Managing Value-Based Organizations

IT'S NOT WHAT YOU THINK

BRUCE HOAG
CARY L. COOPER

NEW HORIZONS IN MANAGEMENT
Series Editor: Cary L. Cooper

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Edward Elgar

Cheltenham, UK • Northampton, MA, USA

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Published by
Edward Elgar Publishing Limited
Glensanda House
Montpellier Parade
Cheltenham
Glos GL50 1UA
UK

Edward Elgar Publishing, Inc.
136 West Street
Suite 202
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Cataloguing in Publication Data
Hoag, Bruce, 1953–
Managing value-based organizations : it's not what you think / Bruce Hoag, Cary Cooper.
p. cm. — (New horizons in management)
Includes bibliographical references and index.
1. Organizational behavior. 2. Management. I. Cooper, Cary L. II. Title. III. Series.

HD58.7.H615 2006
658–dc22

ISBN-13: 978 184064 981 9
ISBN-10: 1 84064 981 X

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

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Preface

> To palm useless Books upon the Publick, is a crime of a very heinous Nature, a Robbery of every purchaser (Maxwell, 1747).

It has been said that those who fail to understand history are destined to repeat it, and this is as true of the management of work as it is of anything else. Research has revealed that despite the prodigious output of management books, managers still have little idea why there is so much change in the world of work or what they can do about it. Most, it seems, are still waiting for the dust to settle. They still expect that in the near future, they, like those before them, will be able to go back to doing things the way they have always done them.

Many mainstream book publishers share the responsibility for this confusion, as is evidenced by the categories of titles to which they still rigidly adhere. Their books support an understanding of the organization and management of work as it was formed more than 100 years ago. Most of the management books currently in print also suggest that the majority of their authors do not know the causes of this upheaval. Their solutions are presented as oversimplified aspirations, which any manager can attain in one minute, one week or some other period of time if he or she will just follow that author's ten easy steps or three fundamental principles. The result has been that managers have developed a very narrow perception of the causes of their organizational problems. Such distortions create false hopes and impede progress.[1]

Apparently, most people seldom read beyond the first chapter of any book. For fear, at least in part, that their books will not be read, many authors indicate to potential readers those chapters they think ought to be read and those that could be omitted. We make no such suggestions. This book is written in a very readable style and, therefore, we encourage you to read every chapter. To do so, we believe, will yield the greatest benefit.

This book sets the changes in the organization and management of work into an historical context, without which you will be unable to make sense out of the apparent chaos that characterizes the world of work today. It describes not only what has changed, but also why it has changed, and as a result will enhance the body of management knowledge. Chapter 1 provides a broad overview of organizational evolution. This will help you to

understand how and why the traditional organization was created. Chapter 2 establishes a benchmark from which the changes wrought by the horizontal revolution (Chapter 3) can be comprehended. Chapter 4 describes the essence of the value-based organization. Chapters 5, 6 and 7 describe the practical attempts of organizations to obtain the benefits of change by doing what they have always done. Chapters 8, 9, 10 and 11 discuss the practical implications of value-based principles for organizations, managers, employees, and human resources managers, respectively.

NOTE

1. Brewster (1987).

Acknowledgements

We would like to thank our editors Francine O'Sullivan, for her encouragement and patience during the five years it took to complete this project, Jo Betteridge, for her technical assistance in the preparation of the manuscript and Karen McCarthy, for seeing the book to completion.

Special thanks are due to Gill Bowness, Communications Business Partner, Barclays Bank PLC; Richard Cox, University of Manchester; Anders Ericsson, Florida State University; Binna Kandola, Pearn Kandola; Elsie Maxwell (ret.), formerly of AWM; Ivan Misner, Founder and President of Business Network International; Bill Parsons, Executive Vice-President of ARM Technologies; Jean-Michel Piedagnel, United Kingdom Executive Director, Médecins sans Frontières; Sarah Ponsford, National Data Collection, Data Services Group, Department for Education and Skills; Bill Ratcliff, W. Edwards Deming Institute; Martin Rickman, Performance Advantage Ltd; Ian Russell, NetXtra Ltd; Anthony (Tony) Warford of the Sanger Centre (Cambridge) for his constant encouragement and constructive comments; and Heather White, Founder and Chief Executive of Magic of Networking Ltd.

Grateful thanks to John French, subject librarian at the Joule and Precinct Libraries of the University of Manchester; Helen Thomas, Precinct Library; Jane Milburn and Sharon Hinds, Judge Institute Management Library; Isabel Holowaty (late of Cambridge University Library, now at Bodleian Library, Oxford); Michael Fuller, Cambridge University Library; Pamela Olson, The Newberry Library; and Adam Daber, the Curator, and Ethel Jones and all the staff at the Quarry Bank Mill, Cheshire.

And finally, much appreciation is extended for the support and encouragement of family and friends, especially Don and Shirley Hoag, and Noni Hoag.

For my wife, Dr Noni Hoag
– Bruce Hoag

I would like to dedicate this book to a former student of mine, Sir Terry Leahy, CEO of Tesco . . . who has taught his ol' Professor a thing or two about creating a value-based organization
– Cary L. Cooper

PART I

Organizational history

1. Organizational evolution

In recent years, all of us have become aware of the unprecedented pace and degree of change in modern life. For example, the first electronic computer was built in 1946, weighed 30 tons, and had 18 000 vacuum tubes. Its entire memory could hold just 20 numbers and ten letters. The first desktop computer was built in 1974. Its footprint was no bigger than a large television.[1] For the past three decades, computer power has doubled and its costs halved every 18 months.[2] In the 20 years from 1978 to 1998, computer power has increased by a factor of 10 000.[3] Some computers today will fit in your shirt pocket, yet possess more power than those that filled entire rooms 50 years ago. The first telephone was invented in 1861.[4] It enabled people to speak to one another, first across town and later around the world. The combined technology of the telephone and the computer, however, has enabled billions of people to chat or send letters instantaneously to a million others all over the world for a fraction of the cost of one telephone call.

These inventions each represent a unit of change from an object that can do one thing into an object that can do something else. Each unit represents a change in content. By themselves, these technological changes are important, but their significance can be understood only in terms of their context. In the 1960s, the technology existed to provide consumers with telephones that could transmit pictures of the callers in real time, but consumers showed little interest in obtaining this capability. In this example, the content was the capability; the context was consumer interest. Had Western Electric misunderstood the context, it might have manufactured in quantity a product no one wanted.

Recent changes in the organization and management of work can also be understood in terms of content and context. Generally speaking, much of what is published today focuses on issues of content: flattening hierarchical structures; skill shortages, innovation, and so on. While all of these things are important, their significance cannot be fully appreciated unless the context – the historical evolution of the organization and management of work – is understood first. To think of this another way, *what* is changing has been put in the spotlight, while the *why*[5] has been neglected.

The literature is devoid of a management history prior to the 20th century.[6] This is due in part to the dearth of industrial documentation and

an incomplete oral tradition beyond the internal financial affairs of organizations of the period.[7] Indeed, the majority of this chapter was gleaned from social and economic history. Interestingly, economic and social historians have also identified this gap, but have made little attempt to do anything about it.[8]

AGRI-ECONOMY

In England and the colonies, a relatively stable agri-economic period preceded the Industrial Revolutions. Although there were significant political upheavals, in the period from 1550 to 1750 in England and from 1600 to 1860 in North America, the kind of work and the way in which that work was organized and managed changed very little.[9]

Class System

Both nations had a class system. In England, the distinctions were social and economic: royalty, aristocracy, gentry, and the rest. Here one knew the class in which he or she[10] was born and would die. In America, the distinctions were largely geographical. The free and affluent lived in the North; the enslaved in the South. Four different groups of people immigrated into the colonies prior to the American Revolution: indentured men, women and children who could not afford the fare to travel from Europe; deported criminals; slaves brought in from Africa; and merchant seamen and other free tradesmen. Indentured servants sold themselves to their new masters for periods of between two and seven years to do any work that their new employer required in lieu of payment for their passage. Would-be immigrants had been given to understand that the American farmers and merchants would advance their travel expenses willingly and allow them to go free after they had repaid their masters. In reality, those who survived the journey were often expected to pay for their own way as well as for those who had died en route.[11] Although the number of indentured servants eventually rose to perhaps one quarter of the population,[12] they had gained their freedom by the early 18th century when that system fell out of fashion.[13] Black slaves comprised about 3% of the population.[14] Some served in Northern households where working conditions were harsh, but overall, they probably received somewhat better treatment than those in the South.[15] Southern slaves possessed few human rights. Among other things, they could not bear firearms,[16] marry outside of their race or off their own plantation,[17] vote, engage in business, own property, congregate in groups larger than three, travel freely, or testify in court – which must have limited their chances

of a fair trial. In addition, some were denied any opportunities for education and religious worship because masters believed that to do so would encourage their slaves to seek freedom.[18] The social conflicts between the North and South over the issue of slavery contributed to the American Civil War.

Trades

The majority of English and American jobs came from working the land. Those persons who were not connected directly to agriculture worked in primitive industries and trade, shipping, fishing and crafts, and as professionals and unskilled laborers.[19] Trades related to ordinary living, such as soap makers, cutlers, tailors and printers were also present.[20] In England, the Crown and the Church owned most of the land, but after the relationship between the English Crown and the Pope was dissolved in the 1540s, Church land was confiscated by the Crown and sold off or given to favored gentry.[21] By 1790, gentlemen owned 75% of the arable land, 20% of which was held by freeholders.[22] The landed gentry derived their income primarily from rent and also some agriculture, lumber, and mining activities.[23] A number of landowners were magistrates, which meant that those prosecuted for offences connected with work had to face a boss who was also their judge.[24] Many colonists *owned* the land they worked. In truth, however, the land had belonged to the various tribes of indigenous Indians. Nevertheless, in a relatively short time, a stream of immigrants forced the native Americans out of the region and later from virtually the whole nation.[25] With the exception of plantations, where many slaves were available to cultivate the soil, the colonists' small land holdings were able only to sustain the farmer's family and perhaps a few laborers.[26]

A new class of free workers emerged in the early 18th century.[27] Some of them were skilled as journeymen, so called because they willingly traveled around the country seeking the best pay for their work. Their hope was that one day their enterprise would reward them and give them a shop of their own.[28] Unskilled workers performed more common tasks such as digging ditches. This latter group was better off than their European counterparts,[29] but during periods of unemployment, these workers were often unable to feed their families or keep themselves out of jail. Generally speaking, both skilled workers[30] and unskilled farm laborers[31] were in short supply. This may have been due in large part to the limitations placed on skilled workers who wanted to immigrate. In the late 18th century, Britain prohibited its own citizens from leaving the country if they possessed the knowledge and skill to produce industrial technology; and it confiscated any equipment being taken and imprisoned and fined heavily anyone who encouraged another to do so.[32]

English Laws

Although English law governed the colonies from their inception,[33] many statutes were enforced unevenly. Where the laws served the needs of colonists, they were obeyed; where they were considered inequitable, they were queried.[34] For example, masters or servants who failed to provide three months' notice to quit without just cause, including for reasons of injury or illness, were subject to prosecution.[35] However, farmers did not want laborers who had run away and were later caught to be put in jail when they could be returned to the farm and put to work.[36]

Poverty was seen as a moral problem,[37] and so laws were introduced to ensure that everyone worked. In England, the Statute of Artificers of 1563 obliged parents to engage their sons in a trade or agriculture, unless they could prove they had the means to educate them for business or a profession such as a doctor, lawyer, minister, teacher, or government official.[38] The Poor Law empowered churchwardens and overseers to put children to work if their parents lacked the means to care for them and also to employ others who had no trade or lacked the means to care for themselves.[39] These laws helped to propagate the medieval apprenticeship system, the means by which, both England and America fed their pool of skilled laborers. Legislation in the 1640s made all parents and master craftsmen responsible for teaching their dependents to read well enough to understand religious principles and the national laws, and mandated the creation of common and grammar schools in towns with more than 50 families.[40] Predominantly, however, both populations were illiterate and unskilled. Literacy was the preserve of wealthy, high status, professional people.[41] In early 18th-century England, less than half of the men and only one quarter of women could sign their names. In America, literacy was divided geographically rather than just by social class, although Northern men of all classes who read their Bibles were more literate than those who did not.[42]

Parish laws prescribed 54 trades in which a seven-year apprenticeship was required.[43] In both nations, young men, many of whom were outside of the family,[44] were bound for a period of years for the purpose of learning the trade or profession of their master.[45] The only persons who were exempt were former officers, mariners or soldiers in service to the king, and all others who had not deserted their posts.[46] Merchants, husbandmen, gardeners, and some other trades, were not included because the courts had ruled that some trades only required skill and experience. Where the parish had set up an apprenticeship, males were bound until age 21; women until they were that same age or married. Craft guilds controlled the admission of new apprentices, the term of their apprenticeship, the quality of their work, and the standards for promotion to journeyman. Anyone who owned

land could take on an apprentice,[47] and as a result, a surplus of journeymen and craftsmen, a decline in real wages, and a deterioration in product quality developed in some areas.[48]

English laws governed other colonial business practices. For example, they limited the number of workers that could be employed by any one person. This meant that in a typical mid-18th-century shop, where the master craftsman also was the owner, only two or three journeymen and as many apprentices worked alongside him and supplied raw materials. The master sold the finished products himself.[49] In addition, these laws prohibited colonists from trading their goods with other colonies or nations.[50]

Apprenticeships

The relationship between masters and apprentices was tenuous at the best of times, and they often traded blows with one another. Masters used physical punishment as a means of discipline, and some skirmishes were bloody. In Benjamin Franklin's case, his father was the arbiter.[51] However, other situations ended up in the courts.[52] Apprentices were the dogsbodies of the colonial era. In the printing industry, for example, they were the chief source of labor, since few printers received enough work regularly to support the employment of journeymen printers.[53] Printers made most of their own tools and ink. These tasks were messy and smelly to say the least. Apprentices were expected to use rotting urine to soften leather, and then to sew the material together. Others spent time boiling lampblack into an inky stew.[54] In England, the number and quality of these understudies was controlled through trade guilds. In America, however, skill shortages, unreliable transportation, an immature legal system[55] and dispersion of apprentices across a large geographical area[56] made such controls unenforceable.

By the end of the 18th century, in America, 75% of Northerners were considered literate, while only half could read in the South.[57] This increase in education eroded the authority of master craftsmen who managed to protect their trade secrets only until the end of 18th century,[58] after which they were sold in the form of early do-it-yourself books to pay for new equipment.[59] Since many apprentices could read, their access to these volumes diminished the value of the apprenticeship. Literate apprentices bought the books and then ran away to other colonies to set up their own businesses. This new knowledge, coupled with the feeling of freedom brought on by the political revolution that separated the colonies from Great Britain, caused the newly elected American legislators to pass laws to curb their anti-establishment behavior. As a result, apprentices ran away from their masters and sought their new-found freedoms in other colonies. It seems that when the revolutionaries challenged a king, they set in

motion the will of a generation to challenge the authority of its forbears as well. Despite the increased use of the courts and municipal ordinances, America was never the same. By 1800, the courts were supporting the apprentices.[60]

Organizational Structure

Early organizational structure was patterned after a patriarchal hierarchy in which the younger served the older. Fathers and older brothers were the master craftsmen who ruled the business as they did the household.[61] In England, middle class tenant farmers,[62] who rented their land from the gentry,[63] employed farm servants on fixed annual contracts and as seasonal day workers. Many of these servants lived and ate with their employers and families.[64] On southern American plantations, the owner and his family lived in close proximity to their slaves.[65]

Working Conditions

Working conditions in both nations depended largely on social position. In England, some employers and employees regarded one another more or less as equals. In America, treatment depended on whether one was free, indentured, or slave – black or white. Free tradesmen could travel and work without restrictions. The indentured remained slaves until their indentures were fulfilled. Black slaves were bound for life until Lincoln freed all of them in 1863.

In general, commercial plantations existed to earn profits for their owners. Any thought for slave welfare was a secondary consideration. Patriarchal plantations, however, which dominated plantation design, amounted to a modified version of the English country manor. These were established by English squires who wanted to live in the Southern United States as they had in England. Instead of using feudal laborers, employed workers, and tied tenants, they used indentured servants, and later, black slaves. These lords of the manor, together with their families, lived closely with their slaves.[66]

Plantations varied in size according to acreage and the number of slaves on them. Each plantation was an industrial unit. The owner's home was the central feature around which all other amenities were built. The laboring unit was a separate enclave that consisted of living quarters for the slaves and slave owner, as well as various outbuildings.[67] Socially, plantation owners were considered planters when they had acquired 30 slaves or more. On a given plantation, separate groups of slaves performed various duties that included carpentry, weaving, smithing, cobbling, nursing, and midwifery.

Others monitored irrigation, moved livestock, ploughed and hoed, and burned trash. Intelligent children were singled out for an apprenticeship with a skilled worker on the plantation.[68]

The overseer, a kind of farm manager, was the second in command at the plantation and was often despised by the slaves to the extent that his authority lay in the whip, and not out of any respect the slave may have had for him. The overseer was responsible for getting slaves to work on time, feeding them, looking after their health and welfare, monitoring the quantity and quality of their work throughout the day, and insuring that they were rested properly for the following day. The success or failure of the plantation rested on him. Overseers often employed drivers who possessed an innate ability to lead slaves and to establish the pace of work.[69]

Discipline

English laws permitted masters to exercise reasonable discipline for invective language and dereliction of duty.[70] Where English laws were deemed inappropriate to colonial circumstances, the grounds for and types of punishment varied.[71] Typically, slaves were mistreated badly by their masters and often killed. It became quite common for slaves to be whipped rather than jailed, and for indentures to be extended for practically every minor infraction,[72] including pregnancy. The courts invariably sided with the masters, believing that they would not have behaved in such a violent manner without just cause.[73] Recaptured runaway slaves were beaten severely. Some were branded with the letter 'R.' Others were forced to serve anything up to an extra two years per offense. In 1641, the General Assembly of Maryland made running away a capital offense for slaves. Nevertheless, many slaves revolted, and some organized group rebellions. All were punished cruelly; some were burned alive.[74]

Working Hours

Working hours in the agri-economy were long and unpredictable,[75] subject to the time of year,[76] hours of daylight, and the weather.[77] In practice, this meant that people worked from sunrise to sunset, making the day 12 to 16 hours long.[78] Slaves on American plantations worked a minimum of 60 hours over six days each week.[79] In the Deep South, rest periods of several hours were given at midday in the summer. All workers were entitled to have Sunday off, but some slaves were forced to work anyway.[80] During the harvest, everyone worked seven days per week, but some slaves received compensatory time or extra pay when it had finished.[81] Payment for labor, whether slave or free, tended to be in kind.[82] In England, wage

laborers were paid per diem.[83] In America, some payments were made by bartering one service for another.[84]

The harvest was an especially important part of the working year. All artificers and laborers who were fit enough were obligated to assist in whatever ways they could, and risked two and a half days in the stocks if they refused. Girls or women between 12 and 40 could be compelled to serve for a fixed period at wages that were determined entirely by local politicians and be imprisoned if they refused.[85] In the last half of the 18th century, religious fervor created a new work ethic. The two Great Awakenings so radically improved the habits of many American workers that those who were believers were hired in preference to those who were not.[86]

Early Trade Unions

The first American trade unions were loosely organized associations whose primary purpose was to provide financial and moral support to members and their families whose breadwinner had fallen on hard times, become ill, or died.[87] In the early 18th century, master craftsmen and their apprentices, and domestic servants often withheld their labor over issues such as breaches of payment, length of the working day and intolerable working conditions. In these early days, their attempts to cooperate together were limited to trade guilds. Laws were passed in both England and America that made strikes illegal.[88] Despite the fact that the English had managed to reduce working hours through legislation, the United States experienced its first strike in 1791. On this occasion, the goal was to reduce the work day to ten hours, plus two hours for lunch and dinner, a change that in the event took 40 years to accomplish.[89]

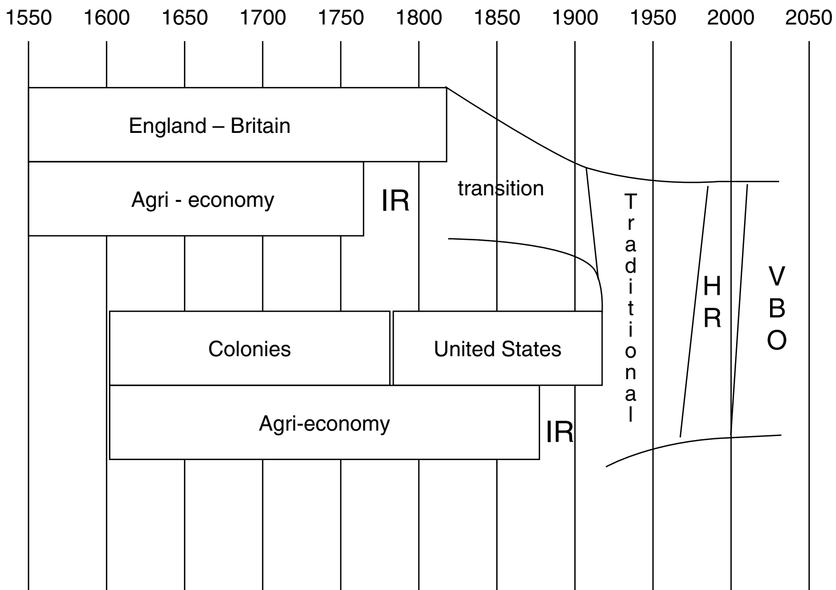
Prior to the American Revolution, the colonists experienced a growing discontentment and anger towards a British government which passed laws that interfered with their individual freedoms and, for those who wanted it, to build successful businesses. As a result, many workers collaborated together to secure the personal rights to which they felt they were entitled by overthrowing the reigning government in their land and establishing their own – one that would be accountable to its citizens. This collaboration was perhaps the greatest example of a trade union movement and clearly demonstrated the power of an organized workforce.

