TWO

Management: Skills, Roles, and Performance

LEARNING OBJECTIVES

After completing Chapter 2, you should be able to:

Define: the different roles that managers assume and provide an example of each role.

State: the crucial management skills that must be applied if an organization is to be successful.

Describe: the types of external environments that influence the management process in an organization.

Explain: what is meant by performance (organizational, managerial, and individual).

Discuss: the three levels of management and the relative importance of different skills at each level.

MANAGEMENT INCIDENT

THE TOBACCO INDUSTRY: THE HEAT IS ON

Few industries in the United States are as profitable as the $35 billion tobacco industry. A U.S. cigarette maker generally earns 30 percent pretax profit on every pack of cigarettes sold. However today, social, political, and legal forces in the industry's external environment are threatening to diminish the industry's sales and profits.

Ever since medical evidence emerged that linked smoking to several serious illnesses, pressure has been mounting to make America a "smokeless society"—an objective that the U.S. Surgeon General hopes to achieve by the year 2000. Concerned about the health hazards of inhaling others' smoke, antismokers have lobbied government to ban smoking in public places. So far, 42 states and over 1,000 communities have responded, passing laws that restrict smoking in these areas. More than 30 percent of America's corporations limit smoking on the job (an estimated 80 percent will have restrictions by 1990). Some companies, such as Atlanta's Turner Broadcasting System, will not hire smokers. In this environment, many smokers are experiencing social pressure to stop smoking.

Congress and state governments are threatening to boost the excise taxes on cigarettes that would reduce sales and profits. In the courts, over 125 suits against cigarette makers are pending, with most filed by the relatives of now-deceased smokers, seeking damages. Tobacco companies are spending $100 million each year fighting these suits.

Because of these pressures, cigarette consumption has dropped almost 10 percent in the last six years and continues to decline. Cigarette manufacturers are facing the question of how to remain profitable when a society increasingly does not want its product.

(The Management Solution to this Management Incident can be found at the end of this chapter.)

Performance in an organization does not just happen. Dedicated and skillful managers carrying out specific roles make it happen. Managers influence performance by defining objectives, recognizing and minimizing obstacles to the achievement of these objectives, and effectively planning, organizing, leading, and controlling all available resources to attain high levels of performance. This chapter focuses on management skills and roles that must be aggressively applied to everyday organizational situations. The skillful manager is able to manage and monitor performance in such a way that objectives are achieved because he or she is action oriented and doesn't simply sit back and let things happen.

If one closely examines most organizational problems, sooner or later the people element will come into play. This is certainly the case with achieving performance. As we stated in Chapter 1, to perform means "to do, to accomplish." The term *productivity* has been used to indicate specifically what is being accomplished. Productivity is defined in a general sense as the relationship between real inputs and real outputs, or the *measure* of how well resources (human, technological, financial) are combined and utilized to produce a result desired by management. Productivity is a component of performance, not a synonym for it.[1] As the highest order of resources, human beings are responsible for utilizing all other resources. People design and operate the technology and work flow; they purchase and use raw materials; they produce the product or service; they sell the product or service. People make a company effective or ineffective, and they must be skillfully managed if an organization is to function and survive.

In most organizations, managers are simultaneously subordinates and superiors. They are subordinate to a "boss" or a board of directors or shareholders and are therefore accountable to others, while at the same time depending on their own subordinates to perform the job. Even Lee Iacocca, the chief executive officer of Chrysler Corp., and John Sculley, president of Apple Computer, Inc., must depend on the work efforts of their subordinates to accomplish goals. Iacocca doesn't produce and sell cars, he manages the system. He sits at the top of a management hierarchy and attempts to effectively apply various skills and perform specific roles.

A successful manager possesses certain qualities in applying his or her skills and carrying out various managerial roles. One study conducted by Harbridge House, a Boston consulting firm, identified the qualities of a successful manager.[2] The profile seems to fit managers regardless of age, sex, industry, size of the organization, or the corporate culture. The study identified the following qualities:

1. *Provides clear direction.* An effective manager needs to establish explicit goals and standards for people. He must communicate group goals, not just individual goals. The manager must involve people in setting these goals and not simply dictate them himself. She must be clear and thorough in delegating responsibility.

2. *Encourages open communication.* The manager must be candid in dealing with people. He must be honest and direct. "People want straight information from their bosses," the study says, "and managers must establish a climate of openness and trust."

3. *Coaches and supports people.* This means being helpful to others, working constructively to correct performance problems, and going to bat with superiors for subordinates. This last practice "was consistently rated as one of the most important aspects of effective leadership," says Robert Stringer, senior vice president of Harbridge.

4. *Provides objective recognition.* The manager must recognize employees for good performances more often than she criticizes them for problems. Rewards must be related to the quality of job performance, not to seniority or personal relationships. "Most managers don't realize how much criticism they give," the study says. "They do it to be helpful, but positive recognition is what really motivates people."

5. *Establishes ongoing controls.* This means following up on important issues and actions and giving subordinates feedback.

6. *Selects the right people to staff the organization.*

7. *Understands the financial implications of decisions.* This quality is considered important even for functional managers, such as those in personnel/human resources and research and development, who do not have responsibility for the bottom line.

8. *Encourages innovation and new ideas.* Employees rate this quality important in even the most traditional or conservative organizations.

9. *Gives subordinates clear-cut decisions when they are needed.* "Employees want a say in things," the report says, "but they don't want endless debate. There's a time to get on with things, and the best managers know when that time comes."

10. *Consistently demonstrates a high level of integrity.* The study shows that most employees want to work for a manager they can respect.

If any one quality stood out in the study, it was the importance of open and honest communication. Above all other things, a manager must be honest when dealing with employees.

THE MANAGEMENT SYSTEM

As any organization increases in size and complexity, its management must adapt by becoming more specialized. This section addresses some results of specialization of the management process.

Types of Managers

The history of most ongoing firms reveals an evolution through which the management has grown from one manager with many subordinates to a team of many managers with many subordinates. The development of different types of managers has occurred as a result of this evolution. For example, Figure 2–1 illustrates a one-manager–many-subordinate firm. In this situation, the manager performs all of the management functions. Let us assume that the firm is successful, and the manager decides to add some new products and sell to some new markets. As the manager becomes overworked

[1] D. Scott Sink, Thomas C. Tuttle, and Sandra J. DeVries, "Productivity Measurement and Evaluation: What Is Available?" *National Productivity Review,* Summer 1984, p. 265.

[2] "A Checklist of Qualities That Make a Good Boss," *Nation's Business,* November 1984, p. 100.

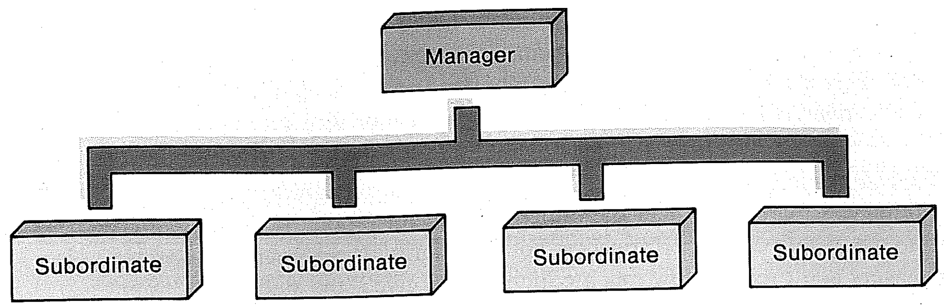


Figure 2–1 One manager and many subordinates.

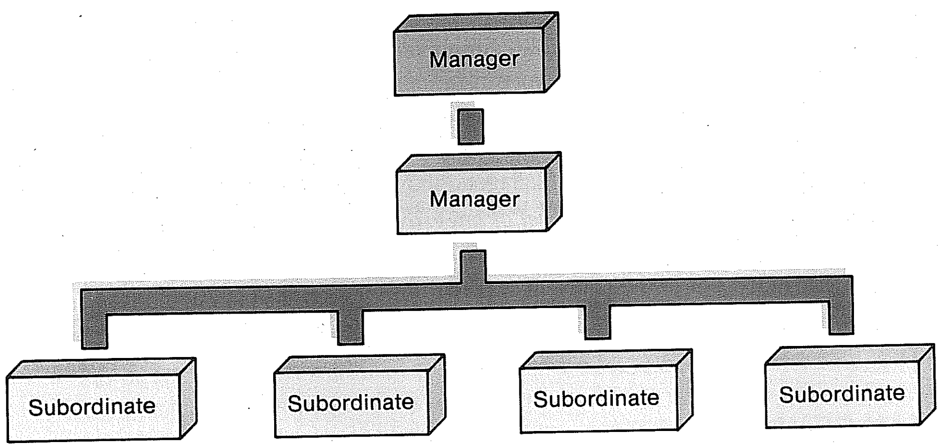


Figure 2–2 Vertical specialization of the management process.

because of the increased complexity of the job, he may decide to specialize *vertically* by assigning the task of supervising subordinates to another person (Figure 2–2) or *horizontally* by assigning certain tasks, such as production or marketing, to another person (Figure 2–3). Whichever method is chosen, the management process is now shared, specialized, and thus more complex.

As the management system develops an even higher degree of specialization (Figure 2–4), relationships among the managers and nonmanagers become even more complex. In Figure 2–4, it is clear that the managers in production, marketing, accounting, and research not only manage their own subordinates, but are managed by *their* superiors as well. Figure 2–4 illustrates three types of managers.

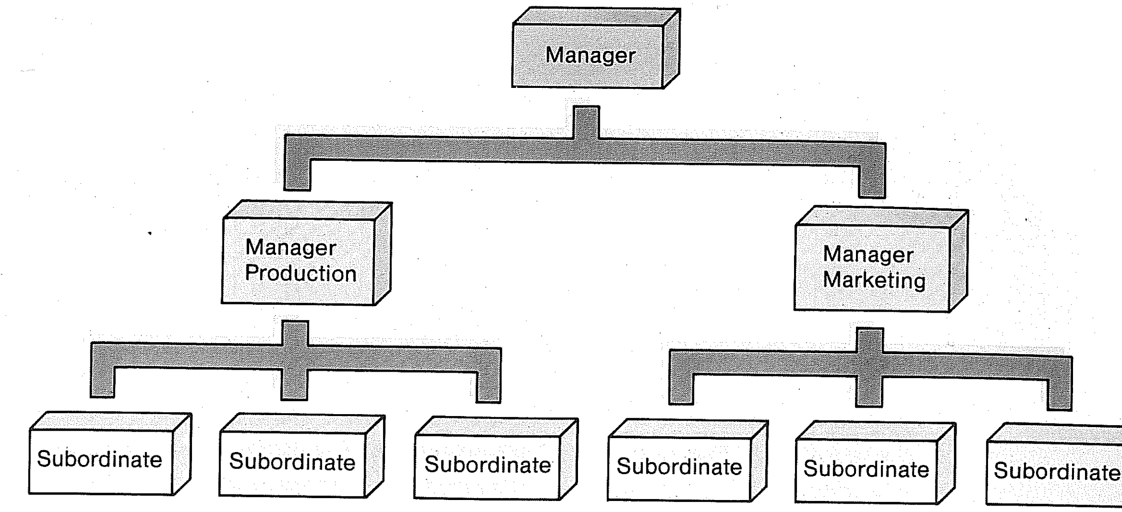


Figure 2–3 Horizontal specialization of the management process.

