, to ensure that what is spent corresponds to what has been agreed.

THE CHAPTER CASE
The Chapter Case and other examples are used to illustrate aspects of, as well as the limitations of, financial reporting. They are simple, to avoid the need to extend the discussion of technicalities. The chapter also deals with internal financial controls in the context of external pressures. Kwik-FitPart Case) is a good example of a company using modern information technology to enable information about external developments to inform internal decisions.

CASE QUESTIONS
Siemens AG
Preliminary questions
What was the company’s profit in the year to 30 September 2000?
Profit could be net income after all elements, or before extraordinary items. The question remains, which is relevant? And relevant to what? If an investor is looking at potential returns, income from operations is more likely to be a guide to future performance. But extraordinary items tend to appear in reports rather regularly, and cannot be ignored. Can there be one single appropriate measure of profit to meet all circumstances?

What proportion of sales revenue was spent on research and development?
R & D was 5,593 million euros, sales 78,396 million euros; answer is roughly 7%.

What questions does the information in the summary financial report raise for you?
These could include:
Profit from different activities, countries, old products, new products, and from long-term, continuing contracts. These are the kinds of question that someone with a close interest in the company, such as a potential investor or business partner, would want answered. Similarly they may be interested in what the expense categories mean? What are they likely to contain?

Case question 16.1
Refer to the summary profit statement for Siemens AG.
Calculate the gross profit as a percentage of sales
Calculate the profit before tax as a percentage of sales.
Gross profit/sales = 23,424 as a % of 78,396 million euros = 30%.
Gross profit provides the margin from which other expenses have to be met including marketing and distribution, administration, financial and R&D. In itself it is not a very useful figure, but changes through time can be very important. They may reveal a declining or increasing margin due to changes in pricing policy, product mix, competitive pressures or changed input prices.

Profit before tax as a % of sales = 5,289 as a % of 78,396 million euros = 7%. 

© Pearson Education Limited 2002
Any company’s ability to pay a dividend and to have a surplus to reinvest will depend on generating a profit and maintaining this margin. Remember though that dividend and reinvestment payments require cash to be available.

Case question 16.2
Refer to the summary financial information for Siemens AG (page 485, and the balance sheet, page 494). Calculate the rate of return (after tax) on equity (shareholders funds).
Rate of return (after tax) as a % of shareholders equity = 7,901 as a % of 25,640 million euros = 31%.
Based on profit after extraordinary items, this represents the profit potentially available for distribution to shareholders.

Case question 16.3
Look at the balance sheet for Siemens AG.
Calculate the proportion of the finance for the company which is attributable to the shareholders, and the proportion attributable to the liabilities.
This is measured differently in various countries. There is a convention in finance to measure the debt/equity ratio, whereas in accounting, it may be shareholders’ funds/shareholders’ funds plus long-term debt (UK) or shareholders’ funds/shareholders’ funds plus debt.

These differences are not too important as long as there is consistency in measurement. It is important to appreciate that short-term debt will usually include a bank overdraft as an important and continuing source of finance. So its exclusion from the measure may be misleading. All debt ranks ahead of equity if the company is in liquidation.

So the calculations are:
25,640 as a % of 79,255 million euros = 32%
Or
25,640 as a % of (79,255 – 18,013) = 42%
Although the company seems to be fairly heavily debt-dependent, it would be necessary to have a better idea of the market value (realisable) of the assets to provide a realistic measure. It would also be useful to see what the relationship is in other companies in the same industry and based in the same county, although as an international company, this aspect assumes less importance. There comes a point where banks or other financial institutions would refuse to advance debt without requiring certain conditions designed to afford some protection to the lender.

Case question 16.4
You have read aspects of the annual report of Siemens. Now use your imagination to think through the process which might have been adopted in the construction of the budget for the year ended 30 September 2000. To help you, think about:
• Where did the process begin? How were the various elements brought together into a coherent plan?
• What steps were involved in arriving at an agreed budget?
The overall objective will probably be set at board level on the recommendation of the Finance Director. It may be expressed as a desired increase in share price (based on
current prices and assumptions about expected movements in stock prices in general) and dividend. These will need to be translated into profit and a rate of return on (capital) shareholders’ funds.

The next step is to break this down into divisional expectations and requirements as guidelines for divisional managers to use as a base for developing their budgets. At this stage the process becomes more of a bottom-up approach. Here it will start with a sales forecast, followed by production and delivery cost estimates and a projected profit figure. Internally this will be discussed, revised and then presented at corporate level. Then a process of negotiation will probably follow requiring further changes to the divisional budgets until agreement is reached. The Finance Director will then present the budget to the board with a recommendation. If it is not consistent with the board’s expectations, explanations will be sought and possibly further revisions required. At this level, the board may well be forced to begin making strategic/fundamental changes to the nature of the business. As a current but extreme example, consider the changes which are being forced on the airline industry.

**Case question 16.5**

*Look at the summary of significant accounting policies in the annual report for any company. Do these help you to understand the report? Can you explain why?*  
The accounting policies will provide broad information about the way in which various policies have been applied, for example that inventories have been valued on the first-in, first-out method; depreciation is based on straight-line with assumed asset lives of a certain duration. It will not be possible to discover what the values might have been if different methods had been applied, but it will be possible when comparing with a similar company to make a rough judgement as to which has the more conservative policies.

**PART CASE QUESTIONS**

*How do you expect that Kwik-Fit’s investment in IT systems will have affected specific items in (a) the profit and loss statement, and (b) the balance sheet?*  
If the systems achieved their intention of ensuring better availability of spare parts in the depots, and allowing managers and staff to offer a better service, this would increase the sales of product. If fewer administrative staff were employed, this would lower the figure for cost of goods sold. Together these changes would affect gross profit, and the figures which follow from that.

The balance sheet would be affected by an increase in the figure for fixed assets, and a reduction in the amount of stocks of goods (because the system allows inventories to be more accurately matched to sales, so less stock is held). Smarter administrative systems might also be expected to reduce money owing from (corporate) customers.

*How will the systems have helped the internal control of decision-making? With what financial consequences, explicitly?*  
By providing more information to management about current operations, decisions can be made more confidently. Decisions on price changes, promotional spending, advertising etc. can all be made with more information about their effects in trial areas or on previous occasions. Examples of the financial consequences will be on sales, advertising expenditure, stocks of goods etc.
What can you discover from the financial press about the movement in the company’s share price over the past year and the reasons for this? Is there any evidence of it affecting internal management policy and practice?
This question was accidentally left in from the previous edition. The company is now a wholly-owned subsidiary of Ford, so no longer issues an annual report to shareholders. Apologies.

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 16.1 Identifying shareholders
Find a copy of the Annual Report and Accounts 2000 for Mothercare plc. What can you discover about the shareholders in the company?
Comprehension and application, page 487. The company makes specific reference to the shareholding by pension funds/life assurance companies. There will be other examples but not all companies provide (or are obliged to provide) this information.

Activity 16.2 Borrowing money
Find out the interest rate at which you could borrow money to buy (a) a car (b) a house, (c) spend on your credit card. Can you explain what you discover?
Application, pages 488–489. Generally, the rate for a car or personal loan will be higher: property will be more likely to retain its value and therefore offer more security and hence less risk to the lender.

Activity 16.3 Reading an annual report
Obtain a copy of a company annual report and list the kinds of information that you find in it, for example financial, product, management.
Application and comparison, page 489.

Activity 16.4 Measuring R&D expenditure
Look at the annual report for Siemens, Solvay or any large manufacturing business and find out what it tells you about research and development. List the projects that the report mentions. What does the report say about the length of time before the projects will be profitable?
Application and comparison, pages 489–490. Companies are not obliged to publish specific details on R&D. Commercial confidentiality is one factor, and there is always uncertainty about the eventual outcome.