INDUSTRIAL REVOLUTIONS

Revolutions occur when otherwise unremarkable factors converge. In the Industrial Revolutions of England and America, three such events took

place within a relatively short period of time. They were changes in 1) technology, 2) demography, and 3) the character of the workforce. The Industrial Revolution in England occurred between 1760 and 1820,[90] and in America between 1860 and 1920,[91] though there were also pre-industrial factories from about 1790 to 1850 in the United States[92] (see Figure 1.1). These dates are not exact, nor are they very important, but they do provide an historical context.

The change from manual to mechanistic work was local and gradual.[93] In England, the revolution was confined primarily to the Northwest.[94] In fact, to this day, much of the rest of the country remains predominantly agricultural. In the United States, the early cotton factories were confined to a few states in New England.[95] Only when the railroad and the telegraph crossed the nation did technology begin to spread. Evidence for the Industrial Revolution, such as electricity, indoor plumbing, and even gasoline-powered machinery, was not prevalent in either nation until World War II,[96] and large-scale organizational change occurred only by degrees.



Notes:
IR = Industrial Revolution.
HR = Horizontal Revolution.
VBO = Value-Based Organization.

Figure 1.1 Organizational evolution

English literacy barely changed from the mid-18th to the mid-19th centuries.[97] In fact, in mid-19th-century England, the evidence of business success was profits,[98] attributable to amateur experimentation,[99] rule-of-thumb,[100] trial and error methods,[101] rather than education.[102] Within the same historical period, however, American literacy had risen substantially to 95% of whites in the North and 80% in the South.[103] But, in 1870, less than three-tenths of 1% of Americans attended university, and in Britain, a primary education was not required until ten years later.[104] In America, 80% lived in rural communities;[105] and its society remained closer to the 18th century than to the twentieth.[106]

Nature of Work

The Industrial Revolution changed fundamentally the nature of work. In the agri-economy, one had to be a jack-of-all-trades – tilling the land, caring for livestock, repairing and making various tools, and turning wool or cotton into cloth.[107] In the factories, however, technology increased the need for specialist knowledge and skill.[108] In addition, the need for managerial and administrative skills emerged, especially those that pertained to the control of costs and quality.[109] In the textile industry, hierarchies formed where concentrations of 100 or more people worked together. However, organizational structure remained decentralized for much of the English Industrial Revolution.[110]

In England, an abundance of people lived within a small land mass, but in America, a tiny population occupied a vast continent.[111] In 18th-century England, factory owners sought to break the power of the master craftsmen who, through their skill monopoly, dictated the pace of factory work and limited its output.[112] Although many of the immigrants who streamed into the United States throughout the 19th century[113] possessed skills of one kind or another, these were irrelevant for the machinery of the time;[114] and what little they did know, they were unwilling to share with their co-workers.[115] Where possible, machines were used to do the work of men,[116] but, both nations still suffered from a shortage of skilled workers. Division of labor[117] reduced their dependency on skilled labor by enabling the unskilled to do the work of the skilled, and in America to reduce labor costs as well.

Workforce

Both nations needed to create a disciplined workforce – one that would get to work every day, on time, and in a fit state.[118] This regimen was in sharp contrast to the working habits that were so common during the agricultural period. The penalties for unruly behavior were harsh, but the churches and

families in America helped these new employees to cope with the rigors of modern work.[119] Both countries fired anyone caught smoking while at work.[120] In England, talking was forbidden,[121] and fines were administered for wasting resources or damaging equipment, however minor.[122] American employees were expected to abstain from reading,[123] eating, drinking, or gambling while at work.[124] Some were fined as much as 25% of their wages for infringements.[125] Workers could be sacked for lying, chronic murmuring – especially about pay – habitual absence, striking or attempting to form a union. Off duty behavior was also subject to scrutiny.[126]

In both nations, entire families were frequently hired together.[127] In England, child conscription was practiced until the early 19th century,[128] and during the agri-economy, children would have worked, but under the nurture and protection of a parent or older sibling. In the factory, however, the underperformance of one jeopardized the livelihood of them all.[129] Many children only slept three or four hours each night and as a result suffered from serious illness or death within a few years, victims of unforgiving machines.[130] In America, about 4000 children under ten years old were employed in the early 19th century,[131] though this was mitigated within a few decades by the passage of various laws that provided for their education,[132] and the need for older workers to operate the increasingly complex machinery.[133]

Working Hours

Working hours in the Industrial Revolutions were long and arduous. Sixteen-hour days, six days per week all year for young and old alike were common.[134] In England, meal breaks were short and lacked nutrition.[135] In America, meals added another three hours to the working day,[136] though generally more food of a higher quality was provided.[137] Mill owners in both nations curbed the length of these breaks either by altering the clocks[138] or by interpreting the length of them in favor of the employer.[139] In England, staff were fined for being late and were forbidden to carry watches.[140]

Pay

In America, unskilled workers were paid by the day.[141] Skilled workers, on the other hand, were paid by the piece. The more they produced, the more they earned. The pace they set enabled factory owners to determine the amount of work that could be achieved in a day and provided a benchmark for changing the meaning of a day's pay. In one fell swoop, quotas for the unskilled were raised, and piece workers became day workers.[142]

Journeymen carpenters suffered a similar ignominy. They also were paid by the day, but subcontracted at a rate based solely on their output. The formula for this calculation was known only to the contractors. Consequently, these workers knew what they were paid, but did not know what they were worth. This problem was exacerbated further by some who only hired journeymen for the long summer days, when they were worth more, but laid them off during the shorter winter days when they were worth less. As a result, some journeymen fixed the length of every work day to ten hours and made it clear that they reserved the right to work for more than ten hours, but expected to be paid extra for doing so.[143]

Progress towards a ten-hour work day was slow. Since most employers thought in terms of productivity, reduced hours usually meant reduced pay.[144] In 1840, the US government created the ten-hour day for federal employees, and this encouraged a number of employers in the private sector to adopt a working day of equal length.[145] In 1847, New Hampshire passed the first law that reduced the work day to ten hours,[146] but allowed employees to negotiate for more hours.[147] Individual states, however, were less concerned with how many hours children worked than with the limitations such work placed on their opportunities for education. Massachusetts, for example, did not change the law until 1874.[148] Federal workers were given an eight-hour day in 1868, but, when some department heads reduced wages accordingly, President Grant was forced to issue two executive orders to enforce it: one to clarify his policy and the other to override those government officials who simply had ignored him.[149]

Wages were paid in arrears[150] and normally in kind[151] despite the clear mandate in English Common Law to pay in cash.[152] It seems, however, that neither the English[153] nor the Americans[154] took this law seriously. Factory owners on both sides of the Atlantic often paid workers as little actual money as possible. That employees in early 19th-century America were paid in this way, however, should not cause alarm for the reader. In 1800, there were only 28 banks in the country,[155] all of which had their own currency. The United States did not have a central bank until 1864.[156] Consequently, any cash workers received would not have been accepted everywhere.[157] In England, those who insisted on monetary payment were often fined for substandard work.[158] Four weeks' notice was required to leave employment, but sacking could be meted out instantaneously at the discretion of the factory.[159] Those who left without notice were liable to a prison term of three months.[160] In America, two weeks' notice was sufficient, and those who left sooner had their wages delayed.[161] An unsatisfactory reference was also grounds for dismissal.[162]

American children would have cost more in board than they could earn in the mills.[163] While most children today do not work, many organizations

provide subsidized child care facilities, a practice remarkably similar to that of boarding them. Many parents of the period insisted that their contracts of work included provisions for their children to attend school or to be afforded the opportunity to learn a trade.[164] The time during which children could be away for educational reasons varied from two to six months.[165] In all probability, children were rotated into school and out of the factory so that some worked while others studied.[166] Children were not paid during their school months, and were therefore an added financial burden to their families.[167]

Some early American employment contracts prohibited strikes.[168] In the mid-19th century, many mill owners collectively blacklisted regional laborers who had been insubordinate, had tried to increase wages[169] or had been involved in a strike,[170] or had been sacked.[171] This, together with the steady deterioration of working conditions contributed to the gradual change in the nature of the workforce. Staff came and went quickly, and in the end, only vagrant immigrants remained to take jobs at marginal wages[172] that the native population would not do.[173]

Factories

Working conditions in English and American textile factories were similar in many respects. The buildings were rectangular shapes[174] erected alongside fast flowing rivers, which, initially, drove large waterwheels. These structures were fitted with as many windows as they could support to maximize the available natural light, which, in winter, was dim at the best of times. Factories were laid out in a primitive sort of assembly-line fashion in which each room was devoted to a particular activity within the process,[175] and where each room followed another according to the sequence necessary to produce the finished product.[176] As with so many organizations, even in modern times, ambient temperature and humidity were often determined according to the conditions needed to preserve and protect raw materials and equipment. The high relative humidity necessary to maintain flexibility and prevent breakage of the highly stressed cotton threads was sustained by keeping the floor wet. This practice created oppressive working conditions in the summer and penetrating cold in the winter. Employees were peppered with the lint that blew continuously around the factories,[177] and many died young from inhaling the fibers.[178] A large number also lost their hearing from the incessant noise.[179] Nevertheless, working conditions in American factories were better than in England. One reason for this was the labor shortage.[180] Another reason was that the mills were subject to public scrutiny. Mill owners put themselves up as icons of social morality and devoted some of the profits to employee care. Some mill owners encouraged

their workers to engage in religious duties and gave them time off to do so. In addition, they funded and built church premises, including parsonages.[181]

Initially, mill owners may have felt that the horrors of the English factory system were incongruous with the political ideals that pervaded America; but, the emphasis on increasing profits eventually pushed that conviction from their minds. Workers were expected to monitor more machines, all of which were running faster than before, and to accept wages that not only failed to rise according to the increased output, but actually declined.[182]

In England, some factory owners provided cottages and, as a means of securing staff loyalty, tied the job to that accommodation. Typically, rents exceeded the market value even though the standard of living was lower.[183] In America, Samuel Slater, builder of the nation's first cotton mills, erected industrial villages, and Francis Cabot Lowell, his rival, built boarding houses to accommodate the young women he employed,[184] though occasionally, these women boarded with local families.[185]

Since most mill workers received little money, they were forced to spend the credits they earned on food, clothing and other necessities in stores provided by the company and at extortionate prices.[186] This system was open to abuse,[187] and it embittered workers against their employers.[188]

Unions

Mill owners, however, did not have it all their own way. In both nations, workers formed unions, first loosely and later formally, to protect jobs and wages.[189] These periods of unrest followed a recurring pattern: long hours and employee abuse; new equipment, and higher quotas. Trade associations were formed, and strikes ensued. In some cases, workers destroyed equipment and burned the factories on which their livelihood depended.[190] The national governments passed laws that forbade workers from combining and from striking. In England, troops were used occasionally to quell the disturbances. Then, more new equipment was brought in; the quotas were raised again, and the cycle repeated itself.

Despite English Common Law, which provided heavy fines, imprisonment or deportation for those engaged in union activities,[191] a few temporary associations were established in America before the Revolution,[192] and more permanent ones followed soon thereafter. Curiously, factory reforms were brought into England and America at roughly the same time with respect to their Industrial Revolutions.[193] In England, riots and petitions precipitated the beginning of an effective legislative process that, among other things, reduced working hours for women and children and mandated limited school attendance.[194] Legislation to protect American workers from injury or death was not introduced until 1912, though there still was no provision for compensation due to work-related injury.[195]

Factory management

Pre-industrial textile mills established by Lowell in early 19th-century New England may have laid the foundations for American businesses from the Industrial Revolution onwards, but that linkage is unclear.[196] Slater had believed that the mills could remain profitable only if the business owners themselves were the managers, but in the years up to 1850, management and ownership gradually separated.[197] Lowell incorporated his mill, sold stock to investors and made his majority stockholders directors with managerial responsibilities.[198] The board selected an agent, who managed daily operations, and determined policy that the treasurer communicated to the agent. The agent decided how to fulfill the corporate mandate and hired a number of people to assist him.[199] The Lowell system epitomized the American textile industry, though it was atypical. Average sized mills had less than 70 employees,[200] and in most cases were even smaller unless they made cloth.[201]

The Lowell system also articulated an early form of job description in which specific responsibilities were assigned to particular job titles. The parameters of each job were often left to the person who filled the position, but as the company became larger and more complex, the directors outlined the terms of each job.[202] The Lowell system was not perfect and suffered from many of the same maladies of modern organizations such as the pursuit of short-term profits. The implementation of new technology was often delayed and scant attention was paid to the importance of good relationships between the management and the workforce.[203]

In the middle of the 19th century, more people relied upon manual labor than on mechanization despite the proliferation of textile factories.[204] They worked primarily on farms and in small family businesses. While many factories had a modicum of modern organization, some had none.[205]

Railroads

The American railroad industry probably exerted the greatest influence on the development of the traditional organization since it was among the first business ventures to move out from under one roof. Scholars, however, are divided over who influenced whom. Some argue that the US Army influenced the development of the organizational structure used by many of the nation's railroads, and later, large industries themselves, since by 1827 the Baltimore & Ohio (B & O) railroad company had hired a number of the Army's engineers.[206] But, others attribute these organizational influences solely to the railroad companies.[207]

The Army introduced various administrative controls to the railroad company such as chain of command,[208] which in itself defined line and staff

structures, and a bureaucratic hierarchy.[209] The B & O, however, was not the only railroad company to benefit directly from the expertise of Army engineers: subsequent reorganizations meant that although these people no longer served on the board of that company, they continued to influence the technical organization of other railroad companies that later employed them.[210] In time, most other railroads adopted this line and staff approach.[211] It is interesting to note, however, that despite these organizational influences, no reference was made in early railroad company manuals on how to manage the company.[212]

Railroad management

The investment required to own a textile mill was substantial, but not beyond the abilities of a single entrepreneur; neither was there ever any doubt about who would manage those enterprises. That right was reserved for the owners,[213] because ownership implied control.[214] When necessary, however, these early businessmen hired managers, usually family members or close friends to oversee their affairs of commerce. Most of the new mechanized factories were easily managed, requiring basic skills that were limited to operational coordination and supervision of employees.[215] Even formal administrative procedures were unnecessary. The American railroad industry, however, was a different enterprise altogether. It required a consortium of investors to fund it, and men with managerial expertise to run it.[216]

At first, the railroad directors served as part-time or unpaid administrators. Typically, boards acted as committees of decision makers who delegated much of their work. In the years up to 1870, methods for coping with the challenges of big business were created,[217] which contributed to the need for middle managers who were supervised by men above them.[218] These men were hired on the basis of merit or expertise.[219] The expertise necessary to manage an enterprise on this scale was such that the first administrators to be recruited were qualified engineers – specialists in their field.

The introduction of middle managers severed the link between management and profit. They were paid a salary to perform their jobs, but did not receive any of the profits, per se, or have share ownership in the railroad itself.[220] This was an alien concept since, heretofore, there had been no place in American culture for managers who were not owners. Those who had managerial expertise were accustomed to and motivated by their share of the profits, and they were dissatisfied with the prospect of pursuing a career within the framework of a larger hierarchy. They were also uncomfortable with the idea that within the hierarchy, men whom they had never met routinely gave them orders, many of which they were obligated to disseminate in turn to those below them.[221] Nevertheless, middle managers were tasked to coordinate and expedite the flow from raw materials to customers, and to

enlarge existing markets,[222] activities with which few owners concerned themselves.[223] They did not participate, however, in high-level decisions, and hence, ownership was separated from administration.[224]

Although the shortage of labor was mitigated somewhat in the middle of the 19th century, the skills that workers had acquired by then were unsuitable for the railroads. This new technology demanded renewed specialization.[225] The simplification of work enabled laborers to concentrate on one task instead of several[226] and to acquire a level of expertise that previously had not been possible, but it had increased the need for greater coordination and control,[227] and that demanded a new structure and a new management style. Subdivided work had to be recombined by those in authority so that managers and staff working together could achieve the common purpose.[228]

In the mid-19th century, American railroads began to segregate their work according to function. Formal authority and channels of communication were established,[229] and administration became one of the chief characteristics of the new organization. Much of the organizational development of the railroad is difficult to trace in precise chronological order. However, it can be said that the ingredients that produced the traditional organization that followed were formalized more or less concurrently during this period and in this industry.

Hierarchy

The hierarchy of authority through which operations were coordinated became a permanent fixture in railroad companies and the organizations that followed them up to the present day. In 1847, the B & O created a hierarchy of jobs and clarified the relationships between them. The responsibilities and duties of the various departments were defined and their activities were limited accordingly.[230] In 1855, Daniel McCallum, the Erie railroad general superintendent divided the company's territory geographically and charged his direct reports with the movement of daily railroad traffic and the maintenance of equipment. Each of them had their own groups of managers and supervisors who coordinated regional activities, and whose practice of producing numerous periodic reports soon became the industry standard.[231] This new hierarchy[232] established formal lines of communication and obviated opportunities for disagreements between managers and workers[233] by insuring that individuals were obligated to follow the orders of only one superior at any one time.[234] This principle later came to be known as *unity of command*. McCallum is credited with creating the first organization chart, which he made available to the general public.[235]

Charles E. Perkins, president of the Chicago, Burlington and Quincy railroad company may have been the first person to understand many of the principles of management upon which traditional organizations were

built. He used job titles to convey authority and to identify the place of an individual within the hierarchy.[236]

Railroad companies introduced the idea of promotion from within,[237] which enabled engineers to plan their railroading careers[238] and climb the first corporate ladders.[239] Promotions were far from equitable; rather, they were given to those who had mastered the status quo,[240] were considered more important, though not necessarily superior,[241] or just older, as long as they were fit for the position.[242] Succession planning was also important. Unlike the textile mills of the early 19th century, where sons were expected to inherit the father's business, each department head in a railroad company was expected to have someone waiting in the wings who had the experience and ability to step in when he was needed.[243]

The chain of command emphasized the need for good communication. Executives needed to get information out to people as well as receive it, but neither party seemed willing to take the responsibility for obtaining it. Consequently, managers were accused of failing to provide information to directors, and directors were cited for not bothering to ask. Already, in the emerging hierarchies, attempts to streamline communication channels crossed perceived territorial boundaries, but many railroad presidents did not want to jeopardize the morale of their middle managers to get it.[244]

The railroads influenced the development of other administrative functions such as accounting and auditing.[245] As the railroads grew, more functions were added, more supervisors were appointed to oversee the functions, and more people were hired. Each division introduced more complexity and that increased the need for greater control and coordination. One early railroad executive, however, recognized that too much bureaucracy was dangerous and recommended the use of outsourcing to alleviate it.[246]

Contracting

Like manufacturing jobs, the intensity of railroad work was erratic. Managers preferred experienced workers, and whenever possible rehired those who were laid off. Such was the nature of this laying-off and rehiring that some men were contracted to one railroad for what amounted to all of their working lives.[247] But, discharged railroad men had almost no chance of being rehired by any railroad company ever again, and the telegraph was used to prevent these men from gaining employment elsewhere within the industry. Potential employers were more interested in the objections the former employer may have had regarding the man being rehired than with the reasons for his dismissal.[248] Railroad workers lived near their work, but, since many of them hoped that someday they would be employed higher up the hierarchy in a permanent job, they borrowed against their future wages in order to provide dwellings for themselves.[249]

By the 1880s, it had become clear that a well-disciplined workforce had a constraining influence on accidents. Staff welfare and morale were considered important, but always secondary to business results.[250] Early middle managers were fickle and not above accepting favors where jobs were concerned. They influenced the decisions regarding who was hired and how they were trained, paid, disciplined, and pensioned off. This kind of behavior was common to many other similarly sized organizations and was responsible for much of the industrial unrest common in the last half of the 19th century.[251]

Unions Revisited

Employers continuously sought ways to increase their profits and lower costs. Invariably this involved some combination of new technology and greater output, and alterations in the terms of work. Employees resisted any changes that threatened jobs or wages. Both nations passed laws against the formation of unions, especially for the purposes of increasing wages and withholding labor. Mechanization reduced the need for skilled labor, and diminished the power of the labor unions.[252] However, when managers reduced wages, the labor unions were strengthened,[253] and by the end of the 19th century, nearly every industry had formed a labor union.[254] In the early years of the 20th century, strikes became more effective, costing companies a lot of money in lost production. Consequently, managers sought ways and means of breaking the strikes by hiring non-union workers who were willing to backfill the labor of a striking union member and protect equipment from damage during the strikes. The willingness of these people to fulfill a strike-breaking role was so common that candidates were known to place advertisements in employers' trade journals. One strike-breaker had 35 000 men upon whom he could call at any time,[255] creating what amounted to an early form of a temporary employment agency. Although the unions became quite powerful in their quest to control American labor, their own corruption ultimately constrained them.[256]

Employers wanted strikes that meddled in their business affairs and crossed state lines to be outlawed, arguing that negotiations by unions were unlawful and unpatriotic. They preferred to bargain with individuals over whom they had more control and often sought redress in the courts. Typically, the judiciary found in favor of employers. Employees violated the law if they boycotted their companies,[257] but employers were free to boycott anything connected with unions, to break strikes with external labor, bribe union officers, blacklist union members, spy on union activities and smear unions with half-truths.[258]

Benefits

In efforts to persuade employees to work steadily, not to change employers and not to join unions at all,[259] companies offered equitable wages, largesse and career paths.[260] Added perquisites included improved safety, sanitary toilets, social facilities or fitness centers of a sort. Some companies went so far as to create plans through which workers could share in company profits and acquire stock.[261] However, in practice, the profits to distribute were petty, and few to whom the offer had been made had the money to buy them.[262] The railroads also offered insurance plans in an effort to dissuade men from joining unions[263] and the steel companies eventually succumbed to pressure from the government, the public, and the workers themselves, by offering concessions for illness as well. Legislation in the 1920s determined that safety equipment and procedures should protect workers in fact, and not just in intent.[264]

In the years up to 1920, there was a shortage of labor in general, and the hourly pay rates of workers doubled. Black Americans migrated up from the South, and immigrants were encouraged to continue working at the steel mill rather than returning to their countries of origin. Many of these mills provided company housing and higher wages, and even unskilled workers were considered a precious resource. The work day was extended again to 12 hours and the working week to seven days, a practice that continued until the end of the war.[265]

Unstable prices and production surpluses were chronic problems throughout the American Industrial Revolution as they had been during the parallel period in England. This led employers and employees in the pursuit of mutually exclusive goals. Companies strove to command prices and output through trade cooperatives,[266] while workers tried to control wages and protect jobs through unified labor associations.[267] Employers wanted the freedom to hire non-union workers, and union members objected.[268]

During the last 30 years or so of the 19th century, the British became disenchanted with working life. Advancement had more to do with social class than merit. Managerial initiatives, especially those that introduced new technology, were perceived as events through which the organization benefited at the expense of the staff, and this scarcity mentality caused many to resist all innovations, even if they were advantageous to the worker.[269]

In America, and within the mechanized industries, the last half of the 19th century, as well as much of the 20th, was a period characterized more by consolidation than growth.[270] The last ten years of the 19th century signaled the start of a time during which companies sought to safeguard their positions against erratic customer demands within a precarious marketplace.[271] This was true not only in terms of machinery and output, but also

in the use of labor. There was little reason to encourage new technology or to improve management.[272]

SUMMARY

History tends to be thought of in terms of hundreds, if not thousands of years. Depending on the nation, culture, or discipline, written materials that support that history have existed for perhaps 10 000 years. Management literature, however, has been published only in the past 100 years, and the great majority of that in the last 30. Drawing on sources from the social and economic historical record, we have described how the organization and management of work has changed from the pre-Industrial Revolution period in England to the post-Industrial Revolution period in America – nearly 400 years. This chapter has provided a foundation for the existing management literature and has given scholars, professional managers, and students, an historical context within which changes in the organization and management of work can be understood.

