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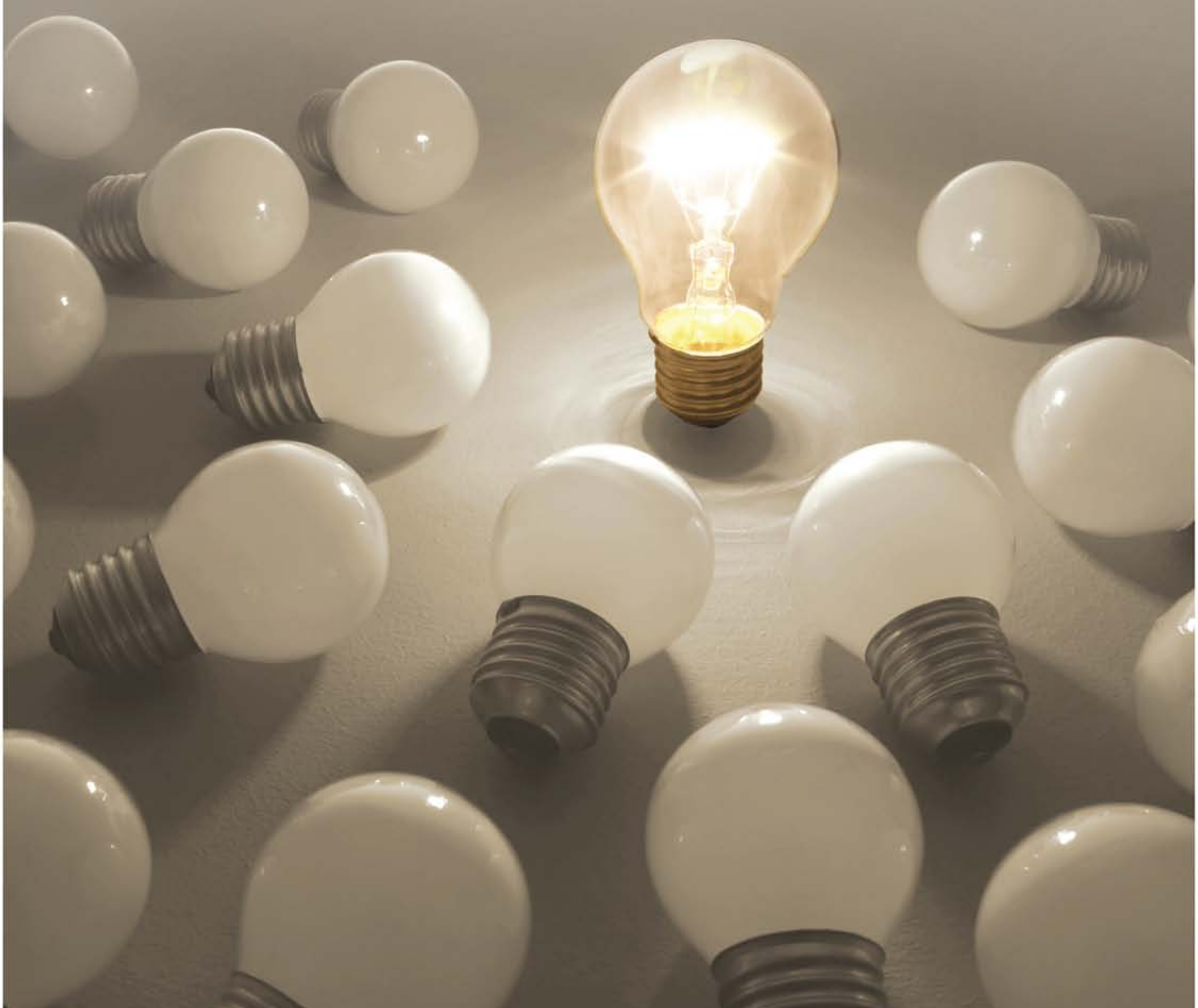

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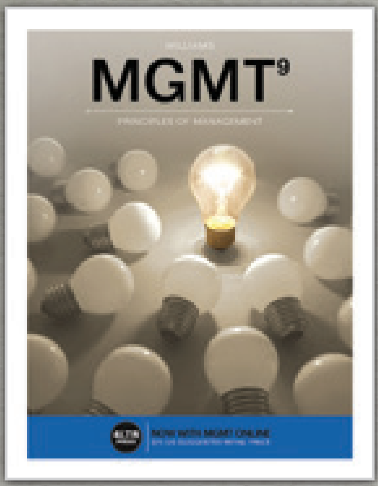

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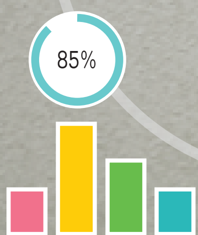

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CHUCK WILLIAMS

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Brief Contents

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PART 1

1 Management

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LEARNING OUTCOMES

1-1 Describe what management is.

1-2 Explain the four functions of management.

1-3 Describe different kinds of managers.

1-4 Explain the major roles and subroles that managers perform in their jobs.

1-5 Explain what companies look for in managers.

1-6 Discuss the top mistakes that managers make in their jobs.

1-7 Describe the transition that employees go through when they are promoted to management.

1-8 Explain how and why companies can create competitive advantage through people.

After you finish this chapter, go to **PAGE 21** for STUDY TOOLS

1-1 MANAGEMENT IS . . .

Management issues are fundamental to any organization: How do we plan to get things done, organize the company to be efficient and effective, lead and motivate employees, and put controls in place to make sure our plans are followed and our goals met? Good management is basic to starting a business, growing a business, and maintaining a business after it has achieved some measure of success.

To understand how important *good* management is, think about this mistake. Sears, one of the oldest retailers in the United States, has had $7 billion since 2011. Accordingly, it is closing 235 unprofitable stores. And while industry analysts believe that Sears will need to close another 300 to 400 stores, they don't believe that it should be selling off profitable stores, too. However, Sears is so cash-strapped that it has sacrificed future earnings for short-term needs by selling a dozen profitable stores. Robert Futterman, CEO of RKF, a retail leasing and consulting company, said, "Retailers invest in their best stores and refurbish them, they don't sell them."[1]

Ah, bad managers and bad management. Is it any wonder that companies pay management consultants nearly $210 billion a year for advice on basic management issues such as how to outperform competitors to earn customers' business, lead people effectively, organize the company efficiently, and manage large-scale projects and processes?[2] This textbook will help you understand some of the basic issues that management consultants help companies resolve. (And it won't cost you billions of dollars.)

Many of today's managers got their start welding on the factory floor, clearing dishes off tables, helping customers fit a suit, or wiping up a spill in aisle 3. Similarly, lots of you will start at the bottom and work your way up. There's no better way to get to know your competition, your customers, and your business. But whether you begin your career at the entry level or as a supervisor, your job as a manager is not to do the work but to help others do theirs. **Management** is getting work done through others.

Vineet Nayar, CEO of IT services company HCL Technologies, doesn't see himself as the guy who has to do everything or have all the answers. Instead, he sees himself as "the guy who is obsessed with enabling employees to create value." Rather than coming up with solutions himself, Nayar creates opportunities for collaboration, for peer review, and for employees to give feedback on ideas and work processes. Says Nayar, "My job is to make sure everybody is enabled to do what they do well."[3]

Ken Wolter/Shutterstock.com

Sears is so cash strapped that it has sacrificed future earnings for short-term needs by selling a dozen profitable stores.