First-line management. These managers coordinate the work of others who are not themselves managers. Those at the level of *first-line management* are often called *supervisors, office managers,* or *foremen*. These are typically the entry-level line positions of recent college graduates. The subordinates of a first-line manager may be blue-collar workers, salespersons, accounting clerks, or scientists, depending on the particular tasks that the subunit performs: for example, production, marketing, accounting, or research. Whatever the case, first-line managers are responsible for the basic work of the organization according to plans provided by their superiors. First-line managers are in daily or near daily contact with their subordinates, and they are ordinarily assigned the job because of their ability to work with people. They must work with their own subordinates and with other first-line supervisors whose tasks are related to their own.

Middle management. The middle manager is known in many organizations as the departmental manager, plant manager, or director of operations. Unlike first-line managers, those in *middle management* plan, organize, lead, and control the activity of other managers; yet, like first-line managers, they are subject to the managerial efforts of a superior. The middle manager coordinates the activity (for example, marketing) of a subunit.

Top management. A small cadre of managers, which usually includes a chief executive officer, president, or vice president, constitutes the *top management*. Top management is responsible for the performance of the entire organization through the

Figure 2–4 Vertical and horizontal specialization of the management process.

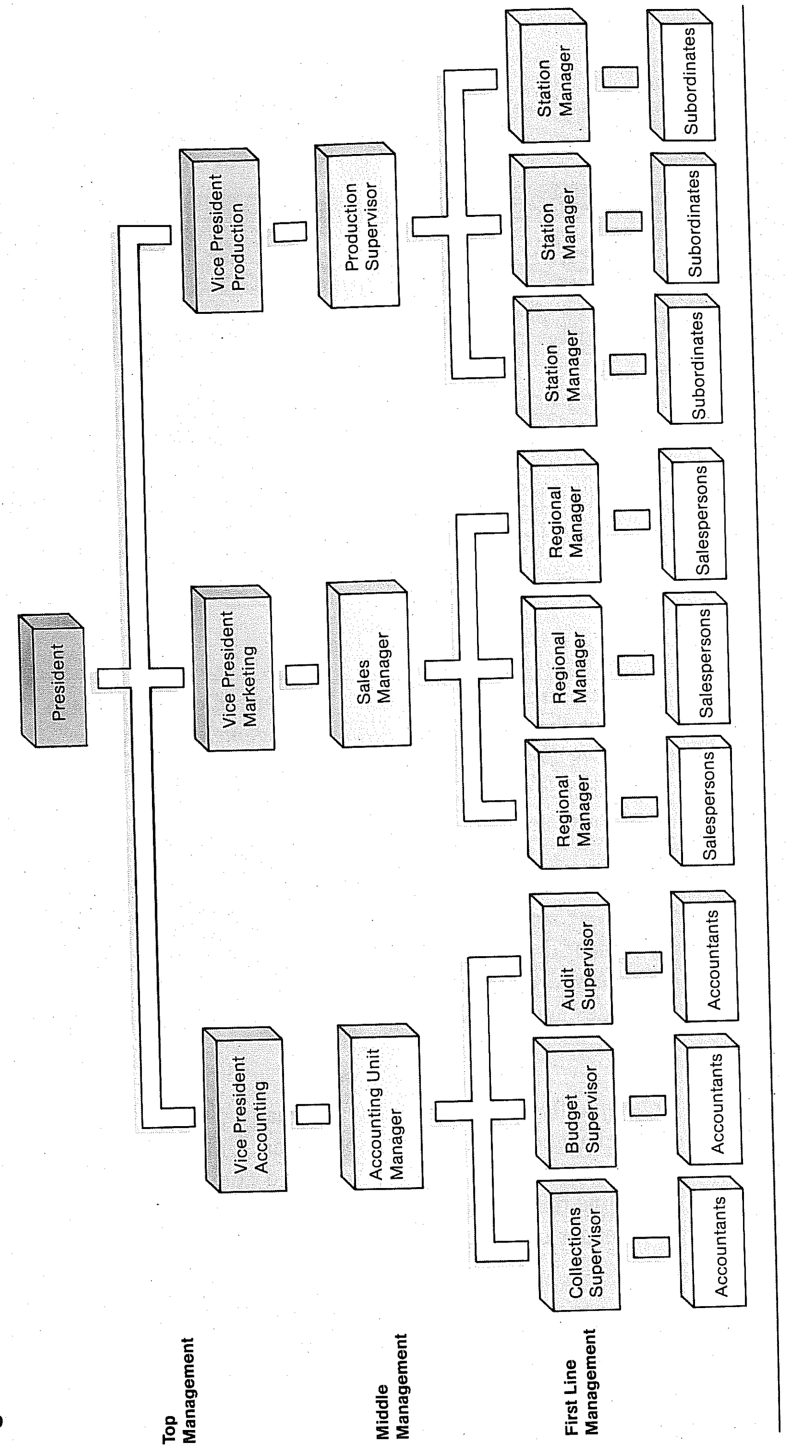
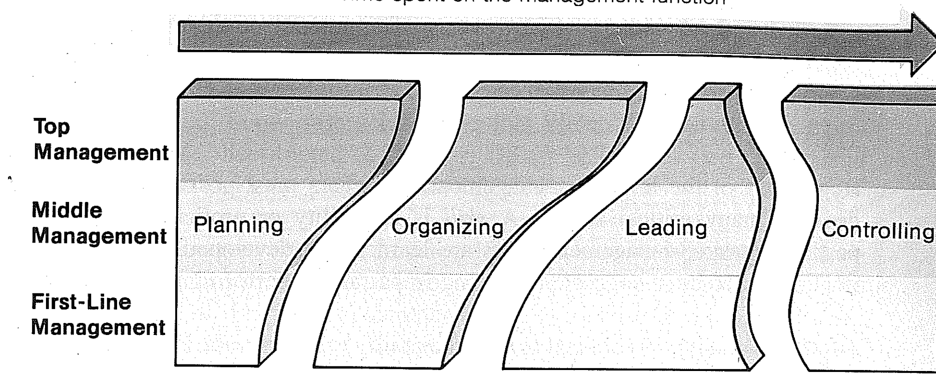


Figure 2–5 Management level and the management functions.



middle managers. Unlike other managers, the top manager is accountable to none other than the owners of the resources used by the organization.[3] Of course, the top-level manager is dependent on the work of all of her subordinates to accomplish the organization's goals and mission.

The designation *top, middle, first-line,* classifies managers on the basis of their vertical rank in the organization. The completion of a task usually requires the completion of several interrelated activities. As these activities are identified, and as the responsibility for completing each task is assigned, that manager becomes a functional manager.

Functional management. As the management process becomes horizontally specialized, a functional manager is responsible for a particular activity. In Figure 2–4 the management process has been divided into three functions: production, marketing, and accounting.

Thus, one manager may be a first-line manager in production, while another may be a middle manager in marketing. The function refers to what *activities* the manager actually oversees as a result of horizontal specialization of the management process. The level of the manager refers to the *right to act and use resources* within specified limits as a result of vertical specialization of the management process.

Management level and management functions. In the last chapter, we noted that the management functions of planning, organizing, leading, and controlling are performed by all managers. However, the amount of time and effort devoted to each function depends on the manager's level in the organization. Figure 2–5 attempts to

[3]There are signs across America's corporate landscape of the beginnings of a challenge to top management's power in managing organizations. Constituents such as corporate investors, employees, and unions are challenging how top management is running the company. For a discussion of this issue, see Bruce Nussbaum and Judith H. Dobrzynski, "The Battle for Corporate Control," *Business Week,* May 18, 1987, pp. 102–9.

illustrate this relationship. For example, first-line managers usually spend less time planning than do top managers. However, they spend much more time and effort leading and controlling. At high levels in the organization, far more time is spent planning and less time is spent leading. The amount of time and effort devoted to organizing and controlling are usually fairly equal at all levels of management.

Managerial Skills

Regardless of the level of management, managers must possess and seek to further develop many critical skills.[4] A *skill* is an ability or proficiency in performing a particular task. Management skills are learned and developed. Various skills classifications have been suggested as being important in performing managerial roles.

Technical skills. Technical skill is the ability to use *specific* knowledge, techniques, and resources in performing work. Accounting supervisors, engineering directors, or nursing supervisors must have the technical skills to perform their management jobs. Technical skills are especially important at the first-line management level, since daily work-related problems must be solved.

Merck & Co., Inc., is one example of the importance of technical skills. Considered by many management experts to be one of the best managed companies in America, Merck & Co. manufactures drugs for medical use. The company's key resource is a top-notch team of scientists. Their technical skills have developed a consistent stream of major, productive pharmaceuticals. Merck attracts top talent by paying well and maintaining first-rate lab facilities and a campuslike working environment. Many of its managers possess the same skills; the company's CEO, Roy Vagelos, has a doctorate in medicine.[5]

Analytical skills. This skill involves using scientific approaches or techniques to solve management problems. In essence, it is the ability to identify key factors, and understand how they interrelate, and the roles they play in a situation. The analytical skill is actually an ability to diagnose and evaluate. It is needed to understand the problem and to develop a plan of action. Without analytical proficiency, there is little hope for long-term success.

Decision-making skills. All managers must make decisions or choose from among alternatives, and the quality of these decisions determines their degree of effectiveness. A manager's decision-making skill in selecting a course of action is greatly influenced by his or her analytical skill. Poor analytical proficiency will inevitably result in inefficient, spotty, or inadequate decision making.

John F. Welch, chairman and CEO of General Electric, has been credited with having exceptional analytical and decision-making abilities. In the first seven years of

[4]See Robert L. Katz, "Skills of an Effective Administrator," *Harvard Business Review*, September–October 1974, pp. 90–102.