Activity 16.5 Calculating and comparing profit
Look at the annual report of a company that interests you, probably in a similar line of business to Siemens.
Calculate the gross profit of the company in a recent year as a percentage of sales.
Calculate the profit before tax as a percentage of sales.
How does the company compare on these measures against Siemens?
Is there a major difference in the items in the profit statements of the two companies?
Application and comprehension, pages 490–492. Depends on the industry sector, state of competition, extent of R&D and capital replacement, for example.
Activity 16.6 Comparing accounting policies

Look at the annual reports for two or three companies in the same (or similar) industry and read the section called accounting policies. Make a list of practices that seem to be different.

Comprehension and application of the issues discussed on pages 493–497.

Activity 16.7 Comparing Siemens and The Body Shop

Look at the requirement for Case Question 16.3. Compute the same measure for The Body Shop plc. What strikes you about these measures? What do they tell you about these companies? Would it make a difference to your decision to buy shares in one and not the other? Can you explain?

Comprehension and comparison, pages 496–497.

Activity 16.8 Preparing a budget

Prepare a simple cash budget for your own finances for next month. You will need to consider the cash you have available from savings in the past, how much cash you expect to receive during the month and what you plan to spend.

Comprehension and application.

Activity 16.9 Anticipating changes

Look at the 2000 annual report for Siemens AG. Will the financial reporting processes change in 2001 when US Generally Accepted Accounting Principles are applied?

The website is siemens.com/Daten/Event/2001/02/21/consolidated_financial_statements.pdf Alternatively you can access the report through www.carol.co.uk (Siemens is listed under ‘diversified industries’)

The important matter in this question is not technical. The comments in the report relate to technical matters which students are not expected to understand. The references to the fact that accounting treatment will be different are, however, important. Thus there are comments on page 24 about pension fund accounting changes that will be necessary, and a much longer statement on pages 41/42. This will show students that there are significant differences between the German and American systems. Siemens will have to convert to US GAAP (Generally Accepted Accounting Principles), provide two sets of reports or report extensively on the differences and include a summary report showing the result according to US GAAP. It appears that they are going to use the US system.

TUTORIAL ACTIVITIES

Tutorials should focus on the two main aspects – external reporting and internal or management reporting.

External – consider subjectivity, standards (often based on historical cost rather than values) and on the comparability of financial reports between companies and within a company over time.

Internal – closer proximity to users of information and therefore clearer understanding of user needs. So we get a clearer specification of the problem and clearer decision alternatives.
In considering reporting for external purposes the following articles could be the basis for discussion.

1. ‘Shareholders target ANZ chief’, by George Lekakis.

ANZ’s new chief executive, Mr John McFarlane, faces a fiery baptism at tomorrow’s annual meeting in Melbourne, with plans by the Australian Shareholders’ Association to oppose proposals for his and other executive (share) option schemes.

The Chairman of the Victorian branch of the Association, Mr Julian Stock, said that the ASA would also highlight concern about what it alleges was misleading reporting of the profit result in the bank’s annual report, its exposures to Asian borrowers and the calculation of the group cost-to-income ratio.

Mr Stock said ASA members were angry that Mr McFarlane and the bank’s chairman, Mr Charles Goode, in their statements at the beginning of the 1997 annual report, only referred to the underlying profit result, which rose 17 per cent, not to net profit after abnormals, which fell 8 per cent to $1.024 billion. The profit was reduced by an abnormal loss of $147 million which included restructuring expenses.

‘We would have no problem with their statements to shareholders if they had also mentioned that profit attributable to shareholders had slipped 8 per cent,’ Mr Stock said. ‘Shareholders will be expecting an apology from the chairman and an undertaking that he will not allow the company to repeat this practice.’

The ASA also claimed the bank had miscalculated its cost-to-income ratio at 64.9 per cent, when it was actually 68.7 per cent – the bank’s worst result since 1993 if abnormal expenses of $327 million to cover redundancy payouts and bank closure costs were included.

ANZ’s chief financial officer, Mr Peter Marriott, said he met ASA representatives last week to hear their concerns, but insisted the annual report gave shareholders a clear picture of performance.

‘We believe we’ve maintained full and accurate disclosure of the bank’s performance for the year,’ Mr Marriott said. ‘The facts and figures are there for all shareholders to see and are consistent with Australian accounting standards. We refute in any way that we are trying to deceive shareholders.’

Price Waterhouse (the auditor) banking partner Mr Peter Trout said it was legitimate for the bank to focus on underlying profit because it was the best indicator of the health of its ongoing business. However, large and unusual cost items should be highlighted at the same time.

‘The underlying philosophy in reading the accounts is whether a shareholder can form a view as to the underlying profit of the bank,’ said Mr Trout. ‘If restructuring costs are included, it’s probably appropriate that when they are large, they should be highlighted.’
Mr Marriott also said concerns about the calculation of the cost-to-income ratio were misplaced as it would be inconsistent with accounting practice for abnormal expenses of this size to be included in cost calculations. He said Mr Goode would explain the extent of ANZ’s lending to the Asian region at the meeting.

The ASA will oppose a motion to allocate 1 million options to Mr McFarlane, claiming the bank’s executive options scheme lacks adequate performance hurdles.


**Question**

*Which view is appropriate, and why?*

The answer is not clear-cut. If abnormal items are excluded from the evaluation then it is possible to form some view about continuing operations. However, excluding abnormals which have arisen from past misjudgements (subjective evaluations) will suggest a better position than is justified by events.

2. ‘Task force wants revamp of environmental reporting’ by Mark Lawson.

The rules for compiling company reports should be changed so that companies are required to report significant environmental events, such as major fines for pollution, says a discussion paper released yesterday. Prepared by the Environmental Task Force of the Institute of Chartered Accountants in Australia, the paper points out that current accounting standards do not require companies to reveal that they have been fined for an environmental offence.

The paper, issued as a preliminary step in the accounting industry’s own efforts to establish guidelines for environmental reporting, notes that companies are only required to report matters considered to be ‘material’ in a financial sense. However, fines for pollution are rarely large enough to be considered to have a material effect on the company’s bottom line or assets.

Two members of the task force said that guidelines in existing accounting standards for working out what items were considered material, and therefore reported, might have to be overridden. Alternatively, the rules could be changed to introduce the concept of ‘significance’, they said.

The issue of materiality and significance were just two of many canvassed by the discussion paper, which the Institute plans to circulate to its members and all those involved in the environmental debate, as part of an ongoing effort to lift Australian standards for reporting on the environment.

An Institute survey indicated that up to 40 per cent of Australian companies were now providing some form of environmental disclosures within their annual report. ‘However, the overwhelming indication of survey and research conducted in the environment field shows that the amount of voluntary reporting in Australia is generally low,’ Mr Day (task force member) said.

Question
What are your views on the narrow focus of traditional accounting which is based on financial transactions. Are there other aspects related to performance that should be considered? How will this be measured in any but subjective terms? Is this acceptable?
Consider subjectivity/objectivity against the relevance of information. The more objective (e.g. cash accounting) the less relevant it may appear because of non-recurring transactions that are unusual in a particular period.

Yet subjectivity which is required to adjust cash transactions and to measure profit also produces irrelevant information since it is based narrowly on only financial transactions.

A broader statement or series of statements expanded from the narrow, formal financial reports as we now know them will reflect greater subjectivity as we attempt to value assets and liabilities, rather than reflect historical cost, but may well be more relevant. Environmental accounting is likely to be highly subjective. It may also be most relevant.

In this context also consider goodwill, other intangibles and the gap between capitalised share value and net worth.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Why do companies have to make a profit?
Comprehension, pages 487–489. To provide a return to shareholders and to enable reinvestment and expansion. Continued losses will lead to serious erosion of share capital and eventual insolvency.

2. How is profit measured?
Comprehension, pages 490–492. Sales revenue less all the cost and expenses that are identifiable or attributable to the time period in which the profit is being measured.

3. Explain why profit is different from cash.
Comprehension, pages 492–495. Profit statement is based on cash and non-cash transactions. Some activities will give rise to cash transactions in a later time period, some cash transactions will reflect transactions (e.g. sales) from an earlier period.