In those 400 years from the beginning of the agri-economy in England to the end of the Industrial Revolution in the United States, the framework for the organization and management of work changed from artisan, farmer and tradesman, for whom self-determination was the primary authority, to factory worker, administrator and manager employed by giant corporations. The relative independence of the former entirely gave way to the dominance and control of the latter.

The Industrial Revolutions in England and America occurred 100 years apart, but both did so as a result of the convergence of changes in technology, the general population and the workforce. The change from work based on agriculture to work based on machines was gradual, taking nearly 100 years. The Industrial Revolutions brought, among other things, the organizational hierarchy, chain of command, job specialization and job descriptions, division of labor, a regulated workforce, and eventually an eight-hour work day. Union activity ebbed and flowed, and was sometimes quite violent.

Much of what is taken for granted in organizations today was established by the Industrial Revolutions in England and America. Chapter 2 describes the practical outworking of these changes.

NOTES

1. Messadié (1991b).
2. Gates (1995).

3. Gates (1999).
4. Messadié (1991b).
5. Shafritz and Ott (1987).
6. Pollard (1993) and Licht(1995).
7. Cochran (1981) and Gordon and Malone (1994).
8. For example, Chandler (1977).
9. Coward (1997).
10. Non-sexist laungage has been used where appropriate but in the historical chapters, terms such as journeyman, craftsman and businessman were appropriate to the time.
11. Foner (1962).
12. Foner (1962).
13. Tomlins (1993).
14. Nash (1974).
15. Nash (1974).
16. Nash (1974).
17. Breeden (ed.) (1980).
18. Nash (1974).
19. Foner (1962); Chandler (1977); Kellenbenz (1977); Supple (1977) and Coward (1997).
20. Rorabaugh (1986).
21. Coward (1997).
22. Hobsbawm (1999).
23. Coward (1997).
24. Mantoux (1970).
25. Clements (1975).
26. Chandler (1977).
27. Tomlins (1993).
28. Rorabaugh (1986).
29. Foner (1962).
30. Deane (1979).
31. Rorabaugh (1986).
32. Tucker (1984).
33. Foner (1962).
34. Hoffer (1998).
35. Bird (1795b).
36. Hoffer (1998).
37. Hoffer (1998).
38. Rorabaugh (1986).
39. Bird (1795a).
40. Welter (1962).
41. Stephens (1987).
42. Seller (1991).
43. Bird (1795b).
44. Chandler (1977).
45. Bird (1795b).
46. Bird (1795b).
47. Bird (1795b).
48. Rorabaugh (1986).
49. Foner (1962).
50. Haliburton (1851).
51. Wright (ed.) (1989).
52. Rorabaugh (1986).
53. Wroth (1965).
54. Rorabaugh (1986).
55. Rorabaugh (1986).
56. Foner (1962).
57. Rorabaugh (1986).

58. Rorabaugh (1986).
59. Jeremy (1981).
60. Rorabaugh (1986).
61. Tucker (1984).
62. Rule (1992).
63. Coward (1997).
64. Pollard (1978).
65. Postell (1970).
66. Postell (1970).
67. Postell (1970).
68. Postell (1970).
69. Foner (1962); Booth (1977) and Postell (1970).
70. Bird (1795b).
71. Hoffer (1998).
72. Hoffer (1998).
73. Foner (1962) and Booth (1977).
74. Foner (1962).
75. Porter (1982).
76. Osborne (1970) and Hobsbawm (1999).
77. Pollard (1978) and Deane (1979).
78. Bridenbaugh (1950).
79. Foner (1962) and Postell (1970).
80. Breeden (ed.) (1980).
81. Postell (1970).
82. Pollard (1978) and Rorabaugh (1986).
83. Coward (1997).
84. Rorabaugh (1986).
85. Bird (1795b).
86. White (1836).
87. Foner (1962).
88. Foner (1962).
89. Brody (1989).
90. Kellenbenz (1977).
91. Chandler (1977); See also Ford (1924) and Sioan (1963a[1986]).
92. See, for example, Tucker (1984).
93. Tryon (1917); Hower (1942); Cochran (1981); Eggert (1993) and Licht (1995).
94. Langton and Morris (eds) (1986).
95. Tucker (1984).
96. Gordon and Malone (1994) and Nugent (1981).
97. Stephens (1987).
98. Deane (1979).
99. Pollard (1989).
100. Deane (1979).
101. Landes (1965).
102. Pollard (1989).
103. Wiebe (1984).
104. Osborne (1970).
105. Nugent (1981).
106. Porter (1992).
107. Gordon and Malone (1994).
108. Galbraith (1967) and Deane (1979).
109. Supple (1977).
110. Hobsbawm (1999).
111. Ware (1931); Marburg (1941) and Deane (1979).
112. Landes (1965).
113. Bromwell (1856); Ware (1931); Marburg (1941) and Nugent (1981).

114. Galbraith (1967).
115. Jeremy (1981).
116. Mantoux (1970); Chandler (1977); Yellowitz (1977); Gordon and Malone (1994) and Licht (1995).
117. Smith (1811).
118. Mantoux (1970); Deane (1979); Cochran (1981); Tucker (1984) and Brody (1989).
119. Tucker (1984).
120. Norton (1952); Gutman (1976); Engels (1993) and Aspin (1995).
121. Porter (1982).
122. Engels (1993) and Aspin (1995).
123. Ware (1931).
124. Norton (1952) and Gutman (1976).
125. Gersuny (1976).
126. Gersuny (1976).
127. White (1836); Prude (1983) and Aspin (1995).
128. Porter (1982).
129. Aspin (1995).
130. Belchem (1990); Aspin (1995) and Hammond and Hammond (1995).
131. Kempton (1833).
132. Ware (1931).
133. White (1836).
134. Kempton (1833); Foner (1962) and Aspin (1995).
135. Kay (1969) and Hammond and Hammond (1995).
136. Cochran (1981).
137. Kempton (1833).
138. Mantoux (1970).
139. Ware (1931); Tucker (1984) and Brody (1989).
140. Mantoux (1970).
141. Ware (1931).
142. Brody (1989).
143. Brody (1989).
144. Kempton (1833).
145. Ware (1931).
146. Foner (1962).
147. Ware (1931).
148. Ware (1931).
149. Foner (1962).
150. Kempton (1833).
151. Ware (1931) and Tucker (1984).
152. Bird (1795b).
153. Aspin (1995).
154. Foner (ed.) (1977).
155. Appleby (2000).
156. Coman (1905).
157. Tucker (1984).
158. Engels (1993) and Aspin (1995).
159. Engels (1993) and Aspin (1995).
160. Aspin (1995).
161. Ware (1931).
162. Gersuny (1976).
163. Kempton (1833).
164. Tucker (1984).
165. Kempton (1833); White (1836) and Tucker (1984).
166. Kempton (1833).
167. Tucker (1984).
168. Ware (1931).

169. Ware (1931); Gersuny (1976) and Dublin (1979).
170. Ware (1931).
171. Ware (1931); Gersuny (1976) and Dublin (1979).
172. Cochran (1981).
173. Ware (1931); Kirkland (1962) and Tucker (1984).
174. White (1836).
175. Jones (2000).
176. Quarry Bank Mill (2000).
177. Ware (1931) and Cochran (1981).
178. Dugan and Dugan (2000).
179. Gordon and Malone (1994).
180. Deane (1979).
181. Tucker (1984).
182. Ware (1931).
183. Engels (1993) and Aspin (1995).
184. Ware (1931).
185. White (1836).
186. Ware (1931); Tucker (1984); Engles (1993) and Aspin (1995).
187. Ware (1931).
188. Foner (1962).
189. Foner (1962).
190. Osborne (1970).
191. Bird (1795a).
192. Wroth (1965) and Rayback (1966).
193. Osborne (1970); Hogan (1971b); Deane (1979); Aspin (1995) and Gray (1996).
194. Osborne (1970) and Aspin (1995).
195. Foner (1964).
196. Ware (1931) and Tucker (1984).
197. Tucker (1984).
198. Tucker (1984).
199. Tucker (1984).
200. Cochran (1981).
201. Chandler (1977).
202. Tucker (1984).
203. Tucker (1984).
204. Laurie (1989) and Licht (1995).
205. Brody (1989).
206. O'Connell (1985) and Graham (1996).
207. Chandler (1977) and Licht (1995).
208. Graham (ed.) (1996).
209. O'Connell (1985).
210. Cochran (1953) and Chandler (1965a).
211. Licht (1995).
212. Cochran (1953).
213. Cochran (1953).
214. Burnham (1941).
215. Chandler (1977).
216. Cochran (1953).
217. Kennedy (1951a).
218. Chandler and Daems (1980) and Porter (1992).
219. Cochran (1981).
220. Cochran (1981).
221. Cochran (1981).
222. Cochran (1981).
223. Chandler and Daems (1980).
224. Licht (1995).

225. Galbraith (1967).
226. Smith (1811) and Fayol (1987).
227. Cochran (1953, 1981).
228. Gulick and Urwick (eds) (1937).
229. Chandler (1965a).
230. Chandler (1965a).
231. Licht (1995).
232. Chandler (1977).
233. Simon (1976).
234. Chandler (1977).
235. Chandler (1965a) and Licht (1995).
236. Perkins (1878).
237. Perkins (1878); Jenks (1944) and Cochran (1953).
238. Chandler (1977).
239. Chandler (1965a, 1977).
240. Jenks (1944).
241. Cochran (1953).
242. Hamblen (1898).
243. Cochran (1953).
244. Cochran (1953).
245. Cochran (1981) and Graham (1996).
246. Cochran (1953).
247. Cochran (1953).
248. Hamblen (1898).
249. Hamblen (1898).
250. Cochran (1953).
251. Licht (1995).
252. Yellowitz (1977).
253. Foner (1962).
254. Wright (1902).
255. Foner (1964).
256. Foner (1964).
257. Hays (1957).
258. Foner (1964).
259. Foner (1964) and Licht (1995).
260. Licht (1995).
261. Foner (1964) and Hogan (1971b).
262. Foner (1964).
263. Cochran (1953).
264. Hogan (1971b).
265. Hogan (1971b).
266. Becker (1971).
267. Hamblen (1898).
268. Foner (1964).
269. Landes (1965).
270. Foner (1962).
271. Hogan (1971a).
272. Chandler (1977).

2. Traditional organizations

The traditional organization was the culmination of 300 years of organizational evolution. In the simpler, agrarian society, landowners and laborers lived and worked together. The living was hard, and the hours were long, but both shared in the work as well as the rewards. The Industrial Revolutions in England and the United States changed all of that. No longer could technical prowess alone ensure business success. Professional managers were needed to administer the new, complex organizations, and financiers with deep pockets were required to raise the large sums of money needed to build premises, buy new equipment and employ personnel. In addition, these sweeping changes inaugurated a new class of organizational problems.

The traditional organization succeeded the American Industrial Revolution. Although Britain had industrialized before the United States, the organizational form that followed had only a minor influence elsewhere, for example, in similar industries in New England. The traditional organization that followed the American Industrial Revolution, however, changed not only the way in which work was organized and managed in the United States, but it also became a template for the rest of the industrialized world. This chapter will describe how that new organization functioned and will provide an important step towards understanding the value-based organization.

CHAOS TO ORDER

It is the desire of all human beings to create order out of chaos, whether at home or at work.[1] The relative serenity and stability of the agri-economy gave that sense of order. By comparison, the apparent disorder and unpredictability[2] created by the Industrial Revolutions must have seemed like chaos both to the employers and employees. For them, it turned the world of work upside-down. The goal for both parties then was to create order from that chaos.[3] The traditional organization was the new order. Past revolutions, whether political, economic, social or organizational, normally created a new kind of order in which the end product bore scant resemblance

to its predecessor. This certainly was true of the industrial era. For example, it was unlikely that industrial laborers would have understood all of the parts of a factory or a railroad as their counterparts might have done while working the land. Notwithstanding a lack of technical expertise, all of the tasks had been subdivided and grouped together by function. This meant that most workers saw only work that was similar to theirs on a day-to-day basis. In addition, the laborers of the agri-economy would have had some understanding of the work needed to subdue the land, and they would have performed one task after another more or less at will; whereas under the industrial regimen, they were expected to work at an assigned point for the whole of the day. As we saw in Chapter 1, even basic liberties such as eating, drinking, and talking were regulated. Farm laborers also lost flexibility in their working hours. Those who were accustomed to working according to the hours of daylight would have been conscious of the fact that they were now going to and coming from work in the dark. All of this would have left employees stunned, angered, frightened and desperate.

SCIENTIFIC MANAGEMENT

An economic depression in the 1870s caused managers to focus on their organizations, instead of on technology.[4] Organizational complexity and machinery sophistication had reached unprecedented levels, and division of labor had progressed to the extent that hundreds of tasks were needed to manufacture even the most basic products.[5] This degree of skill diversity meant that as the number of jobs grew, specialization also increased. Apart from experience, there was no other method of increasing job expertise, and, as a result, men increasingly relied on their own inefficient rule-of-thumb,[6] trial-and-error techniques.[7] By the 1880s, a scientific approach to administration was being taught to undergraduates at institutions of higher learning.[8] This enhanced the ranks of middle managers and enabled organizations to monitor their expenses more effectively.[9] In 1882, Frederick Taylor began a series of experiments to discover the most cost-effective way to perform various jobs.[10] He called his technique Scientific Management because his methodology was scientifically discerned and not based on rule-of-thumb. According to Taylor, the adoption of scientific management involved more than increased throughput from time and motion studies or the redesign of tools and equipment. It also included a radical change of attitude in the workers towards their employers. In order for his method to work, however, the men had to do their best. Slack work could not be tolerated.[11]

Taylor (1919) argued that the work itself needed to be divided more equitably. He said that the managers already knew the most efficient and

effective manner in which to perform the jobs, or at least had the time to discover it. He conceded that while many men probably had the expertise to conduct an efficiency study, they lacked the time to do both the study and the work. Taylor stressed the importance of creating close, cooperative friendships between managers and workers through which mutual rewards could be shared. In those companies where scientific management was applied, wages rose by 30 to 100%.[12]

Scientific management has been criticized as an assault on unions,[13] however, this view misrepresents Taylor's methods. Taylor did not object to collective bargaining.[14] The unions, however, disliked his methods intensely because it robbed them of their power – after all, what could a union offer employees when both they and their employers worked together harmoniously and earned higher wages than before scientific management was introduced? Despite these obvious benefits, Taylor was summoned to testify before a special committee of the United States Congress.[15]

PROFESSIONAL MANAGERS

The need for professional managers became more prominent at the end of the 19th and the beginning of the 20th centuries. As late as World War I, most company agents were too inept to make middle management decisions, except to veto their implementation.[16] Only 16 institutions offered business degrees to undergraduates,[17] including the Universities of Pennsylvania, Chicago, California, New York, and Harvard.[18] Early course content was based on the railroad management experience.[19] In 1928, just one in three business leaders had earned university degrees, and slightly more than 10% had any higher education at all.[20] In the same year, only one in three large manufacturing companies had managers for their personnel function.[21] In the same decade, the American Management Association was formed, becoming the pre-eminent organization of its type for managers in American business.[22] Over subsequent years, a business alumnus formed that included members with a common training, means for professional development, and career path, and who all worked in the same type of hierarchical organization. They also shared a similar philosophy, preferring a long-term perspective over a short-term focus.[23] Beyond the *old boys' club*, the onus to become a manager was on the individual to insure that those above him were cognizant of his devotional, collaborative, intellectual, and managerial abilities.[24]

At the beginning of the 20th century, half of Americans worked in industry or held administrative and service-related jobs concomitant to it. More than three-quarters were immigrants and their children. After World War I,

companies adopted a more aggressive approach to expansion, acquiring smaller businesses, instead of simply merging with them as they had done 20 years before. The employees of the vanquished firm were absorbed into the larger organization together with all of their respective activities, a process that preserved most of the organizational structures.[25] The national workplace was dominated by these bureaucratic behemoths who were known to every citizen in the land.[26]

WORKING CONDITIONS

Working conditions left much to be desired. Some companies operated shift patterns around the clock.[27] Only Christmas and Independence Day were public holidays.[28] In manufacturing, employees worked ten hours per day, six days per week.[29] Some women worked in canneries 17 hours per day, 70 hours per week for weeks at a time. Many other women worked all night binding books, making or washing clothes, making candy or packaging materials.[30]

The introduction of new technology made all workers, skilled or unskilled, expendable in the steel industry. This meant that lasting employment depended upon building a good relationship with the line manager. Workers who cooperated with him were rewarded by the management who alone could offer career progression. As a consequence, workers lost interest in the mutual cooperation upon which scientific management depended.[31]

Since safety was not taken seriously by either the management or the workers, injury or death on the job was altogether too common. In 1904, statisticians discovered that the mortality rate in American manufacturing was about 13%. This was due to insufficient safeguards, airborne dust and fibers, lead and arsenic poisoning, explosions and disease.[32] In the steel mills, it was common for workmen to get burns on their hands and above their shoulders, and the fine particles of steel in the air led to respiratory problems. Air circulation fans were introduced in 1907, but since there were no locker rooms or bathing facilities, many men simply went outside into the winter's air to cool off following a period during which they worked with very hot metals. All of this contributed to the high incidence of lower respiratory illness. Occasional explosions killed and injured a number of workers. Some investigation into improving safety occurred in 1908, but nothing much was done until 1912.[33] No workmen's compensation was available.[34] Despite the collapse in the demand for child labor in the early textile mills[35] and state laws that required children to have attained a minimum age of 14, more than a quarter of a million children under the age of 16 worked in industry. Some children were hidden from state inspectors

by being placed in elevators between floors where they could not be seen.[36] Not all organizations were as bad as this. Some steel mills provided accommodation with free utilities and rents for less than the market price, and United States Steel built educational, medical and leisure facilities as well.[37]

THE TRADITIONAL ORGANIZATION

The traditional organization made an indelible impression on every organization that followed it. In fact, there was little change in the structure or environment of American businesses from 1910 to the 1970s. Although there were variations, organizational structure was limited to either pure centralization with functional departments, in companies such as General Electric and DuPont prior to World War I, or the relatively decentralized structure created by General Motors in the 1920s.[38] The purely centralized structure was used by companies who made only one product or competed in only one market, such as the early Ford Motor Company. The relatively decentralized organizational form was used by companies who had several product lines or sold in several markets.[39] In the late 19th and early 20th centuries, the sheer scale of these companies profoundly changed society from a group of individual citizens into one subsumed by the will of the giant enterprises.[40] The division of labor made jobs increasingly complex, and this demanded more control and coordination from its managers.[41] As workers became more efficient, the numbers of managers to supervise them also increased.[42] But, the division of labor was not limited to the shop floor; it also occurred in the realm of administration as more departments and divisions were added. All of this helped to strengthen the growing and impersonal hierarchical structure in which many employees worked.