Nayar's description of managerial responsibilities suggests that managers also have to be concerned with efficiency and effectiveness in the work process. **Efficiency** is getting work done with a minimum of effort, expense, or waste. Starbucks Coffee measures efficiency, or productivity, in terms of transactions per labor hour, meaning the number of coffee/food transactions each hour relative to the number of Starbucks employees it takes to handle those transactions. At 11.7 transactions per labor hour, Starbucks is 46 percent more efficient today than in 2008 when it averaged 8 transactions per labor hour.[4] Because the company saves an estimated 10 seconds per transaction over credit cards and 20 seconds per transaction compared to cash payments, Starbucks's increased use of mobile payments is a key driver of its ability to process more customers each hour.[5] While Starbucks now handles 5 million mobile transactions per week, or 14 percent of all sales, efficiency is likely to rise even more as mobile transactions have more than doubled in the past year.[6]

Efficiency alone, however, is not enough to ensure success. Managers must also strive for **effectiveness**, which is accomplishing tasks that help fulfill organizational objectives such as customer service and satisfaction. After a 37 percent surge in last-minute holiday shopping (compared to the previous year) overwhelmed UPS and led to tens of thousands of late deliveries, Amazon.com began expanding its

Management getting work done through others

Efficiency getting work done with a minimum of effort, expense, or waste

Effectiveness accomplishing tasks that help fulfill organizational objectives own "last-mile" delivery service to improve customer service and satisfaction, and therefore effectiveness.[7] Although it typically uses UPS, FedEx, and the U.S. Postal Service for deliveries, Amazon hopes that its Amazon Fresh trucks, in use in a limited number of cities, will reduce rising shipping costs, challenge e-tail competitors such as eBay and Walmart, and, if it works, fulfill the "holy grail" of online buying—same-day delivery. Analyst Ajay Agarwal, of Bain Capital Ventures, says, "In the old days, it used to be your milkman coming to your house every week. I think in five years I could imagine . . . some significant fraction of the population having an Amazon truck coming to their house every week."[8]

1-2 MANAGEMENT FUNCTIONS

Henri Fayol, who was a managing director (CEO) of a large steel company in the early 1900s, was one of the founders of the field of management. You'll learn more about Fayol and management's other key contributors when you read about the history of management in Chapter 2. Based on his twenty years of experience as a CEO, Fayol argued that "the success of an enterprise generally depends much more on the administrative ability of its leaders than on their technical ability."[9] A century later, Fayol's arguments still hold true. During a two-year study code-named Project Oxygen, Google analyzed performance reviews and feedback surveys to identify the traits of its best managers. According to Laszlo Bock, Google's vice president for people operations, "We'd always believed that to be a manager, particularly on the engineering side, you need to be as deep or deeper a technical expert than the people who work for you. It turns out that that's absolutely the least important thing." What was most important? "Be a good coach." "Empower; Don't micromanage." "Be product and results-oriented." "Be a good communicator and listen to your team." "Be interested in [your] direct reports' success and well-being." In short, Google found what Fayol observed: administrative ability, or management, is key to an organization's success.[10]

According to Fayol, managers need to perform five managerial functions in order to be successful: planning, organizing, coordinating, commanding, and controlling.[11] Most management textbooks today have updated this list by dropping the coordinating function and referring to Fayol's commanding function as "leading." Fayol's management functions are thus known today in this updated form as planning, organizing, leading, and controlling. Studies indicate that managers who perform these management functions well are more successful, gaining promotions for themselves and profits for their companies. For example, the more time CEOs spend planning, the more profitable their companies are.[12] A twenty-five-year study at AT&T found that employees with better planning and decision-making skills were more likely to be promoted into management jobs, to be successful as managers, and to be promoted into upper levels of management.[13]

Planning determining organizational goals and a means for achieving them

The evidence is clear. Managers serve their companies well when they plan, organize, lead, and control. So we've organized this textbook based on these functions of management, as shown in Exhibit 1.1.

*Now let's take a closer look at each of the management functions: **1-2a planning, 1-2b organizing, 1-2c leading,** and **1-2d controlling**.*

1-2a Planning

Planning involves determining organizational goals and a means for achieving them. As you'll learn in Chapter 5, planning is one of the best ways to improve performance. It encourages people to work harder, to work for extended periods, to engage in behaviors directly related to goal accomplishment, and to think of better ways to

Exhibit 1.1
The Four Functions of Management

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do their jobs. But most importantly, companies that plan have larger profits and faster growth than companies that don't plan.

For example, the question "What business are we in?" is at the heart of strategic planning. You'll learn about this in Chapter 6. If you can answer the question "What business are you in?" in two sentences or fewer, chances are you have a very clear plan for your business. But getting a clear plan is not so easy. Sometimes even very successful companies stray from their core business. Alibaba is a China-based e-commerce company whose mission is, "To make it easy to do business anywhere." Like eBay, Alibaba operates online and mobile marketplaces that bring retail and wholesale buyers and sellers together. While Alibaba has 600 million customers in China, it's now expanding to the U.S. market via 11main.com, on which 1,000+ companies will sell everything from clothing to jewelry to arts and crafts. With such a clear mission and focus, it was surprising when Alibaba bought a 50 percent stake in China's Guangzhou Evergrande soccer team. Alibaba's Chairman Jack Ma explained, "I think not understanding soccer doesn't matter. I also didn't understand retail, e-commerce, or the Internet, but that didn't stop me from doing it anyway." Ma's confidence aside, Simon Wong of the London School of Economics warns, "You should focus on what you're good at, and this seems so ancillary to what they're doing today."[14]

You'll learn more about planning in Chapter 5 on planning and decision making, Chapter 6 on organizational strategy, Chapter 7 on innovation and change, and Chapter 8 on global management.

1-2b Organizing

Organizing is deciding where decisions will be made, who will do what jobs and tasks, and who will work for whom in the company. With 1,400 different computer systems; different labor unions representing pilots, flight attendants, and maintenance workers; and different ways of washing planes and boarding and feeding passengers; as well as different classes in the cabins (no first class on Continental), Continental Airlines and United Airlines faced an enormous organizing task to merge their two companies into the world's second-largest airline. Lori Gobillot, vice president of integration management at the time of the reorganization, oversaw thirty-three teams that decided the fastest way to board passengers and which computer systems to use, United's or Continental's, for scheduling crews, routing planes, handling bags and cargo, and just basic accounting. Said Gobillot, "I tell them to be fact-based, and direct and objective, and keep the emotions out of it—and don't keep score. It's not important how many things come from United and how many come from Continental." Three years after the merger, significant challenges remain. For instance, mechanics continue to use separate information systems (one from United and one from Continental) to track and manage critical airplane maintenance and repair work. Likewise, labor agreements restrict "Continental" flight attendants to working on "Continental" planes and "United" flight attendants to "United" planes.[15] Each decision matters, as reducing costs by as little as a half-cent per mile can result in a $1 billion increase in annual profits for an industry that historically loses billions each year.[16]

You'll learn more about organizing in Chapter 9 on designing adaptive organizations, Chapter 10 on managing teams, Chapter 11 on managing human resources, and Chapter 12 on managing individuals and a diverse workforce.

1-2c Leading

Our third management function, **leading**, involves inspiring and motivating workers to work hard to achieve organizational goals. Eileen Martinson, CEO of software developer Sparta Systems, believes that it is important for leaders to clearly communicate what an organization's goals are. She says, "A boss taught me a long time ago that people are going to remember only two to three things." So at her first company-wide meeting, she communicated just one goal—doubling revenues over the next few years.[17] Martinson says, "The employees completely understand where we are going, and we've built a culture around that. If you have to come in and show me 45 charts and go through a lot of mumbo jumbo that neither of us understands, it's not going to work."[18]

You'll learn more about leading in Chapter 13 on motivation, Chapter 14 on leadership, and Chapter 15 on managing communication.

1-2d Controlling

The last function of management, **controlling**, is

Organizing deciding where decisions will be made, who will do what jobs and tasks, and who will work for whom

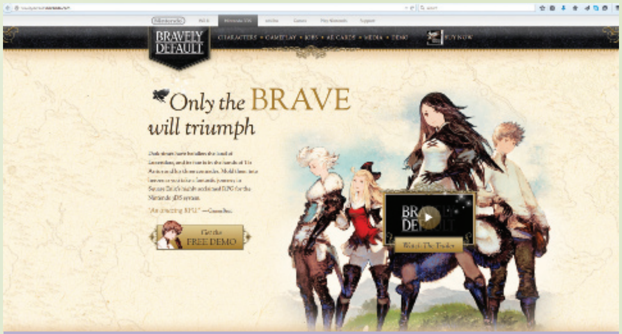
Leading inspiring and motivating workers to work hard to achieve organizational goals

Controlling monitoring progress toward goal achievement and taking corrective action when needed

Bravely Changing Course

Video game developer Square Enix has traditionally specialized in making Japanese-style role-playing games (JRPGs). In recent years, Square began focusing on trying to develop global blockbuster titles that would appeal to a global audience. It began to struggle when sales of games such as Tomb Raider, Sleeping Dogs, and Hitman: Absolution did not meet expectations. So it came as some surprise when Square released Bravely Default, a JRPG, and it sold more than 200,000 copies in the U.S. in three weeks. Square president Yosuke Matsuda took this as a cue. "In the past, when we developed console games with a worldwide premise, we lost our focus." Matsuda said. "We weren't able to see this clearly up until now, but fans of JRPGs are really spread around the world." The sales trends of its different games told Square what customers were looking for. In response, Matsuda said that Square would begin to include more JRPGs in its core stable of titles.