4. What does a balance sheet tell us about an organisation?
Comprehension, pages 493–497. Sources from which finance has been raised, the kinds of assets in which invested, but not the market value (either realisable value or replacement cost) of those assets.

5. Can you explain how the external pressures on a company to generate a profit are translated into internal planning systems?
Comprehension, pages 501–503. The area of management accounting, measurement of costs, analysis of costs, internal reporting systems, budgetary control systems and performance measurement systems are examples. Managers and segments within an organisation have to be accountable for their actions.
6. What is the purpose of a budget?
Planning, co-ordination, control are the common purposes. These elements need to be developed and illustrated for an adequate answer.

7. How does a budget operate as a control mechanism?
There is a predetermined plan against which actual performance can be monitored. The relevance and success of such a system is dependent upon satisfactory and appropriate standards and expectations having been incorporated in the initial plan. The plan has also to be accepted by the manager/s to whom it is applied.

8. Explain why the financial information prepared for external purposes is not necessarily appropriate for managers.
External information relates to the whole business and not to specific aspects (e.g. areas of responsibility, products, markets, contracts, etc.) At the highest level of management, overall performance is important, but to control the business, information is required for each element. The lower down the management structure, the more specific the information is likely to be.

9. Explain the notion of contribution to the profit of a business. What do the directors of Marks & Spencer or Solvay have to say in the 2000 annual report about sources of profit?
A contribution is best seen as a relative rather than an absolute measure. For example, the relative profit from two competing products may best be observed by examining the identifiable and inescapable revenues and costs that apply to each of them. If one is discontinued, what will be the financial consequences?

10. What are the international standards of accounting? Explain how they differ from requirements in your country.
Comprehension, application and comparison, pages 503–505.

ASSIGNMENT OR EXAMINATION QUESTIONS
1. Explain the notion of subjectivity in financial reporting and give examples.

Marking guide
Answer will require demonstration of understanding of subjectivity and reasons why purely objective data (transactions) alone cannot be the sole basis of the report. Items such as capital acquisitions (new plant and equipment), estimates of warranty costs, bad debts are possible examples.

2. Financial information is produced to aid decision-making. Consider the effectiveness of information prepared for external purposes with that prepared for managers. Explain your view.

Marking guide
An answer should explain the remoteness of shareholders, but that reports are prepared on the basis of their perceived needs in a general sense.
Internally there should be a strong relationship between users and providers. The accountant should be an essential part of the management team, providing a service and generating relevant information to meet specific, identified user needs.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

Siemens  www.siemens.com
Mothercare  www.mothercare.com

(Incidentally this site was voted the FTSE250 Best Internet Report in 1999)

The Body Shop  www.bodyshop.com
Chapter 17
Managing operations and quality

SYNOPSIS
This chapter positions the operations function in its historical context before expanding on its role as one of the major value adding functions in the organisation. It emphasises the benefits of taking a broad systems view of all business interactions, including those which cross the organisational boundaries into the supply chain. It also showed the role of different approaches to meeting demand with appropriate supply arrangements.

SUMMARY
• The chapter traced the evolution of the operations function. Initially the discipline reflected the scientific management principle of separating functions, though it now stresses the value of integrating functions like design and quality into the responsibilities of those doing the work.
• The chapter described different types of transformation and the features of manufacturing or service activity for which managers need to design operating processes.
• The area now pays particular attention to designing organisations around horizontal processes rather than vertical hierarchies, to give a better focus on customer needs.
• Having set objectives and strategies, management is able to use ideas from the operations area to plan how to achieve them. Operations exists to develop systems that satisfy customers. That interaction between customer needs and operational systems marks out the strategic contribution of the operations function.
• Operations managers try to select the best mix of resources and transformation processes to meet customer needs. Their particular contribution is in the areas of innovation, quality, delivery and cost.
• They also aim to secure a smooth flow through successive processes and to contribute towards worthwhile cost reductions. The current emphasis is to challenge conventional functional structures in favour of structures based on business processes. The perspective also emphasises the possibilities of working closely across organisational boundaries with partners at earlier and later points in the value chain.
• There are stakeholders in functional areas and attempts to reorganise around business processes may threaten their interests.
• In contrast to early management practice which sought to divide the responsibilities of managers and workers, operations stresses that management cannot divide responsibility for functions such as customer satisfaction and quality.
• Those at all stages in the supply chain are responsible and so should take part in decisions on those matters that affect them. Operations seeks to understand the links in the supply chain and to manage them in a more integrated way. It promotes system awareness, rather than narrow functional concentration.
• Reducing waste in manufacturing or service processes depends on control. Systems theory emphasises the significance of feedback loops to measure, analyse and modify...
inputs. The earlier someone exercises control the cheaper it is to find and rectify problem areas.

- The discipline offers many techniques of control, such as critical path analysis and statistical process control. Control systems indicated the failures of functional organisations and led to the current emphasis on business processes.

THE CHAPTER CASE

Benetton

The Chapter Case deals with a well-known company which will be familiar to students. It examines how the operations systems of the company support the increasingly complex task of meeting a rapidly changing fashion industry.

CASE QUESTIONS

Preliminary questions

What businesses practices have Benetton introduced that seem unusual to you? Unusual business practices include: outworking, extensive use of subcontractors but integratively managed; suppliers working only for Benetton; dyeing garments not just the yarn. They also demonstrate features like the partnering approach discussed later but with perhaps less two-way flow, i.e. Benetton is still all-powerful.

What particular issues do you think may arise in managing an organisation with so many independent suppliers and shop owners?

Issues of consistency, commitment and co-operation might be difficult but strong Benetton culture, careful recruitment and continual involvement and growth help overcome possible drawbacks.

What contrasts and similarities are there between Benetton and The Body Shop from a management point of view?

Benetton and Body Shop have a unique style which helps customers and staff identify with the organisation. Body Shop has a more explicit environmental awareness policy where Benetton’s uniqueness is perhaps more in its advertising than its business practice. Body Shop has a policy of supporting local producers but not in the uniquely Benetton way. Retail shop styles and formats show similar patterns, but in many ways The Body Shop is less of a seasonal fashion business than Benetton and the products might be regarded as simpler.

Case question 17.1

Is Benetton a craft or a factory system?

Review the information about the system Benetton uses and list the advantages and disadvantages.

Benetton is a factory system but without the centralised factory. It cannot be a craft system because of the limited range of skills employed by the outworkers. However, it gains some benefits of small scale like craft with some of the flexibility as well. For this it trades the logistical complexity to co-ordinate all of the outworkers.
Case question 17.2

Draw a systems diagram that represents the Benetton production system.
Using Figure 17.1 as the basis and with some simplifications it could look like this:

**Transformations:**
- dyeing
- making up garments
- dye finished

**Political:**
- many countries
- local services

**Economic:**
- incomes
- competition

**Social:**
- attitude to factory / outworking
- fashion view of product

**Technological:**
- production and distribution systems

**What are the main sources of feedback?**

**Feedback:**
- Quality and safety inside factory system and at boundaries plus customer response.
- Design changes initially from design / customer and all the way through
- Process controls everywhere

**How critical are they to input activities?**

**Criticality:**
- All are critical but safety and quality supreme?

Case question 17.3

Consider the supply leadtime for the Benetton Basic collection and for the Flash or Reassortment goods.

**What is the demand leadtime for each of these categories?**

The Basic collection once designed has a supply leadtime between February and the following May/June with increasing levels of prescription. The decisions are ‘frozen’ in July and delivered over the period November to May/June.

The Flash and Reassortment collections operate on a much shorter timescale of around 3 months, i.e. during the effective selling season.

The demand leadtime for the purchasers of the garment is effectively zero (perhaps up to a few days as stores telephone each other for particular size / colour combinations). The stores as customers have a demand time on the supply system of 7 months with Flash and Reassortment in 1–3 months.
Case question 17.4
Examine the points in the Benetton supply chain where inventory is stored and identify why it is likely to be held there.

Inventory holding in Benetton supply chain.
- Finished goods in stores
- Greige garments waiting dyeing in factories
- Yarn awaiting dyeing in factories
- Finished yarn and raw materials in spinning supplies.