[5]See Gordon Bock, "Merck's Medicine Man," *Time*, February 22, 1988, pp. 44–45; and Stephen W. Quickel, "The Drugs Culture," *Business Month*, December 1987, p. 35.

his tenure as CEO, Welch made several major decisions that produced massive changes at GE. Welch eliminated 100,000 jobs, and sold billions of dollars worth of GE businesses, taking the company out of the housewares and television industries. He moved GE into high-tech manufacturing and other higher risk, though more profitable industries. Welch acquired RCA Corporation, reduced the number of layers in GE's structure, and set high objectives for GE's businesses (number one or two standing in their respective markets). Some observers believe that Welch's decisions have transformed GE into an able, fleet-footed competitor. Others believe his cost cutting and standards are excessive and have pushed many talented employees out GE's door.[6]

Computer skills. Managers who are computer skilled have a conceptual understanding of computers and, in particular, know how to use the computer and software to perform many aspects of their jobs. Computer ability is a valuable managerial skill; in one survey study of 100 personnel directors from America's largest corporations, 7 of every 10 directors believe that computer skills are important, very important, or essential for advancement in management.[7]

Computer abilities are important because using computers substantially increases a manager's productivity. Computers can perform in minutes tasks in financial analysis, human resource planning, and other areas that otherwise take hours, even days to complete. The computer is an especially helpful tool for decision making. The computer instantly places at a manager's fingertips a vast array of information in a flexible and usable form. Software enables managers to manipulate the data and perform "what if" scenarios, looking at the projected impact of different decision alternatives. Northwest Industries, a banking and financial services conglomerate, is one of a growing number of companies that have developed a decision support system to help their executives make financial and planning decisions. Computer skills are essential to make full use of the considerable advantages that computers provide management. The use of decision support systems for planning decisions will be discussed in detail in Chapter 5.[8]

Human relations skills. Since managers must accomplish much of their work through other people, their ability to work with, communicate with, and understand others is most important. The human relations skill is essential at every organizational level of management; it is a reflection of a manager's leadership abilities.

James F. Lincoln, founding CEO of Lincoln Electric Co., was an individual endowed with considerable human relations skills. Based near Cleveland, Ohio, Lincoln Electric is the world's leading manufacturer of arc welding equipment. With 3,000 employees, the company has 40 percent of the world's market. The company's ex-

[6]See Russell Mitchell, "Jack Welch: How Good a Manager?" *Business Week*, December 14, 1987, pp. 92ff; and Peter Petre, "What Welch Has Wrought at GE," *Fortune*, July 7, 1986, pp. 43–47.

[7]"Trying to Climb the Corporate Ladder? Without Basic Computer Skills, You Risk Falling Off, Survey Reports," *PR Newswire*, January 20, 1988.

[8]Nat Sakowski and Leslie Baker, "Will Middle Management Survive the PC?" *PC Magazine*, April 17, 1984, pp. 262–67; and "How Computers Remake the Manager's Job," *Business Week*, April 25, 1983, pp. 68ff.

ceptional success has been attributed to James Lincoln's attitudes toward employees and his relationship with them. Lincoln believed that employees have a basic desire to work productively as members of a company that contributes to society. He believed that pay must be directly linked to performance to reward employees for good performance, and a relationship of complete honesty and understanding must be maintained between employees and managers. Lincoln incorporated these beliefs into the company's unique compensation system and management practices. His human relations-oriented philosophy is still alive today at Lincoln Electric, some 20 years after his death.[9]

Jimmy Treybig, CEO of Tandem Computers, is also credited with having a unique, human relations-oriented leadership style. However, as the following Management Application notes, his leadership style has recently changed.

MANAGEMENT APPLICATION

A CHANGE IN LEADERSHIP STYLE

In the early 1980s, CEO Jimmy Treybig managed Tandem Computers with a unique leadership style. At the company's main location in Silicon Valley, California, Treybig motivated employees by giving inspired speeches about Tandem's future in tents erected on the company parking lots. He stressed hard work and commitment but also flexibility, trust, and communication. No time clocks were installed; few regular meetings with subordinate managers were held. The company's goals were communicated to all employees. Beer busts were held every Friday afternoon on the company grounds to encourage employees to discuss new ideas. Yoga classes, a swimming pool, and jogging trails were built at Tandem.

In sum, Treybig strived to create a demanding but comfortable work environment. The Tandem environment came to symbolize the new corporate culture of Silicon Valley's upstart computer companies. Profits were high; employee turnover was low. Treybig's "cheerleading" leadership style appeared to work.

However, when the computer industry slumped, so did Tandem's profits. Other problems surfaced; Tandem was suffering from poor cost control and many managers weren't meeting their objectives. Treybig made the decision to change his laid-back leadership style. He implemented a cost-cutting program, reassigned many employees, imposed restrictions on corporate-paid travel, and required salaried workers to put in some overtime without pay.

Treybig ended consensus management and established authoritative management. Although he dislikes meetings, weekly staff meetings and quarterly reviews are now the norm. Managers are strictly held to their goals, and receive occasionally harsh critiques from the CEO on their performance.

Treybig's style hasn't totally changed. The Friday beer busts continue, and employees can still scribble their names on his calendar for a meeting with the CEO. Open communication is still stressed; most of Tandem's 6,200 employees have electronic mail terminals at their desks to communicate with each other. But the emphasis has changed, from inspiration to accountability. So far, his changed style seems to fit the bill. Tandem recently reached the $1 billion mark in yearly sales.

Source: Adapted from Brian O'Reilly, "How Jimmy Treybig Turned Tough," *Fortune,* May 25, 1987, pp. 102–4.

[9]Harvey Shore, "Mr. Lincoln and His System," *Business Quarterly,* Summer 1986, pp. 10–13; David Whiteside, "Why This 'Obsolete' Company Is a 'Great Place to Work,'" *International Management,* April 1986, pp. 46–50; and William Serrin, "The Way That Works at Lincoln: Its Labor Approach Paid Off in the Welding Industry. Can More Follow?" *The New York Times,* January 15, 1984, p. F4.

Communication skills. Effective communication—the written and oral transmission of common understanding—is vital for effective managerial performance. The skill is critical to success in every field, but it is crucial to managers who must achieve results through the efforts of others. Communication skills involve the ability to communicate in ways that other people understand, and to seek and use feedback from employees to ensure that one is understood.

Lewis Lehr, chairman and CEO of 3M, emphasizes open communication among managers and employees. Lehr spends six months of every year away from 3M headquarters in St. Paul, Minnesota, visiting 3M employees at the company's numerous plant locations. There, he participates in question-and-answer sessions with employees. Lehr requires that executives who run 3M operations frequently visit with media, government, and education officials in their regions to talk about 3M. Lehr believes that frequent communication is the only way to build employee trust and cooperation which is essential to 3M's success.[10]

Conceptual skills. These skills consist of the ability to see the big picture, the complexities of the overall organization, and how the various parts fit together. Recall that in our discussions of the systems approach as a way of thinking about organizations, we stressed the importance of knowing how each part of the organization interrelates and contributes to the overall objectives of the organization.

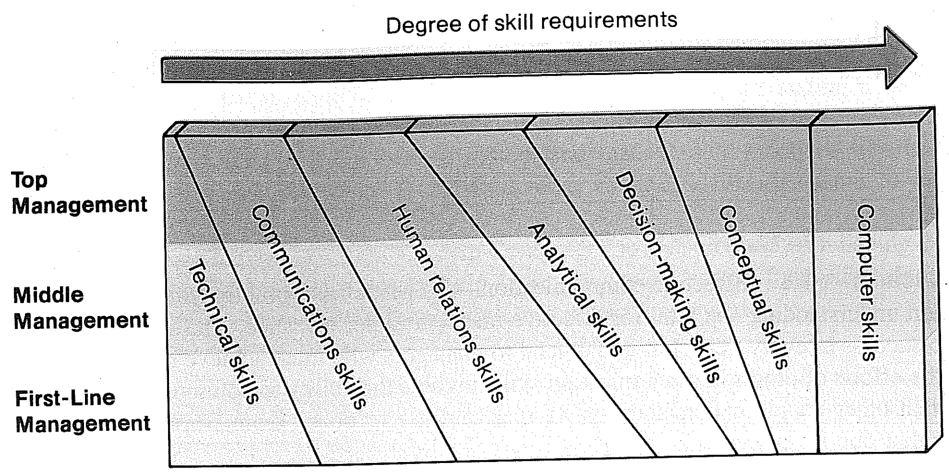
Many CEOs combine analytical and conceptual skills in developing long-range plans for their companies. Both enable a CEO to look forward and project how prospective actions may affect a company 5, 10, or even 20 years in the future. At Matsushita, a Japanese electronics corporation, Chairman Konosuke Matsushita has used considerable conceptual and analytical skills in developing a 250-year plan for his company.[11]

While the above skills are all-important, the relative importance of each will vary according to the level of the manager in the organization. Figure 2–6 illustrates the skills required at each level. For example, note that technical and human relations skills are more important at lower levels of management. These managers have greater contact with the work being done and the people doing the work. Communication and computer skills are equally important at all levels of management. Analytical skills

[10]Del Marth, "Keeping All the Lines Open," *Nation's Business,* October 1984, pp. 85–86.

[11]Walter Kiechel III, "How Executives Think," *Fortune,* February 4, 1985, pp. 127–128.

Figure 2–6 Managerial skills and management level.



are slightly more important at higher levels of management where the environment is less stable and problems are less predictable. Finally, decision-making and conceptual skills are extremely critical to the performance of top managers. Top management's primary responsibility is to make the key decisions that are executed or implemented at lower levels. This requires that top management see the big picture in order to identify opportunities in the environment and develop strategic plans to capitalize on these opportunities. The many skills required of an effective manager is one of the reasons so many individuals find the field so challenging.

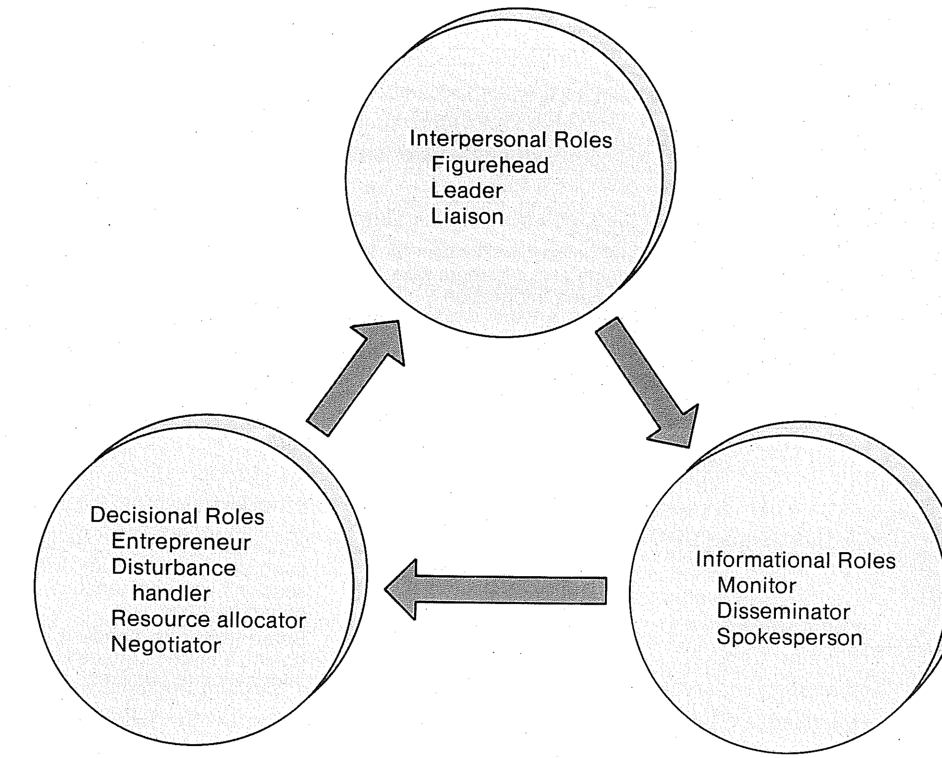
Managerial Roles

We now know that different managers perform at different levels and require different skills. At this point, we want to examine what managers actually do and how they spend their time. One of the most frequently cited studies of *managerial roles* was conducted by Henry Mintzberg. He observed and interviewed five chief executives from different industries for a two-week period. He determined that managers serve in 10 different but closely related roles.[12] These are illustrated in Figure 2–7. The figure indicates that the 10 roles can be separated into three categories: interpersonal roles, informational roles, and decisional roles.[13] Table 2–1 briefly describes each role and lists the specific activities each comprises.