Source: M. Futter, "Square Enix Believes Company Has 'Lost Focus,'" *Game Informer*, March 31, 2014, accessed April 9, 2014. http://www.gameinformer.com/b/news/archive/2014/03/31/square-enix-president-believes-company-has-lost-focus.aspx.



Source: Nintendo

While globally appealing video games such as Sleeping Dogs (pictured) have failed to meet sales expectations, Square Enix has had unexpected success with highly targeted titles such as JRPG Bravely Default.

monitoring progress toward goal achievement and taking corrective action when progress isn't being made. The basic control process involves setting standards to achieve goals, comparing actual performance to those standards, and then making changes to return performance to those standards. According to Michael Corbat, CEO of financial services company Citigroup, managerial and company success are contingent on setting goals, measuring performance, and making adjustments and corrections as needed. He recently stated during a meeting of executives, "You are what you measure." Therefore, a central part of his plan to restore Citigroup's financial performance is to measure how well executives perform against the plans they created. The basic idea, said one Citigroup executive, is "You said you would do this. Did you?" Corbat created a scorecard to measure the company's fifty top executives in four categories: capital, clients, culture, and controls. Scores ranging from 100 (the highest) to –40 (the lowest) will show how well each executive is performing. Corbat expects that the control process inherent in the scorecards will help Citigroup develop more accountability and discipline as it tries to recover from years of losses.[19]

Top managers executives responsible for the overall direction of the organization

You'll learn more about the control function in Chapter 16 on control, Chapter 17 on managing information, and Chapter 18 on managing service and manufacturing operations.

1-3 KINDS OF MANAGERS

Not all managerial jobs are the same. The demands and requirements placed on the CEO of Sony are significantly different from those placed on the manager of your local Wendy's restaurant.

As shown in Exhibit 1.2, there are four kinds of managers, each with different jobs and responsibilities: ***1-3a top managers, 1-3b middle managers, 1-3c first-line managers,*** *and* ***1-3d team leaders.***

1-3a Top Managers

Top managers hold positions such as chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), and chief information officer (CIO) and are responsible for the overall direction of the

Exhibit 1.2

What the Four Kinds of Managers Do

Jobs	Responsibilities
Top Managers	
CEO, COO, CFO, CIO, Vice president, Corporate heads	Change, Commitment, Culture, Environment
Middle Managers	
General manager, Plant manager, Regional manager, Divisional manager	Resources, Objectives, Coordination, Subunit performance, Strategy implementation
First-Line Managers	
Office manager, Shift supervisor, Department manager	Nonmanagerial worker supervision, Teaching and training, Scheduling, Facilitation
Team Leaders	
Team leader, Team contact, Group facilitator	Facilitation, External relationships, Internal relationships

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organization. Top managers have the following responsibilities.[20] When R. J. Dourney was hired as **Cosí's** CEO, the sandwich chain had struggled for twelve years under nine CEOs who never posted a profit. After just two days on the job, Dourney announced to the company's corporate employees that its Chicago headquarters would close and be relocated in Boston, where Dourney had been a successful franchiser of thirteen Cosi stores before becoming CEO. Dourney immediately closed ten unprofitable stores, updated the menu, and changed Così's stock-incentive program to be performance based. He then rolled out a more efficient serving system to serve customers quickly at all locations. In less than a year, those same store sales rose 20 percent while the company's stock price rose 160 percent per share.[21]

Indeed, in both Europe and the United States, 35 percent of all CEOs are eventually fired because of their inability to successfully change their companies.[22] Creating a context for change includes forming a long-range vision or mission for the company. When Satya Nadella was appointed CEO of **Microsoft**, the company was perceived as a shortsighted, lumbering behemoth. Nadella reoriented the company with a series of acquisitions and innovations, including purchasing **Mojang**, maker of the **Minecraft** video game, and a 3D-hologram feature for controlling Windows. After following Microsoft for years, one analyst noted about Nadella's new direction for the company, "Microsoft hasn't really shown any sort of vision like this in a long, long time."[23] As one CEO said, "The CEO has to think about the future more than anyone."[24]

After that vision or mission is set, the second responsibility of top managers is to develop employees' commitment to and ownership of the company's performance. That is, top managers are responsible for creating employee buy-in. Third, top managers must create a positive organizational culture through language and action. Top managers impart company values, strategies, and lessons through what they do and say to others both inside and outside the company. Indeed, no matter what they communicate, it's critical for them to send and reinforce clear, consistent messages.[25] When Phil Martens became CEO of aluminum producer Novelis, he spent his first 100 days visiting plants around the world and discovered that the company, with 11,000 employees, had highly fragmented business practices, operations, and strategies. To clearly communicate, "that we're going to move from a fragmented, regional company to a globally integrated company," Martens had shirts with the slogan, "One Novelis," distributed so that a symbolic picture of the leadership team could be taken. For the picture, said Martens, "We stood in a very defined triangle, very precise, because I wanted to create the image of order, and that we are together."[26] Likewise, it's important to actively manage internal organizational communication. As part of the One Novelis program, Martens created a global safety program, called Together We Are Safe, which monitored health and safety practices across Novelis's global sites, identified best practices, and then adopted and communicated them as a global standard. As a result, from 2009 to 2013, Novelis saw injuries, illnesses, and fatalities drop by over 40 percent.[27]

Emerge/Shutterstock.com

Finally, top managers are responsible for monitoring their business environments. This means that top managers must closely monitor customer needs, competitors' moves, and long-term business, economic, and social trends.

1-3b Middle Managers

Middle managers responsible for setting objectives consistent with top management's goals and for planning and implementing subunit strategies for achieving these objectives

Middle managers hold positions such as plant manager, regional manager, or divisional manager. They are responsible for setting objectives consistent with top management's goals and for planning and implementing subunit strategies for achieving those objectives.[28] Or as one middle manager put it, a middle manager is, "the implementer of the company's strategy" who figures out the "how" to do the "what."[29] Middle manager Michelle Davis, an analytics director at FICO, the company that calculates credit scores, begins her day at 6:30 a.m. "when the hallways are dark" and there are few interruptions. Regular meetings, such as the monthly conference call that she has with the analytics team, start at 7:30 a.m. The rest of her long days are often filled with additional meetings, training sessions that she either leads or participates in, and quick check-ins with her boss and various product management teams across the company, in which she communicates the concerns of her group about the software that banks use when applying credit scores to bank customers.[30]

One specific middle management responsibility is to plan and allocate resources to meet objectives. A second major responsibility is to coordinate and link groups, departments, and divisions within a company. One middle manager described his job as, "A man who can discuss strategy with [the] CXO at breakfast and [then] eat lunch with workers."[31] FICO's Michelle Davis admits that coordinating and linking teams across different groups and departments can be "frustrating," but that it's a significant part of her job. She adds, "It takes time to do management right."[32]

A third responsibility of middle management is to monitor and manage the performance of the subunits and individual managers who report to them. Finally, middle managers are also responsible for implementing the changes or strategies generated by top managers. Why? Because they're closer to the managers and employees who work on a daily basis with suppliers to effectively and efficiently deliver the company's product or service. In short, they're closer to the people who can best solve problems and implement solutions. How important are middle managers to company performance? A study of nearly 400 video game companies conducted at the University of Pennsylvania's Wharton School of Business found that middle managers' effectiveness accounted for 22 percent of the differences in performance across companies. In fact, middle managers were three times as important as the video game designers who develop game characters and story lines. Professor Ethan Mollick, who conducted the study, said that middle managers are the key to "making sure the people at the bottom and the top [of the organization] are getting what they need."[33]

1-3c First-Line Managers

First-line managers hold positions such as office manager, shift supervisor, or department manager. The primary responsibility of first-line managers is to manage the performance of entry-level employees who are directly responsible for producing a company's goods and services. Thus, first-line managers are the only managers who don't supervise other managers. The responsibilities of first-line managers include monitoring, teaching, and short-term planning.