Organizational Structure

The automobile manufacturers, Ford and especially General Motors (GM), epitomized what many people today would regard as the traditional organization. Up to about 1920, they were the most progressive factories in America,[43] and set the pattern of organizational structure for other industries for much of the 20th century.[44] Work was organized in a deliberate fashion, and the material resources and labor needed to accomplish it[45] were coordinated[46] within recognized lines of authority.[47] Just as there was a best method for doing the work,[48] there also was a best way to organize it.[49] It empowered certain parts of the organization with more authority than others[50] so that the expenditure of resources was minimized, the effort made efficient and effective,[51] and the eventual output predictable

and controlled.[52] It clearly divided all staff into managers and those whom they managed. This usually took the form of a functional grouping of closely associated tasks with the people who performed them, often within sections or departments;[53] and it demanded full subservience of individual will to the organizational cause.[54] Some authority was delegated to middle and junior managers, both formally and informally.[55]

Henry Ford believed himself to be the best qualified person in his company to make decisions, vested himself with all authority, personally dealt with all of the day-to-day affairs of the company, and fired those who dissented.[56] He was proud of his centralized organization and decried any form of structure, avoided the creation of job descriptions, kept few records and made no plans for anyone to succeed him. He believed that chain of command, as depicted by organization charts, wasted time, asserting that one and a half months were needed for information to get from the bottom of the chart to the top. In his company, every worker allegedly knew his job and something of the jobs going on around him, but none had the authority to make a decision about anything.[57] In 1914, Ford reduced working shifts to eight hours and raised wages to five dollars per day for his best employees. Within two years, 90% of them were earning the new rate. Ford's centralized approach was shared by many other well-known owner-managed companies – among them McCormick, Singer, Procter & Gamble, Armour, Swift, Pabst, Borden, Heinz, Pillsbury and Wrigley. In all of them, new managers were personally selected from those known to them already[58] just as they were by Slater and Lowell almost 100 years earlier. Ford earned a mixed reputation: reasonable hours and higher wages, but dubious labor practices.[59]

Centralized Decentralization

In 1919, Alfred P. Sloan produced an organization study of General Motors (GM) that was intended to strike a balance along the centralization–decentralization continuum. His organizational form coordinated policies, but decentralized administration. Ironically, Sloan's version of decentralization actually was a significant lurch towards greater centralization compared with the random style of administration in which GM operated under its founder. Equally, it was a lurch towards decentralization, away from the entirely centralized structure to which Pierre S. du Pont and Henry Ford were accustomed.[60] Sloan believed that his organizational ideas would make GM more flexible and its managers more responsible, and that the coordination of policies would enable the company to reduce costs.[61] The study acknowledged the functionally autonomous divisions in the company and grouped them according to their similar activities.[62] Each

division oversaw the activities of the vice-president, who bore sole responsibility for the success of his part of the business. The work of each division was coordinated by various committees and advisors who themselves recommended policy, but did not administer it.[63] Quite independently, other companies had conceived a similar organizational structure within a few years in the belief that they faced challenges that also required innovative solutions.[64]

This framework was not limited to arranging and coordinating work. It included the determination by the entity to preserve itself at all costs.[65] For outcomes to be predicted or controlled, stability was deemed to be important.[66] By the 1940s, organizations sought a management structure that encouraged communication between important employees and delegated decision-making authority to the appropriate level.[67] Within 20 years, the pattern established by GM, in which the activities of staff who made policy were separated from the line managers who implemented it, was well established in most major organizations.[68] In recent years, reorganizing or restructuring have been popular. In these management exercises, work patterns have been redefined and rearranged in the belief that organizational problems stem from flaws within its formal structure.[69] These adjustments often are temporary[70] and frequent.

Financial Management

In the spirit of scientific management, senior managers determined what financial and non-financial resources were needed to sustain operations and tasked other managers to account for all transactions within the organization, including cash flow, cost of sales, research and development, salaries and bonuses, investments, taxes, and debts. Budgets revealed profit and loss, and were used to control waste, reduce costs and drive reorganization initiatives. They often became a yardstick against which to measure the achievement of organizational goals.[71] Managers were expected to achieve their targets within the resources allocated to them and were accountable for their expenses.

Planning

The time that elapsed between the expenditure of resources and the accomplishment of the goals was often long and inflexible.[72] Planning, therefore, became the indispensable management activity upon which a satisfactory return on the significant investments of time and money depended. In order to organize work so that stability and predictability of costs and profits were maintained, senior managers had to anticipate those activities that

needed to be done and to identify resources required to do them.[73] Assumptions about the future were made, and when those assumptions were proved false, new plans were made.[74] Technology, especially, altered the *how* part of the plan, and this led to further planning requirements.[75] Larger plans created by senior executives were filtered down the hierarchy, and subsequently, each department formulated its own supporting plans, which were coordinated by senior management.[76]

Strategy

Strategy became a popular, late 20th-century term for the managerial activity that pertained to decision making;[77] tactics referred to the daily tasks to achieve them.[78] Historically, strategies were used by armies to identify important enemy targets, and to create and to implement plans for destroying or taking possession of them. In business, a firm's competitors were the enemy, and managers created strategies to attack their market share or to take advantage of their weaknesses.[79] No doubt, this occurred in the agri-economy, but the new emphasis on business strategy focused on how decisions were made and how that process could be improved.[80]

At an organizational level, strategy consisted of activities through which board-level personnel determined the nature of organizational output – what products to make and what services to deliver. To this end, an overall plan was formulated – one that considered the wider market, and that also included the tasks that individual workers would have to perform. Generally, managers created a vision for what and where they wanted the company to be within a particular time, and then made plans for getting it there.[81] Vision represented an almost unobtainable goal, like a journey to the horizon. For some, strategy was planning; for others, strategy was a means to create plans. Still others combined the two ideas into one – strategic planning.[82] Traditionally, the objective of all companies was to earn a satisfactory profit from a given investment[83] and to deliver value to shareholders. Strategic planning was also required to manage product development.[84] From a marketing standpoint, this was often referred to in terms of filling a niche – identifying, and securing a unique place for a product or service by one organization for all time. Organizations sought to gain an advantage over competitors by making it too expensive for others to enter the market or by introducing new technology.[85]

Management Infrastructure

Strategy demanded a structure to support it,[86] as well as an organizational dogma that reinforced the tenets of efficiency[87] – a place for everything and

everyone,[88] and a system for keeping it, and them, in it. Graphically, the structure was portrayed as a large pyramidal, bureaucratic, and hierarchical organization chart in which authority was concentrated at the top, and those with little or no authority at the bottom.[89] Within it, a chain of command with clear lines of communication was established[90] through which countless clerks administered the activities of the organization at the behest of senior managers. At a glance, the casual observer could determine who was responsible for which tasks and how the work was organized,[91] whether by product, service, or location. At the lowest level, information that might have interested senior managers passed first to the immediate supervisor, who in turn passed it along the chain at his discretion. Those who chose to ignore the chain of command faced reprimand, or worse. As long as the structure was maintained, the organization operated like one of its well-oiled machines, fine-tuned by its managers.[92]

A constant flow of information was transmitted throughout the organizations through a variety of written or oral, formal or informal reports.[93] Oral reports ranged from passing comments during coffee breaks to briefings with trustees or shareholders that lasted all day. Written reports included, but were not limited to, evaluations of employee performance,[94] the nature of the market, feasibility studies, and customer complaints. Managers were expected to submit reports accurately and on time.[95] Some reports were routine;[96] others were unique. In time, the administration of communication took on a life of its own. This may have been due to the desire of each department to demonstrate to the management its own indispensability, or because of the whim of a senior manager, or simply because there was enough time to do it. Everyone wrote reports and circulated them to everyone else. They, in turn, wrote more reports about the ones they had read.

Bureaucracy

As the organization became more complex, new levels of management were created.[97] At most, only a few people at the top made decisions, which were then passed down the hierarchy. The more an organization desired to control the quality and timeliness of the work, the more supervision was put in place. Mechanization in the factory extended, metaphorically, into the organization and especially into the public sector,[98] where everyone was a cog or a wheel.[99] These myriad managers were part of a big management machine, guardians of authority and taskmasters of bureaucracy.[100] The organizational ethos was to mind one's own business. Staff understood this clearly, and often said so: "This is my job; that is not my job." Historically, the unions understood this, too, having proclaimed for years that there

should be only one man for one job. In everything, senior people were discouraged from fraternizing with their juniors. The whole system was based on lack of trust, and initiative was discouraged. Managers believed that employees were paid to do, not to think.[101]

Scientific management had declared that there was a right way to do things, and that implied that there were right things to do. In the late 20th century, the ideas of benchmarking and best practice were introduced; but far from being progressive, these concepts were just a repackaged version of Taylor's one best way. History has taught that those who want to stay ahead do not accept best practice as the industry standard.

Strategy or Planning?

The notion of planning has been the subject of some criticism. This is due in part to how planning and strategy are defined, as noted earlier.[102] It seems, too, that some of the confusion has stemmed from attempts to isolate one part of an indivisible whole.[103] One scholar has argued that planning can be done without making strategy, for example through the use of strengths, weaknesses, opportunities, and threats analyses, and that strategy is made when important organizational decisions are taken.[104] But, next steps are implied in any decision making: "yes," means the company will do this; and "no," means the company will do that; and plans for how to proceed in either case will have been made either before or after to effect those decisions. That the participants in that study apparently were too busy to engage in elaborate planning does not negate either the need for it, or the fact that it took place. Although it was unusual for senior executives to be seen planning behind locked doors, it can and often does occur in other circumstances.[105] Clearly, without some kind of plan, these managers would not have been setting the agenda, a behavior one would expect from a leader. Instead, they would have been busy following the plans of another.

A modern proverb says that those who fail to plan, plan to fail.[106] Since it is known that work will require as much time as is available for it,[107] failing to plan almost guarantees that unplanned work will lead to dissipated effort. For example, the introduction of new equipment requires planning: who will get it, how it will be used to best affect, what to do when it requires maintenance or needs to be replaced, and who pays for it.[108] Planning was needed when Henry Ford changed his factory from a sequence of assembly rooms into an assembly line to insure that the necessary parts arrived in the correct sequence, and so that one finished car would emerge at the end of that line. He could not have produced 100 cars per day without it.[109]

Management

Employees provided the missing link between what the organization set out to do and what it was able to accomplish without them.[110] Managers were tasked to balance the need for skilled labor when the economy was strong with laying them off when it was weak, or reassigning them to cover shortages or meet increasing demands.[111] In addition, they were expected to train them and maintain good working conditions.[112] After the manner of Taylor, managers not only planned the work of the organization and the people in it, they told them how to do it.[113] Of itself, this was no different from what had occurred within the agrarian society. The number of laborers on most farms was quite small; in most cases less than a handful. In the factories of the Industrial Revolutions of the 18th and 19th centuries, however, thousands of tasks had to be performed by hundreds, if not thousands of employees. Since factories by then were enclosed, sheltered from the weather, lit with candles, and eventually electricity, work could be done almost 24 hours per day. The expense of establishing and operating an enterprise of that magnitude demanded that work continued as close to non-stop as possible to maximize output.

It was probable that prior to World War II the roles of manager and leader, as well as the authority to fulfill them, were performed by different people. Leaders led, and managers managed.[114] Much of what was management was enshrined in written directives and standard operating procedures. These documents functioned as ready references and insured that everyone did the same thing in the same way.

Managers were expected to give conscious thought to the work that needed to be done and to instruct those concerned in what to do. To be effective, such authority had to be exercised, but always in the context of what was required. Too much directing was as ineffective as not enough;[115] but, the giving of orders implied that staff would obey them according to the circumstances.[116] Provided that the orders were legitimate, rather than because the person giving them was more senior in the hierarchy, managers and workers agreed together what needed to be done and who would do it so that the optimum results were achieved.[117] Capricious instructions, at least initially, were recognized as potentially counterproductive because they threatened the spirit of mutual cooperation and transferred the responsibility for accomplishment from the worker to the manager.[118] In practice, however, authority often rested with the person holding the most senior position irrespective of knowledge, skill or experience. This situation arose because professional managers seldom possessed a full understanding of the complexities of the problems or the possible solutions to them, and that was because the jobs themselves were too complicated for any one person to comprehend.

Effective management meant that both managers and the managed worked to a common end,[119] and that individual interests were subordinated to the wider interests of the organization, for example, by refraining from strikes. It meant, too, that managers relied to some extent on somewhat friendly relationships at least with some of the staff.[120] Span of control[121] – the number of staff one manager could supervise effectively, was also important. There was no guidance on how to make this distinction, but, generally, it was accepted that the more complex the job, the fewer the number of subordinates a given manager could supervise.[122] Successful supervision was threatened when managers became responsible for too many interests.[123] Even when delegation was possible, managers were expected to take an active interest in those to whom they had given discretionary authority.[124] They organized various jobs into a homogeneous unit so that there was unity of purpose and so that one manager could supervise it.[125]

Effective managers had employees who were motivated to perform their assigned tasks.[126] In the early 20th century, this was not much of a problem. The stock market crash in 1929, followed by the Great Depression, instilled a particular work ethic in that generation of Americans who were grateful for any work at all, an attitude that still affects many countries today. However, even then, employers preferred collaboration to compulsion.[127] Nevertheless, where consent was lacking, coercion was applied.[128]

But management was not limited to telling people what to do. It also included the creation of various organizational systems through which employees could do the work. In the traditional organization, there were systems and controls for the management of every activity such as accounting, manufacturing, and merchandising,[129] These systems were realized through an elaborate administration methodology that tied it all together, a carry-over from the early railroad companies. Managers needed to oversee employee benefits and pay, to monitor hours worked or lost due to illness, injury, or industrial action. The goal was to create a production unit that enabled a large group of unskilled people to produce and deliver sophisticated goods to customers. Generally, the better educated managed, and the less educated did the work. Staff were hired against job specifications that described not only what tasks employees would do, but also the core competencies or skill sets required to do the work.

Personnel

Between the wars, only one company in three had a personnel function.[130] As union membership grew, however, the awareness of the need for personnel departments in other companies increased.[131] The administrative

responsibilities within this new function expanded to include absences for illness and holidays, the promulgation of vacancies and associated interviews, training, evaluation, and benefits.[132] The organization also managed employee career paths. The promotion structure was detailed on the organization chart, which showed who worked for whom. Implicit in its design was the notion that promotion to the top could be achieved by advancing up the chain of authority one step at a time. Lest there was any doubt, guidance for the ambitious was available in corporate policy and procedural manuals, and occasionally some direction was provided from line managers. Promotion was based on time with organization, time in the job, and attending training courses. Each new position carried with it a fancy title and increased benefits: everything from more pay, to a better company car, health insurance, a reserved parking space, or key to the executive restroom. Those familiar with the British sitcom "Are You Being Served?" will recall that senior managers at Grace Brothers also had a private dining room. Certainly by the end of World War II, most employees believed that with hard work and enough years with the organization, they could expect to rise somewhat in the hierarchy[133] and enjoy a comfortable retirement. A few outstanding employees were put on fast-track career paths and shielded from the humdrum and toil that others faced.

As early as the 1930s, training was seen as a means to obtain employee cooperation.[134] Personnel departments were deemed successful if there was a high attendance at the courses they provided.[135] Courses became the be all and end all. The privileged few who attended were often carted away to a swanky hotel for a period of days or weeks. Actual learning, irrespective of whether it was put into practice upon their return, was less of an issue than ticking a box on a list of career requirements. The attitude among staff who attended such courses, and often their line managers, was that having once attended, there was no reason to go again. In a bid to save money, some organizations later created in-house training departments or purchased off-the-shelf products.

Pay and Benefits

Uniformity permeated the traditional organization in the manner of work, the hours during which all worked, and in many cases, the clothing of those who did the work. In the extreme, a mediocre manager was considered to be better than the superior ones who came and went.[136] Outstanding managers, ironically, were treated as stars. Nearly all were paid on the basis of the time they spent at work and only those who received bonuses for achieving targets were actually compensated for their expertise. The bonus plan was intended to reward executives on the basis of personal performance

and to make them feel like partners in the business. The plan, however, exceeded these expectations. It also inspired them to devote their own endeavors to the overall success of the organization and not merely to their own divisions. At GM, bonuses were paid during most years to executives to reward personal performance and to inspire them to devote their endeavors to the overall success of the organization, not merely to their own divisions. Bonuses were not paid during the recession of 1921. In 1923, company stock was made available to selected executives at a fixed price, and in 1957, the plan was extended to other significant employees. The company believed that, in addition to the bonus plan, wider stockholdings would be more effective as an incentive than it would be otherwise.[137]

GM's personnel office oversaw the recruitment and training of employees, as well as the administration of company benefits. As early as 1919, employees could save and invest through company plans. By 1926, life insurance was available to all at group rates, as well as medical care, food services, changing and shower rooms, and parking for those who wanted it.[138] About the same time, other companies also offered various superannuation and stock purchase plans at favorable rates and terms. Larger companies provided accommodation as well as development opportunities, all in an effort to generate employee loyalty to the company.[139]

As part of a plan to maintain high morale, GM put all of its foremen on a salary in 1934, and in the following year began to think about creating a wage formula that would keep pace with inflation. In 1941, it established a policy that guaranteed foremen's wages were at least 25% higher than those they supervised and elected to pay overtime to these foremen, exceeding the requirements of the Federal Wage and Hour Law. That same year, the company decided to link wage increases to the Consumer Price Index, though they were unable to implement it until 1948. One clause in the contract specified that the increases depended upon a combination of improved technology and a spirit of cooperation by all concerned such that the American economy produced more without additional manpower. Periodic adjustments were made during economic slumps in order to keep wage differentials from diminishing between different types of workers. To prevent financial hardships due to uneven production demands, the company also instituted a program through which employees could borrow against future wages during temporary lay-offs and repay the loan without interest when their hours rose above a predetermined threshold.[140]

Unions

Despite the steep rise in unemployment brought on by the Great Depression, automobile workers did not form unions until 1937.[141] In the

early years of unionization, the labor leaders attempted to wrest operational control away from GM. The strike of 1945–46 lasted for 119 days. In the 1960s, GM had 350 000 union members in its workforce, all of whom received a number of benefits that were not part of their contracts.[142] Employees were encouraged to solve their disagreements through their foremen and various unions and if need be, management committees. More serious grievances were reviewed on appeal or through arbitration.[143]

Coordination

The successful implementation of managerial plans and strategies depended upon the coordination of individual activities, separated under the division of labor,[144] with the organizational resources[145] allocated to fulfill them. It required both long- and short-term perspectives. Long-term coordination contributed to company growth or mere survival; short-term to correct immediate challenges.[146] GM established various committees to coordinate the major company functions such as production, accounting and finance, purchasing, sales and advertising. These committees reported directly to the executive level, but had the authority to probe the organization for the information it needed. One committee, for example, was tasked to coordinate the purchase of larger quantities so that discounts could be received for bulk orders, rather than centralize this activity at the executive level. Several years later, however, the company had to create a standard for its purchasing requirements.[147]

In 1903, the Du Pont Company believed that senior managers should make policy without becoming entangled in interdivisional politics, the likely outcome of pursuing the acquisition of resources to fulfill their own ends.[148] Not many years later, GM also became concerned that those who made policy should not be expected to implement it, and to this end, created nine policy-making groups consisting of senior officers and supporting staff to make recommendations for their respective areas. The chairman of the board and the chief executive served on six of the committees, while the president served on seven. Although the groups lacked the authority to enshrine their recommendations into company policy, normally they were accepted by the committee responsible for their operational area.

The new centralized–decentralized structure did not solve everything. Since there were no specific policies that coordinated divisional activities, it was possible for Buick, for example, to refuse to give the company treasurer cash that the rest of the company needed. As a consequence, GM opened about 100 bank accounts around the country in its own name and centralized the withdrawal and transfer of funds with its financial personnel. This

action prevented any further divisional usurpations. Various committee reorganizations took place in subsequent years in response to market conditions, especially after America entered World War II.[149]

The dramatic contraction of the automobile industry during the Great Depression impressed upon Sloan the need for greater coordination. In the event, however, GM overcentralized, something Sloan admitted later was inappropriate. In order to prevent senior managers from being drawn into the daily administration, a committee was established to propose measures to improve communication without changing the lines of authority.[150] Although Sloan pursued the means to achieve greater coordination of many of the company's activities,[151] he recognized that he could not retain the control over the organization that he wanted while simultaneously decentralizing the structure. GM was not the only company to struggle with this dilemma. Between 1899 and 1929, the number of administrators in US manufacturing rose by 330% to three for every one production employee hired. It seems there was no holy grail that identified the proper ratio between those who controlled and those who produced.[152]

To control organizational activities and external influences was to eliminate chaos.[153] To this end and to the extent possible, managers minimized risk[154] by controlling random activities, not only in the organization, but outside of it as well.[155] This desire for influence extended to the management of time,[156] performance, and budgets,[157] and even to the manipulation of market forces.[158] Managers soon became bottlenecks for information[159] that was doled out strictly on a "need to know" basis.[160] The notion that everyone worked for someone was consistent with an hierarchical organization in which supervisors were placed at every level to control human behavior.[161]

Managers set targets that they were confident could be met, because that was more acceptable than failing to achieve more ambitious goals.[162] As long as the manager controlled those within his sphere of accountability[163] and functioned within his job description, he could sleep nights knowing that he would not be blamed when things went wrong. Stability was paramount, and the status quo was preserved at almost any cost.[164] Managers believed that all of this enabled them to control outcomes. To operate outside of these boundaries was to rely on judgment – a subjective decision-making process – and to invite exposure, commitment and pressure.[165]

SUMMARY

The traditional organization embodied all the changes to the agri-economy wrought by the English and American Industrial Revolutions. It reordered

the factors in the organization and management of work that had been thrown into chaos, and it established the pattern for the vast majority of organizations in industrialized societies up to the beginning of the 21st century. The design of the traditional organization was predicated on Taylor's (1919) one best way: an optimal manner in which work should be done, as well as an optimal way to make sure it was done.