[12]Henry Mintzberg, *The Nature of Managerial Work* (Englewood Cliffs, N.J.: Prentice-Hall, 1980).

[13]Henry Mintzberg, "The Manager's Job: Folklore and Fact," *Harvard Business Review*, July–August 1975, pp. 49–61; Jay W. Lorsch, James P. Baughman, James Reece, and Henry Mintzberg, *Understanding Management* (New York: Harper & Row, 1978), p. 220; and Neil Snyder and William F. Glueck, "How Managers Plan—The Analysis of Managers' Activities," *Long-Range Planning*, February 1980, pp. 70–76.

Figure 2–7 Managerial roles.



Interpersonal roles. The three roles of figurehead, leader, and liaison grow out of the manager's formal authority and focus on interpersonal relationships. By assuming these roles, the manager is also able to perform informational roles which, in turn, lead directly to the performance of decisional roles.

All managerial jobs require some duties that are symbolic or ceremonial in nature. Some examples of the *figurehead role* include a college dean who hands out diplomas at graduation, a shop supervisor who attends the wedding of a subordinate's daughter, and the mayor of New York who gives the key to the city to an astronaut.

The manager's *leadership role* involves directing and coordinating the activities of subordinates. This may involve staffing (hiring, training, promoting, dismissing) and motivating subordinates. The leadership role also involves controlling, making sure that things are going according to plan.

The *liaison role* involves managers in interpersonal relationships outside of their area of command. This role may involve contacts both inside and outside the organization. Within the organization, managers must interact with numerous other managers and other individuals. They must maintain good relations with the managers who send work to the unit as well as those who receive work from the unit. For example, a

Table 2–1 Mintzberg's 10 management roles: description and activities.

Roles	Description	Identifiable Activities
A. Interpersonal		
1. Figurehead	Symbolic head; obliged to perform a number of routine duties of a legal or social nature	Ceremony, status, requests, solicitations
2. Leader	Responsible for the motivation and activation of subordinates; responsible for staffing, training, and associated duties	Virtually all managerial activities involving subordinates
3. Liaison	Maintains self-developed network of outside contacts and informers who provide favors and information	Acknowledgments of mail, external board work, other activities involving outsiders
B. Informational		
1. Monitor	Seeks and receives wide variety of special information (much of it current) to develop a thorough understanding of the organization and environment; emerges as nerve center of internal and external information of the organization	Handling all mail and contacts, which are primarily informational, such as periodical news and observational tours
2. Disseminator	Transmits information received from outsiders or from subordinates to members of the organization; some information factual, some involving interpretation and integration	Forwarding mail into the organization for informational purposes, verbal contacts involving information flow to subordinates including review sessions and spontaneous communication
3. Spokesperson	Transmits information to outsiders on the organization's plans, policies, actions and results; serves as expert on the organization's industry	Board meetings, handling mail and contacts involving transmission of information to outsiders
C. Decisional		
1. Entrepreneur	Searches the organization and its environment for opportunities and initiates "improvement projects" to bring about change; supervises design of certain projects as well	Strategy and review sessions involving initiation or design of improvement projects
2. Disturbance Handler	Responsible for corrective action when the organization faces important, unexpected disturbances	Strategy and review involving disturbances and crises
3. Resource Allocator	Responsible for the allocation of organizational resources of all kinds—in effect the making or approving of all significant organizational decisions	Scheduling, requests for authorization, any activity involving budgeting and the programming of subordinates' work
4. Negotiator	Responsible for representing the organization at major negotiations	Negotiation

Adapted from: H. Mintzberg, *The Nature of Managerial Work* (Englewood Cliffs, N.J.: Prentice-Hall, 1980), pp. 91–92.

college dean must interact with individuals all over the campus, a supervisory nurse in an operating room must interact with supervisors of various other groups of nurses, and a production supervisor must interact with engineering supervisors and sales managers. Managers also often have interactions with important people outside of the organization. It is easy to see that the liaison role can often consume a significant amount of a manager's time.

Informational roles. The *informational role* establishes the manager as the central point for receiving and sending nonroutine information. As a result of the three interpersonal roles discussed above, the manager builds a network of interpersonal contacts. The contacts aid him in gathering and receiving information as a monitor and transmitting that information as the disseminator and spokesperson.

The *monitor role* involves examining the environment in order to gather information, changes, opportunities, and problems that may affect the unit. The formal and informal contacts developed in the liaison role are often useful here. The information gathered may be competitive moves that could influence the entire organization or the knowledge of whom to call if the usual supplier of an important part cannot fill an order.

The *disseminator role* involves providing important or privileged information to subordinates. The president of a firm may learn during a lunch conversation that a large customer of the firm is on the verge of bankruptcy. Upon returning to the office, the president contacts the vice president of marketing, who in turn instructs the sales force not to sell anything on credit to the troubled company.

In the *spokesperson role,* the manager represents the unit to other people. This representation may be internal when a manager makes the case for salary increases to top management. It may also be external when an executive represents the organization's view on a particular issue of public interest to a local civic organization.

Decisional roles. Developing interpersonal relationships and gathering information are important, but they are not ends in themselves. They serve as the basic inputs to the process of decision making. Some people believe *decisional roles*—entrepreneur, disturbance handler, resource allocator, and negotiator—are a manager's most important roles.

The purpose of the *entrepreneur role* is to change the unit for the better. The effective first-line supervisor is continually looking for new ideas or new methods to improve the unit's performance. The effective college dean is continually planning changes that will advance the quality of education. The effective marketing manager continually seeks new product ideas.

In the *disturbance handler role,* managers make decisions or take corrective action in response to pressure that is beyond their control. Usually the decisions must be made quickly, which means that this role takes priority over other roles. The immediate goal is to bring about stability. When an emergency room supervisor responds quickly to a local disaster, a plant supervisor reacts to a strike, or a first-line manager responds to a breakdown in a key piece of equipment, they are dealing with disturbances in their environments. They must respond quickly and must return the environment to stability.

The *resource allocator role* places a manager in the position of deciding who will get what resources. These resources include money, people, time, and equipment. Invariably there are not enough resources to go around, and the manager must allocate the scarce goods in many directions. Resource allocation, therefore, is one of the most critical of the manager's decisional roles. A first-line supervisor must decide whether an overtime schedule should be established or whether part-time workers should be hired. A college dean must decide which courses to offer next semester, based on available faculty. The president of the United States must decide whether to allocate more to defense and less to social programs.

In the *negotiator role,* a manager must bargain with other units and individuals to obtain advantages for her unit. The negotiations may concern work, performance, objectives, resources, or anything else influencing the unit. A sales manager may negotiate with the production department over a special order for a large customer. A first-line supervisor may negotiate for new typewriters, while a top-level manager may negotiate with a labor union representative.

Mintzberg suggests that recognizing these 10 roles serves three important functions. First, they help explain the job of managing while emphasizing that all the roles are interrelated. Neglecting one or more of the roles hinders the total progress of the manager. Second, a team of employees cannot function effectively if any of the roles is neglected. Teamwork in an organizational setting requires that each role be performed consistently. Finally, the magnitude of the 10 roles points out the importance of managing time effectively, an essential responsibility of managers if they are to successfully perform each of the 10 roles.

Managerial level and roles. As you might expect, the level in the organization will influence which managerial roles are emphasized, although at every level, each role must be performed to some degree. Obviously, top managers spend much more time in the figurehead role than do first-line supervisors. The liaison role of top and middle managers will involve individuals and groups outside the organization, while at the first-line level, the liaison will be outside the unit but inside the organization. Top managers must monitor the environment for changes that can influence the entire organization. Middle managers monitor the environment for changes likely to influence the particular function (for example, marketing) that they manage, and the first-line supervisor is concerned about what will influence his unit.

THE EXTERNAL ENVIRONMENT

Thus far in this chapter, we have examined three important factors—types of managers, managerial skills, and managerial roles—which influence managerial behavior and performance. We know the value of each of these factors will differ from situation to situation and manager to manager. Another factor influencing a manager's ability to perform is the external environment, a set of outside forces that are difficult to control. These factors may have a profound impact on how well a manager performs.

Recall from our discussion of the open-systems concept in the previous chapter that an organization interacts with the external environment and receives feedback. The open-systems view encourages managers to examine the world and events outside the organization. Much of what occurs inside the organization in terms of performance is affected by the external environment. The organization's goals, structure, staffing program, reward and discipline system, and performance evaluation programs reflect external environmental factors.

The tobacco industry (discussed in this chapter's Management Incident) is one example of the external environment's impact on an industry's organizations. The airline industry is another insightful illustration of the environment's considerable

influence. Until recent years, the airline industry's operations were regulated by the U.S. government, a quite powerful external constituency. Government regulations determined the fares an airline charged for flights, the airline's flight routes, and even the size of its fleet of planes.

Once these controls were lifted by deregulation, another external force—competition—became a critical factor. An airline's existence depended on closely monitoring the moves of its competitors and responding quickly and effectively. Obeying this new rule of survival, the industry quickly plunged into a fare-cutting war with each airline matching or beating another's fare reductions. Matching competitor moves in flight discount promotions (such as red-eye flights and frequent-flyer programs) was also essential to attract customers.

When lower fares forced airlines to cut costs to stay competitive, discontent among two other external forces—national union organizations and customers—substantially affected airline companies. The airlines conducted tough negotiations with unions to secure wage cuts and endured labor strikes in several instances. With lower-quality service resulting from severe internal cost cutting, customers complained loudly about service problems (lost baggage, canceled flights) and about increased risks of flying. As a result, the federal government is considering passing laws to protect the consumer's interests, laws that will affect airline operations. In sum, several external forces have critically affected the operations and performance of companies in the airline industry.[14]

Like the airlines, organizations must continually scan and evaluate the forces in the external environment. Beyond the forces discussed, factors such as the economy, culture, technology, and the availability of information and money must be monitored. To ensure survival, organizations must respond to environmental developments with speed and effectiveness.