First-line managers encourage, monitor, and reward the performance of their workers. First-line managers are also responsible for teaching entry-level employees how to do their jobs. They also make detailed schedules and operating plans based on middle management's intermediate-range plans. In contrast to the long-term plans of top managers (three to five years out) and the intermediate plans of middle managers (six to eighteen months out), first-line managers engage in plans and actions that typically produce results within two weeks.[34] Consider the typical convenience store manager (e.g., 7-Eleven) who starts the day by driving past competitors' stores to inspect their gasoline prices and then checks the outside of his or her store for anything that might need maintenance, such as burned-out lights or signs, or restocking, such as windshield washer fluid and paper towels. Then comes an inside check, where the manager determines what needs to be done for that day. (Are there enough donuts and coffee for breakfast or enough sandwiches for lunch?) After the day is planned, the manager turns to weekend orders. After accounting for the weather (hot or cold) and the sales trends at the same time last year, the manager makes sure the store will have enough beer, soft drinks, and newspapers on hand. Finally, the manager looks seven to ten days ahead for hiring needs. Because of strict hiring procedures (basic math tests, drug tests, and background checks), it can take that long to hire new employees. Said one convenience store manager, "I have to continually interview, even if I am fully staffed."[35]

1-3d Team Leaders

The fourth kind of manager is a team leader. This relatively new kind of management job developed as companies shifted to self-managing teams, which, by definition, have no formal supervisor. In traditional management hierarchies, first-line managers are responsible for the performance of nonmanagerial employees and have the authority to hire and fire workers, make job assignments, and control resources. In this new structure, the teams themselves perform nearly all of the functions performed by first-line managers under traditional hierarchies.[36]

Team leaders are primarily responsible for facilitating team activities toward accomplishing a goal. This doesn't mean team leaders are responsible for team performance. They aren't. The team is. So how do team leaders help their teams accomplish their goals? Avinoam Nowogrodski, CEO at Clarizen, a software company, says, "Great leaders ask the right questions. They recognize . . . that a team is much better at figuring out the answers."[37] Team leaders help their team members plan and schedule work, learn to solve problems, and work effectively with each other. Management consultant Franklin Jonath says, "The idea is for the team leader to be at the service of the group." It should be clear that the team members own the outcome. The leader is there to bring intellectual, emotional, and spiritual resources to the team. Through his or her actions, the leader should be able to show the others how to think about the work that they're doing in the context of their lives. It's a tall order, but the best teams have such leaders.[38]

Relationships among team members and between different teams are crucial to good team performance and must be well managed by team leaders, who are responsible for fostering good relationships and addressing problematic ones within their teams. Getting along with others is much more important in team structures because team members can't get work done without the help of teammates. Clarizen CEO Avinoam Nowogrodski agrees, saying, "Innovation is created with people who you respect. It will never happen in a group of people who hate each other. If you want to have innovation within your company, you need to have a culture

First-line managers responsible for training and supervising the performance of nonmanagerial employees who are directly responsible for producing the company's products or services

Team leaders managers responsible for facilitating team activities toward goal accomplishment of respect."[39] And, Nowogrodski adds, that starts with the team leader. "If you respect other people, they'll respect you."[40] Tim Clem emerged as a team leader at **GitHub**, a San Francisco–based software company that provides collaborative tools and online work spaces for people who code software. GitHub, itself, also uses team structures and team leaders to decide the software projects on which its 170 employees will work. After only a few months at the company, Clem, who had not previously led a team, convinced his GitHub colleagues to work on a new product he had designed for Microsoft Windows. Without their approval, he would not have gotten the go-ahead and the resources to hire people to do the project. By contrast, a manager, and not the team, would have likely made this decision in a traditional management structure.[41]

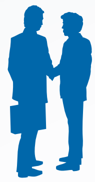
Team leaders are also responsible for managing external relationships. Team leaders act as the bridge or liaison between their teams and other teams, departments, and divisions in a company. For example, if a member of Team A complains about the quality of Team B's work, Team A's leader is responsible for solving the problem by initiating a meeting with Team B's leader. Together, these team leaders are responsible for getting members of both teams to work together to solve the problem. If it's done right, the problem is solved without involving company management or blaming members of the other team.[42]

In summary, because of these critical differences, team leaders who don't understand how their roles are different from those of traditional managers often struggle in their jobs.

You will learn more about teams in Chapter 10.

Exhibit 1.3

Mintzberg's Managerial Roles

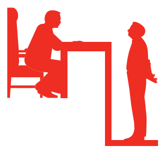


Interpersonal Roles

- Figurehead
- Leader
- Liaison

Informational Roles

- Monitor
- Disseminator
- Spokesperson



Decisional Roles

- Entrepreneur
- Disturbance Handler
- Resource Allocator
- Negotiator

Source: Adapted from "The Manager's Job: Folklore and Fact," by Mintzberg, H. Harvard Business Review, July–August 1975.

1-4 MANAGERIAL ROLES

Although all four types of managers engage in planning, organizing, leading, and controlling, if you were to follow them around during a typical day on the job, you would probably not use these terms to describe what they actually do. Rather, what you'd see are the various roles managers play. Professor Henry Mintzberg followed five American CEOs, shadowing each for a week and analyzing their mail, their conversations, and their actions. He concluded that managers fulfill three major roles while performing their jobs—interpersonal, informational, and decisional.[43]

In other words, managers talk to people, gather and give information, and make decisions. Furthermore, as shown in Exhibit 1.3, these three major roles can be subdivided into ten subroles.

*Let's examine each major role—**1-4a interpersonal roles, 1-4b informational roles,** and **1-4c decisional roles**—and their ten subroles.*

1-4a Interpersonal Roles

More than anything else, management jobs are people-intensive. When asked about her experience as a first-time CEO, Kim Bowers, CEO of CST Brands, said, "We have 12,000 employees. [So,] I spend a lot of time out in the field with them."[44] Estimates vary with the level of management, but most managers spend between two-thirds and four-fifths of their time in face-to-face communication with others.[45] If you're a loner, or if you consider dealing with people a pain, then you may not be cut out for management work. In fulfilling the interpersonal role of management, managers perform three subroles: figurehead, leader, and liaison.

Seven Deadlies—Things Great Bosses Avoid

A manager is responsible not only for providing direction and guidance to employees but also for making sure to create a work environment that allows them to be the best. Author and columnist Jeff Haden identifies seven things that managers often do that create an uncomfortable and unproductive work atmosphere:

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1. Pressuring employees to attend social events. When your employees are with people from work, even at some party, it might just end up feeling like "work."
2. Pressuring employees to give to charity.
3. Not giving employees time to eat during mealtime hours.
4. Asking employees to do self-evaluations.
5. Asking employees to evaluate their coworkers.
6. Asking employees to do something that you don't want to do.
7. Asking employees to reveal personal information in the spirit of "team building."

Source: J. Haden "7 Things Great Bosses Never Ask Employees to Do" *Inc.com*, March 12, 2015, accessed March 28, 2015. http://www.inc.com/jeff-haden/7-things-the-best-bosses-refuse-to-ask-employees-to-do.html.