New technology had made jobs increasingly complex, and the continuous division of labor, which enabled unskilled people to perform skilled work, had created enormous problems in the coordination of those tasks. This opened the door for a new kind of manager, one whose expertise was concentrated in the administration of that work rather than in the doing of it.

The effective management of resources depended upon maximum control of the organization. Such authority originally had been vested entirely in the owners; but the traditional organization proved to be too large and complicated for one man to make all of the decisions. Alfred Sloan, from General Motors, devised a method to decentralize some of this authority from the chief executive down to various senior, middle and junior managers. GM's plan established the accepted organizational structure for most organizations for the remainder of the century.

By the early 20th century, the words *management* and *administration* already had several meanings. The acronym POSDCORB[166] – planning, organizing, staffing, directing, coordinating (later controlling),[167] reporting, and budgeting – was coined to describe the work that managers do. This approach has its critics,[168] but much of what it personifies has been simply restated using different terms. Only managers possessed the authority to create and implement these activities at an organizational level; and in the traditional organization, if they had not done it, it would not have been done.

Managers created systems for every activity within the organization that extended beyond the traditional activities and manufacturing and marketing, including pay and benefits, and the entire human resources function. Generations of people have been working in this type of organization ever since, and it remains the benchmark in 20th-century organizational design.

NOTES

1. Health, Education, and Welfare (HEW) (1972).
2. Gleick (1988).
3. Follett (1933 [1996]).
4. Chandler (1977).
5. Taylor (1912 [1947]).

6. Deane (1979).
7. Landes (1965).
8. Wilson (1887).
9. Cochran (1972).
10. Taylor (1912 [1947]).
11. Taylor (1919).
12. Taylor (1912 [1947]).
13. Foner (1964).
14. Taylor (1912 [1947]).
15. Taylor (1912 [1947]).
16. Chandler (1977).
17. Cochran (1972).
18. Chandler (1977).
19. Porter (1992).
20. Urwick (1957).
21. Cochran (1972).
22. Chandler (1977).
23. Chandler (1977).
24. Cochran (1972).
25. Chandler (1977).
26. Licht (1995).
27. Hogan (1971c).
28. Hogan (1971b).
29. Foner (1964) and Roedger and Foner (1989).
30. Foner (1964).
31. Hogan (1971b).
32. Foner (1964).
33. Hogan (1971b).
34. Foner (1964).
35. Ware (1931).
36. Foner (1964).
37. Hogan (1971b).
38. Chandler (1977).
39. Chandler (1977).
40. Porter (1992).
41. Chandler and Daems (1980).
42. Chandler (1977).
43. Nelson (1975).
44. Chandler (1964).
45. Burnham (1941).
46. Gulick and Urwick (eds) (1937).
47. Gulick and Urwick (eds) (1937).
48. Taylor (1919).
49. Shafritz and Ott (1987).
50. Mooney and Reiley (1968).
51. Selznick (1987).
52. Burns and Stalker (1987).
53. Sorrell (1968) and Waterman et al. (1980b).
54. Lee (1937).
55. Simon (1976).
56. Chandler (1964).
57. Ford (1924).
58. Chandler (1977).
59. Chandler (1964).
60. Sloan (1963a [1986], 1963b [1965]).
61. Sloan (1963a [1986]).

62. Sloan (1963a [1986]).
63. Mott (1924).
64. Chandler (1963).
65. Selznick (1987).
66. Burns and Stalker (1987).
67. Cochran (1972).
68. Cochran (1972).
69. Shafritz and Ott (1987).
70. Walker and Lorsch (1968 [1987]).
71. Sherwin (1968); Argyris (1977) and Likert (1977).
72. Galbraith (1967).
73. Gulick and Urwick (eds) (1937); Galbraith (1967); Fayol (1968); Steiner (1968) and Synder and Glueck (1980).
74. Mintzberg (1973).
75. Galbraith (1967).
76. Goetz (1968).
77. Ansof (1965).
78. Chandler (1963).
79. Ohmae (1982).
80. Ansof (1965).
81. Snyder and Glueck (1980) and Mintzberg (1973, 1994).
82. Chandler (1963) and Reilley (1955 [1971]).
83. Sloan (1963a [1986]).
84. Chandler (1963).
85. Ansof (1965) and Porter (1985).
86. Chandler (1963).
87. Mooney and Reiley (1968).
88. Fayol (1987).
89. Weber (1987).
90. Selznick (1987).
91. Gulick and Urwick (eds) (1937); Chandler (1963) and Walker and Lorsch (1968 [1987]).
92. Tribus (1995).
93. Mintzberg (1973).
94. Chandler (1977).
95. Sherwin (1968).
96. Mintzberg (1973).
97. Chandler (1963) and Blau and Scott (1987).
98. Fayol (1987).
99. Weber (1948).
100. Roger Bexon, a former manager at BP, described in an e-mail to Bruce Hoag the concept of a tea-ocracy. Tea and a cup; tea and cup with a cookie; tea from an urn; tea with leaves in the bottom of the cup. It seems that even something as simple as making a cup of tea can become bureaucratic.
101. This was a common pejorative in the United States Air Force during the time in which Bruce Hoag served.
102. Compare Snyder and Glueck (1980) and Mintzberg (1981).
103. George (1968) and Mintzberg (1995).
104. Mintzberg (1994).
105. Mintzberg (1973).
106. See also Mott (1924).
107. Parkinson (1968).
108. Galbraith (1967).
109. Nevins (1954).
110. Emerson (1993).
111. Chandler (1963).
112. Gulick and Urwick (eds) (1937).

113. Taylor (1919) and Gulick and Urwick (eds) (1937).
114. Hoag et al. (2002).
115. Follet (1933 [1996]).
116. Follet (1933 [1996]); Simon (1976).
117. Nohria (1996).
118. Follet (1933 [1996]).
119. Gulick and Urwick (eds) (1937) and Fayol (1968).
120. Koontz and O'Donnell (1968).
121. Gulick and Urwick (eds) (1937).
122. Gulick and Urwick (eds) (1937).
123. Maicunas (1937).
124. Sherwin (1968).
125. For a discussion on unity of command, see Gulick and Urwick (eds) (1937).
126. Porter and Miles (1977).
127. Barnard 1938 [1979].
128. Fayol (1968) and Selznick (1987).
129. Ackoff (1999).
130. Cochran (1972).
131. Calhoun (1963).
132. Chruden and Sherman (eds) (1966).
133. Wilensky (1960 [1970]) and Rousseau (1995).
134. "The general manager of a clothing factory said to me, 'Times are changing; we don't order people any more, we train them'" (Follett, 1933 [1996]).
135. Robinson and Robinson (1989).
136. Fayol (1968).
137. Sloan (1963a [1986]).
138. Sloan (1963a [1986]).
139. Cochran (1972).
140. Sloan (1963a [1986]).
141. Chandler (1964).
142. Sloan (1963a [1986]).
143. Sloan (1963a [1986]).
144. Gulick and Urwick (eds) (1937).
145. Selznick (1987).
146. Chandler (1963).
147. Sloan (1963a [1986]).
148. Cochran (1972).
149. Sloan (1963a [1986]).
150. Sloan (1963a [1986]).
151. Sloan (1963a [1986]).
152. Cochran (1972).
153. Follet (1933 [1996]).
154. Isenson (1968).
155. Goetz (1968).
156. Mintzberg (1973).
157. Carroll et al. (1977). Sherwin (1968) argues in effect that control is a verb only; in other words, that it is not a result as much as it is a means. Clearly, control is both a verb and a noun. As the former, it is a means to an end; as the latter, the end in itself.
158. Hays (1957).
159. Sherwin (1968).
160. In the US Air Force, where the "need to know" determined who should receive certain information, Bruce observed what he called Hoag's Law, which says that "the people who need to know are the last to know."
161. Golembiewski, R T (1968); Sayles (1977) and Bartlett and Ghoshal (1989).
162. Sayles (1977).
163. Sherwin (1968).

164. Watson (1970); Katz and Kahn (1987); Tichy (1983) and Carr et al. (1996).
165. Sayles (1977).
166. Gulick and Urwick (eds) (1937).
167. Cyert and March (1987).
168. Mintzberg (1973).

3. The horizontal revolution

The horizontal revolution is changing the way work is organized and the way that work is managed. Like the Industrial Revolutions in the centuries before, it is a radical departure from the relatively stable past and, for many, holds an uncertain future. We refer to it as horizontal because organizations that pass through it often are referred to as flat and the process through which the flatness has taken place as downsizing, rightsizing, or restructuring. But, this revolution is concerned with much more than a change in organizational shape or a reduction in managerial layers. Indeed, it is a collection of smaller revolutions, each of which has contributed a chaos of its own.

The upheaval caused by the Industrial Revolutions of late 18th-century England and mid-19th-century America must have felt like overnight occurrences to those populations who had not known anything like it before, and they would have empathized with the modern societies now in the throes of yet another revolution. Far from being a tidy paradigm shift, the horizontal revolution is "business as usual" for some, but a disintegration of the predictable for others. Historians, in retrospect, will see these changes clearly, pointing to obvious pre-revolutionary factors, but, in the thick of it, most people will perceive these changes to be blurry at best.

The two revolutions have much in common. Both were characterized by a convergence of key factors, and both transition periods altered the preceding paradigm within a relatively short time – less than 100 years. But, both revolutions were especially significant because they changed the context in which work was done, and that radically transformed the way people thought about work, and the way managers persuaded them to do it.

CONVERGENCE OF FACTORS

The reader will recall that changes in three key factors characterized the English and American Industrial Revolutions: technology, the general population and the workforce.[1] Some may be surprised to discover that these same factors have converged again in the horizontal revolution. Although

the factors are the same, the context is different, and as such, has rendered traditional organizations obsolete.

Technology

Technology, most notably the microchip,[2] has enabled companies to lower their manpower costs by replacing much of the manual labor[3] upon which the earlier Industrial Revolutions depended, with machinery that is both fast and reliable. But, another kind of technology has emerged as well. In the agri-economy, *manual* labor was the technology of the day. In the Industrial Revolutions, it was *mechanization*. In the horizontal revolution, however, it is the *mind*. At first, organizations simply desired more information, but the superabundance of data has demanded that that information be converted into knowledge.[4] Not only is that knowledge created more quickly than ever before, it can be transmitted instantaneously to almost anywhere in the world. Most organizations, however, are finding that there is too much knowledge – too much that can be known, and too much that must be known; and many lack the filters needed to sift out the crucial from the critical. Traditional organizations, the industrial dinosaurs of the 20th century, are facing a new dilemma between increasing the speed of information transfer while enforcing rigid communication protocols.

Demography

The post-World War II generation – the Baby Boomers – were born between 1946 and 1964 and were the largest in America's history. This was the first demographic time-bomb.[5] In 1946, the European birth rates per 1000 were 20.9 in France, 16.1 in Germany, 23.0 in Italy, and 19.2 in England and Wales. In the United States, the rates were higher: 23.6 among whites and 38.4 among blacks. In the years between 1946 and 1964, these birth rates varied by no more than plus or minus three births in 1000 in both Europe and the United States, except among American blacks where it was slightly higher.[6] Birth rates in the United Kingdom peaked in 1964.[7]

From the late 1970s onwards, the second demographic time bomb occurred. The Baby Boomers had fewer children than their parents. In the United States, birth rates declined by nearly 38% among whites and almost 47% among blacks. In the United Kingdom, birth rates fell to their lowest recorded level in 1977, and nearly to that level again less than 20 years later.[8] Despite the post-war boom years, birth rates fell overall from 1946 to 1993 by 41% in France, 39% in Germany,[9] 59% in Italy and 35% in England and Wales. In 1993, birth rates in Italy, England and Wales fell below the death rates.[10] From 1991 to 1999, United Kingdom birth rates

fell another 10% and in America by nearly 9%.[11] Although it may take several years for changes in birth rates to have an impact on the workforce, the pressures of an acute shortage of skilled labor are being felt already. In the first 20 years of the 21st century, immigrants are expected to outnumber those born in the United Kingdom by 2:1.[12] In America, population growth overall will slow to a mere seven-to nine-tenths of 1% in the years up to 2040.[13]

Workforce

Although changes in the general population influenced the character of the workforce, there were other factors that played a more significant role. The horizontal revolution emerged with a vengeance in the mid-1960s when the first students from the Baby Boom generation arrived on campus. The Vietnam War was gathering pace, and it divided world, as well as national, opinion. The signs that radical change was afoot were evidenced by student riots, sit-ins, and draft dodgers. The Boomers were not only the largest single generation in American history, but they also were the first in that century to experience neither severe economic hardship nor a world war, instead growing up to know a prosperity[14] for which their parents worked and sacrificed. The work ethic of the pre-war generation had focused on obtaining and retaining employment, but, the ethic of the Baby Boomers was more concerned about balancing that work with life itself.[15] Many Boomers felt the same obligation to work hard as did their forbears, but were unwilling to tolerate the old-fashioned, autocratic management style that accompanied it.[16] Moreover, they expected to be given jobs that challenged them rather than just meaningless tasks to occupy their time,[17] and they expected to be valued for what they knew and for what they could contribute.

The 20th century witnessed an unprecedented rise in the education levels of the American people. In 1900, only 11% of high-school-aged students were enrolled in school and a mere 4% of 18- to 21-year-olds were enrolled in American universities. In that year, 342 Ph.D.s were awarded. In 1940, 73% of high-school-aged students were enrolled in school and 16% of 18- to 21-year-olds were enrolled at universities. In 1947, 3787 Ph.D.s were awarded.[18] In 1950, one in three over 25 years of age were high school graduates. Forty years later, this number had risen to more than eight out of ten. During those same years the number of university graduates rose from one in 16 to one in four.[19]

The Servicemen's Readjustment Act,[20] passed during the closing year of World War II, provided educational benefits for all American veterans under the age of 25. This financial assistance was sufficient to enable 9000

veterans to attend Harvard during the 1945–46 academic year. Since then, these benefits have been reactivated during periods of peace as well as war. This dramatic rise in the levels of education has made the Boomers, and those who have followed them, the most highly skilled and educated workforce in the history of mankind. By way of contrast, it should be noted that as late as the 1970s, Britain offered a similar standard of graduate business education in only three institutions, relying primarily on managerial advice from factories instead.[21]

Historically, employers have responded to the shortage of skilled labor by dividing existing jobs into smaller tasks, a practice that in the past raised productivity. The circumstances within the horizontal revolution have made this remedy impractical, in part because there are an insufficient number of people to do any newly divided work. But, the primary reason that the division of labor is inappropriate is because it depends on the availability of *unskilled* laborers. The employees of the horizontal revolution, by virtue of their education alone, therefore, are overqualified.[22]

This combination of intellectual capital and skill has endowed workers with the means of production and has created a workforce of modern master craftsmen. Within the past 500 years, a shift of this magnitude has been seen on only one occasion – in 18th-century England, when the factory owners wrested control away from the master craftsmen of the day. During the pre-Civil War period in America, slaves were both the capital and the labor, but they lacked the skill. That know-how was in the hands of the landowners who also had to insure that the capital returns were not jeopardized by working the laborers too hard.[23] For employers, these problems are worse today. Their determination to only hire the best people exacerbates the situation and reinforces the power that workers now have. Remarkably, there still are far too many managers who think that they can protect their intellectual capital while disregarding their staff. Those who continue to ignore these issues risk losing their capital, skill and manpower to their competitors. This single factor has rendered the management styles concomitant with the traditional organization obsolete.

The time-honored method of replacing workers through foreign recruitment or immigration will not solve the skills shortage. Although many asylum seekers are willing to work hard, many lack the skills that are needed. Fluency in English is only a prerequisite. Many still lack the university degrees that employers want and as a result are filling the relatively few jobs available at the bottom end of the service industry. In addition, indigenous populations, especially in Europe, are growing increasingly uneasy at the prospect of having their societies overrun by cultures that are quite alien to them. Organizations want laborers, but don't want the influx of them to change the character of their society as it did in the southern United States.

It is a modern perception that women joined the workforce quite recently. The stereotype for much of the 1950s and 1960s was that women belonged in the home. This view overlooks the fact that at the beginning of the 20th century one in five women worked, and by the middle of the century this had risen to nearly one in three. The rapid rise, however, in the number of working wives – especially those with younger children has meant that since then the number of women at work has almost reached parity with men. This increase has not been limited to the United States: a dozen other industrialized nations also have had parallel experiences. The presence of these women in the workforce has placed new demands on employers. Whereas in the past women had taken jobs, such as school teachers, part-time office workers, or in social services, that afforded them the flexibility to spend time with their children, they now are branching out into retail, the insurance industry and as real estate agents. Since 1977, the number of self-employed women has grown much faster than that of self-employed men, and by 1983 just over one in four sole proprietorships were operated by women.[24]

The horizontal revolution is also a democratization of the workforce, and its power is as sweeping as any political revolution. The traditional organization may be seen as a kind of psychological iron curtain from which every employee desires to be liberated. The more of them who experience the freedom borne on the revolution, the stronger the desires of the enslaved become, and the less tenable autocratic organizational control appears. In a political democracy, where there are significant shortages of skilled labor, employees have both the means and the motivation to liberate themselves. In a remarkably similar way, autocratic management may be interpreted as incompatible with the democracy of the nations within which it lives, just as slavery in the newly independent colonies in 18th-century America contradicted the ideals contained in the freedoms for which men had died.[25]

TERMINOLOGY REVOLUTION

The horizontal revolution is changing not only the way in which work is organized and managed, but it is also changing the language used to describe it. During the 20th century, a vast management literature was created, not only in academic circles, but also in the popular business press.[26] This material has been made available in books, journals, audio- and videocassettes, CD-ROMs and via electronic forums, and as a result has provided endless opportunities for managers to appropriate new ideas and techniques. Within this plethora of resources, however, there is no

agreed vocabulary for describing the most significant managerial terms,[27] nor the events experienced by changing organizations, or for the solutions that are offered. Consequently, the meanings of commonly accepted words vary according to the context. Where the context is unclear, the meaning is ambiguous. We have already mentioned the few terms that have been applied to reducing the organizational layers, some of which merely impose political correctness on stark reality. But, the terminology challenges do not end there.

Scholars have the responsibility not only to describe what they observe, but also to do so in language that will have meaning for those who read their work. In the constant struggle to create identity, researchers have introduced a surfeit of new terminology. So much new vocabulary has been introduced since the middle of the 20th century, it is a wonder that managers understand as much as they do.

To illustrate the problem of language, let us consider one popular term. *Teams* have been in vogue for some years. To many people, there seems to be something almost romantic about working on a team or being a team player. Like nearly every other management idea, there are dozens of books on the subject – what they are, how to create them, and how to make them work. The word *team* was first used during the 9th century to describe the activity of animals yoked together. In the 16th century, it described the activities of people working together towards a mutually held goal, and in the 19th century it was used with reference to athletics in the playing of cricket. The concept of *teamwork*, however, was not introduced until the middle of the 20th century.[28] Most people, however, associate teams with athletics, and therein lies the problem. Not all athletic teams, strictly speaking, work together. Gymnastics, for example, consists of individual events, and although each team member earns points towards the team score, during the actual event – whether the person is exercising on the rings, horse, or parallel bars – the score earned is based entirely on the performance of that particular individual. The team can provide moral support, as can the spectators, but neither can influence directly that person's performance and, consequently, they cannot improve the team's performance through another team member. In the context of work, *virtual teams* have become popular. A virtual team could be a group of people who have never met, who work in different offices on different continents, but who are committed to coordinating their activities toward a common goal. The assumption is made that teaming is unrelated to the location of its members, but, if this definition is applied to a football team, for example, it becomes ridiculous. The practical problem with this confusion in language is that unless the person using the term qualifies the meaning he or she places upon it, one never knows what is meant. A further complication occurs in

that many who hold to one definition also believe they can have the benefits that come with the others.