It is not possible for us to discuss each of the important environmental influences in detail in these few pages. However, it is necessary to outline the broad impacts of environmental influences on the job of managing. Our discussion of environmental effects will focus on the different types of environments in which organizations compete. An organization's environment may be classified as *turbulent, hostile, diverse,* or *technically complex.*[15]

A Turbulent Environment

An organization in a turbulent environment faces rapid changes on a regular basis. These changes may come from technological innovations, changes in government regulations, or economic or competitive shifts. Because of a lack of environmental stability, this is an extremely difficult environment in which to manage.

The soft drink industry is an example of a turbulent environment. There, Coca-Cola Co. and PepsiCo are engaged in the so-called cola wars, an intense battle for

[14]See Tom Brown, "Up in the Air but Losing Ground," *Industry Week,* September 7, 1987, p. 13; and Jo Ellen Davis, "Showdown Time at Eastern," *Business Week,* February 8, 1988, pp. 20–21.

[15]Pradip N. Khandwalla, *The Design of Organizations* (New York: Harcourt Brace Jovanovich, 1977), pp. 326–40.

market leadership. Both giants have introduced new products at a dizzying rate, continuously implemented new pricing policies, launched advertising blitzes, and made major acquisitions of other companies. Coca-Cola is buying many of its independent bottlers to build up its distributing system; PepsiCo has purchased the Seven-Up Co. in a megamerger. These speedy and often major changes have affected the sales and strategies of Dr Pepper, Diet Rite, and other soft drink competitors.[16]

A Hostile Environment

When an organization faces intense competition for customers, resources, or both, it is operating in a hostile environment. The U.S. automobile industry faces such an environment. General Motors, Ford Motor Company, and Chrysler are engaged in fierce competition with each other and with tough Japanese and Korean automakers. Intense competition has affected literally every aspect of management, from pricing and car warranty policies, to plant location and operations, and union contracts.[17]

As the following Management Application discusses, the market for overnight air mail delivery is another intensely competitive environment. There, Federal Express and United Parcel Service are competing for the market's leadership.

MANAGEMENT APPLICATION

THE BATTLE FOR LEADERSHIP IN OVERNIGHT DELIVERY

Few markets are as intensively competitive as overnight mail delivery service. The market's growth rate has declined and competitors are fiercely fighting for a larger share of customers and profits. Leading the battle are Federal Express, the Memphis-based company that pioneered overnight delivery, and United Parcel Service, a powerful contender that is challenging Federal Express's leadership.

The two companies are quite different. With 58 percent of the overnight market, Federal Express uses high technology to ensure that all packages picked up as late as 6 P.M. are delivered nationwide by 10:30 the next morning. Its bright white, orange, and purple-colored pickup/delivery vans are each equipped with a computer terminal that is linked to the company's mainframe computers. Such equipment enables headquarters to continually update the van's pickup schedule. While on the road, the courier simply checks his terminal screen for any changes. At each pickup, every package is bar-coded and the code is entered into the main computer network. As a result, the company can locate in an instant any package at every step of its journey from initial pickup to final delivery.

[16]See Thomas Moore, "He Put the Kick Back into Coke," *Fortune,* October 26, 1987, pp. 45ff; Betsy Morris, "Coca-Cola's Corporate Strategy Is Divide and Conquer," *The Wall Street Journal,* October 8, 1987, p. 6; and Amy Dunkin, "Pepsi's Marketing Magic: Why Nobody Does It Better," *Business Week,* February 10, 1986, pp. 52ff.

[17]For an overview of the U.S. and international auto industry, see James B. Treece, "Will the Auto Glut Choke Detroit?" *Business Week,* March 7, 1988, pp. 54ff.

Every night, all pickups are flown to the company's central hub in Memphis where 3,000 employees frantically sort the some 880,000 letters and packages for transport on Federal Express planes to their final destinations. High technology speeds the sorting process. Federal Express maintains an easygoing, velvet-gloved management style; employees are nonunion and well paid. The company emphasizes clever, entertaining television commercials to attract business.

With 15 percent of the market, United Parcel Services (UPS) does not use high technology; most jobs are performed manually. However, the company uses scientific management principles of time-motion study to obtain exceptional productivity from its employees. Tough productivity standards are based on a study of all regular stops on delivery routes. An industrial engineer travels the route with the courier in UPS's dark brown van, studies the courier's movements with a stopwatch, and devises ways to make delivery more efficient. All jobs at UPS's sorting centers are studied the same way.

The UPS work force is unionized and highly committed to the company. Management is conservative, and traditionally has shunned national advertising. But no longer. Three times the size of Federal Express, UPS is putting its considerable resources to the task of snaring the market's top spot from Federal Express. Its television commercials are frequent, its fleet of planes are larger, and its overnight delivery prices are lower. UPS is also investing funds to implement the kind of technology that has given Federal Express some competitive advantages (because of technology, Federal Express comes when you call; UPS must maintain strict pickup schedules).

Federal Express's response: it is working on new ways to lower prices and stay profitable and it is emphasizing the larger package (and more profitable) segment of the overnight market (a segment that historically has been UPS's domain). Who will win? Federal Express is the leader, but UPS is considered the best-managed company in the transportation business. The race is too close to call.

Source: Adapted from Larry Reibstein, "Federal Express Faces Challenges to Its Grip on Overnight Delivery," *The Wall Street Journal,* January 8, 1988, pp. 1, 8; and Kenneth Labich, "Big Changes at Big Brown," *Fortune,* January 18, 1988, pp. 56ff.

A Diverse Environment

An international organization such as McDonald's Corporation is a good example of a firm facing a diversity of languages, consumers, governments, cultures, and food tastes. This diverse environment influences not only what the organization does and how it does it, but when it makes certain moves, as well.

For example, because of cultural taste differences, McDonald's alters its Big Mac and menu in different countries. In Tokyo, slight changes are made in the amount of onions and salt added to a Big Mac and to the amount of catsup put on a regular hamburger. In Brazil, McDonald's sells a soft drink made from guarana, a berry produced in the Amazon. In Malaysia, Singapore, and Thailand, a McDonald's milk shake contains durian, an unpleasant-smelling Southeast Asian fruit that is believed by customers to be an aphrodisiac.[18]

[18]Kathleen Deveny, "McWorld?" *Business Week,* October 13, 1986, pp. 78–82, 86.

Domestic companies that produce numerous products which are sold to different markets also face a diverse environment. For example, Philip Morris produces cigarettes, Miller Beer, a wide variety of food products, paper products, and develops real estate properties. Tenneco, Inc., produces food products, automobile parts, aircraft carriers, natural gas, and chemicals. Each product requires different technology and raw materials, and each is sold to a different market.

A Technically Complex Environment

The electronics, computer, and telecommunications industries operate in technically complex environments. They demand sophisticated information and the recruitment of highly technical personnel to survive. New developments can occur quickly, and present products can fast become obsolete as technological breakthroughs occur.

This frenetic pace of technological change is evident in the computer industry. IBM, Apple, Compaq Computer, and other computer makers must not only develop new products quickly and continually; they must meet if not beat their competitors' developments. IBM is currently experiencing the problems of fast technological change. Because personal computers have quickly become more powerful in functions and memory capacity, the market for large, mainframe computers is declining. Mainframes provide 60 percent of IBM's profits.[19]

MANAGERIAL RESPONSES TO A CHANGING EXTERNAL ENVIRONMENT

Since an organization must operate in a world that includes changing environmental forces, managers must respond to them. There are no sure methods of coping with environmental forces, but there are some that can be used with varying degrees of success. An organization can attempt to change the external environmental forces in a way that is suitable to its needs and goals.[20] Or, through its management team it can develop suitable internal responses for coping with the changes. We will describe a few of the internal responses used to maintain and sustain performance.

Fire Fighting

The fire-fighting response to environmental forces, though not recommended or particularly effective, is surprisingly popular. Following this approach means sitting back and letting things happen—and *then* dealing with the result.[21] The problem with this type of response is that the external force—a problem or a competitor—may have become so big by the time the company reacts that any response is an uphill battle. Because they came late into the small car market (subcompact cars), U.S. automakers allowed foreign market penetration by Toyota and others to become so significant that even today American makers must struggle to survive.

[19]Paul B. Carroll and Hank Gilman, "Mainframe Slowdown and Stiff Competition Put Pressure on IBM," *The Wall Street Journal*, November 23, 1987, pp. 1,10. Also see Brian O'Reilly, "Apple Finally Invades the Office," *Fortune*, November 9, 1987, pp. 52ff; and John W. Wilson, "Suddenly the Heavyweights Smell Money in Computer Networks," *Business Week*, April 27, 1987, pp. 110ff.

[20]Richard L. Daft, *Organization Theory and Design* (St. Paul, Minn.: West Publishing, 1983), p. 55.

[21]Grover Starling, *The Changing Environment of Business* (Boston: Kent, 1984), pp. 300–301.

Such observations about fire fighting in the technological environment are also valid when other external environmental forces are considered. For example, the benefits of early reaction to government dissatisfaction with a particular management practice shouldn't be underestimated. If a firm, or even an industry, acts promptly, it can set its own standards and possibly preclude government action. At worst, the firm or industry can have some say in shaping the law and policies that the government imposes. The alternative, ignoring government concern (safety features on cars or in coal mines), can result in laws that are written by legislators with little concern for the problems created for managers.

As the following Management Application notes, a small but growing number of companies are no longer maintaining a fire-fighting attitude toward management crises. Rather, they are developing well-laid plans for handling company disasters should they occur.

MANAGEMENT APPLICATION

PREPARING FOR DISASTER

Deaths from cyanide-laced Tylenol capsules. Union Carbide's industrial accident that killed thousands in Bhopal, India. The near-disaster at the Three Mile Island nuclear plant. These crises have struck organizations and incurred considerable human and financial costs. However, despite their widespread publicity, most companies are poorly prepared to handle management disasters. According to one study, only 38 percent of the major U.S. industrial companies have crisis management teams. In midsize companies, only 32 percent have prepared crisis communications plans, according to another study.

However, a small but growing number of companies are developing just-in-case strategies for handling crises. They are establishing crisis management teams (usually comprised of the CEO, the chief operating and financial officers, public relations officials, and sometimes lawyers). Companies are identifying potential disasters and developing action plans for handling them.

Some organizations such as H. J. Heinz Co., stage mock crises. "We try to say, 'What would we do if the president of the company were kidnapped, if a plant burned down, if somebody alleged tampering with a product,'" said a Heinz official. The company then develops responses and executes them in a simulated emergency. The simulation reduces response time should the crisis actually occur and builds management confidence about handling the crisis.