In the **figurehead role**, managers perform ceremonial duties such as greeting company visitors, speaking at the opening of a new facility, or representing the company at a community luncheon to support local charities. When **Fendi**, the Italian fashion house, launched a design initiative to raise money for charity, CEO Pietro Beccari hosted a gala at the company's recently opened flagship in New York City.[46]

In the **leader role**, managers motivate and encourage workers to accomplish organizational objectives (see box "Seven Deadlies—Things Great Bosses Avoid"). One way managers can act as leaders is to establish challenging goals. William Xu, the enterprise division chief of Chinese telecom equipment maker Huawei Enterprises, gave his division a 40 percent sales growth target for 2013. Xu said, "The (2013) target was very ambitious to motivate staff."[47]

In the **liaison role**, managers deal with people outside their units. Studies consistently indicate that managers spend as much time with outsiders as they do with their own subordinates and their own bosses. For example, CEOs often sit on other companies' boards. CEO Stephen Zarrilli, of Safeguard Scientifics, which invests in high-growth health care and technology firms, says, "When you sit on another company's board, you gain perspective—not only about the company and its industry—but, more importantly, about other operating methodologies, governance, and viewpoints that can be very beneficial when you bring them back to your company."[48] Indeed, companies in low-growth, highly competitive industries whose CEOs sit on outside boards earn an average return on assets 15 percent higher than companies with CEOs who don't sit on outside boards![49]

1-4b Informational Roles

Not only do managers spend most of their time in face-to-face contact with others, they spend much of it obtaining and sharing information. Mintzberg found that the managers in his study spent 40 percent of their time giving and getting information from others. In this regard, management

Figurehead role the interpersonal role managers play when they perform ceremonial duties

Leader role the interpersonal role managers play when they motivate and encourage workers to accomplish organizational objectives

Liaison role the interpersonal role managers play when they deal with people outside their units

AP Images/Ted S. Warren

can be viewed as gathering information by scanning the business environment and listening to others in face-to-face conversations, processing that information, and then sharing it with people both inside and outside the company. Mintzberg described three informational subroles: monitor, disseminator, and spokesperson.

In the **monitor role**, managers scan their environment for information, actively contact others for information, and, because of their personal contacts, receive a great deal of unsolicited information. Besides receiving firsthand information, managers monitor their environment by reading local newspapers and the *Wall Street Journal* to keep track of customers, competitors, and technological changes that may affect their businesses. Today's managers can subscribe to electronic monitoring and distribution services that track the news wires (Associated Press, Reuters, and so on) for stories and social media posts related to their businesses. These services deliver customized news that only includes topics the managers specify. Business Wire (http://www.businesswire.com) monitors and distributes daily news headlines from major industries (for example automotive, banking and financial, health, high tech).[50] CyberAlert (http://www.cyberalert.com) keeps round-the-clock track of new stories in categories chosen by each subscriber. It also offers CyberAlert Social, which monitors roughly 25 million individual social media posts daily across 190 million social media sources worldwide. Brandwatch and ViralHeat are additional tools for monitoring social media.[51] Another site, Federal News Service (http://fednews.com), provides subscribers with daily electronic news clips from more than 10,000 online news sites.[52]

Monitor role the informational role managers play when they scan their environment for information

Disseminator role the informational role managers play when they share information with others in their departments or companies

Spokesperson role the informational role managers play when they share information with people outside their departments or companies

Because of their numerous personal contacts and their access to subordinates, managers are often hubs for the distribution of critical information. In the **disseminator role**, managers share the information they have collected with their subordinates and others in the company. At **Qualtrics**, a software company that provides sophisticated online survey research tools, CEO Ryan Smith makes sure that everyone in the company is clear on company goals and plans. Every Monday, employees are asked via email to respond to two questions: "What are you going to get done this week? And what did you get done last week that you said you were going to do?" Smith says, "Then that rolls up into one email that the entire organization gets. So if someone's got a question, they can look at that for an explanation. We share other information, too—every time we have a meeting, we release meeting notes to the organization. When we have a board meeting, we write a letter about it afterward and send it to the organization." Qualtrics also uses an internal database where each quarter employees enter their plans for meeting the company's objectives. Those plans are then made visible to everyone else at Qualtrics.[53]

In contrast to the disseminator role, in which managers distribute information to employees inside the company, managers in the **spokesperson role** share information with people outside their departments or companies. One of the most common ways CEOs serve as spokespeople for their companies is at annual meetings with company shareholders or the board of directors. CEOs also serve as spokespeople to the media when their companies are involved in major news stories. For example, Amazon founder and CEO Jeff Bezos attracted worldwide attention when he announced that Amazon was actively working on ways to use airborne drones to deliver Amazon purchases to its Amazon Prime members who pay $99 a year for the privilege of unlimited two-day delivery. Bezos said, "The Prime Air team is already flight testing our 5th and 6th generation aerial vehicles, and we are in the design phase on generations 7 and 8."[54] As with its Amazon Fresh trucks, drones would be used to speed delivery and reduce costs. While many believe that drone delivery is five years away or more, Bezos says, "It will work, and it will happen, and it's gonna be a lot of fun."[55]

1-4c Decisional Roles

Mintzberg found that obtaining and sharing information is not an end in itself. Obtaining and sharing information with people inside and outside the company is useful to managers because it helps them make good decisions. According to Mintzberg, managers engage in four decisional subroles: entrepreneur, disturbance handler, resource allocator, and negotiator.

In the **entrepreneur role**, managers adapt themselves, their subordinates, and their units to change. For years, **Whole Foods Market**, was the top—and only—organic grocery retailer. When traditional chains, such as Kroger and Walmart, began offering organic produce, meat, and packaged foods for cheaper prices, Whole Foods—sometimes called "Whole Paycheck" due to its high prices—became vulnerable and earnings plummeted. Co-CEO Walter Robb said, "All of a sudden . . . you can get the same stuff in many other places and you could get it cheaper." So the company cut prices, which, "Will tell customers what we are about: values and value," says founder and Co-CEO John Mackey. Whole Foods also launched its first national advertising campaign, started a customer loyalty program, and partnered with **Instacart** to deliver groceries to customers' homes in fifteen cities. Co-CEO Robb says that changes—and lower prices—will continue.[56]

Susan Montgomery/Shutterstock.com

In the **disturbance handler role**, managers respond to pressures and problems so severe that they demand immediate attention and action. In December 2014, Brian Cornell, Target's new CEO, went on a solo tour of the company's Canadian retail stores. Target Canada, the company's first international expansion, had lost $2 billion since starting in 2011. Cornell, CEO for just four months, wanted to see the struggling Canadian stores firsthand. On returning home, he reviewed Target Canada's sales numbers, and just a few weeks later, in January 2015, announced Target would spend $600 million to liquidate all 133 Canadian stores, lay off 17,000 employees, and take a $5.4 billion write down. Cornell said, "Simply put, we were losing money every day," and could not, "find a realistic scenario that got Target Canada to profitability until at least 2021."[57]

In the **resource allocator role**, managers decide who will get what resources and how many resources they will get. Ford's F-series truck, the best selling vehicle in the U.S. for thirty-two consecutive years, generates $22 billion in sales a year and accounts for 12 percent of Ford's global sales and 40 percent of its global profits. In 2009, Ford committed to a multibillion dollar investment to redesign the F-series, whose prices range from $24,000 to $50,000, to be built with a completely aluminum body, something found only in much more expensive cars, such as the the $70,000 Tesla Model S or the $75,000 Audi A8. Ford Chairman Bill Ford, says, "Some people might say, 'Aren't you taking a chance with your best-selling vehicle?'. But that's what you have to do." He said, "I would have had much more anxiety if they had come in with business-as-usual." The 2015 F-series is 700 lbs. lighter, which allowed Ford engineers to replace a 6.2 liter V8 with a 3.5-liter turbocharged V6. While still capable of towing 8,000 pounds, overall gas mileage rose by 16 percent from 19 mpg to 22 mpg, making the F-series the most fuel efficient gas-powered vehicle in its class."[58]

In the **negotiator role**, managers negotiate schedules, projects, goals, outcomes, resources, and employee raises. When **Ryanair**, Europe's low-cost airline, was shopping for 200 new planes in 2014, it pressed Boeing and Airbus to add an extra eight to eleven seats per plane. Doing so cuts costs by 20 percent and earns an extra 1 million euros per plane each year. CEO Michael O'Leary traveled from Ireland to Seattle to personally negotiate the deal and acknowledged pitting Ryanair's longtime supplier Boeing against Airbus, saying, "We were very close to going to Airbus in the spring [of 2014]." O'Leary left Boeing with a deal for 200 planes, each with eight extra seats, and a hefty discount off the $104 million retail price of Boeing's 737-MAX jet (still in development) that brought the total price tag down from $20.8 billion to $11 billion.[59]