Inventory must be held where the speed of supply response is less than the rate at which demand can change. Ideally a decision which limits variability should be taken as close as possible to a real customer buying decision otherwise variety might be created for which there is no real demand.

Case question 17.5
What would a partnering approach imply for Benetton's management?

Benetton exhibits many of the desirable features of a partnering approach but does so from a position of dominance over key decisions. It is not inherently a ‘sharing’ system. If Benetton had a major supplier of goods or services, partnering might make more sense, but with captive outworkers partnering is probably not needed in Benetton’s view.

Conversely there is evidence that the sales and distribution aspects are much more collaborative and mutually supportive.

What benefits might the company obtain from such a practice?
In current environment hard to see but if market get tougher Benetton might need to ensure supplier support. The distribution system is more captive so continuing practice is probably OK.

What benefits might its suppliers and shop owners obtain?
Benefits for a large supplier might be more involvement, future vision and opportunity to plan and influence.

What could be the obstacles?
Why would Benetton wish to change? They have power currently. If they began to depend more on supplier or distribution expertise then collaboration might make more sense.

PART CASE QUESTIONS
What were the main operational problems which Kwik-Fit management had to deal with as the company grew?

Handling the administrative burden of a growing business; merging the separate systems of the companies they had taken over; speeding the flow of replacement parts to the depots to balance availability with low inventory.
What similarities and differences are there between Kwik-Fit’s retail operation and that of Benetton?
Similarities: widely dispersed activities, delivering goods and services to the public on demand, so having to ensure availability of the right physical items.
Differences: a fashion product, rapidly changing versus a routine product; delivery cycle is daily in Kwik-Fit, more intermittent and seasonal in Benetton; ownership – Kwik-Fit owns the depots, whereas Benetton’s are independently owned.

What are the major business processes in Kwik-Fit which are crucial to satisfying customer requirements?
Stock reordering and replenishment; accurate information on prices to give quotations, followed by smooth processing of the cash transaction (especially for fleet customers).

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 17.1 Visiting a craftworker
Visit a craft fair and talk to one or two craftworkers about the way they work, how they sell, if they design to order or according only to their ideas, and how they organise the production of goods and the supply of materials.

Activity 17.2 Visit a factory
Many large manufacturers offer visiting facilities. Try to visit several to see if you can understand the way they work.
Site visits probably best undertaken at an intermediate rather than an initial stage in order that student is sensitised enough to look for appropriate things and ask sensible questions.

Activity 17.3 Visit Burger King
Visit a Burger King or similar fast-food outlet and try to discover the material inventories that are used. What non-material inventories will there be?
Burger King material inventories:
• limited finished goods of standard items. Fries always made up, buns if demand is anticipated;
• bulk raw materials ready for cooking available at start of process;
• strict, ‘just-in-time’? control of work in progress;
• bulk store of packaging materials, condiments, straws etc., progressively moved from back of store to customer access points.
Non-material inventories: main one is staff whose work patterns have to be flexible to cope with varying demand patterns within one day as well as varying with longer seasonality (weekly and other).

Consider a hospital accident and emergency unit. What inventories are normally stored in such units?
Material inventories will include standard medicines, sutures, protective coverings etc. Equipment inventories will cover standard analysis technologies (more specialised equipment e.g. X-ray, will involve a visit to a different functional location in some cases). Staff inventories will be a mix of standard and flexible, e.g. nurses always available and specialists on call.

**Activity 17.4 Defining transformation types**

Define the transformation type and possible layout form of the following:

1. University matriculation or enrolment process

<table>
<thead>
<tr>
<th>Transformation type</th>
<th>Layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mix of physical on information dimensions and attitudinal through exchange of information</td>
<td>Usually line</td>
</tr>
</tbody>
</table>

2. A motorway fast-food servery

<table>
<thead>
<tr>
<th>Transformation type</th>
<th>Layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physiological</td>
<td>Function – salad counters</td>
</tr>
<tr>
<td></td>
<td>– hot food counters</td>
</tr>
<tr>
<td></td>
<td>(varied customer travel path)</td>
</tr>
</tbody>
</table>

3. A hospital accident and emergency unit

<table>
<thead>
<tr>
<th>Transformation type</th>
<th>Layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physiological</td>
<td>Mixed functional and concentric</td>
</tr>
</tbody>
</table>

4. A Benetton customer sales and service area

<table>
<thead>
<tr>
<th>Transformation type</th>
<th>Layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presentational</td>
<td>Functional – pullovers</td>
</tr>
<tr>
<td></td>
<td>– skirts</td>
</tr>
<tr>
<td></td>
<td>– kids etc.</td>
</tr>
</tbody>
</table>

**Activity 17.5 Defining quality**

Define what quality means in the following

(a) A fast-food hamburger restaurant

Standard is maintained, speed as expected, environment as expected

(b) A five star hotel

Personal attention to variable requests, exceptional and / or usual food in special environment. Staff cater for nearly all possible needs

(c) An executive automobile

Reliability, comfort, safety, speed, image, supportive maintenance environment

(d) A travel agency

Simplify the complexity, offer sensible choices, manage and guarantee the process, support while on trip, insure against problems

(e) The products sold by Benetton

Colour, range, size availability, easy access to stores, garments fit for purpose

(f) The service provided by Benetton sales staff.

Supportive, helpful, knowledgeable about availability, maintain Benetton ambience in store
Activity 17.6  Consider the leadtime for a dress
Consider the total supply leadtime for a bridal dress made from Chinese silk. List and guess the timescales for the different stages of production and supply up to the final garment being made for the bride.
Supply system covers production of raw silk – subject to natural environmental variations; conversion into cloth (with colour variations); conversion into garments. Associated but different supply chains for threads, fastenings and other notional features. Timescales will be months from raw materials to cloth down to days / weeks for garments.

Activity 17.7  Defining order winners and qualifiers
Define the order winners and qualifiers for the following:

(a) music, food and drink club catering for student

<table>
<thead>
<tr>
<th>Order Winner</th>
<th>Qualifier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices</td>
<td>Prices</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Location/opening hours</td>
</tr>
<tr>
<td>range</td>
<td></td>
</tr>
</tbody>
</table>

(b) a personal computer

<table>
<thead>
<tr>
<th>Price / performance</th>
<th>Technical spec</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>support system</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Highlight those features most likely to change and comment on the implications for the operations system design needed to support them.
All of these are dynamic and in some cases vary with market segments. If all else is equal, price is most important differentiator but we can differentiate most easily in non-price areas.

How might new communication technologies (for example, the Internet) affect the supply chain for food shopping?
Food shopping is predominantly repeat buying within a range. As such it may be seen as a chore which could be automated through placing orders remotely. Stores, however, want to encourage impulse buying which happens as we physically walk past point-of-sale displays. They would wish to develop electronic equivalents of browsing and impulse buying. By capturing a customer’s pattern of ordering they can target special offers and tailor Internet displays to replace the store displays.

Physical movement of goods from store to customer still has to be done by someone and here economics will be more important than communications technologies.
TUTORIAL OR CLASS ACTIVITIES
1. Tutorial based on the Kwik-Fit case
2. Case – The Natural Flooring Group

1. Tutorial based on the Kwik-Fit case
As the product and business will be familiar to most students, you could consider basing a tutorial around the Part Case. Some further information is also available and mentioned below. While you could focus on the operations and quality aspects you could bring in some of the ideas from Chapters 16 and 18.

Before the tutorial
Ask students
(a) to read the Part Case, and work on the Part Case questions in Chapters 16, 17 and 18, plus any others you wish to add. These could include issues such as:
   What are the stock-holding needs in the business?
   Who decides on stock levels?
   How is quality defined in Kwik-Fit?
   What approaches are being used to deliver quality in their customer service?

(b) gather any advertisements or other information they can find about the company so that they are familiar with what it does and how it looks to the outside world.

At the tutorial
Have the students discuss the questions in groups, followed by presentations and discussion.