Mock disasters are also regularly staged at the Niagara Mohawk Power Corp., a utility and nuclear power plant operator. Company officials are given "confrontational training" sessions where reporters aggressively question them about a company crisis during a mock press conference. The company has found that the training has improved spokesperson's skills in handling difficult questions under public pressure. Many companies appoint one crisis spokesperson for the company. Often, the CEO assumes this role.

Some companies with crisis management planning also develop a crisis management manual that describes a step-by-step procedure for handling certain crises. However, some companies such as SmithKline/Beckman Corporation, shun this approach. After the company recalled its Contac capsules after rat poison was found in several capsules, some executives suggested that a detailed manual be developed. However, the company opted for a one-page memo that identifies possible crises and the employees who should be contacted. The reason: too much detail slows the reaction process and muddles thinking.

Source: Adapted from Nancy Jeffrey, "Preparing for the Worst: Firms Set Up Plans to Help Deal with Corporate Crises," *The Wall Street Journal*, December 7, 1987, p. 23; and "Hill and Knowlton Survey Reveals Lack of Preparation of Mid-sized Growth Companies for Corporate Crisis," *PR Newswire*, May 28, 1987.

Organizational Structure

As the complexity in the external environment increases, so does the complexity in organizational structure. Each force in the external environment requires an internal organizational response. For example, customers in the environment are the main responsibility of the marketing department within the organization. Likewise, the technological changes and advancements in the environment are the responsibility of a research and development unit within the firm.

James D. Thompson viewed the organization as a technical core surrounded by *buffers*.[22] The technical core performs the primary activity of an organization. In a university it is the faculty, while at the Ford Motor Co. it is the production workers. The buffers are departments that absorb the uncertainty created by the external environment. Marketing, research and development, and other functional departments are the buffers that a firm needs to make the technical core as efficient as possible. Threats, changes, and other uncertainties that influence the technical core can be buffered by creating additional departments in the organization. Thus, the more complex its environment, the greater the number of departments an organization will need.

The Boundary Spanning Job

A boundary spanning job is one that links two or more systems in different organizations such as a firm and its external environment.[23] An example of a boundary spanning job is that of the Frito-Lay salesperson. He or she is a link between the company and the supermarket customer and can carry information and ideas back and forth between the firm and the environment.

[22]James D. Thompson, *Organizations in Action* (New York: McGraw-Hill, 1967), pp. 20–21.

[23]J. Stacy Adams, "The Structure and Dynamics of Behavior in Organization Boundary Roles," in *Handbook of Industrial and Organizational Psychology*, ed. M. Dunnette (New York: John Wiley & Sons, 1976), pp. 1175–99.

The boundary spanner serves two major purposes: She can detect and process information about changes in the external environment and represent the organization to the public. These functions are extremely important because they can provide data, suggestions, and ideas to decision makers who can use the information to devise and implement plans for coping.

Strategic Planning

This subject will be covered in detail in Chapter 6. However, it must be introduced here since it is a crucial managerial response to external environmental forces. In simple terms, *strategic planning* is a management process that involves the determination of the basic long-term objectives of the organization and the adoption of specific action plans for attaining these objectives. The five interrelated elements of strategic planning are: (1) analyzing the environment in terms of mission, threats, changes, and opportunities; (2) establishing objectives; (3) performing a situational analysis focusing on the external environmental forces that play the most significant role in the firm's success; (4) selecting the approach(es) (strategies) that will be used to accomplish the objectives; and (5) implementing and monitoring the actions necessary to accomplish the goals of the strategic plan.

Several studies support the notion that a strategic response to external environmental forces is both needed and beneficial. One group of researchers studied 90 companies that had made concerted efforts to respond strategically to environmental forces.[24] They found that firms using strategic planning outperformed those that did not in earnings growth, sales growth, and earnings per share. In another study, researchers examined strategic planning in 57 corporations.[25] The researchers measured the effects of strategic planning decisions on investment returns. They found that the more systematic the strategic planning, the higher the company's return.

Today's managers will have to consider these and other responses. The fire-fighting response is easy to initiate, but the results are not usually good. Organizational modifications are inevitable and should be given a high priority when developing plans for adjusting to changes. Effective use and support of boundary spanners is crucial for maintaining or achieving high levels of performance. Managers must recognize crucial changes in the external environment and possess the necessary skills to bring about appropriate action.

MEASURING PERFORMANCE: A NECESSITY

One important way to determine how successful managers are is to use a system of performance measurement. Performance measures form the basis on which strengths and weaknesses can be analyzed and against which programs for improvement can be

[24]H. Igor Ansoff et al., *Acquisition Behavior of U.S. Manufacturing Firms, 1946–1965* (Nashville, Tenn.: Vanderbilt University Press, 1971).

[25]Sidney Schoeffler et al., "Impact of Strategic Planning on Profit Performance," *Harvard Business Review*, April 1974, pp. 137–45.

made. All members of an organization need some kind of benchmark to provide an indication of how well they are doing, but there is little agreement on how performance should be measured. However, we believe that there are primary measures of performance needed at the organizational, managerial, and individual levels.

Organizational Performance

We regularly judge the performances of various enterprises. For example, most of us would agree that Penn Central Railroad, W. T. Grant, A&P, and Montgomery Ward & Co. did not perform well in the 1970s. American Motors, Financial Corporation of America, Texas Air, and Johns Manville have not performed effectively in the 1980s.[26] As the following Management Application notes, the performances of Merck & Co., PepsiCo, Ford Motor Co., Walt Disney, and Compaq Computer Corp. have been exceptional.

MANAGEMENT APPLICATION

THE WINNERS' CIRCLE

What are the five best-managed companies in America? Each year, *Business Month* magazine convenes a panel of 20 business experts to answer the question by evaluating companies on the basis of managerial excellence and financial performance. Here are the panel's selections, presented in alphabetical order:

Compaq Computer Corp. This young, Houston-based manufacturer of personal computers made the list because of its exceptional performance while battling toe to toe with the industry giant, IBM. Compaq's primary weapon: the DeskPro 386, a personal computer that runs programs three times faster than any competitor. IBM labored nine months to produce a comparable product. By then, Compaq had debuted a suitcase version of DeskPro; Compaq's portables chased IBM out of the portable market. The company also leads the way in making IBM-compatible machines that offer high quality and many features. In sales to businesses through retailers, Compaq has 25 percent of the PC market second only to IBM's 40 percent. The company is only eight years old.

Ford Motor Co. The once mediocre maker of American cars now is the most profitable U.S. car manufacturer. While the market declined 8 percent, Ford boosted its market share to 23 percent largely due to big gains in product quality and design. Chairman Donald Petersen successfully implemented a companywide quality improvement program and invested in new technology that boosted plant productivity. Ford plans to continue its success by focusing on sales overseas.

Merck & Co. This pharmaceutical maker made the grade by investing dollars in basic research that resulted in nine new, important drugs and several other substantially improved ones. Its biggest development: Mevacor, a cholesterol-reducing drug that is expected to become the most profitable drug ever made ($1 billion in annual sales). The company is flexible and attracts top technical talent that produces top-quality prescription drugs. More major breakthroughs are expected from Merck.

PepsiCo. The judges picked PepsiCo because of signs that the company is ending its runner-up status to Coca-Cola. PepsiCo has increased market share by becoming more aggressive in marketing. It also gained on Coke overseas by purchasing The Seven-Up Co. Big gains have also been achieved in its restaurant group (Kentucky Fried Chicken, Pizza Hut) and its snack food group. PepsiCo's formula for success emphasizes managerial autonomy and fierce competitiveness. Its goal: to become the world's largest provider of fast food.

Walt Disney. In recent years, Walt Disney Productions made movies that few came to see. However, with a new CEO, the company launched a dramatic three-year turnaround by improving management, implementing tight cost controls, and pursuing growth. Walt Disney shifted its movie focus to adults and scored some big hits. Successes have also come in network and cable TV with several series and The Disney Channel. Its theme parks are booming; more Disney parks will soon be built in the United States, Europe, and Asia.

In sum, most of the companies in the winners' circle are noted for their aggressiveness and focus on product quality.

Source: Adapted from Arlene Hershman, "A Keen Sense of Boom," *Business Month*, December 1987, pp. 22–23, and profiles on the five companies by Fred V. Guterl, Thomas J. Murray, Lynn Adkins, Stephen W. Quickel, and Aimee L. Stern, pp. 25, 29, 31, 35, 37 respectively.

An obvious criterion of corporate performance is *survival*. Both W.T. Grant and Penn Central are no longer in business. Beyond survival, however, it is not that easy to identify criteria for successful corporate performance.

The primary measure of an organization's success—and its primary responsibility—is the performance of its mission. The key to carrying out this responsibility is making a profit. To make a profit, a firm must create more value than it consumes. Profit means adding, creating, and increasing. Profit is a crucial *organizational performance* measure, but it doesn't provide a total picture of a firm or department's success.

In this book, we shall use four broad criteria of organizational performance. We present them as the overall objectives an organization must achieve to ensure the ultimate objective of survival. These criteria are *profitability, competitiveness, efficiency,* and *flexibility*. Business firms usually develop specific measures of these criteria. Some popular measures are:

- *Profitability*—return on equity, return on assets.
- *Competitiveness*—percentage growth in sales, market share.
- *Efficiency*—labor cost per unit of output, total cost per unit of output.
- *Flexibility*—employee satisfaction and turnover, investment in employee development, expenditures on research and development for new products.

[26] American Motors, FCA, Texas Air, and Johns Manville are among the 10 least-admired corporations in America, according to Fortune's 1987 survey. The 10 most-admired are: Merck & Co., Rubbermaid, Dow Jones, Procter & Gamble, Liz Claiborne, 3M, Philip Morris, J. P. Morgan & Co., R. J. Reynolds/Nabisco, and Wal-Mart Stores. See Ellen Schultz, "America's Most Admired Corporations," *Fortune,* January 18, 1988, pp. 32ff.

Since these criteria for successful organizational performance will be discussed in much detail in the next chapter, it is only necessary at this point that the reader see that they are used throughout this book. We can evaluate organizational performance as good or bad to the degree that measures such as return on investment, market share, and employee turnover improve relative to past performance and/or relative to performance by similar organizations.[27]

We have to this point examined profit-oriented organizations. The not-for-profit organization is today becoming the most common kind of institution in the United States.[28] Conservatively, about 35 percent of all employed people work for not-for-profit organizations—federal, state, and local governments; schools; hospitals; and hundreds of other organizations that qualify under the tax codes for nonprofit status.

The difference between Cook County Hospital and Sears, Roebuck & Co. in Chicago is that the hospital exists for reasons other than to make money. Sears, Roebuck must generate more income from the goods and services it sells than it spends for labor, material, and the use of capital. If Cook County Hospital fails to produce an operating surplus, which it has for years, it must use reserve capital, if available, or raise more capital.