Vocabulary ambiguities are not limited to changes in human resources practices. They include all of the language that is used to describe the process of change, from what the organization is, to what it wants to become, and the strategies it intends to use to get it there. In the context of the horizontal revolution, the word *process* as distinct from *tasks* has become important.[29] Its meaning, again, depends on context. In the traditional organization, it referred largely to issues concerning production, but in the last 20 years, it has become much less precise. Different authors have assigned different meanings to it, leaving lay people to choose between them. Depending on who one reads, it could mean a system of ideas, plans and actions[30] or mutually related pursuits through which an organization produces its goods or services.[31] Some argue that a process concerns the desires of the organization's stakeholders and make a distinction between business process redesign and business transformation, terms that others use interchangeably. Still others state that processes are an indication of what an organization will do, not how it will do it, the opposite view.[32]

REVOLUTION OF IMPERATIVES

In addition to the factors already discussed, organizations must continue to find new ways to reduce their overheads. Technology may provide some savings on labor expenses, but only after the initial investment and depreciated expenditure on that equipment has been recovered. In addition to the reasons mentioned, division of labor is not possible because it is too costly to lose qualified people, and too difficult to replace them. Market pressures have also changed the competitive boundaries. The one factor that heretofore has been sacrosanct is the organization itself, and in the horizontal revolution, that is the one thing that must change.

In Chapters 1 and 2, we saw the lengths to which organizations went to protect their profitability and market share. This was due to the firmly held beliefs that to do otherwise threatened their survivability. The horizontal revolution is re-writing these rules. The revolution of imperatives is a shift in organizational priorities. Imperatives are neither things that would be nice to do "if we had the time or the money" nor nice theories. Imperatives are musts. They are things organizations must do and must do so differently – that to the traditional mind they may be seen as anti-organizational. There are three imperatives in the horizontal revolution: the abandonment of traditional organizational structure; the dissolution of the psychological contract; and the pursuit of multifarious networking.

Abandonment of Traditional Structure

By 1975, 20% of all industrial laborers in the United States and Europe worked in an organization that had no less than six layers of management.[33] In Chapter 2, we saw that the reorganization of General Motors[34] was deemed to be decentralization compared with the autocratic control that the Ford Motor Company practiced, but was a form of greater centralization compared with the random style of administration that preceded him. In the horizontal revolution, the old decentralization of GM has become the new centralization of the traditional organization. To become decentralized in post-traditional terms means more than a decentralization of the executive; it is a decentralization of the organization itself. Sloan, in his book, *My Years with General Motors* (1963b [1965]) acknowledged that greater decentralization meant less centralization in practice, and that such moves were necessary to achieve some things even if at the expense of control, but one cannot help feeling that his admission was more of a lament than a desire.

In Chapter 1, we learned that the hierarchical structure was formed to coordinate the many tasks that emerged under the division of labor. This form of organization seemed to be more efficient and lasting than any other,[35] although it had weaknesses.[36] Hierarchies, by nature, enabled decisions to be taken objectively, almost dispassionately.[37] As such, workers were seen merely as occupiers of operations:[38] the more impersonal its structure, however, the more perfectly it functioned.[39] Two decades before the horizontal revolution, it was known that people opposed this system[40] and that such a system was unsustainable,[41] but in the years following a world war, in which military hierarchies once again were ingrained into society, workers may have been unwilling to rise up against it. Such changes were left to another generation. For the Baby Boomers, the horizontal revolution became the vehicle for challenging the system. Impersonalization was eschewed and personalization was embraced. The rise of individualism and the need for innovation went hand in hand.

For most of the 20th century, and up to the present day, many have believed that organizations are, and ought to be, structured according to size, the nature of its tasks, environmental context, or technology.[42] This perception certainly was accurate where well-developed hierarchical structures were concerned. Larger organizations had more tasks to coordinate and control, and consequently tended to be more bureaucratic than smaller ones.[43] Organizational growth precipitated further subdivisions into structures within structures. As more management layers were added, the administrative function expanded. However, while smaller organizations had fewer layers and hence a modicum of decentralization,[44] they were no

less bureaucratic. The degree of bureaucracy reflected the attitudes of managers[45] toward control and accountability. Where there were pressures on these factors, the tendency towards bureaucratization was greater.

The axiom of organizational structure has been that it must follow organizational strategy;[46] but, as early as the 1960s, some believed that structure was contingent on other factors.[47] As we have seen, the traditional, hierarchical structure was designed to create and preserve organizational stability, and it depended on that stability to survive. The dramatic changes concomitant to the horizontal revolution ruptured this equilibrium. This meant that a new organizational form had to be found. Metaphorically, the new form was an organism, an entity that adapted to change. This form was designed to cope with technological and market instability. It accepted that the expertise needed to make better decisions was as likely to be found in its employees as in its managers, that those engaged in the decision-making process should be allowed to consult with anyone they chose, and that the responsibility for organizational outcomes ought to be shared by those who made the decisions. It recognized that tasks operated within a contextual whole, and that these tasks were subject to change as those who did them interacted with others. It also recognized a change in the attitudes of those who worked for the organization, that they did so more because of their interest in the work than because they were contracted to do it.[48]

In the horizontal revolution, the relationship between structure and strategy has become tenuous. In the traditional organization, strategy had consisted of expenditures planned to meet expected demands; structure was concerned with creating a framework within which extant assets were applied to present-day requirements. The hierarchical structure was created to organize the administration of all of the tasks separated under the division of labor.[49] The unprecedented combination of a highly educated labor pool and a highly skilled workforce with an acute shortage of people in general has meant that it is no longer necessary, nor possible to divide jobs. Instead of the division of labor, tasks are being recombined so that one person can do many jobs. One man or woman, one job, has become one man or one woman, one process. Structure is no longer driven by strategy; rather, it results from the new capabilities of its staff in combination with the pressures created by the changes in the workforce itself.

The abandonment of the hierarchical structure should not raise any concerns regarding the loss of efficiency or effectiveness. As noted earlier, the abundance of an unskilled workforce necessitated the traditional hierarchy, but managers never intended that efficiency should be achieved at the expense of effectiveness. If we accept for a moment that *a* best way to do something could be found, and we are by no means conceding that point, it would be of benefit only if we were doing the right thing in the first place.

One is reminded of the pilot who announced to his passengers that in spite of being lost, they, nevertheless, were flying at 500 miles per hour! In the traditional organization, efficiency was achieved through the invocation of a strict code of regulations. Greater efficiency meant more rules and/or the rigid enforcement of them.[50] Within the horizontal revolution, however, efficiency increases when there are fewer rules. Again, this is due to the changes in the workforce. Innovation demands freedom. Those who are highly skilled and educated know they can solve problems, and they resent being shackled by pedantic rules that stifle them. Where such rules are enforced, morale is often low, and efficiency barely noticeable.

Effectiveness presupposes that the right things to do can be known far enough in advance to discover and disseminate an efficient way of doing them, but, in a constantly and rapidly changing world, this is unlikely. For true effectiveness and efficiency to prevail, staff must have the freedom to act when they feel the need to do so in a manner that seems appropriate to them at the time. For example, how much time (and therefore money), should be committed to making a purchase decision? Obviously, this depends on the cost of the item, but in a typical traditional organization, the expense generated in the creation, duplication, and dissemination of forms can exceed that of the item itself. This means that what is efficient may not be effective. Conversely, to behave as our pilot demonstrates that one can be effective at the expense of being efficient. Rather than concentrate these decisions into the responsibilities of senior managers,[51] the demands of the marketplace and the capabilities of the staff demand that such decisions be taken by those who are closest to them.

In recent years there have been attempts to change the way in which the new organization is portrayed. Many organizations have gone to great lengths to emphasize that they are no longer hierarchical. To prove it, primarily to themselves, new organization charts have been drawn, which have eliminated most of the managerial layers.[52] Ironically, what has often emerged is a form of the autocratic chart, of which Henry Ford would have been proud.

Waterman et al. (1980a) depict the new organization within a seven-headed alliterative framework in which strategy, structure, systems, staff, skills, style and superordinate goals or core values interact. Any one of the seven elements can dominate the organization at a particular time depending on the circumstances. Peters (1988) represents both types of organizations as wheels. In the middle of the traditional organization is a small hub occupied by senior managers. They are surrounded by a slightly larger group of highly educated but inexperienced staff that keeps them separated from everyone else. Just beyond them are another group of middle managers who filter information going up the chain of command and disseminate it

going down. Communication to the franchisees, suppliers, customers, representatives and distributors connected to the organization follows straight spokes, which radiate outwards from the hub. The new organization is also a wheel, though this one is less likely to roll than the traditional one. In the center is a group of senior managers who guide the organization by inculcating into it core values and a robust vision. These managers spend much of their time out of the office on impromptu visits with staff and customers. Far from straight spokes, the communication lines resemble random electrical currents through which both managers and staff can reach every corner of the organization, as well as those outside it without regard for protocol.

Mintzberg and Van der Heyden (1999) suggest that customary organization charts only indicate who works there, not how the work is done. For this reason, they suggest that an "organigraph" that shows how elements, such as equipment and personnel, are connected, might be more appropriate. Organigraphs are depicted as hubs or webs. Just as hubs defined the center point of coordination within airlines, so too in organizations. Where the connections between various points are more complicated, webs, which have no center, are used. The symbols used to draw the graph are not limited to boxes, but include arrows, dotted lines, circles, and even semicircular text. A natural consequence is that this graphical description varies from organization to organization.

An improvement on organigraphs is the work-flowchart we[53] asked staff to draw for their own organization. We felt that they had a better understanding of what they did than we could ever have. This was in contrast to the organigraphs that Mintzberg and Van der Heyden (see above) drew *for* their clients. We challenged our customer to produce a drawing that illustrated how work flowed through the organization. We showed them a traditional-style chart depicting their organization, one that built large commercial websites. We pointed out to them that the old chart divided their organization into functions. We asked them to think about how the chart could be redrawn so that it represented how work flowed through the organization and stipulated that any symbols were acceptable except boxes. We said that the chart had to show all input, what goes on in-between, and the output, and it had to show everything as an ongoing, cyclical process. Several drawings were submitted for our review. The best one (Figure 3.1) clearly shows the process. First, clients' needs are assessed. Then someone from the web design company (WDC) talks to the prospective client and builds up a corporate profile. Then further requirements are discussed and a proposal is written. Reaching agreement on the system requirements fulfills the main goal of the WDC, but price considerations may involve compromises. Agreement, however, signals the start of a number of

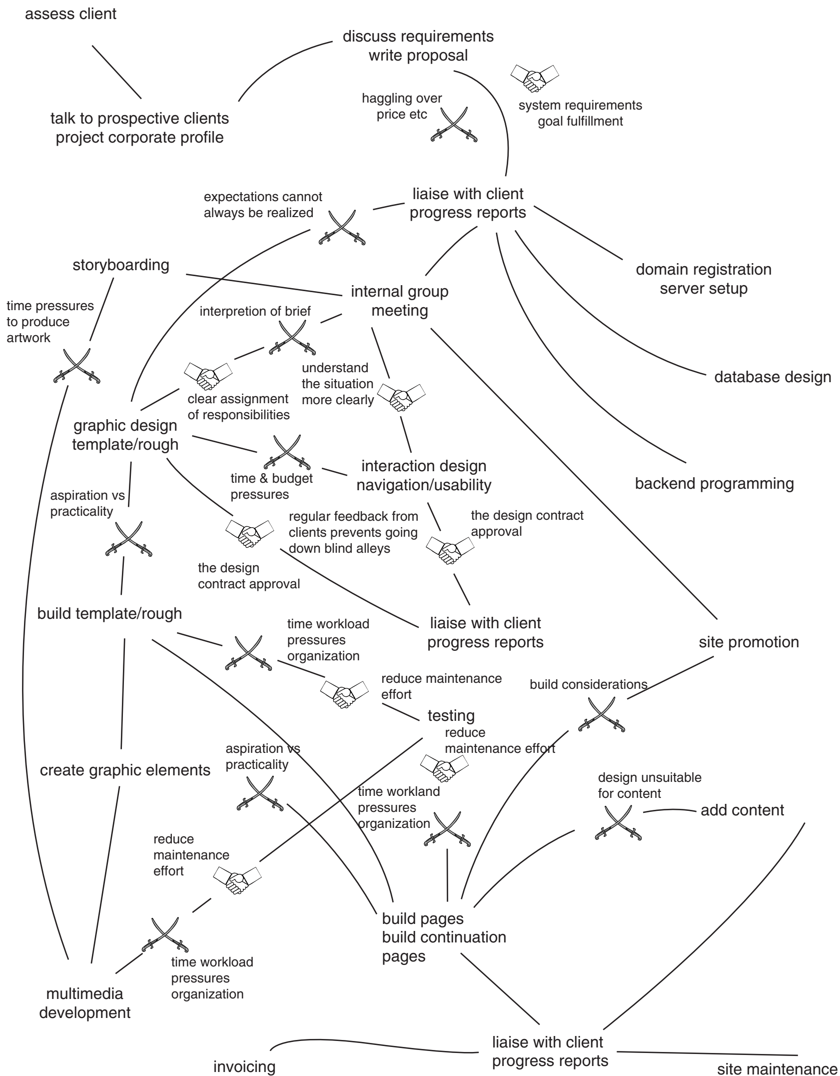


Figure 3.1 Process flow

different mini-processes that proceed simultaneously. What follows is a complex intercourse during which client needs are clarified, usability and navigation expectations tempered against graphic and interaction design capabilities, and responsibilities assigned. In addition, an array of practical work, such as domain registration, server setup, database design, and

backend programming is completed. After creating the artwork and other website components, the WDC seeks client approval to build the site in a way that will represent the client organization as the client would like without creating the need for unnecessary effort in maintaining it. As the project progresses, time and budgetary pressures may be felt. The client wants the site finished more quickly and at lower cost, or the WDC needs more time to design graphics that have proved to be more complex than was anticipated. As the site nears completion, it is tested repeatedly for suitability and ease of maintenance. The process does not stop when the site is presented to the client or even after the final invoice is paid. Proper site maintenance means that the process starts over again from the top and continues for as long as that client's website is maintained by the WDC.

Dissolution of the Psychological Contract

The psychological contract was the informal relationship between employees and their supervisors through which the former worked hard and minimized disruption in exchange for a living wage and job security from the latter.[54] Beyond the written employment contract, there were other behaviors that each expected of the other.[55] Employees were obligated to do their best and to be loyal to the organization, and employers were expected to show respect for their employees,[56] and not to take advantage of them by, for example, asking them repeatedly to work longer hours. This contract, however, had been in force since the mid-19th century when the first organization charts were created. Not only did they show the chain of command, they also implied that with experience, and perhaps further training, there would be opportunities for some to rise up that chain.[57] The introduction of company retirement benefits in the early 20th century, probation periods,[58] and longevity awards[59] further reinforced the contract by implying that most would remain with the organization for many years.[60]

In the two years from March 1980 to April 1982, America experienced two recessions covering more than half of that time.[61] The expansion period between them was the shortest in recorded history, only about one year.[62] In the last half of 1981, 1.3 million Americans lost their jobs, bringing the unemployment rate to nearly 9%.[63] By the end of the following year, American unemployment had reached nearly 11%, higher than at any time since World War II.[64] The recession was one of the worst since the 1930s.[65] Blue-collar workers experienced three times as many lay-offs as white collar workers, but both blue- and white-collar workers shared equally in losing permanent jobs.[66] In the United Kingdom, unemployment rates were slightly higher; in the rest of Europe, slightly lower.[67] Ten years later, the United Kingdom experienced another recession of equal severity. Between

1990 and 1993, nearly two million people lost their jobs.[68] The recessions of 1980–82 in the United States and 1990–93 in the United Kingdom proved to be defining periods in the history of organizational change. Instead of returning to a business-as-usual approach, some companies actively sought a new way to do business. That new way was the quality movement.

The new focus on quality was introduced by W Edwards Deming who first went to Japan in 1947 to help Douglas McArthur rebuild that nation. He stressed that Japanese managers could compete successfully with American industry if they made the delivery of quality their number one goal.[69] This new focus was more than an elaborate customer service system. Every activity across all departments was coordinated to constantly improve the organization's processes and to deliver a quality that was determined by the customer.[70] Since the goal was to lower overall costs, suppliers were also expected to adopt this quality approach, even if it meant their unit costs to the host organization increased.[71] Customers were found both inside and outside of the organization and included those who supplied as well as those who bought. They could be as big as another organization and as small as as an individual employee. The products or services they received could range from an organization-wide intranet to an economy-class breakfast on a budget airline.[72] To be a quality organization these components interacted as a whole. The failure of one or more of them diminished the ability of the organization to deliver the quality it promised to its customers.[73] Customer needs were reviewed constantly in an effort to find ways in which the product or service could be improved, and they were realized by making design changes in the organization's processes – before the fact, not after – and by limiting the variation in the standard of the output to predetermined boundaries through statistical processes.[74]

Processes were improved by eliminating quotas, which were seen to damage the organization. Historically, quotas forced employees to choose which ones to fulfill and which ones to ignore, because often doing one prevented the accomplishment of another. The emphasis on financial targets also shifted to expanding the capabilities of the process itself. Employee rating systems were abandoned and managers trained staff to work together and to recognize deficiencies and opportunities for improvement, encouraging them to report what the organization was not doing well, seeing such shortcomings as opportunities to improve its processes.[75]

In 1979, Nashua became the first company in the United States to embrace the quality movement. Less than ten years later, the US Defense Department adopted it, referring to it as Total Quality Management (TQM),[76] an ideology from which Deming would later distance himself.[77] TQM has since become an industry of its own. Its proponents emphasize the importance of an organization-wide understanding of what total

quality means – in essence, delivering quality to the customer on the first occasion. This is reminiscent of the efficiency and effectiveness whimsy, or one best way, of the early 20th century. According to TQM, senior managers must be fully committed to ensuring that their organization delivers quality to its customers, and it is the responsibility of those same managers to communicate and implement the program. The senior team must determine customer needs, ensure that the organization meets those needs prudently, and demand that suppliers of the raw and semi-finished materials conform to the same quality standards. Stress is placed on removing inhibitors to process quality before the product or service is delivered.[78]

The internal workings of the organization are designed so that the work of every department is coordinated with the work in every other department.[79] Managers are also responsible for creating an organizational culture that supports the quality process. Teamwork promotes trust, interdependency, and the exchange of ideas, so employees are formed into teams as a more efficient means to solve problems and get results. In addition, groups of volunteers meet periodically with their respective supervisors to discuss problems they face at work and to formulate recommendations to the managers.[80] Senior managers and staff alike are trained and educated to take responsibility for making improvements of their own. Training, like improvement, is continuous. TQM exemplifies lifelong learning. It has been argued that staff will not adopt an attitude of continuous improvement without a similar commitment from the senior management, teamwork, and a quality oriented culture.[81] But, even if the management is so committed, it will not guarantee that the staff will be, since the two are not opposites. The performance of the former does not guarantee the latter. However, the non-performance of the former will guarantee the non-performance of the latter. Throughout the entire quality process, control is the operative force. The primary goal is to ensure minimum variation and maximum uniformity so that error is deterred. To this end, staff may be given job descriptions that elucidate responsibilities, performance indices and statistical measurement tools, as well as benchmarked standards from the organization's competitors.[82]

A key part of TQM is ongoing planning coupled with the pursuit of constant improvement, not only in the process itself, but also in the products and services that emanate from it. There are two sides to the quality coin: maximizing the quality delivered to the customer and the minimization of waste. The former has been discussed already. The latter, however, gave rise to the now familiar strategy known as just-in-time delivery in which bench stock was eliminated or substantially reduced and re-supplied as close as possible to the precise moment that it was needed. Often, this led to long-term, sole-source contracts.[83] This meant that excess stock was maintained

by the supplier, not the host organization. But, the just-in-time principle extended beyond the delivery of material: it was also applied to the supply of labor.[84]

Historically, Japan had two distinct labor corps: permanent employees and temporary employees, including seasonal and day workers.[85] The permanent employees constituted about 35% of the workforce, were unionized and, almost exclusively, were male. Although nothing short of a serious criminal conviction could bring termination,[86] there was still considerable uncertainty regarding the extent to which lifetime employment could be considered a reality. In all probability, the work afforded to these people was uninterrupted rather than guaranteed.[87]

About half of the seasonal and day workers worked in the building industry, but a significant proportion also worked in small wholesale, retail and service enterprises, and they dominated most Japanese industries. They had no union affiliation, nor were they afforded the protections regarding dismissal attendant to such affiliation. Temporary contracts ranged from one week to a couple of months. When the economy expanded, these contracts were renewed repeatedly, but when reductions in labor were necessary, many were not. During periods of economic decline, however, it was the workers in these small enterprises who bore the brunt of the redundancies.[88] The nature of these contracts meant that the non-renewal of them did not carry the same stigma as it would have if a permanent worker had been made redundant. Up to the 1960s, the ebb and flow of labor requirements was regulated in this fashion, but by the 1970s, it had become evident that greater flexibility was required. During the worldwide recession of 1982, this challenge was met by reducing overtime and by recruiting fewer people to replace those who retired. In the largest firms, surplus employees were redistributed among their various subsidiaries.

In the United States, the consequences of this recession were much more severe. For example, between 1980 and 1983, Xerox had purged 20 000 positions worldwide.[89] Those remaining in that company were limited to those who had a hand in generating profits.[90] The increased impact of these draconian job losses on America was due in part to the differences in the way the two workforces were structured. As we have already mentioned, the distinction between permanent and temporary employees in Japan was determined largely by gender. In the United States, however, no such distinction existed and for several reasons. Women's attitudes towards working outside of the home had changed. This was due in part to their increased university attendance and the desire of many of them to have careers before they had children. The traditional family, in which the husband went to work and his wife kept the home and looked after the children, and was common up to the early 1970s, was already falling out of fashion by the

1980s. The more active participation of women in the workplace was also encouraged by the passing of the Civil Rights Act in 1964[91], which gave them a legal right to compete for jobs formerly reserved for men and afforded them protection against employers who practiced discrimination on the grounds of gender.