2. Case – The Natural Flooring Group
The Natural Flooring Group started as a two-man business selling terracotta floor tiles. At that time, the UK was not subject to the vast array of home improvement TV programmes and magazines that it is today but, although the public’s perception of terracotta tiles was minimal, homeowners soon took to them. By the end of the summer, the company was able to open a small London showroom selling just six different tiles, and customers were soon requesting glazed wall tiles to complement their terracotta floors.

The Natural Flooring Group are now a retailer of interesting floor coverings and worktops in a variety of stone, ceramic, wood and natural fibres. Their products are certainly not at the cheap end of the scale but are promoted on their uniqueness and high quality, supported by advertising and product placements in quality interior design journals for architects, professional interior decorators and home purchasers.

The McKinnons of Milgavie were therefore looking forward to the delivery and installation of two sets of jute natural carpeting for their hall and study areas.

As a natural product jute can have slight variations in colour and the presence of slubs or knots in the material. Selection was easy and the staff in the showroom had been very
helpful in closing the sale but then the process was handed over to head office and the installation department. Now things began to get a bit more interesting. First of all the material was not immediately available and then it had to be delivered at least 48 hours before installation to allow the materials to acclimatise to their surroundings otherwise they would not lay flat on the floor. One of the benefits of natural flooring? Installation would then follow by a two-person team based in Sheffield.

The Natural Flooring Group used a courier service to deliver from their warehouse in England and expected delivery to Scotland on Tuesday, Wednesday or Thursday. Being busy professional people this created a problem for the McKinnons who could not afford to wait around for the delivery, but they were promised that the courier would telephone 24 hours before delivery to check that someone would be in the house to take delivery. The week planned for delivery came and the McKinnons were told by The Natural Flooring Group that the material was on the van, but then the installer’s wife was called into hospital so installation was rescheduled until a week on the Saturday. The Natural Flooring Group then recalled the van and a rescheduled delivery was set up for two weeks hence again promised for the Tuesday through Thursday timeslot. On returning home from work on the Monday of that week there was a scribbled note pushed through the door indicating that the courier company had called at 2.15 pm to deliver and found no one at home. A rescheduled delivery was set up for the afternoon of Thursday and Mr McKinnon took the afternoon off work to await delivery. At 5 pm a telephone call from the courier informed him that the van driver had the delivery instructions but the warehouse had not put the materials on the van. Delivery was now scheduled for the Friday for installation on the Saturday morning. The rest went well and the installer team arrived as promised, finishing the job in three hours before heading off at 1 pm for their next installation some 100 miles away at Galashiels in the Scottish Borders.

The McKinnons had much to do that day and went out immediately but were horrified to find on their return that when they put on the hall light there were two stripes of different colours across the hall carpet. This was not the level of natural variation they expected or were prepared to accept!

A phone call to the sales office on the Monday, their call to installations department and subsequent conversations about checking the warehouse stock and not finding any similar problems nevertheless brought the immediate offer of a £200 credit voucher to be spent in the store. This, however, was not satisfactory to the McKinnons and now they are in discussions about replacing the hall carpet.

Questions
Describe the nature of the operational management systems used by The Natural Flooring Group.

Analyse and suggest improvements in their operational practices.
Commentary on questions
This case should allow discussion of the nature of the operational systems in terms of how high quality is produced and delivered. The variation in their marketplace and products allows discussion of forecasting and mass, batch or unique systems. Installation is a unique service for example.

There are issues of capacity planning and scheduling given the need to produce to customer order in the manufacture of the carpet but then also in the scheduling of delivery and the fitting service. Inventory management and physical distribution and their interactions are crucial to customer service while quality definitions and customer care actions do not seem to be consistent across all interfaces.

The reaction to the problems allows a wider discussion of quality and the impact of a possible change of carpet on the profitability of the sale.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Describe systems concepts as they apply to an operating system.
   Systems concepts – describe Figure 17.1 using appropriate examples.

2. What are the major categories of operations system and their associated physical layout types?
   Major categories are shown in Figure 17.2.

3. Why is control over quality at source so important?
   Control of quality at source. Problem is that the later a problem is found the more expensive it is. That is it is further down the value added path to the customer. Also any changes have to work their way back upstream at great cost. Key point is that designing quality in at source and controlling it there avoids adding wastes downstream and makes high quality the low cost solution.

4. Why is delivery reliability more important than delivery speed?
   Reliability is more important than speed because of the chains of supplies and customers all the way through. Each customer makes plans based on expectations or promises of delivery from suppliers. If delivery is not reliable the domino effect travels along the chain with dire consequences. Sometimes speed is important but here reliability is also the precursor or speed will fail.

5. Describe and discuss the importance of the demand–supply balance.
   Discuss Figures 17.3, 17.4. Figure 17.3 is the worst since in a chain these leadtimes are additive and the issue is the investment at risk. In the service area the issue is more about capacity balance and preparing for the service encounter.

6. In what ways is the business processes approach different from traditional approaches.
   Business processes focus on what is needed to satisfy the customers, not what fits some internal idea of efficient structure. It is horizontal across boundaries whereas traditional
approaches create barriers at the junction of each specialised junction. They are also systems approaches and inherently more attuned to effectiveness of response.

7. List and discuss the main features of a partnering approach to business relationships. See pages 529–530. The essence is that of complementary capabilities and letting the experts do their best; co-ordination of information in two directions and the physical flows associated with them and to jointly plan and invest in a continuing relationship for the long term.

8. Discuss the concepts of order winners and order qualifiers. Order winners win the business race to the customer who chooses these above others. Qualifiers are the entry ticket to be considered a player in the game. Order winners can soon become qualifiers if all can offer these features.

**DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE**

1. (a) Why is a systems approach to management useful in considering operations management (60%)?
   (b) What kind of physical layout type would you expect to find in each of the following operational systems. Justify your choice.
   (1) Self-service restaurant in a motorway service area (10%)
   (2) The workroom of a high fashion, exclusive dressmaker (10%)
   (3) Cheque processing operations in a bank (10%)
   (4) Food preparation area of a high street burger restaurant (10%).

This answer could make use of the diagram below.
The discussion should expand on the headings here but also cover the key points:
• variable system boundaries allow zoom in and out
• generic nature allows fit to all with some effort to translate
• general principles of command and control demonstrated and can fit many situations.

(1) **Self-service restaurant in a motorway service area.**
Variable people flow path around broadly functional layouts.

(2) **The workroom of a high fashion, exclusive dressmaker.**
Functional, high skill-level locations, variable material flow path.

(3) **Cheque processing operations in a bank.**
Large batch but predominantly line flow.

(4) **Food preparation area of a high street burger restaurant.**
Rigid line flow.

Each answer should develop the justification and better answers will show areas of overlap in the stereotypes.

**GUIDE TO FURTHER MATERIAL**

**Websites**

**Company websites**

Benetton  
www.benetton.com

Benetton’s website gives a detailed account of the company’s approach to its business processes and is worth visiting.

Direct Line  
www.directline.com

This provides insight into how significantly the re-structuring of business processes has had on the nature of this business and the whole sector.

Cameron Balloons Virtual Factory  
www.bized.ac.uk/virtual/cb/

Cameron Balloons made the Breitling Orbiter balloon that made aviation history by flying round the world, finishing on 21st March 1999. This site provides an educational experience which you can look at for examples of some of the concepts discussed in this chapter.

Covisint  
www.covisint.com

This site is being developed as the one stop shop for all procurement for a number of the major automobile manufacturers in the world. Here you can see examples of the e-commerce world in action. It represents one view of the future but for the time being
might be more appropriate for standard, commodity type parts than for complicated, unique parts or services.

Other websites

European Foundation for Quality Management  www.efqm.org/newwebsite/

This site provides the background to the European quality award which because the scope is increasing so much, is now also referred to as an excellence award. Organisations can also use the excellence framework as a means to audit their own performance and drive their own improvement agendas guides by these standards

INDITEX  inditex.com

This site provides some insight into a fast growing competitor of Benetton and many other fashion retailers

International Standards Organisation (ISO)  www.iso.ch

The ISO is the source of many forms of standards for use by businesses and others. There are a complete range of quality and environmental standards that organizations can use to specify their requirements to suppliers or to prove to customers that they are competent. The ISO standards are often adopted internationally as well.