Inherent in the interpretation of organizational performance in the not-for-profit institution is a mandate for efficiency and accountability.[29] Such organizations are accountable for the development of a *clear* mission, the operation of cost-effective programs that accomplish relevant goals, and the proper allocation of funds. There are other useful measures of performance for such organizations, but these are widely applied. As they indicate, managing the organizational performance in a not-for-profit institution is a formidable challenge with no easy answers or formulas for success.

Some criteria of organizational performance in profit-oriented firms are objectively measurable, but we must nevertheless use them with caution. In both types of organizations, there are some important questions to be asked about methods of measurement.

1. How stable is the measure? A measure used one time may not be as valid another time. For example, growth in market share may be important in a rapidly expanding market but not in a stable or shrinking market.
2. How precise is the measure? Not only are many measures difficult to compute, but often there is more than one way to arrive at them. For example, employee satisfaction and investment in employee development can be measured in a variety of ways. How can the clarity of an organization's mission be determined with any degree of precision?
3. How important is time? It is important to evaluate the measures in the short and long run. For example, a measure of profitability or competitiveness may appear excellent in the short run but may be jeopardizing employee satisfaction or the condition of the plant and its equipment in the long run.

[27]*Forbes, Fortune,* and *Business Week* magazines evaluate corporate performance in this way. For example, in its January issue, *Forbes* measures managerial performance by combining various financial and marketing indexes and rating every major company both within its own industry and in comparison with industry as a whole. *Business Week* develops similar ratings every quarter, and *Fortune* rates the "Fortune 1000" firms.

[28]Philip Kotler, *Marketing in Nonprofit Organizations* (Englewood Cliffs, N.J.: Prentice-Hall, 1982).

[29]Alan Andreasen, "Nonprofits: Check Your Attention to Customers," *Harvard Business Review,* May–June 1982, pp. 105–10.

An important step toward measuring organizational performance is the development of stable, precise, and time-sensitive measures. The remainder of the book will show that these are worthwhile measurement criteria—but they can't always be achieved.

Managerial Performance: Line Units

Ideally, managers should strive for consistent results in all four areas of organizational performance: profitability, competitiveness, efficiency, and flexibility. The purpose of managerial performance is to achieve organizational performance. Thus, while performance is influenced by other factors such as technology and the external environment, generally speaking, the more effective managerial performance is, the closer the organization comes to achieving its objectives.

One way to examine managerial performance is to classify jobs into line versus staff functions. A *line manager* manages activities that are central to the organization's core function—the creation and sale of output. A *staff manager* manages activities that support the core or line functions of the organization. Many staff managers are specialists who provide advice to line managers.

We will look at two *line units,* manufacturing and marketing, and two *staff units,* research and development and finance, to illustrate how managerial performance can be measured.

The manufacturing or production function.

The primary goal of manufacturing in Procter & Gamble, Digital Equipment Corporation, and General Electric Co. is to produce the company's products on time, within cost, and at acceptable levels of quality. The production unit is a major line unit with managers operating at the top, middle, and first-line managerial levels. General measures of performance include production costs, material costs, and labor costs. Managers are considered good performers if they maintain favorable efficiency ratios (such as cost of goods produced as a percentage of sales), percentage of scrappage, machinery downtime, and number of rejects.[30]

The marketing function.

Absolute size and growth of the business are often used as an index of marketing management. Another important measure is market share, which involves estimating the firm's share of total industry sales for products or product lines. Market share is computed by dividing company sales by industry sales. Another common marketing management measure is sales penetration, company sales divided by sales potential.

A marketing manager must measure market responses in the present and estimate them in the future.[31] This year, for example, how will auto buyers respond to model

[30]Michael Nash, *Managing Organizational Performance* (San Francisco: Jossey-Bass, 1983), p. 201.

[31]Ibid., pp. 200–201.

changes, price increases, rebates, and promotional campaigns? Will customers continue to select gas-efficient models or will the shift to larger cars continue? Measurement of market responses is used to assess marketing programs.

Sales managers' success is measured by examining the aggregate performance of their subordinates in terms of number of calls made, orders received, and average order size per salesperson. A sales manager whose sales team is not generating sufficient volume or calls is considered to be performing inadequately. However, sales and cost figures do not tell the entire story about a sales manager's performance. These performance dimensions can be affected by competitors' actions, such as price cutting and promotional tactics.

Managerial Performance: Staff Units

Measuring the performance of line managers is difficult, but it is much easier than measuring the performance of staff managers. Since staff units are advisory and consume money, they are considered to be cost centers. Thus, while the units bring money into the organization, staff units consume it. This doesn't mean that the staff manager's performance is unimportant or immeasurable. It is essential in order to improve overall organizational performance to monitor a staff unit's performance.

Research and development. The purpose of a research and development (R&D) unit is to conduct basic and applied research to develop the organization's future products and to improve its existing products.[32] Product improvement and creation are not easy to assess accurately. Specific measures of R&D performance are difficult to find. However, ratios such as the R&D budget as a percentage of sales, sales revenue of products developed in the last three to five years as a percentage of sales, and reduction of cost of goods through product improvement can be used as indexes. The number of patents, amount of research grant money, and number of professional papers prepared by the unit can be calculated. Also, the time and costs required to develop new products or product improvements can be traced over a period of one, two, or three years to examine R&D performance.

Finance. The role of the finance unit is to keep concise records, issue timely and accurate reports, and forecast financial climate in the future.[33] Also, the unit is responsible for raising and managing cash and capital, managing the firm's financial structure, and contributing to organizational profits by making sound financial decisions about taxes and depreciation. In some cases, goals are set to improve the accuracy, timeliness, and clarity of the firm's financial system. Other measures of financial management performance include the hours of labor and cost in dollars required to produce financial reports, the average time required to produce data, and the number of errors in reports. Another measure is the satisfaction with the financial reporting system expressed by line managers.

The identification of relevant management performance dimensions for line and

[32]Ibid., pp. 202–3.

[33]Ibid., pp. 204–5.

staff managers follows the description of job responsibilities and duties. The performance dimensions of line unit managers are more conducive to objective measurement than are those of staff unit managers.[34] The few management performance dimensions presented are intended simply to provide a sample, not an exhaustive or recommended list, of how performance is assessed in line and staff units. A manager's performance in a line or staff unit, profit or not-for-profit institution, is largely dependent on the efforts, behavior, and outputs of his or her groups of subordinates.

INDIVIDUAL PERFORMANCE

In Chapter 16, a thorough presentation and discussion is devoted to individual performance measures and techniques. Although managers have always informally evaluated the individual performance of subordinates, systematic appraisal techniques first appeared in the early part of the 20th century.[35] Today individual performance measures are used to make managerial decisions related to salary changes, promotions, and employee development.

Five trends have emerged in individual performance measurement in recent years: (1) involvement of the individual as part of the measurement process; (2) use of individual performance measurements for strategic planning and assessment of managerial effectiveness as well as controlling performance; (3) increase in measurement of individual goal performance; (4) increase in complexity of individual performance techniques; and (5) expansion of litigation involving issues of individual performance. Measuring individual performance correctly is more important than ever because now organizations can be assessed for damages if they make errors in the process.[36] It would be reassuring if using a particular set of individual performance dimensions or techniques would clearly indemnify the employer; unfortunately, as we will see in Chapter 16, although some measures and techniques are better than others, none is ideal or suited to every individual and job.

The fundamental problem in measuring and analyzing the performance of individuals is psychological in nature. People are threatened by measurement of their performance. They know that individual performance assessment can have negative effects on rewards such as salary increases, promotion, and better work assignments. Also a poor assessment can injure self-esteem and discourage an individual in future performances. Although everyone wants some feedback, it is important to hear good news in addition to criticism.[37]

Despite these problems, it is important to develop valid criteria for individual performance measurement. As we stated in the discussion of organizational perform-

[34]In increasingly competitive environments, many corporations are reducing the number of staff managers and assigning staff functions to line units or hiring outside consultants to perform specialized staff activities. This trend is particularly evident at the corporate headquarters level of large companies. See Thomas Moore, "Goodbye, Corporate Staff," *Fortune,* December 21, 1987, pp. 65ff.

[35]Richard I. Henderson, *Performance Appraisal* (Reston, Va.: Reston Publishing, 1984), p. 127.

[36]W. F. Cascio and H. J. Bernardin, "Implications of Performance Appraisal Litigation for Personnel Decisions," *Personnel Psychology,* Summer 1981, pp. 211–26.

[37]John M. Ivancevich and William F. Glueck, *Foundations of Personnel/Human Resource Management,* 4th ed. (Plano, Tex.: Business Publications, Inc., 1989).

ance, stability, precision, and timeliness are mandatory features of an individual performance dimension. It is difficult to suggest individual performance dimensions that can be applied to different kinds of work—computer programmer, production line worker, nurse, waitress, laboratory technician, teacher, police officer. However, a starting point in identifying individual performance for most jobs is to think in terms of *quantity, quality,* and *creativity*.[38]

For a production line worker, individual performance can be measured by counting the number of units produced or processed per day, per week, and so on. Similarly, a salesperson's performance can be assessed by the number of sales over a given period of time. These *quantity*-based measures do not apply neatly to all jobs, nor are they complete measures of individual performance. Variability in individual quantity output can be caused by factors beyond the individual's control. One production line worker may produce more because she works with a better machine. A saleswoman may have more sales volume because her territory is bigger or better.

A second problem with the quantity measure is that it doesn't tell the whole story about individual performance.[39] The production line worker who produces more units per day may also be producing more defective units. Quality may be a goal at least as important as quantity. For example, the salesman may spend a lot of time helping customers or potential buyers, and this must be weighed against sales volume. In the long run, new customers may increase sales volume significantly. Attracting new customers is a measure of *creativity* that should be given more recognition and weight in individual performance measurements.

Another type of individual performance measure is usually found in the personnel/human resource data in an organization. Unexcused *absences* and *lateness* are two critical individual performance measures. In most jobs, employees who are unexcused for absence and are late are considered poorer performers than others. In some organizations continued abuse of these two performance indicators can result in being fired. However, the measurement and interpretation of absenteeism and lateness is a thorny area. What should be done with an employee with excessive unexcused absences and lateness who is still judged to be a better performer in terms of quantity, quality, and creativity? Before making a final judgment, managers need to examine the reasons for absence or lateness. (For example, is the problem due to a personality clash with co-workers? a snowstorm? an ill child?)

These five individual performance dimensions are summarized with some examples for each in Figure 2–8. Again, we are not offering these dimensions as the best or only individual performance indicators. They do, however, represent an example of some of the problems associated with measuring individual performance.

A manager's realization of an organization's potential is dependent, in large part, on his or her application of skills in performing the various necessary roles. Managers need technical, analytical, decision-making, human relations, communication, and conceptual skills at each level in the hierarchy. Each of these and other relevant skills

[38] Carl R. Anderson, *Management: Skills, Functions, and Organization Performance* (Dubuque, Iowa: Wm. C. Brown, 1984), p. 88.