1-5 WHAT COMPANIES LOOK FOR IN MANAGERS

I didn't have the slightest idea what my job was. I walked in giggling and laughing because I had been promoted and had no idea what principles or style to be guided by. After the first day, I felt like I had run into a brick wall. (Sales Representative #1)

Suddenly, I found myself saying, boy, I can't be responsible for getting all that revenue. I don't have the time. Suddenly you've got to

Entrepreneur role the decisional role managers play when they adapt themselves, their subordinates, and their units to change

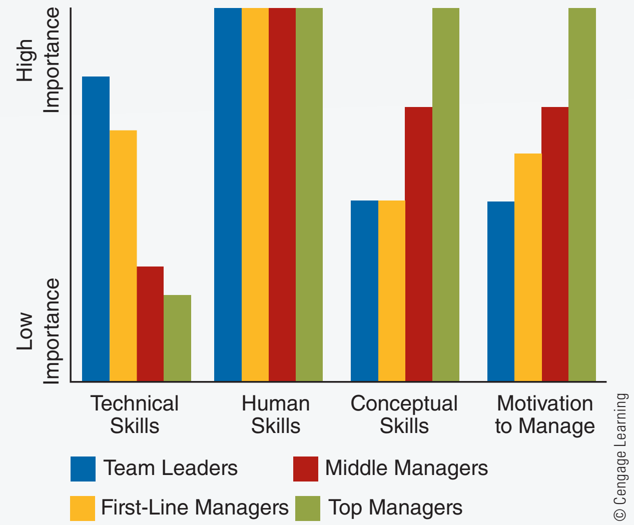
Disturbance handler role the decisional role managers play when they respond to severe pressures and problems that demand immediate action

Resource allocator role the decisional role managers play when they decide who gets what resources and in what amounts

Negotiator role the decisional role managers play when they negotiate schedules, projects, goals, outcomes, resources, and employee raises *go from [taking care of] yourself and say now I'm the manager, and what does a manager do? It takes awhile thinking about it for it to really hit you . . . a manager gets things done through other people. That's a very, very hard transition to make. (Sales Representative #2)*[60]

Exhibit 1.4

Management Skills



The preceding statements were made by two star sales representatives who, on the basis of their superior performance, were promoted to the position of sales manager. As their comments indicate, at first they did not feel confident about their ability to do their jobs as managers. Like most new managers, these sales managers suddenly realized that the knowledge, skills, and abilities that led to success early in their careers (and were probably responsible for their promotion into the ranks of management) would not necessarily help them succeed as managers. As sales representatives, they were responsible only for managing their own performance. But as sales managers, they were now directly responsible for supervising all of the sales representatives in their sales territories. Furthermore, they were now directly accountable for whether those sales representatives achieved their sales goals. If performance in nonmanagerial jobs doesn't necessarily prepare you for a managerial job, then what does it take to be a manager?

When companies look for employees who would be good managers, they look for individuals who have technical skills, human skills, conceptual skills, and the motivation to manage.[61] Exhibit 1.4 shows the relative importance of these four skills to the jobs of team leaders, first-line managers, middle managers, and top managers.

Technical skills are the specialized procedures, techniques, and knowledge required to get the job done. For the sales managers described previously, technical skills involve the ability to find new sales prospects, develop accurate sales pitches based on customer needs, and close sales. For a nurse supervisor, technical skills include being able to insert an IV or operate a crash cart if a patient goes into cardiac arrest.

Technical skills are most important for team leaders and lower-level managers because they supervise the workers who produce products or serve customers. Team leaders and first-line managers need technical knowledge and skills to train new employees and help employees solve problems. Technical knowledge and skills are also needed to troubleshoot problems that employees can't handle. Technical skills become less important as managers rise through the managerial ranks, but they are still important.

Human skills can be summarized as the ability to work well with others. Managers with human skills work effectively within groups, encourage others to express their thoughts and feelings, are sensitive to others' needs and viewpoints, and are good listeners and communicators. Human skills are equally important at all levels of management, from team leaders to CEOs. However, because lower-level managers spend much of their time solving technical problems, upper-level managers may actually spend more time dealing directly with people. On average, first-line managers spend 57 percent of their time with people, but that percentage increases to 63 percent for middle managers and 78 percent for top managers.[62]

Conceptual skills are the ability to see the organization as a whole, to understand how the different

Technical skills the specialized procedures, techniques, and knowledge required to get the job done

Human skills the ability to work well with others

Conceptual skills the ability to see the organization as a whole, understand how the different parts affect each other, and recognize how the company fits into or is affected by its environment

How to Be an Effective Executive in the Age of Brilliant Machines

In the era of big data, powerful analytics, enterprise software tools, and apps that do just about anything, there's no denying that technology has made many jobs obsolete. Could the same be true for managers? Could technology make management obsolete?

As data science and artificial intelligence begin to permeate business organizations, it will become increasingly critical for managers to have strong human skills. In this era of brilliant machines, managers make the biggest difference by doing the following:

- Asking questions—It takes judgment to know who to ask, what questions to ask, and when to ask them.
- Attacking exceptions—An algorithm might identify exceptions, but good managers will chase them down to resolve them.
- Tolerating ambiguity—The bigger and broader a problem, the better suited it is to a manager who can tolerate ambiguity and has a high level of discernment.
- Employing soft skills—Humans have the advantage when it comes to interpersonal skills such as empathy, inspiration, and coaching.

In the era of brilliant machines, the managers who master human skills will be the ones who have the edge.

Source: Irving Wladawksy-Berger, "As Big Data and AI Take Hold, What Will It Take to Be an Effective Executive," *Wall Street Journal*, January 23. 2015. http://blogs.wsj.com/cio/2015/01/23/as-big-data-and-ai-take-hold-what-will-it-take-to-be-an-effective-executive/tab/print/.

parts of the company affect each other, and to recognize how the company fits into or is affected by its external environment such as the local community, social and economic forces, customers, and the competition. Good managers have to be able to recognize, understand, and reconcile multiple complex problems and perspectives. In other words, managers have to be smart! In fact, intelligence makes so much difference for managerial performance that managers with above-average intelligence typically outperform managers of average intelligence by approximately 48 percent.[63] Clearly, companies need to be careful to promote smart workers into management. Conceptual skills increase in importance as managers rise through the management hierarchy.

Good management involves much more than intelligence, however. For example, making the department genius a manager can be disastrous if that genius lacks technical skills, human skills, or one other factor known as the motivation to manage. **Motivation to manage** is an assessment of how motivated employees are to interact with superiors, participate in competitive situations, behave assertively toward others, tell others what to do, reward good behavior and punish poor behavior, perform actions that are highly visible to others, and handle and organize administrative tasks. Managers typically have a stronger motivation to manage than their subordinates, and managers at higher levels usually have a stronger motivation to manage than managers at lower levels. Furthermore, managers with a stronger motivation to manage are promoted faster, are rated as better managers by their employees, and earn more money than managers with a weak motivation to manage.[64]

1-6 MISTAKES MANAGERS MAKE

Another way to understand what it takes to be a manager is to look at the mistakes managers make. In other words, we can learn just as much from what managers shouldn't do as from what they should do. Exhibit 1.5 lists the top ten mistakes managers make.

Several studies of U.S. and British managers have compared "arrivers," or managers who made it all the way to the top of their companies, with "derailers," or managers who were successful early in their careers but were knocked off the fast track by the time they reached the middle to upper levels of management.[65] The researchers found that there were only a few differences between arrivers and

Motivation to manage an assessment of how enthusiastic employees are about managing the work of others

Exhibit 1.5

Top Ten Mistakes Managers Make

1. Insensitive to others: abrasive, intimidating, bullying style
2. Cold, aloof, arrogant
3. Betray trust
4. Overly ambitious: thinking of next job, playing politics
5. Specific performance problems with the business
6. Overmanaging: unable to delegate or build a team
7. Unable to staff effectively
8. Unable to think strategically
9. Unable to adapt to boss with different style
10. Overdependent on advocate or mentor

Source: M. W. McCall, Jr., and M. M. Lombardo, "What Makes a Top Executive?" *Psychology Today,* February 1983, 26–31.

derailers. For the most part, both groups were talented, and both groups had weaknesses. But what distinguished derailers from arrivers was that derailers possessed two or more fatal flaws with respect to the way they managed people. Although arrivers were by no means perfect, they usually had no more than one fatal flaw or had found ways to minimize the effects of their flaws on the people with whom they worked.