SAP  www.mysap.com

SAP is one of the largest software providers of MRP and ERP systems and is associated with all the new advances in the e-business place. The site is worth visiting to see what the new thinking is all about.

Supply Chain Management Group  www.scmg.co.uk

This is the site of one of the pioneers of the partnering approach to supply chains. They also run an annual conference in supply chain management and e-procurement which is free to participants so you could use this to gain up to date information from a variety of industrial speakers from international companies.
Chapter 18

Managing information systems

SYNOPSIS
As information systems (IS) have moved from the background to the foreground of organisations, they have become progressively more central to the work of management. This chapter discusses the fundamental characteristics of management information systems and then shows how these can be transformed by the use of computing and communications technologies, including the Internet. The results of investments in computer-based information systems do not depend on the technical sophistication of the system, but on how the project is managed. They can support the strategy of an organisation provided that managers deal with a range of human and organisational issues, using ideas presented earlier in the book.

SUMMARY
• Managers depend on accurate and timely information about internal and external events to perform their roles effectively. Using computer-based information systems for foreground as well as background tasks in organisations helps to transform managerial work.
• While the earliest information systems dealt with operating systems (still a vital function), they now contribute to a wider range of business and management activities.
• Information systems affect the planning function by altering each of the five forces in the Porter model of competitive advantage.
• They affect the organising function as managers can use them to centralise or decentralise structures, and to alter the way tasks are allocated to different units of the structure.
• Managers exercise their leadership role as they redesign work in relation to IS – which in turn affects the motivation of staff.
• Information systems also affect the roles of management, by, for example, enhancing or diminishing the opportunities for interpersonal contact.
• Computer-based systems directly affect the informational role, by vastly increasing the ability of managers to gather and disseminate information – thus leading to the dangers of information overload.
• Several applications directly affect the decisional role, by providing technical support to the analysis of alternatives scenarios.
• Wider flows of information enable more people and interests to be involved in decision making, especially through particular technologies such as groupware and video-conferencing.
• The effects of such systems also depend on the processes by which managers handle the change. The chapter recalled the ETHICS method, a process which enables the joint design of human and technical elements of the context.
• Information technologies can significantly increase the ability of those in power to control others. Systems design is not a neutral activity but is shaped by those providing the resources, who will tend to preserve rather than disrupt existing power relations.

• The performance of subsidiaries, divisions, branches and individuals can be much more closely monitored with modern information systems. However, systems can also be designed in a way that enables people to enhance local self-control over operations, using their skills to manage the situation responsibly.

THE CHAPTER CASE

The story of Boeing’s Wing Responsibility Centre illustrates how the company used an intranet to transform its internal operation. They developed this from what was initially quite a limited application to one which now appears to be of great significance to the business. The Part Case shows a similar evolutionary process, as much of the success of Kwik-Fit is attributed to its early use of an advanced information system based on terminals in every depot. The initial use was to improve the efficiency of internal administrative processes, but the experience they gained has enabled them to extend the system in several strategically important directions.

CASE QUESTIONS

Boeing’s Wing Responsibility Center

Preliminary questions

*What is the input and the output of the system?*

Outputs of the system are for example: number of wings delivered, number of engineering releases, staffing levels, machine set-up times, capacity, lost time, efficiency, availability, quality. These outputs are available to anyone who uses the system. The inputs are of course related to these outputs. To realise this, there are automated links between different operational systems, e.g. the Enterprise Resource Planning system and this website.

What are the objectives of this system?

A primary objective is to make information available to anyone involved, and to make them feel responsible for the performance of the company as a whole as well as for their functional unit. More specifically objectives are:

• to help to meet production targets;
• to help to get a comprehensive view of the factory status each day;
• to provide a primary means of communication;
• to augment communication based on the same information for all levels of management, employees and internal suppliers.

Without systems like these, information is often available only to a few people, so that others can avoid being held responsible for problems in the production process.
What are the likely advantages of such systems?
- Improved communications among people who are geographically dispersed;
- More openness which may make people feel responsible and involved;
- It may help organisations to experiment with new organisational forms, since it is not necessary to be physically at the centre of power to be well informed.

Figure 18.3 shows different elements of a computer-based information system. It may be useful to explain each of these elements with the Boeing example:

*Data*
Data is the input for this website which comes from other information systems which provide the inputs. This can be from production systems, ERP systems, HRM systems and so on.

*Information*
This is the output as described in the first question.

*Software*
These are the user interfaces, the network software and the operating system software which make this system work.

*Hardware*
There are computers and networks needed to enter data and to retrieve the information. These computers are placed in a network and linked with other computers and servers.

*Procedures*
Some people are allowed to enter data, others are allowed to access certain parts of the website. All these rules are often written down in formal procedures and embedded in the software. Only people with a valid user ID and password can enter or access certain data or information.

*People*
The system can only work when people access this information and when people enter data and manage the whole system. Users, managers and IT staff are needed to make it work.

**PART CASE QUESTIONS**

*What information is most important to managers at different levels within Kwik-Fit, and how does the MAT system provide this?*
Application, pages 543–544. Senior managers will want comparative information on performance against budget, against previous time periods and between different depots or regions. They will also want to try to relate that information to other things happening in the market or to policy changes they have made. Operational managers will especially want to know any changes in prices that they have to charge, and the performance of their depot against whatever comparisons are relevant. They also want to know that stock requirements are going to be delivered without delay.

*How has Kwik-Fit been able to use the MAT system to support the strategic development of the business?*
By giving it the chance to enter new markets and offer new services more quickly than would have happened with manual procedures.
How has the system changed the role of the depot managers?
Less administrative work, more time to manage staff and deal with customers, more tightly controlled by head office.

ACTIVITIES
Note: All Activities are repeated below for convenience in planning your teaching, but answers are not included for those which are open-ended student reflection or data-gathering activities. These are useful as a basis for tutorials.

Activity 18.1 Gathering information
Consider the information used in an organisation that you know, or can find about.
Give a specific example of a piece of information that is used regularly by (a) a senior manager, (b) a departmental manager.
Comprehension, application and comparison, pages 540–544.

What information do you need from your bank or from your university?
What information does it provide that is relevant to you?
Bank: Updates of balance, regular statements with credits and debits. Banks tend to provide this kind of information over the Internet, which gives customers an online and real-time insight and which saves costs for banks.
University: Lists of available options and courses, a record of courses a student has completed with their marks, schedules of tutorials, access to the library catalogue etc.

Activity 18.2 Applying the open systems model
Apply the open system model in Figure 18.4 to an organisation that you know (for instance to a hospital or a university).
What are the inputs?
Inputs of a hospital: doctors, nurses, medicines, building and equipment.
Inputs of a university: lecturers, support staff, materials, lecture halls, meeting rooms, library.

What are the outputs?
Outputs of a hospital: treated patients, knowledge and research results about effectiveness of different procedures, waste.
Outputs of a university: educated and graduated alumni, knowledge, books, research.

Describe the transformation process.
Transformation process: combining the inputs efficiently and effectively in order to treat patients or to educate students as well as possible.

What information do managers at various levels need to help them manage the business?
Hospital: Information: e.g. waiting lists, success rates of treatments, information to plan operating theatres etc.
University: Numbers of students, average duration time of students, occupation rates of facilities etc.

Activity 18.3 Evaluating paper systems
Identify two formal but paper-based information systems that you use, or which affect you. What are the advantages and disadvantages of a paper-based system?
Comprehension, pages 547–548. Address books, diaries or telephone books are common paper-based information systems. Advantages: availability, no on/off buttons, easy to use. Disadvantages: retrieving information sometimes difficult, changes untidy and can produce errors.