The pressures of continuing losses in market share to Japanese competitors compelled American companies to become more flexible. Since the new organizational emphasis was now on delivering quality to customers and garnering all the resources in the organization to that end, it meant that no part of the organization was exempt. The principles of just-in-time delivery were applied not only to controlling inventory and bench stocks, but also to the means of creating the end products and services the company provided. In essence, it provided the basis for a flexible workforce[92] in which staff were hired and retained as needed in a sub-contracted fashion. As a consequence, the flexible workforce became the prelude for the dissolution of the psychological contract, which was also the subtext for the total quality movement. When organizations decided to devote all of their energies to delivering quality to the customer, they set in motion a chain of events that changed fundamentally the way in which work was organized and managed.

Pursuit of Multifarious Networking

The concept of a network as a noun – a group of people who interact through a web of connections – has existed in modern parlance for less than 60 years, and as a verb, to network, or networking – for less than 50. Its meaning has changed from simply describing a set of relationships to defining how the boundaries of that set are widened.[93] In the context of marketing, networking has meant the retail distribution of goods and services in which friends sell small quantities of products or expertise to each other.[94] Today, it means much more. The scope of networking has changed, too. Although networking occurs inside organizations, primarily it occurs outside of what might be thought of as the bricks-and-mortar institutions in which many people work. This larger structure transcends employers and industries and may include acquaintances, friends and family, but it may also include people who share similar interests, but have never met except via e-mail or over the telephone. Networking is a personal, one-to-one activity, and the relationship between two people may be the only thing that is common to their own individual networks. For many, such as those who freelance, this is not new. However, for the majority of people, the concept and activity of networking is one that they will have to understand and embrace, since their continuous employment may depend upon it.

The growth rate of possible interactions in networks is colossal. For every one person who is added to a given network, the number of potential interactions within it increases by the square of its total members. For example, if there are ten people in a network, the number of possible interactions is 100. When that network increases to 11 people, the number of possible interactions increases to 121. Most people know about 1000 other people.[95] That means that the number of possible interactions in the average network is about one million. If one person is added to that network, the number of possible interactions increases by more than 2000. The pursuit of multifarious networking means that everyone is on a mission to introduce people into their networks who can bring the most value to them. Conversely, it means that relationships that do not bring value will be discarded or simply ignored. Those who understand the power of this will endeavor to increase the size and value of their networks by joining together other networks,[96] instead of allowing it to develop randomly at the rate of only one or two people at a time. The most savvy, in fact, will become active hubs for other networks.[97] By doing so, they will attract more value than those who are content with their own activity within a given network. Pursuing multifarious networking is so powerful that when the size of a group of businesses who are committed to referring business to one another doubles, the value of the business it passes within that group triples.[98]

In traditional marketing, the basis for a relationship between a supplier and a customer was that the supplier earned a profit and the customer realized some benefit.[99] More recently, the notion of relationship marketing has extended this definition to include the sustainment and edification of customers.[100] Customers in this context encompass influencers such as government agencies and financial markets, as well as the staff whose performance directly influences the success of the marketing initiative.[101] Theoretically, businesses have been building relationships for generations.[102] Even branding has been touted as proof that particular relationships existed.[103] In practice, however, the degree to which relationships were developed has tended to be only to the extent that sales were closed,[104] an approach that ignored the need for customer loyalty. Relationship marketing grew out of the service industry,[105] and was intended to promote and sustain longer-term sales and service,[106] interaction[107] and mutual benefit, but the extent to which this has occurred is dubious.[108] Often, such relationships have become a means to ensnare new customers and penalize them when they take their business elsewhere.[109]

Relationship marketing was intended to use networking as a means to create relationships, which in turn was a means to obtain and retain customers,[110] but in the horizontal revolution, there is more to be gained or

lost than profits. The essence of networking, therefore, has become the relationship that may ensue as a result.[111] To think of it another way, networking is the means by which a relationship begins. Relationships might yield profits, but they could also present other opportunities, such as the potential to bring value to the network. Most importantly, the relationship is not contrived and, as a result, is more likely to be the genuine association that it is intended to be.

Of all the existing relationships, for example, between production and sales, suppliers and customers, distributors and end users, customers and customer service, employers and associations and unions, and the organization and the environment,[112] the most important ones in the context of the horizontal revolution are between the workers and the employing organization or another employer. It has been accepted for years that employees were customers, but in the traditional organization, the "buyers" were generally forced by top management to buy from within, especially in the public sector. General Motors was a notable exception, but even there buyers were encouraged to give the organization first refusal if the goods or services required could be obtained from it for a lower cost.

Networking has changed the nature of communication.[113] Obviously, this is no place for the chain of command. This revolution expects all within a common network to communicate freely with all and sundry. This has resulted in a propensity to cooperate where possible, and only compete when necessary. Although trade associations in the early 20th century provided something of a forum for this cooperation, they were developed only in order to protect the control that businessmen wielded over their workers. It was not intended to be a platform for wholesale cooperation at a business level. The Total Quality Movement in the latter part of the 20th century also encouraged organizations to create networks of suppliers and customers so that all would benefit from the exchange of quality. However, neither sought deliberately to create a forum through which one manager undertook to help another. Much of this is possible now because of the Internet and the proliferation of English as the language of business.

Such cooperation has occurred with consumers as well. In the 1970s, small groups, such as university students, cooperated together to buy staples at reduced, bulk rates. Companies, recognizing the value in such cooperation sought to put into place loyalty schemes that would ensure that customers returned to buy more of their products and services. Charge cards were introduced to give customers the freedom to use credit to buy their products, without passing valuable interest, not to mention credit card commissions, to someone else. Some companies still use these today. Then, loyalty cards that accrued points for customers who paid by cash or check were instituted. These points later could be exchanged for more products

or services, including air miles – a direct attempt to compete with the existing air miles loyalty programs offered by the larger airlines. Airlines, too, began cooperating via code-sharing, which enabled a passenger to pay a fixed price to one airline for a particular journey even if he or she actually traveled on more than one carrier. It was not long before these airlines began offering air miles with the purchase of hotel rooms and rental car services. Some companies today offer air miles for almost any type of purchase. In the United Kingdom, seller cooperation has been taken a step further. Nectar, a new type of loyalty card, offers points to customers who purchase food from Sainsbury's – a supermarket chain, conduct financial transactions at Barclays – a bank, buy clothes at Debenhams and have them dry cleaned at Johnson's. Those customers who use only some of the companies cooperating under the common card are repeatedly targeted with mail to encourage them to do so, such as with an unsolicited credit card application.

The propensity to network with everyone – to create, maintain, and sustain relationships with people from all walks of life and throughout the world has led to a new type of organizational structure, one that, having fragmented into parts, is reforming into an entirely different whole. As in the chaos that followed the Industrial Revolution, people are struggling to find the new structure.[114] It is not easy. Multifarious networking represents a new, larger structure that transcends the boundaries of organizations and even industries. In fact, it is the external network that to a large extent will supersede the organization of relationships typical of the traditional organization. Just as a relationship may consist of only two people, so, too, can an organization; and because such a relationship depends on networks and not status or position in the company, it is likely that many at the top of one entity will connect with those at the bottom of another.[115] In a very real sense, each person becomes the center of his or her network.[116]

Médecins sans Frontières (MSF)[117] is a good example of this new organizational structure. Its mission is to direct medical support to people suffering worldwide, yet it has no world headquarters. Instead, the director general in each of the operational centers from France, Belgium, the Netherlands, Switzerland and Spain confer periodically, either face to face or via a conference call, to discuss the ongoing activities of the organization. Decisions that affect MSF internationally must be agreed unanimously.

One recent, and unanimous, decision was *not* to adopt a hierarchical structure. At present, there are 13 national headquarters, including Italy, Japan, Australia, the United States, the United Kingdom, and Canada that may and often do act independently or simultaneously with other national offices as necessary. Each national office has six cells: management, administration, human resources, and logistics, medical and operational.

The operational cell within each national office monitors the needs of those nations in which it has a particular interest. Such interests are determined by the cell, and no attempt is made by the director generals to prevent overlapping interests between national offices or to coordinate their activities. Within each nation is another cell of operatives consisting of a head of mission, medical coordinator, logistical coordinator, and administrator. The decision to respond to a crisis comes from those who work within one of the operational cells of each of these national offices, not from the director generals. Using its $320 million annual budget, 80% of which comes from private contributions, MSF draws on the 4000 or so personnel of its own, all of whom are on short-term contracts, together with a further 20 000 nationals worldwide in the ongoing quest to fulfill its mission. As more organizations feel the impact of the horizontal revolution, they will become more like MSF. Decentralization will have extended down to the last employee.

Multifarious networking extends beyond the networks of the people who work in them: it includes the network of markets. There is only one, single market in the world. It is not the United States. It is not the Pacific Rim. It is not even the European Union. It is the entire world. It is a *marché sans frontières* – a market without borders. Politicians in Europe, for example, would better serve their constituents if they focused on making it easier for their citizens to trade in this global market, than by wasting time and resources on creating some kind of artificial currency in a unified super state. Far from being apathetic, voters should demand this from their elected representatives.

SUMMARY

The horizontal revolution has transformed the way that work is organized and managed. Like all revolutions, this transformation is erratic and chaotic, and the effects of this revolution are spreading unevenly – faster through some industries and even nations than others. Some organizations have recognized the inevitability of this revolution and have actively deserted the traditional organization. Others, in the face of overwhelming evidence to the contrary, have dug in for the long haul, and denied the existence of the revolution and the extent of its influence. Most, however, seem to be caught in the middle, like rabbits in the headlights, aware that radical changes are occurring, but unsure how it will affect them. For them, it is learning how to cope with the chaos.

All organizations have felt, to a greater or lesser extent, the impact of changes in technology, demography, and the workforce, the three converging

factors of the horizontal revolution. They have become aware of the need to create and share knowledge, the shortage of qualified graduates, and of the new work ethic, but many remain confused by the multiplicity of jargon used in the unprecedented array of popular and academic management literature written, allegedly, to tell them what to do about it. In addition, they are feeling the pressures of the new imperatives – the abandonment of traditional hierarchies, the dissolution of the psychological contract, and the pursuit of multifarious networking. We discussed some of the attempts that have been made to redesign the organization chart, and we offered a new work-flow method in which the entire work process and its significant interactions were illustrated.

NOTES

1. For the English Industrial Revolution, see Deane (1979).
2. Elwell (1999).
3. Schwitter (1968).
4. Naisbitt (1984).
5. Different dates are quoted by different authors, but all of them center around the period from the end of World War II to the mid-1960s.
6. Mitchell (1992, 1998).
7. Pearce et al. (1999).
8. Pearce et al. (1999).
9. Figures for West Germany were available only for part of this period.
10. Mitchell (1992, 1998).
11. Maher (ed.) (2001).
12. Insalaco (2002).
13. US Bureau of the Census (2001).
14. Toffler (1985).
15. Naisbitt and Aburdene (1985).
16. Health, Education, and Welfare (HEW) (1972).
17. Driver (1979).
18. President's Commission on Higher Education (1947a).
19. Russell (2000).
20. Secretary of State (ed.) (1945).
21. Cochran (1977).
22. Gulick and Urwick (eds) (1937).
23. Postell (1970).
24. *Economic Report of the President Transmitted to the Congress* (1987).
25. Postell (1970).
26. Pfeffer (1997).
27. Follet (1933 [1996]); Woodward (1965, 1980); Simon (1976) and Burns (1978).
28. Simpson and Wiener (1989).
29. Hammer (1996).
30. Gratton et al. (1999).
31. Manganelli and Klein (1994).
32. Edwards and Peppard (1997).
33. Chandler and Daems (1980).
34. Sloan (1963b [1965]).
35. Weber (1948).

36. Chandler (1963).
37. Weber (1948).
38. Selznick (1948 [1978]).
39. Weber (1948).
40. Selznick (1948 [1978]).
41. Argyris (1966).
42. Perrow (1967); Walker and Lorsch (1968 [1987]); Child (1972) and Pugh et al. (2000).
43. Weber (1948) and Pugh et al. (2000).
44. Marsden et al. (1996).
45. Miewald (1970).
46. Chandler (1963).
47. Burns and Stalker (1987, 1994).
48. Burns and Stalker (1968).
49. Chandler (1963).
50. Hage (2000).
51. Chandler (1963).
52. In a series of interviews with human resources personnel, including managers and directors, and others in more than 50 organizations, Bruce found that most described themselves as being flat in terms of their organizational chart.
53. Performance Advantage Ltd.
54. Argyris (1959) and Rousseau (1990).
55. Makin et al. (1996).
56. Schein (1980).
57. Kalleberg et al. (1996b).
58. Rousseau (1990).
59. Makin et al. (1996).
60. Kalleberg et al. (1996b).
61. Hewson and Urquhart (1982).
62. Nilsen (1984).
63. Bednarzik et al. (1982).
64. Urquhart and Hewson (1983).
65. Nilsen (1984).
66. Bednarzik (1983).
67. Moy (1982).
68. Central Statistical Office (1992, 1993, 1994).
69. Gabor (1990).
70. Oakland (1989) and Gabor (1990).
71. Gabor (1990).
72. Oakland (1989).
73. Oakland (1989).
74. Gabor (1990).
75. Gabor (1990).
76. Gabor (1990).
77. Neave (1995).
78. Oakland (1989).
79. Oakland (1993).
80. Oakland (1993).
81. Oakland (1989).
82. Oakland (1989) and Gabor (1990).
83. Oakland (1989) and Gabor (1990).
84. Oakland (1993).
85. Ouchi (1981) and Anthony (1985).
86. Ouchi (1981).
87. Anthony (1985).
88. Anthony (1985).
89. Palermo and Watson (eds) (1993).

90. Jacobson and Hillkirk (1987).
91. Secretary of State (ed.) (1965).
92. Oakland (1989) and Gabor (1990).
93. Simpson and Wiener (1989).
94. Hawkins (1991).
95. To prove this to yourself add up the following groups of people: those in your e-mail address book; those on your Christmas card list; those on your mailing list; those you know in your church, social and professional clubs and organizations; those you invited to your wedding, etc.
96. Kelly (1999).
97. Misner (1994 [2001]).
98. Private correspondence from Ivan R Misner. This axiom is expressed repeatedly at BNI meetings all over the world.
99. Riley and de Chernatony (2000).
100. Christopher et al. (1993) and Gummesson (1994).
101. Christopher et al. (1993).
102. Grönroos (1995).
103. McKenna (1991).
104. Fournier et al. (1998).
105. Grönroos (1995).
106. Christopher et al. (1993).
107. Gummesson (1994).
108. Fournier et al. (1998).
109. Gummesson (1994).
110. Christopher et al. (1993) and Grönroos (1995).
111. Grönroos (1995).
112. Gummesson (1994).
113. Kelly (1999).
114. Naisbitt (1984).
115. Naisbitt (1984).
116. Naisbitt (1984).
117. Piedagner (2003).

4. The value-based organization

This chapter describes the essence of the value-based organization – the meaning of value, the new way in which work is becoming organized, and the organizational implications of knowledge, learning and innovation in that context. Chapters 5, 6 and 7 examine many of the vain attempts to obtain the benefits of becoming value-based while preserving the essence of the traditional organization. Chapter 8 provides a model or framework for managers who want to transform their organizations into ones that are value-based.

In order to understand what makes an organization value-based, it is necessary to establish what is meant by the term *value*. Often, it is easier to understand what something is *not* before attempting to discover what it is, and that certainly is true in this case. The most popular view of what is meant by value is to confuse the plural – *values*, with the singular – *value*. The word *values* is often used to convey different meanings. For some, it could mean the values that are held by the organization itself, viz. the vision, aspirations and goals of its most senior managers. For others, it refers to personal values – beliefs that determine those activities that a worker will or will not do. Still others argue that both are important, and that managers should align the values of the organization with those of its workers so that collectively they can achieve both personal and organizational goals.[1] From this perspective, *values* means more than one value.

In the singular, value also has several meanings. Typically, it is seen as a commodity to which shareholders are entitled.[2] Ask almost any senior manager in a publicly listed company about his or her goals, and delivering value to shareholders will feature high on his or her agenda. Another popular view concerns *added* value. Added value has meant selling the basic product or service, and then selling something else – additional value – as well. For example, in the automobile industry in the United States during the 1960s, the joy of driving for many was not so much in having a car, but in having the extras – a radio, automatic transmission, and air conditioning. Knowing this, manufacturers made the ownership of those items available as accessories that had to be purchased separately. Since the cars were seen simply as transportation, the purchase of them without those added features created the perception that the basic item delivered little value, and that real

value could be obtained only in some additional form. Since then, added value has become a euphemism for the additional money customers must spend to obtain the practical use or enjoyment they expected to get when they bought the basic unit. Some companies play upon this perception by deliberately minimizing the value of the basic item and focusing all of their marketing power on selling what can be added to it. For example, a company might attach a free razor blade holder to the front of a magazine knowing that customers will not be able to use the holder without buying their blades. A more disturbing example concerns a bank in the United Kingdom that changed the benefits it had offered its savings customers from higher interest rates to free travel insurance. In this case, customers were unable to get the value they originally expected and were forced to settle for products or services that they may not have wanted or could not use. In time, this switch in benefits may damage that company's reputation because the customer's perception may also change. Since these unwanted services have cost the supplier virtually nothing to provide, the perception now may be that there is little value to be obtained by using any of its products or services.

During the horizontal revolution, attempts were made to distinguish between activities that added value and those that did not. The goal was to increase the number of activities the organization performed that added value and to decrease the number of non-value-adding activities. In practice, however, many organizations have seemed more committed to adding value later rather than sooner. The consequences of this strategy will be discussed more fully in Chapter 7.

In an attempt to maximize their resources and the capacity of their factories, many companies in the early 20th century diversified into products and services that were outside of their primary, core business. Far from making them more efficient, this strategy necessitated restructuring their businesses and further complicated existing problems with communication, coordination and control.[3] Later, diversification was replaced by acquisition. Larger companies in one industry bought smaller companies in other industries.[4] To some extent, this strategy enabled organizations to increase their overall value and reward their shareholders. In the late 20th century, this strategy was reversed. The growth of bureaucratic structures had created enormous internal costs and threatened the very profitability of the firms themselves. There still were many other activities that needed to be done, which of themselves did not add value. The new mantra then became to focus on core business and outsource everything else. These large conglomerates sold off their non-core business and, using their new cash resources, bought their competitors. No industry was exempt. Everything from automobiles to garden products, airlines to communications, and hotels to high-tech, felt this giant restructuring and consolidation of industries.

In another meaning of the word *value*, managers were exhorted to take care of their staff and to make them feel *valued*.[5] To this end, many organizations have declared that people are their greatest resource. However, the extent to which this has been demonstrated is dubious. In summary, value does not mean organizational or personal convictions, nor does it mean some kind of monetary worth, whether specified or not. None of these characteristics describes a value-based organization. To think of it another way, managers could do all of these things and still not be value-based. Value may include organizational or personal convictions, or monetary perspectives, but it is *not* defined solely by them.

VALUE TRANSPOSITION

The essence of value in a value-based organization is contained within the means of the value exchange. Value is exchanged through the *value transposition*, which is the pursuit of and commitment to the continuous exchange of equal worth between a supplier and a customer. A value-based organization is one that is committed to delivering this value to all of its stakeholders, not just to some of them, and to delivering that value to at least the same extent or degree that it receives it all of the time. The supplier is any organization or person that provides something of tangible or intangible value to another organization or person. The customer is any organization or person in receipt of that value. Transpositions occur between any two parties – between two businesses, a business and a person, or two people.

Parity of Exchange

Transpositions go beyond traditional social exchanges in three ways. First, transpositions have a clear parity of exchange. The unit of value given by the supplier equals the unit of value received by the customer. This can be understood as an equation. The term on one side of the equal sign is equivalent to the term on the other side. Both parties share responsibility for ensuring equality in the value that is exchanged. For example, in the traditional organization, managers sought to obtain as much time and effort as they could from staff and as many concessions from suppliers as they could negotiate in exchange for as little actual value as was acceptable. No doubt, many would call this approach "good business," but, in a world where the customers, suppliers and staff are one and the same, such an approach is counterproductive.

All transpositions involve the exchange of value. There is no such thing as a transposition that neither gives nor receives value. Value can be either

positive or negative, but it cannot be neutral. For example, positive value includes opportunities for personal development; negative value includes mistrust by managers. An integral part of the value transposition is that both parties also expect that the value they receive will be equal to what they contribute, though such expectations are subconscious. An individual's response to the fulfillment of these expectations is similar to that of a hygiene factor. The party that provides value expects to receive it in return, but when that value is received, he or she sees it as simply getting what was expected. Quid pro quo. But, if that value is negative, then the aggrieved party may take his or her custom elsewhere. If that party is an employee, it may mean the organization will lose his or her skills, intellect, and positive attitude.