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The top mistake made by derailers was that they were insensitive to others by virtue of their abrasive, intimidating, and bullying management style. The authors of one study described a manager who walked into his subordinate's office and interrupted a meeting by saying, "I need to see you." When the subordinate tried to explain that he was not available because he was in the middle of a meeting, the manager barked, "I don't give a damn. I said I wanted to see you now."[66] Not surprisingly, only 25 percent of derailers were rated by others as being good with people, compared to 75 percent of arrivers.

The second mistake was that derailers were often cold, aloof, or arrogant. Although this sounds like insensitivity to others, it has more to do with derailed managers being so smart, so expert in their areas of knowledge, that they treated others with contempt because they weren't experts, too.[67] For example, AT&T called in an industrial psychologist to counsel its vice president of human resources because she had been blamed for "ruffling too many feathers" at the company.[68] Interviews with the vice president's coworkers and subordinates revealed that they thought she was brilliant, was "smarter and faster than other people," "generates a lot of ideas," and "loves to deal with complex issues." Unfortunately, these smarts were accompanied by a cold, aloof, and arrogant management style. The people she worked with complained that she does "too much too fast," treats coworkers with "disdain," "impairs teamwork," "doesn't always show her warm side," and has "burned too many bridges."[69]

The third mistake made by derailers involved betraying a trust. Betraying a trust doesn't mean being dishonest. Instead, it means making others look bad by not doing what you said you would do when you said you would do it. That mistake, in itself, is not fatal because managers and their workers aren't machines. Tasks go undone in every company every single business day. There's always too much to do and not enough time, people, money, or resources to do it. The fatal betrayal of trust is failing to inform others when things will not be done right or on time. This failure to admit mistakes, failure to quickly inform others of the mistakes, failure to take responsibility for the mistakes, and failure to fix the mistakes without blaming others clearly distinguished the behavior of derailers from arrivers.

The fourth mistake was being overly political and ambitious. Managers who always have their eye on their next job rarely establish more than superficial relationships with peers and coworkers. In their haste to gain credit for successes that would be noticed by upper management, they make the fatal mistake of treating people as though they don't matter. An employee with an overly ambitious boss described him this way: "He treats employees coldly, even cruelly. He assigns blame without regard to responsibility, and takes all the credit for himself. I once had such a boss, and he gave me a new definition of shared risk: If something I did was successful, he took the credit. If it wasn't, I got the blame."[70]

The fatal mistakes of being unable to delegate, build a team, and staff effectively indicate that many derailed managers were unable to make the most basic transition to managerial work: to quit being hands-on doers and get work done through others. Two things go wrong when managers make these mistakes. First, when managers meddle in decisions that their subordinates should be making—when they can't stop being doers—they alienate the people who work for them. Rich Dowd, founder of Dowd Associates, an executive search firm, admits to constantly monitoring and interrupting employees because they weren't doing the job "in the way I saw fit, even when their work was outstanding." According to Richard Kilburg of Johns Hopkins University, when managers interfere with workers' decisions, "You . . . have a tendency to lose your most creative people. They're able to say, 'Screw this. I'm not staying here.'"[71] Indeed, one employee told Dowd that if he was going to do her job for her, she would quit. Second, because they are trying to do their subordinates' jobs in addition to their own, managers who fail to delegate will not have enough time to do much of anything well. An office assistant to a Washington politician came in to work every day to find a long to-do list waiting on her desk, detailing everything she was expected to get done that day, along with how to do it, who to call, and when to give her boss updates on her progress. She said, "Sometimes, this list was 3 or 4 pages long. It must have taken him at least an hour to create."[72]

1-7 THE TRANSITION TO MANAGEMENT: THE FIRST YEAR

In her book *Becoming a Manager: Mastery of a New Identity*, Harvard Business School professor Linda Hill followed the development of nineteen people in their first year as managers. Her study found that becoming a manager produced a profound psychological transition that changed the way these managers viewed themselves and others. As shown in Exhibit 1.6, the evolution of the managers' thoughts, expectations, and realities over the course of their first year in management reveals the magnitude of the changes they experienced.

Initially, the managers in Hill's study believed that their job was to exercise formal authority and to manage tasks—basically being the boss, telling others what to do, making decisions, and getting things done. One of the managers Hill interviewed said, "Being the manager means running my own office, using my ideas and thoughts." Another said, "[The office is] my baby. It's my job to make sure it works."[73] In fact, most

Exhibit 1.6

Stages in the Transition to Management

MANAGERS' INITIAL EXPECTATIONS JAN FEB MAR	AFTER SIX MONTHS AS A MANAGER APR MAY JUN	AFTER A YEAR AS A MANAGER JUL AUG SEP OCT NOV DEC
• Be the boss	• Initial expectations were wrong	• No longer a doer
• Formal authority	• Fast pace	• Communication, listening, and positive reinforcement
• Manage tasks	• Heavy workload	• Learning to adapt to and control stress
• Job is not managing people	• Job is to be problem solver and troubleshooter for subordinates	• Job is people development

Source: L.A. Hill, *Becoming a Manager: Mastery of a New Identity* (Boston: Harvard Business School Press, 1992).

of the new managers were attracted to management positions because they wanted to be in charge. Surprisingly, the new managers did not believe that their job was to manage people. The only aspects of people management mentioned by the new managers were hiring and firing.

After six months, most of the new managers had concluded that their initial expectations about managerial work were wrong. Management wasn't just about being the boss, making decisions, and telling others what to do. The first surprise was the fast pace and heavy workload involved. Said one of Hill's managers, "This job is much harder than you think. It is 40 to 50 percent more work than being a producer! Who would have ever guessed?" The pace of managerial work was startling, too. Another manager said, "You have eight or nine people looking for your time . . . coming into and out of your office all day long." A somewhat frustrated manager declared that management was "a job that never ended . . . a job you couldn't get your hands around."[74]

Informal descriptions like these are consistent with studies indicating that the average first-line manager spends no more than two minutes on a task before being interrupted by a request from a subordinate, a phone call, or an email. The pace is somewhat less hurried for top managers, who spend an average of approximately nine minutes on a task before having to switch to another. In practice, this means that supervisors may perform thirty tasks per hour, while top managers perform seven tasks per hour, with each task typically different from the one that preceded it. A manager described this frenetic level of activity by saying, "The only time you are in control is when you shut your door, and then I feel I am not doing the job I'm supposed to be doing, which is being with the people."[75]

IQoncept/Shutterstock.com

The other major surprise after six months on the job was that the managers' expectations about what they should do as managers were very different from their subordinates' expectations. Initially, the managers defined their jobs as helping their subordinates perform their jobs well. For the managers, who still defined themselves as doers rather than managers, assisting their subordinates meant going out on sales calls or handling customer complaints. One manager said, "I like going out with the rep, who may need me to lend him my credibility as manager. I like the challenge, the joy in closing. I go out with the reps and we make the call and talk about the customer; it's fun."[76] But when the managers "assisted" in this way, their subordinates were resentful and viewed their help as interference. The subordinates wanted their managers to help them by solving problems that they couldn't solve themselves. After the managers realized this distinction, they embraced their role as problem solver and troubleshooter. Thus, they could help without interfering with their subordinates' jobs.