Activity 18.4 Evaluating computer-based systems
List three computerised information systems you use or that affect you. What are the objectives of these systems? Could you process that information without using computers?
What advantages and disadvantages have you experienced with these systems? Are computerised systems always better?
Comprehension and application, pages 547–548.

Activity 18.5 Collecting examples of applications
The media regularly report new applications of computer software. Collect examples over the next week of new inter-organisational systems. Identify what they are likely to mean for the way people will work and manage in organisations adopting such systems. Compare notes with others and decide which of the systems you have found is likely to be of the greatest organisational significance over the next two years.
Data collection and comparison. Intended to raise awareness of the emerging technological possibilities as a focus for their study of the chapter.

TUTORIAL OR CLASS ACTIVITIES
1. Data collection and group comparisons
2. Case a – The Debt Collecting Agency
3. Case b – An office on wheels, the office concept of Interpolis

1. Data collection and group comparisons
1. Ask students to ensure that before the tutorial they complete the Activities, the Case Questions and the Review Questions.

2. Divide them into small groups. Each group has to choose a particular industry, e.g. retail, education, manufacturing, and health-care.

3. Each group has to give examples of information systems which play an important role in the industry they have chosen.

4. The groups have to determine: the objectives of those systems as well as the function in the organisation, the advantages and the disadvantages. They can think about this
from different perspectives, e.g. from employees’, from customers’ and from the management’s. They also have to suggest the role of IT in the future of their industry.

5. Presentations from groups, and any outstanding questions. Particular attention here could be on drawing out what the changes in the case imply for the management of the organisation, and what generally applicable lessons could be drawn from the case.

6. Lead discussion on lessons from the presentations, clearing up any questions.

2. Case a – The Debt Collecting Agency
This case can be used to show the importance of an integrated approach to organisational problems. Problems should be approached not only from an IT point of view but also from an organisational change perspective and from such perspectives as: HRM, finance, structure, culture etc. All these aspects are linked in this short case. After a preliminary discussion, the lecturer can hand out the following proposals:

Procedure
Distribute Part A, and allow time for individuals and groups to become familiar with the situation (15 minutes).

Distribute Part B, which contains further information for individual work and group discussion.

Plenary
Group presentations, comparisons.

Staff de-brief along the lines of the commentary provided.

The Debt Collecting Agency – Part A

Structure
The debt collecting agency 'GYMB' (Get Your Money Back) is a medium-sized agency with about 75 employees. These employees are organised in departments, as shown below (with the number of people in each in brackets).

<table>
<thead>
<tr>
<th>Management</th>
<th>Legal Support</th>
<th>Mail</th>
<th>Reception</th>
<th>Archive</th>
<th>Word Processing</th>
<th>Administrative support</th>
<th>Case handling</th>
<th>Accepting cases</th>
<th>Finance, HRM, Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(3)</td>
<td>(5)</td>
<td>(6)</td>
<td>(4)</td>
<td>(4)</td>
<td>(3)</td>
<td>(10)</td>
<td>(20)</td>
<td>(4)</td>
</tr>
</tbody>
</table>

They are highly specialised in the work of their department, and sometimes there is also some specialisation within a department (especially in the case handling department). The educational background differs from high (e.g. legal support and acceptance of new cases) to medium (e.g. case handling) and low (word processing, archive, telephone and printing).
The agency deals with about 40,000 cases a year; on average a case lasts for 4 months. The data about each case are dispersed over different computer systems and a paper-based file. Every case has a unique case number. All relevant events with respect to a case have to be stored (telephone call memos, faxes, payments, letters etc.) in order to make the right decisions.

**Current process**
A case starts when a client (also called customer or creditor) asks the agency to collect a certain debt, because the debtor, for various reasons, has not paid: creditor wants to receive the money without spending too much time on it. The main task of the agency is to collect the money and transfer it to the creditor. The agency receives a negotiable commission for that work. After the acceptance department has agreed to take on a case, computerised and manual files are created. After that, the case handling department treats cases following certain procedures. The other departments become involved when people call, when information has to be archived, when post has to be sent, when letters have to be printed etc.

**Problems**
The agency faces a number of problems of which the most important are:
- it is hard to find files when they are needed (e.g. when a creditor or debtor calls);
- documents (and sometimes complete files) disappear;
- departments blame each other for mistakes, causing distrust and misunderstanding;
- cases take a long time to deal with;
- 20% of the cases make 80% of the profit, and 40% of the cases are unprofitable.

**Individual and/or group task**
Analyse the situation and make suggestions for improvement. Remember to consider the organisational, human and technical options.

**The Debt Collecting Agency – Part B**
A consultancy firm analysed the processes of GYMB and made a number of proposals:
1. All documents should be stored electronically. Incoming letters, notes from telephone calls etc. would be scanned and entered into an electronic archive. The objective of this proposal is to store data in a consistent and accessible manner.
2. The process of case handling should be integrated and seen as one process, performed by one responsible person. This person would be responsible for acceptance, handling, archiving and all communications with respect to a case. The objective of this proposal is to give clear responsibilities to employees and to make them personally responsible for a case.
3. Case handlers should do as much as possible themselves, supported by information systems and other computerised tools. If they need additional help it should come from the support staff who give help when required.
4. A 'workflow management system' has to be implemented as a tool for the case handler to control the handling process. That system recognises deadlines and proposes
actions to the case handler with respect to all cases. The objective of that system is to speed up leadtimes and to make processes more efficient.

Questions
1. What do you think of these proposals? Do you agree/disagree? Are the proposals complete or would you add some?
2. What are the implications for the organisation? What kind of change occurs after implementation?
3. What are the implementation aspects of this proposal? How would you implement it?

Be ready to present your group’s agreed conclusions to the class at______

Commentary
The situation at GYMB seems to be one in which:
• many people and departments are involved in one case
• long leadtimes and waiting times
• questions from clients and debtors cannot be answered easily
• searching for files and documents takes a lot of time
• the archive administration takes much time and money
• files sometimes disappear
• it is a slow process.

Consequences
• Frustrations among employees and customers
• Low efficiency and poor quality.

Suggestions
A central dilemma is between people dealing with the part of the case to which their professional expertise related, or being able to deal with all aspects of a case. The organisation decided to make it possible for every employee to deal with the simpler cases (80% of all). The more difficult cases were the responsibility of case handler who would progress the case through respective specialist departments.

The structure of the organisation changed dramatically: from eight to three departments and more all-round tasks for many employees. Also, re-education for people to enable them to become all-rounders.

ICT-suggestions
Imaging: All documents will be processed electronically.
Network: An electronic file, accessible to all case handlers.
Workflow management system: Cases will be managed by a computerised system. Daily workloads will be generated by the system (deciding priorities) and distributed among the case handlers.
Consequences

• Cases (leadtimes etc.) are controlled automatically
• All case handlers can treat all cases similarly
• The whole file is always available for anyone
• Case handlers get a broader task
• Fewer support staff are needed
• All participants needed relevant training.

3. Case b – An office on wheels, the office concept of Interpolis

Interpolis (> 700 employees) is one of the bigger insurers in the Netherlands and is a wholly-owned subsidiary Rabobank (± 50,000 employees). In the early 1990s, Interpolis did not perform well and suffered from a dusty and outdated image. It was a self-centred bureaucracy. The challenge for management was to reduce costs and to make the organisation more customer focused and flexible.

In 1994 and 1995 this led to downsizing and lay-offs but also to a decision to set up a new building which had to be more contemporary, efficient and smaller. Measurements proved that only 50% of the old building was being used at any one time, with big variations between departments. In the old building every employee had their own work area and more senior staff had their own room. Another problem was that new IT demands often implied expensive architectural changes to introduce extra cables etc. An analysis showed that most of the work was a mixture of that which demanded concentration and that which demanded communication. These observations and problems led not only to a new building, but also to a completely new office concept.

In the new building (completed in 1996) nobody has a personal office. Every employee searches for the space which fits best with the work he or she has to do. There are ‘cockpits’, which are small offices for ‘concentrating’ work. But there are also open spaces for work which requires communication and collaboration. Besides there are meeting rooms for groups of people who have short meetings. All these places have the highest quality standards such as climate control, plants, natural light, adjustable chairs etc.