[39] Paul M. Muchinsky, *Psychology Applied to Work* (Homewood, Ill.: Dorsey Press, 1983), p. 249.

Figure 2–8 Individual performance dimensions.

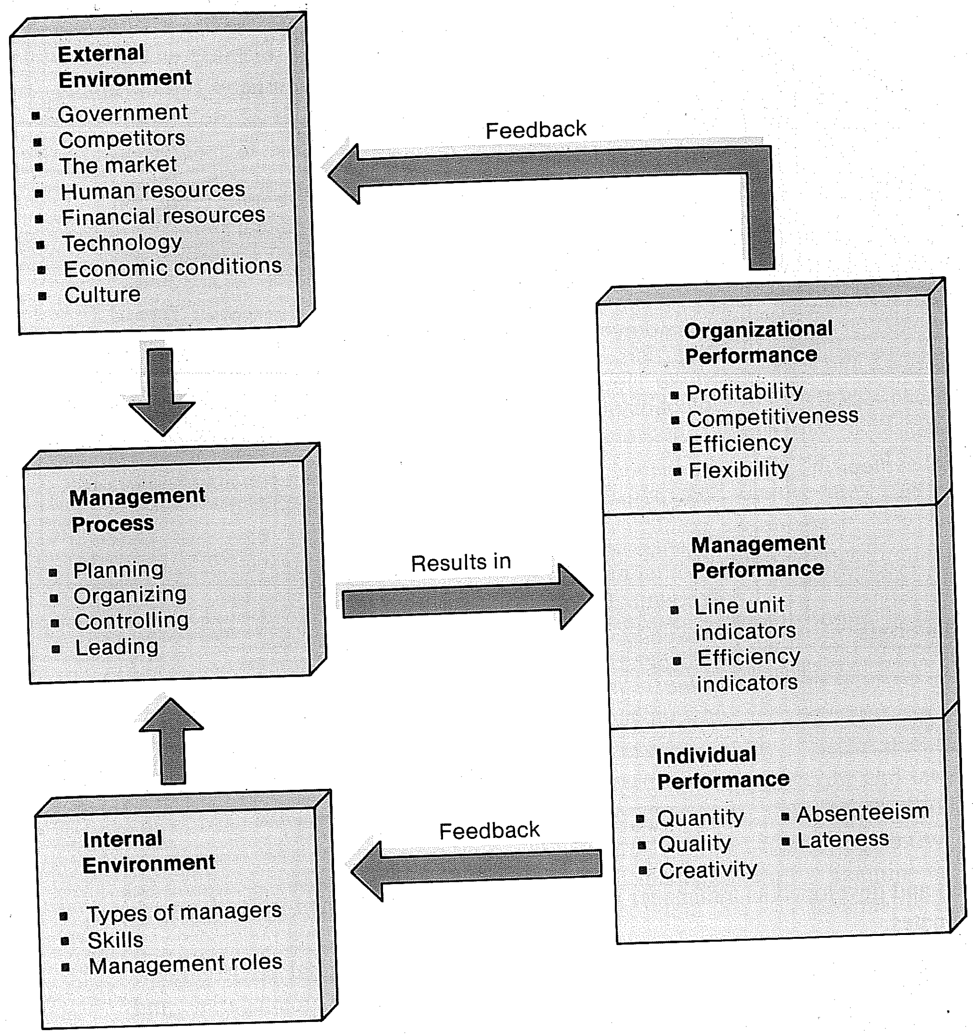
Dimension	Measurement examples
Quantity	Production line work: Number of units produced. Salesperson: Number of units sold. Nurse: Number of patients cared for. Accountant: Number of reports audited.
Quality	Production line work: Number of defective units produced. Salesperson: Average of sales to customer calls. Nurse: Patient feedback on quality of care. Accountant: Errors found in audited reports.
Creativity	Production line work: Suggestions made for work improvements. Salesperson: Number of new accounts. Nurse: New practices suggested and implemented. Accountant: Modifications made in auditing system that are accepted by management.
Absenteeism	Production line work: Frequency of unexcused absences. Salesperson: Number of days missed because of unexcused absence. Nurse: Frequency of unexcused absences relative to other nurses. Accountant: Timing of unexcused absences during tax season.
Lateness	Production line work: Frequency of lateness. Salesperson: Type of reason cited for lateness. Nurse: Pattern of lateness (Monday-Friday). Accountant: Total time late per month.

are learned and developed as a manager plans, organizes, controls, and leads the work of subordinates.

Figure 2–9 summarizes how the management process, the internal environment, and the external environment are interrelated at the organizational, managerial, and individual levels. Performance assessment provides the basis for gauging how successful the organization, manager, or individual is in conducting the work of the system. In most cases, less than ideal performance measures are used as indicators. This doesn't mean that simplistic or incomplete measures are totally acceptable. It only means that research into understanding, analyzing, and improving performance within organizations must continue.

As the model in Figure 2–9 indicates, both the external and internal environments exert pressure that directly impacts the managerial process. The failure to utilize a systematic set of planning, organizing, controlling, and leading actions would lead to chaos and little focus on the responsibility of the organization to achieve high performance. The application of the management process results in performance. Figure

Figure 2–9 The interrelationships of management process, internal environment, and external environment.



2–9 doesn't provide a complete picture of the process-performance linkage since specific details of each of the processes are not represented. For example, an organizational structure with the necessary buffer units must be established to achieve performance. These are both organizing activities that are not presented. It is not possible to include every process activity in a concise modeling of the interrelationships.

As we will clearly show and report in the following pages, a manager's job is to influence what happens. Acceptable performance at any level will not happen unless the manager is proficient in applying skills. Managers who are willing to put forth the effort, time, and patience, and who possess the needed skills, will achieve and sustain the kind of performance needed to survive.

MANAGEMENT SOLUTION

THE TOBACCO INDUSTRY'S STRATEGY FOR SURVIVAL

R. J. Reynolds/Nabisco and Philip Morris, the industry's two giants, have launched a four-part strategy for survival which other tobacco companies are generally following. The two giants together own over 70 percent of the U.S. cigarette market.

Diversify via acquisition. Both companies are lessening their financial dependence on the tobacco industry by purchasing companies in other, unrelated industries. In 1985, both companies made major acquisitions. R. J. Reynolds spent $4.9 billion of its cigarette profits to buy Nabisco Brands (the makers of Oreo cookies, Del Monte foods, Planters nuts, and other products). Philip Morris spent $5.6 billion to acquire General Foods, a company of almost equal size. GF makes Oscar Mayer meats, Kool-Aid, and other food products. The trend toward acquiring different companies will continue because most cigarette makers still have much cash from cigarettes to spend.

Cut costs and boost production efficiency. Many companies are spending money to automate their factories. For example, R. J. Reynolds has spent $2 billion in plant modernization. Its totally automated cigarette plant in Tobaccoville, Virginia, cuts, dries, and blends tobacco by machine. The plant makes 110 billion cigarettes each year, about twice the output of an older facility that has three times as many employees. This strategy is designed to reap a larger profit from every pack of cigarettes sold.

Focus on international markets. Many companies are targeting countries where pressures to stop smoking are insubstantial and where import barriers have been dropped. Japan recently abolished its 23 percent import tariff on cigarettes. U.S. manufacturers now have 10 percent of the Japanese market which is the second largest free market for cigarettes (after the United States). An even more lucrative market is China where smokers consume 400 billion cigarettes each year. However, import tariffs are high.

Develop tobacco-related products. R. J. Reynolds's "smokeless" cigarette is a step in this direction. The cigarette emits no smoke after the first few puffs. Many observers believe that this invention, if accepted by smokers, will eventually save the tobacco industry. Other companies are developing a chewing gum that contains finely ground tobacco and nicotine and is flavored (e.g., cinnamon, peppermint).

Some industry observers believe that while sales will dwindle, the tobacco industry will remain relatively strong because cigarettes are addictive. Smokers need to smoke. However, others point to the strength of the growing anti-smoking movement which could make America smokeless. Rumors abound that companies such as R. J. Reynolds may abandon tobacco. Re-

Continued

(*Concluded*)

gardless, the current plight of the tobacco industry is a convincing illustration of the impact that uncontrollable factors in the external environment can have on an industry and its businesses.

Source: Adapted from Scott Ticer, "Where There's Smoke, There's Trouble," *Business Week*, January 18, 1988, pp. 88–89, and "Big Tobacco's Fortunes Are Withering in the Heat," *Business Week*, July 27, 1987, pp. 47ff; Daniel P. Wiener, "Puffing Up a Second Wind," *U.S. News & World Report*, September 28, 1987, pp. 80ff; and Joan O'C. Hamilton and Emily T. Smith, "'No Smoking' Sweeps America," *Business Week*, July 27, 1987, pp. 40–43, 46.

MANAGEMENT SUMMARY

- Certain managerial skills and roles are essential for performance and to enable a manager to respond to the external environment which influences organizations.
- Management's response to the increasing complexity of an organization as it develops can be discussed in terms of horizontal and vertical specialization.
- Three types of managers are found in most complex organizations. They are first-line management, middle management, and top management.
- Seven skills are central to successful management. They can be classified as technical, analytical, decision making, computer, human relations, communication, and conceptual. The relative importance of most of these skills differs across the three levels of management.
- In his classic study, Henry Mintzberg identified 10 specific roles of management and grouped them into three categories: interpersonal, informational, and decisional.
- Organizations exist and compete in one of four types of external environment: turbulent, hostile, diverse, and technologically complex. To ensure survival, organizations must continually monitor forces in the environment and effectively respond to important environmental changes.
- There are four specific managerial responses to a changing external environment. These are discussed as fire fighting, organizational structure, boundary spanning, and strategic planning.

REVIEW AND DISCUSSION QUESTIONS

1. Why would it be important for a manager, in discussing performance at any level, to make sure he or she also discusses whether the short or long run is an important issue?
2. A professional football team like the Miami Dolphins has to be concerned with organizational, managerial (coach), and individual performance. Explain these performance variables in terms of the team.
3. A common misconception is that organizations only wish to have managers with technical skills. Why is this viewpoint dangerous and incorrect?

4. If quantity, quality, creativity, absenteeism, and lateness are good individual performance measures, why don't all organizations use them?
5. Some management observers assert that Mintzberg's typology of 10 managerial roles is incomplete. What other roles do managers assume?
6. Of the four types of environment (turbulent, hostile, diverse, and technologically complex), in which environment in your opinion is it most difficult for an organization to succeed?
7. Some management experts assert that computer skills aren't relevant at the top-management level because executives don't use computers. Why might this be the case? Explain.
8. Is there any management situation in which the 10 roles identified by Mintzberg are not important?
9. Some individuals claim that organizations can respond to environmental changes by in turn changing the environment. How can an organization change its environment? Provide examples of such activity.
10. What types of measures would you use to measure the performance of Federal Express? Burger King?