After a year on the job, most of the managers thought of themselves as managers and no longer as doers. In making the transition, they finally realized that people management was the most important part of their job. One of Hill's interviewees summarized the lesson that had taken him a year to learn by saying, "As many demands as managers have on their time, I think their primary responsibility is people development. Not production, but people development."[77] Another indication of how much their views had changed was that most of the managers now regretted the rather heavy-handed approach they had used in their early attempts to manage their subordinates. "I wasn't good at managing . . . , so I was bossy like a first-grade teacher." "Now I see that I started out as a drill sergeant. I was inflexible, just a lot of how-to's." By the end of the year, most of the managers had abandoned their authoritarian approach for one based on communication, listening, and positive reinforcement.

Finally, after beginning their year as managers in frustration, the managers came to feel comfortable with their subordinates, with the demands of their jobs, and with their emerging managerial styles. While being managers had made them acutely aware of their limitations and their need to develop as people, it also provided them with an unexpected reward of coaching and developing the people who worked for them. One manager said, "It gives me the best feeling to see somebody do something well after I have helped them. I get excited." Another stated, "I realize now that when I accepted the position of branch manager that it is truly an exciting vocation.

It is truly awesome, even at this level; it can be terribly challenging and terribly exciting."[78]

1-8 COMPETITIVE ADVANTAGE THROUGH PEOPLE

If you walk down the aisle of the business section in your local bookstore, you'll find hundreds of books that explain precisely what companies need to do to be successful. Unfortunately, the best-selling business books tend to be faddish, changing dramatically every few years. One thing that hasn't changed, though, is the importance of good people and good management: companies can't succeed for long without them.

In his books *Competitive Advantage through People: Unleashing the Power of the Work Force* and *The Human Equation: Building Profits by Putting People First*, Stanford University business professor Jeffrey Pfeffer contends that what separates top-performing companies from their competitors is the way they treat their workforces—in other words, their management style.[79]

Pfeffer found that managers in top-performing companies used ideas such as employment security, selective hiring, self-managed teams and decentralization, high pay contingent on company performance, extensive training, reduced status distinctions (between managers and employees), and extensive sharing of financial information to achieve financial performance that, on average, was 40 percent higher than that of other companies. These ideas, which are explained in detail in Exhibit 1.7, help organizations develop workforces that are smarter, better trained, more motivated, and more committed than their competitors' workforces. And—as indicated by the phenomenal growth and return on investment earned by these companies—smarter, better trained, more motivated, and more committed workforces provide superior products and service to customers. Such customers keep buying and, by telling others about their positive experiences, bring in new customers.

According to Pfeffer, companies that invest in their people will create long-lasting competitive advantages

Exhibit 1.7

Competitive Advantage Through People: Management Practices

1. Employment Security—Employment security is the ultimate form of commitment companies can make to their workers. Employees can innovate and increase company productivity without fearing the loss of their jobs.
2. Selective Hiring—If employees are the basis for a company's competitive advantage, and those employees have employment security, then the company needs to aggressively recruit and selectively screen applicants in order to hire the most talented employees available.
3. Self-Managed Teams and Decentralization—Self-managed teams are responsible for their own hiring, purchasing, job assignments, and production. Self-managed teams can often produce enormous increases in productivity through increased employee commitment and creativity. Decentralization allows employees who are closest to (and most knowledgeable about) problems, production, and customers to make timely decisions. Decentralization increases employee satisfaction and commitment.
4. High Wages Contingent on Organizational Performance—High wages are needed to attract and retain talented workers and to indicate that the organization values its workers. Employees, like company founders, shareholders, and managers, need to share in the financial rewards when the company is successful. Why? Because employees who have a financial stake in their companies are more likely to take a long-run view of the business and think like business owners.
5. Training and Skill Development—Like a high-tech company that spends millions of dollars to upgrade computers or research and development labs, a company whose competitive advantage is based on its people must invest in the training and skill development of its people.
6. Reduction of Status Differences—A company should treat everyone, no matter what the job, as equal. There are no reserved parking spaces. Everyone eats in the same cafeteria and has similar benefits. The result is improved communication as employees focus on problems and solutions rather than on how they are less valued than managers.
7. Sharing Information—If employees are to make decisions that are good for the long-term health and success of the company, they need to be given information about costs, finances, productivity, development times, and strategies that was previously known only by company managers.

Source: J. Pfeffer, *The Human Equation: Building Profits by Putting People First* (Boston: Harvard Business School Press, 1996).

The CFO: Not Just A Bean Counter

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Having served as CFO at ADT Corp., Nalco Holdings Co., UAL Corp., and currently CFO at Xerox Corp., Kathryn Mikells knows a thing or two about the challenges of being a new CFO. Mikells describes several keys that can help new CFOs be successful. One of the most important steps is taking the time to talk to senior management and get a sense of where the company is and what challenges it faces. She also believes that the CFO should involve herself in strategic planning. "Strategy tends to tie directly into resource allocation and capital allocation," she says. "It's really important that [they] all link together." She also stresses the importance of getting a good feel for your team. A new CFO wants to quickly figure out what direction the team is going and what kind of skills the members have.

Source: K. Mikells, "Xerox CFO; An Atmosphere for Transformation," Interview by N. Knox, *The Wall Street* Journal, April 4, 2014, accessed April 9, 2014. http://blogs.wsj.com/cfo/2014/04/04/xerox-cfo-an-atmosphere-for-transformation/?mod=WSJ_business_cfo.

that are difficult for other companies to duplicate. Other studies also clearly demonstrate that sound management practices can produce substantial advantages in four critical areas of organizational performance: sales revenues, profits, stock market returns, and customer satisfaction.

In terms of sales revenues and profits, a study of nearly 1,000 U.S. firms found that companies which use *just some* of the ideas shown in Exhibit 1.7 had $27,044 more sales per employee and $3,814 more profit per employee than companies that didn't. For a 100-person company, these differences amount to $2.7 million more in sales and nearly $400,000 more in annual profit! For a 1,000-person company, the difference grows to $27 million more in sales and $4 million more in annual profit![80]

Another study that considers the effect of investing in people on company sales found that poorly performing companies were able to improve their average return on investment from 5.1 percent to 19.7 percent and increase sales by $94,000 per employee. They did this by adopting management techniques as simple as setting performance expectations (establishing goals, results, and schedules), coaching (informal, ongoing discussions between managers and subordinates about what is being done well and what could be done better), reviewing employee performance (annual, formal discussion about results), and rewarding employee performance (adjusting salaries and bonuses based on employee performance and results).[81] Two decades of research across 92 companies indicates that the average increase in company performance from using these management practices is typically around 20 percent.[82] So, in addition to significantly improving the profitability of healthy companies, sound management practices can turn around failing companies.

To determine how investing in people affects stock market performance, researchers matched companies on *Fortune* magazine's list of "100 Best Companies to Work for in America" with companies that were similar in industry, size, and—this is key—operating performance. Both sets of companies were equally good performers; the key difference was how well they treated their employees. For both sets of companies, the researchers found that employee attitudes such as job satisfaction changed little from year to year. The people who worked for the "100 Best" companies were consistently much more satisfied with their jobs and employers year after year than were employees in the matched companies. More importantly, those stable differences in employee attitudes were strongly related to differences in stock market performance. Over a three-year period, an investment in the "100 Best" would have resulted in an 82 percent cumulative stock return compared with just 37 percent for the matched companies.[83] This difference is remarkable given that both sets of companies were equally good performers at the beginning of the period.

Finally, research also indicates that managers have an important effect on customer satisfaction. Many people find this surprising. They don't understand how managers, who are largely responsible for what goes on inside the company, can affect what goes on outside the company. They wonder how managers, who often interact with customers under negative conditions (when customers are angry or dissatisfied), can actually improve customer satisfaction. It turns out that managers influence customer satisfaction through employee satisfaction. When employees are satisfied with their jobs, their bosses, and the companies they work for, they provide much better service to customers.[84] In turn, customers are more satisfied, too. In fact, customers of companies on *Fortune*'s list of "100 Best," where employees are much more satisfied with their jobs and their companies, have much higher customer satisfaction scores than do customers of comparable companies that are not on *Fortune*'s list. Over an eight-year period, that difference in customer satisfaction also resulted in a 14 percent annual stock market return for the "100 Best" companies compared to a 6 percent return for the overall stock market.[85]

You will learn more about the service-profit chain in Chapter 18 on managing service and manufacturing operations.

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