Work-units have a certain place in the building but staff are not required to work in the area of their own unit. Employees may need to work in other areas on cross-unit projects. So the product-based departments were changed into (less formalised) customer/market-based units. Fewer were needed than in the former structure. This also allowed the company to reduce the number of managerial layers from five to three. The working concept applies to all the office employees except those whose work is related to a fixed place like receptionists and people who work in the restaurant.

At the entrance of the building there is a huge and well-lit hall, a coffee corner and a wall with mailboxes, a bulletin board, and an occupation board which shows which office places are occupied. It all gives a rather luxurious impression. One of the managers says ‘this gives employees a feeling of importance and responsibility. Besides, the openness
of the building stimulates “social control” which makes other means of control unnecessary.”

In another part of the hall employees can take their ‘box on wheels’. In this box they have a set of pencils, a few folders, their mobile phone and a notebook computer. There is also space for personal belongings such as photos of the spouse and children. With this box they go to the place where they want to work. There, they can plug in their computer (if there is not one) and use any application they want to do their work.

The company used the Lotus Notes Groupware package as one tool to support the work of multi-disciplinary groups from various units, and to enable people to work in different groups with a minimum of meetings. One manager commented that this package was very helpful in implementing the new organisation: ‘It helps us to see who is doing what and how things are progressing. Without the package I would be afraid of losing my grip on the unit. We are also setting up a databank of our experience. When a problems comes up, we can search for similar problems and ask the people who were involved in that problem to share their experience...’. Now Interpolis is experimenting in one unit with a system that would enable people to work up to 30% of their week at home. The IT system is a vital part of this project.

One employee who mainly handles insurance requests says ‘there are benefits but also disadvantages. For many years we had a group of six ladies. We always had our breaks together and we worked in one part of the old office. Now, we still see each other regularly but it is different. There is also a problem with my working place. I have a part-time job which enables me to take my children to school before I go to work. But when I arrive, the nicest places are often gone. And when I have a short break, I have to clear my desk. When I come back within ten minutes or so, someone else can be sitting there and I have to look for a new place.’

Questions
1. What were the main reasons for setting up this office concept?
2. What does it mean for the culture, the structure, the people and their work?
3. What IT requirements are needed to implement this concept effectively?
4. Do you think that there will be opponents to such a change? What could be their reasons?
5. Could you give guidelines for implementing such a concept to increase its acceptability?
6. Do you think that this office concept is applicable and desirable in your organisation? Mention some pros and cons.

Commentary on questions
1. What were the main reasons for setting up this office concept?
A combination of efficiency, cost saving, and a more effective and open culture.
2. What does it mean for the culture, the structure, the people and their work? People have to be more flexible and to work with more people from different backgrounds.

3. What IT requirements are needed to implement this concept effectively?

IT requirements are a database with all information needed by everyone to work effectively. Since there is no physical room for storage of documents, everything has to be stored in a central database. PCs and notebook computers in a network have to be available at many different places. The company depends highly on this working network. Another aspect is that communication technologies are needed to reach and communicate easily with people. Mobile phones or other features for reachability are needed.

4. Do you think that there will be opponents to such a change? What could be their reasons?
People may lose status, there is always social control which makes it difficult to be idle, people may lose a social structure. This is a structure for strong and capable people.

5. Could you give guidelines for implementing such a concept to increase its acceptability?
Implementation issues are: pilots and experiments versus a radical introduction. Top management support and strong participation of employees are important.

6. Do you think that this office concept is applicable and desirable in your organisation? Mention some pros and cons.
Discussion and reflection.

SUGGESTED ANSWERS TO REVIEW QUESTIONS
1. Give some examples of data and of information that you have at this moment. Use these to explain the difference between the two.
Comprehension and reflection, pages 540–544.

2. What information do you lack which harms your work and study? How could this information be generated?
Comprehension and reflection, pages 540–544.

3. Give examples of the use of information systems in a business you know. How are they helping or hindering the managers in performing their tasks? Compare the needs of senior and lower-level managers if possible?
Data collection and comparison, pages 540–544.

4. What are the advantages of human and paper-based information systems over computer-based ones, and vice versa?
Comprehension and reflection, pages 547–548.
5. What are the four criteria that define the value of information?
Comprehension, page 542.

6. Give examples of how an information system can affect at least two of the forces in Porter’s model, and so affect the competitiveness of a business.
Comprehension and application, pages 550–552.

7. Describe how an IS can support either a cost leadership or a differentiation strategy, with an example of each.
Application, page 552.

8. How do IS affect the other functions of management, such as leading or controlling?
Comprehension and application, pages 552–555.

9. How do they affect the roles of management as set out by Mintzberg?
Comprehension and application, pages 555–556.

10. How are companies in an industry of your choice (e.g. finance, music, news, manufacturing) using the Internet, and how is this affecting the structure of the industry and the power of the different players?
Comprehension and reflection.
The examples given in the question, finance, music, news, manufacturing are each cases of very different and intense use of capabilities of the Internet. A few issues are:
Finance: single channel Internet banks vs. multi-channel traditional banks. Advantages and disadvantages for customers and banks. Is Internet only a matter of efficiency or also added value?
Music: napster.com delivered free music over the Internet, posing a strong threat to established companies. Legal threats ended this practice, but are there still possibilities for companies to use the Internet to distribute music in a profitable way?
News: many newspapers have (unprofitable) websites. Is a profitable business model possible for newspapers, using the Internet? Where should the revenues come from? How will newspapers look after, say, 10 years?
Manufacturing: b2b commerce, e-procurement, e-commerce are examples of Internet use in manufacturing. Some manufacturers developed own Internet-based marketplaces for procurement.

DRAFT EXAMINATION QUESTIONS AND MARKING GUIDE
1. ‘Implementing an information system is more than just putting the software on the network.’ Explain this statement with an example and discuss the implications of this for a project manager.
It may change working procedures, skills that are needed, the number of hierarchical levels etc. Attention needs to be given to the human and organisational aspects and organisational change needs attention. An example is the implementation of computerised call centres.
2. ‘Information systems are often implemented as a means to reach strategic objectives.’ Illustrate this statement with an example. Discuss the implications of this statement for the practice of strategic planning and the IS planning in organisations.

The chapter describes for instance the Boeing Wing Responsibility Center example. The implications are that it is not wise to make strategic plans or IS plans in an isolated manner. IT possibilities may influence the strategic objectives and the strategic objectives should guide the use of IT.

GUIDE TO FURTHER MATERIAL

Websites

Company websites

IBM  
www.ibm.com

Aims to be the major player in Ebusiness, both as a major supplier and in using the Internet to manage its own operations.

easyJet  
www.easyjet.co.uk

A leader in using the Internet for reservations

Chemdex  
www.chemdex.com

An example of a company born of the Internet

Other sites

Business Week  
www.ebiz.businessweek.com

A website run by Business Week which hosts topical articles and debates about many aspects of the Internet in relation to business

Other sources

Videos

Negotiating Corporate Change, 1996
Harvard Business School Management Productions
J.K. Sebenius
Excellent illustration of the political nature of and the interests involved during the development and implementation of an information system.
Cases

European Case Clearing House  www.ecch.cranfield.ac.uk

The ECCH collection contains several which help introduce students to the issues in this topic, and include:

The Virtual Market Space for the Automotive Aftermarket
Schafers, S., Bolz, A. and Seibt, D., Teccom, University of Cologne (601 012 0)
Digital marketplace; Extranet; Electronic Data Interchange (EDI); Automotive aftermarket; Business-2-business electronic commerce
Use of Internet technology

Lego – Direct Consumer Access
Bjorn-Andersen, N., Neergard, P., Orngreen, R., Copenhagen Business School (301-060-0)
Interactive; E-commerce; E-business; Outsourcing; Retailers; Play-material; Competition; Branding and marketing; Multimedia