Transpositions vs. Transactions

Second, transpositions differ from transactions. Transactions occur over a relatively short period of time and have a fixed beginning and ending. They happen in isolation, and while there may be others that follow, the initial exchange is not made on that basis. Its short-term focus is reflected in its greater concern with extracting value than exchanging it. Transactions, by definition, are simply exchanges with no implicit or explicit equality in them. Where there is no parity in the exchange, there is only a transaction. Within all organizations, transactions take place regularly and on the basis of long-established relationships, but often the value that is exchanged is unequal. In other words, one party usually does much better than the other.

Historically, transactions were limited to the value customers received from the organization and the organization received from its employees. Customers received products and services from the company, and employees contributed value to that company, which in turn enabled it to deliver value to its customers. In the latter part of the 20th century, suppliers were included in this process in what came to be known as the value chain.[6] Employees received some value for their contribution, but the majority of the value was passed either to an undisclosed group of shareholders or to external customers. In the last 30 years or so, more and more employees have become shareholders. This has come about as a result of the increased participation in personal investments via company stock option plans and an interest in playing the markets as a hobby or as a means to improve retirement income. One survey has indicated that, in the midst of the worst bear market since the Great Depression, more than half of all Americans still held company shares.[7] In addition, the very nature of personal investment opportunities means that the composition of the true shareholders changes daily.[8] Those same shareholders also work in other companies who

act as suppliers. In some cases, a supplying company is also a minority shareholder. Neither organizations nor managers can stay abreast of all of these relationships. The end result has been that, in many cases, the very people to whom senior managers allegedly are committed to conveying shareholder value are those who work within their own organizations.

In the workplace, employees may do their best, but still receive a low rating on their performance appraisal and consequently receive no bonus. In that situation, they may feel that their best represents a higher quantity of value than that which they have received from their organization. They may then alter their performance, deciding that since their best is underappreciated, they can get the same rating for a lower standard of work. In this way, workers redress the balance, believing that this lower standard of performance matches more equitably the rating that they have received (Figure 4.1).

When an employee performs a task, a certain quantity of value is delivered to the organization. The value he or she receives for completing it may be in the form of remuneration. However, the value that is taken from the organization in terms of working hours, utilities, and expendables, may be greater than the value that the organization receives from the activity. In such cases, the net value delivered is negative. Similarly, the employee may feel that mere remuneration is of less value than the expertise he or she delivers.

Transpositions are often thought of in terms of music. When a piece is transposed from one key to another, the essence of the music remains the same. All of the notes maintain the same or equivalent spacing from one key to the other. In that sense, the value remains the same. As with all analogies, however, this one breaks down if it is considered in other ways. For

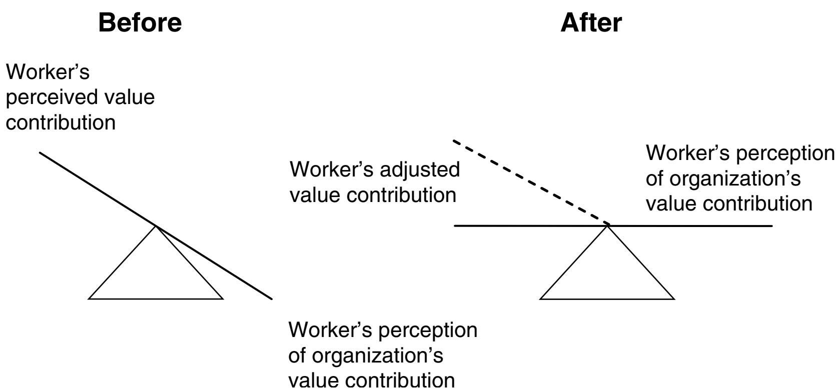


Figure 4.1 The value equilibrium

example, a piece of music in E major will exude brilliance of sound, whereas the same piece transposed into D-flat major will sound more mellow. In that sense the music will have gained or lost some of its value depending on your point of view.

Transpositions vs. Relationships

Transpositions also exceed the traditional meaning of relationships. Relationships tend to be thought of in terms of families – kinship. Business relationships, on the other hand, take the meaning one step further, denoting a deliberate connection or association between parties. Families and marriages can become estranged, and so can business relationships. Often these are caused by a failure to ensure parity in social exchanges, but, it can also be due simply to allowing the relationship to grow cold. For example, Business A works for several months to get to know Business B and the people in it. After identifying the needs of Business B, Business A obtains a contract to help them satisfy those needs. At the conclusion of the contract, both Business A and Business B go their separate ways. Such an outcome demonstrates that one or both parties lacked the commitment to continue the relationship probably because in the beginning they saw it only in a short-term context. This is not a value-based approach. Having taken the trouble to get to know one another, both businesses could have continued to benefit one another by maintaining an interest in the other's business. Clearly, if Business A understood Business B well enough to help it on one occasion, it might be able to help it again. Conversely, Business B, having learned about Business A might be in a position to recommend the products or services of Business A to Business C. Much time and valuable resources are squandered when organizations fail to nurture business relationships. This principle applies as much to those in not-for-profit organizations as it does to those for whom profit is a driving force. There is enormous scope for greater cooperation between various government bodies. Instead of squabbling over turf, agencies should be looking for ways to cooperate with each other. Consultants often express a desire to establish long-term relationships with their customers. Unfortunately, their behavior suggests that many of them are more concerned about obtaining long-term cash-flow from the client than in delivering value via a long-term, continuing relationship. In other words, once is not enough. It goes beyond the desire to maintain the connection. Instead, it is characterized by an unwavering commitment to go on delivering value to the person or organization with which the last exchange took place. It is similar to the cultivation of a specimen plant – weeding, feeding, and watering, and even pruning and training.

Value Transpositions vs. Value Propositions

Value transpositions must not be confused with value propositions. A value proposition is a product or service expressed in terms of the benefits it will provide. It is possible for a proposition to be of value without providing equal value. For example, a firm whose market penetration virtually monopolizes the use of a product or service may be of value to customers, but may not give them the level of value they expect. Its ubiquitous use, however, may prevent these customers from using an alternative that is better. Many argued that this was true of the video industry in which the Beta format was considered to be superior to the more widely used VHS format. Even so, within a short period of time, both Beta formatted tapes and the machines needed to play them had been withdrawn from sale.

There is another difference between value propositions and value transpositions. Value propositions do not extend to internal customers.[9] In fact, this form of exchange amounts to little more than a transaction between a supplier and a limited group of customers. At best, the value proposition might be something less than one-half of a value transposition. Value propositions are the part of the unit of value that the supplier contributes to the value transposition. Value transpositions are the mechanism as well as the components for the exchange of this value.

Customers

The notion of internal and external customers has been in the public domain for many years. However, little more than lip-service has been paid to those inside the organization. Employees have never been treated like customers. Only rarely have they received the same considerations as those who are outside of the organization because those who are inside of it are already part of the mother firm. No relationship had to be created, per se, in order for transactions or transpositions to take place. In Chapter 1, we described the discrepancy that existed between what journeymen carpenters were paid and what they were worth. The value they received from their employers was less than the intrinsic value of their skills. The importance of the value transposition is changing that. As staff become less like permanent employees, fewer of them will remain strictly within the boundaries of the organization itself. As these new independent contractors come to understand their worth, organizations will be forced to offer value to them that is equal to the expertise they require. The value of one's worth is not limited to monetary compensation. A whole host of other job-related factors must also be considered. In fact, the exchange of value is as much

an exchange of solutions as it is the exchange of a products, services, or even salaries or bonuses.

In practice, the transposition of value within the value-based organization occurs as an unconscious, good faith exchange. It is expected and received as much as common courtesy. Just as it is reasonable to expect people to use words such as "please" and "thank you" in their day-to-day communication, so it is reasonable to expect that in return for their skills, intellect, and positive attitude, the organization will give employees equivalent value. It includes respect for them, integrity, honesty, and support from their managers, and generally an organization that is obviously looking out for their best interests. As a result, there is no propensity to "keep score," but, as we have said, repeatedly short-changing the relationship will damage it. Customers will seek to participate in those opportunities for the transposition of value that they believe are most likely to give them value that is equal to the value they believe they have to offer. This market force will sideline those who lack the commitment to participate in the value transposition or who misunderstand it altogether. Value transpositions, at one time the exception, are becoming the rule. To a large extent, this reflects the changing context.

In a value-based organization, there should never be any sense that it is acceptable for one employee or department to benefit at the expense of the other. If the attitude of the firm is to obtain as much value as possible, but deliver little value in return, then the organization is transaction-based. There is nothing wrong with some people doing better than others, but doing so at their expense is a bit like pumping all of the blood out of your leg because your arm needs it.

Although the total quality management literature discusses internal customers, it seems to have more to do with receiving a quality service or product from upstream on the assembly line than it does with a mutual exchange of value.[10] It views employees as customers only insofar as they receive products and services from within the organization that are of a high quality because it will enable them to do their part in the quality process before handing it on to the next customer, whether internal or external. The emphasis on delivering quality, however, seems to be entirely one way. Although employees are supposed to receive a quality product or service from everyone else as part of the quality process, it is only to the extent that it empowers them to contribute personally to it. It does not seem to flow the other way such that that worth is delivered to the employees themselves (Figure 4.2). The character of external customers has also changed. Although they are not formal employees of the organization, many former full-time staff are now part of the growing group of independently contracted workers.

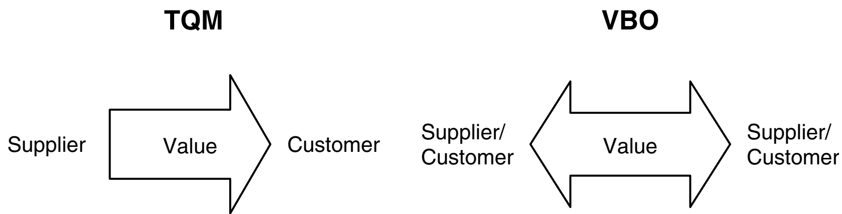


Figure 4.2 TQM vs. VBO

Value vs. Quality

It must be said that quality and value are not synonymous. Quality can be measured quantitatively, but value is a perception. Quality can provide value, but quality in and of itself may not be of value, and total quality does not mean total value. For example, Western technology is still capable of producing computers similar to the first one that was constructed in 1946. Even if the original specifications were realized, the quality of such a machine undoubtedly would be higher today than it was more than 50 years ago, but, who would want to have less computer power in a room than what would be available in a Personal Digital Assistant? Budget airlines have enjoyed considerable success by understanding the changes in customer perceptions of value. Instead of treating flights of one to two hours in the same way as flights of three hours or more, these no-frills carriers have understood them for the commute that they are. Commuter airlines charge a commuter's price. Meals and beverages are not served or if they are, they are sold separately, since few would expect to eat lunch while driving to work. The seats are not the most comfortable, but neither are they on a bus. Most people are willing to sit almost anywhere for a short time especially if the price is right.

A few years ago, attempts were made to distinguish between product and process quality.[11] It was argued that high-quality products could be manufactured with low-quality processes, but that the inspection system needed to achieve this end would make such an approach expensive. A higher-quality process would reduce waste, both in time and money, a virtue of the total quality movement, but whether the product, process or both were of high quality, none of them guaranteed that value would result. There seems to be more of a danger in equating the importance of quality with that of value. Quality is determined by the customer[12] and so is value, but customers will pay for low quality if they perceive it to be of high value.[13] They will not pay for high quality if it has no value to them.[14]

NETWORKS

The shift in emphasis from transactions to transpositions is not the only factor that distinguishes the value-based organization from the traditional organization. The way in which work is organized is also changing. The discussion of networks and networking in the previous chapter was intended to demonstrate the wide range of activity associated with those terms. In this section, we want to think about networks as a transition from one kind of organizational structure to another. The old structure is fragmenting, and the pieces are being suspended in ephemeral networks, waiting for the emergence of the next organizational form. Instead of a hierarchy that separates those who manage from those who work along a predetermined seniority, work in a value-based enterprise is being organized and managed transitionally by the network of people actually engaged in it. Instead of congregating around a particular firm, workers are gravitating towards communities of people who share particular ideals or interests,[15] and rather than follow a company, they follow the work. The pressures of physical costs coupled with the desire to work without moving or traveling to the office has also meant that many people follow the work virtually rather than literally.

Networks provide opportunistic pathways for value to be delivered. Part and parcel of these interconnections are the relationships between the people engaged in the value transposition. The intelligence to run the network comes from the participants who use it, not from a central authority with preconceived notions about what is appropriate. For example, no one person is in charge of the Internet. Protocols regarding what code will work and what will not are established by developers, but even they do not know every idiosyncratic feature of how the code interacts with itself. An Internet Service Provider may unplug a user if it disapproves of that user's behavior, or that user might get spammed by other users who dislike his opinion, but all of that is independent of the activity and structure of the Internet itself.

Every organization falls on the continuum between the mini- and the mega-organization, but the distribution of employees is changing. Historically, the largest percentage of the workforce was employed by the biggest organizations who also represented the smallest number of businesses. But, as more non-core business is subcontracted, this will change. The divestment of permanent employees will produce more self-employed people. Eventually, the largest part of the workforce will be characterized predominantly by independent contractors who move with the work, not with the firm. The extent to which they belong to even the largest companies will be limited to the length of their immediate contracts.

Niches

One notion that has been in vogue for some years is that of filling a niche. The idea was that a small, unfilled gap in the marketplace was identified and a firm then created a business for itself on that basis. Specialization in the evolution of the organization and management of work, however, has progressed to the extent that now everyone is in a niche of some sort. Far from representing a unique position in the market, these niches together resemble a huge, three-dimensional honeycomb in which each cell in the comb interacts with the others either directly or indirectly. Just as honey bees construct combs on the basis of the space available, whether inside a hollow tree or within manufactured hives,[16] the network defined in the value-based organization also expands to fill the space defined by the value that is available, but that space is not predetermined as it was in the traditional organization, which was limited to the people it employed and the work they did.

Stakeholders

The stakeholders in a value-based organization also interact in ways that are similar to honey bees. Within the hive, the goal is to maintain life. The worker bees feed on plants in the vicinity of the hive, make honey and produce beeswax, which they use to build the combs and to cap the honey-filled cells. They also feed the queen bee who lays the eggs, which, when they hatch, will replace the older bees who have died. The drones are male bees whose sole purpose is to mate, which they do only once with a queen.[17] There is no chief executive bee, yet each bee knows what to do. It participates in the construction of the hive by adding a little bit of wax on each visit, thinning the wall of each cell to an exact thickness, but leaving a thicker edge on which the next bee can stand to perform its part, and so on.[18] Similarly, in the value-based organization, there is no need for a hierarchy, nor is there a top or bottom to its structure. Each person is committed to the value transposition and demonstrates that commitment consistently by delivering value equal to what he or she has received to another and, in so doing, considers the optimum form in which that value should be presented. Value does not live in a vacuum. When it is received, it is applied to something else, and therefore part of what makes it a transposition and not a transaction is that it is presented in a form that will make it easier, not more difficult, for the recipient to use.

The decentralizing effect of the Internet[19] has transferred the power of communication from the top of the organization to every person within it. This is not to say that managers will cease to be in charge of firms. Many such organizations are and will continue to be headed by someone who has the

ability to deliver a great deal of value and for whom its employees will want to work. Stratification, however, will be minimized or eradicated altogether. Those who consistently bring the greatest value to the network have the greatest privileges, but such privileges are unrelated to organizational position.

New Organizational Forms

Value-based organizations adopt one of two organizational forms, both of which are defined by the behavior of the people who do the work. In the *proprietory* form, employees behave like business owners and have the greatest autonomy. Many work from home or via a hot-desk. In a 24/7 society, the number of hours they work is less important than the value they deliver. Overtime pay is irrelevant because pay is based on what is done, not how long it takes. As technology is integrated more and more into daily life, they increasingly use more of their own personal equipment such as laptops and cell phones. In much the same way as sole traders and professional firms obtain business, employees within proprietorially organized value-based organizations also seek work from new customers[20] and in many cases collaborate to complete it. The same individual or group of people may bid regularly for work, but the team leader is likely to change from one project to another depending on the expertise required. The number of possible combinations of people within the network is factorial.[21] The partnering of staff is in a constant state of flux, and managers exert minimum control over them.

In many respects, legislatures are organized in this way, though the civil services that support them clearly are not. All politicians seek the custom of each of their constituents and may campaign one-to-one or with the assistance of their local or national party. During interim elections, when their seats are not being contested, some legislators will campaign on behalf of others. In addition, most politicians are paid to do work beyond the responsibilities attendant to making law. Some give business advice. Others write books or give speeches. Although they have offices in their respective constituencies, many work from home or from other locations. None are paid overtime. Although they receive salaries, they also hold the congressional purse strings.

The *corporate* organizational form most closely resembles a traditional job. Although there is considerable autonomy, employees work primarily on the employer's premises. Employees in large organizations often have considerable autonomy to work on projects of their choice, and making an explicit request to participate in a particular project can be a means of exercising that option. Conversely, withholding a request for involvement can remove social pressures to participate, especially if the employee is not

seconded or must wait to be asked. In the value-based organization, project teams are as likely to be drawn from people outside of the project leader's organization as inside. Drawing from the inside is less important than bringing to bear the talent that is needed.

Company culture determines to a large extent the length of the working week, but the emphasis on results takes priority over the time spent on site. The consequences of personal decisions affect employees' compensation in the same way as they do for those working within the proprietory form, but, where large numbers of people congregate at their employer's place of work, it is the employer who tends to provide most of the equipment needed to do it. Although the proprietory form is common in the service sector, the relentless blending of services into products and products into services[22] will make this form the most common overall. As more people become *ipso facto* independent contractors – responsible for developing their own careers, obtaining and financing their own lifelong learning, and undertaking to design and contribute to their own retirement plans – existing tax laws regarding self-employment will become obsolete.

In the past, organizations have functioned as the intermediary between suppliers and customers.[23] In this respect, the organization as an entity will become irrelevant or disappear altogether. Its new role will be to provide a venue within the network where value transpositions occur. But, just as the Web has leveled the market playing field, enabling sole traders to compete more easily with corporate giants worldwide, so, too will they all be seen as intersections – market stalls where value is exchanged. Virtually, a sole trader will occupy as much floor space as any corporate giant.

Networks are an interim structure, a transition from hierarchies to something else, a consolidation, perhaps, between those who share a desired lifestyle or work/life balance irrespective of traditional demographic distinctions. It is not so much the deliberate rearrangement of the components of work by those concerned as it is a collective quest toward common goals. Within a given network, no one is *the* manager, yet everyone is *a* manager. Strictly speaking, each person is, in his or her own right, the center or hub of his or her network. The "organization man"[24] has become the network man or woman. Many professional services have operated in this way for decades, working closely with other, complementary businesses. For example, real estate agents, lawyers, surveyors and banks regularly cooperate to enable someone to buy a house. A building contractor may secure a large contract that requires him or her to work with subcontractors who provide carpentry, bricklaying, electrical and plumbing services. In recent years, such cooperation has occurred in the personal computer marketplace. Microsoft, for example, attributes its success to its determination to cooperate deliberately with manufacturers of computers and peripherals.[25]

Networks transcend the boundaries of organizations. In Chapter 3, the word "network" was discussed as both a noun and a verb. As a noun, it referred to a set of relationships, and it is this concept that needs to be explored further.

RELATIONSHIPS

Value-based organizations emphasize relationships, not tasks. The set of relationships found in traditional organizations – which, broadly, are between supervisors and subordinates, the organization and employees, and between employees – are subsumed by the relationships that are formed across the network. In these relationships, the goal is to facilitate transpositions, not to control them: that is, to create an environment that increases the likelihood that they will occur. Externally, these relationships extend to the organization and the customer, and the organization and the shareholder.

Equality in the exchange of value is demanded in the value transposition and, consequently, equality of the stakeholders is also implied. In the value-based organization, this equality is demonstrated by the deep and profound respect each member of the network has for everyone who contributes to the value of that network. Traditional organizations, however, emphasized the inequality of stakeholders in terms of authority and responsibility. In an inequitable organizational structure, the person with greater authority has the power to enforce an unequal exchange of value. Junior staff, for example, cannot demand parity for the value they contribute.

Personal relationships do not survive where there is no ongoing mutual exchange. The best relationships exist where each party gives to the other wholly without any conscious expectation of receiving anything in return. It is a social investment, a kind of selfless giving that strengthens the relationship and epitomizes the value transposition in practice. The transposition of value accelerates as relationships deepen. And, because technology has enabled value to be transposed more quickly, it is expected. As a result, when one party is slow to respond, the relationship is stressed. If such stresses continue, it may break down altogether. Relationships work for only as long as those involved remain totally committed. Such commitment depends on trust and trustworthiness. Each party must trust the other especially where personal values are challenged, and both parties must behave in ways that demonstrate they are worthy of that trust.

The value transposition at its best is a positive exchange of equal value. It is not about incurring a debt, economic, social or otherwise, and then paying that debt. That is why the breaking of the psychological contract

was so damaging for the relationships between organizations in general and the wider workforce. As an aside, it is worth mentioning that although it is accepted almost universally that there is no longer a job for life, many employees still feel that this reality does not apply to them, and therefore when it does happen, the shock is that much greater. But, the breaking of the psychological contract was the opposite of what was intended in the value transposition. In the value transposition, both parties a priori commit to a relationship through which there is an equitable exchange of value. The old psychological contract reinforced that part of it: hard work and loyalty from staff in exchange for lifetime, or at least career, employment. When employers broke the psychological contract, the value the employer contributed to the employer/employee relationship diminished substantially. In essence, what might have been a transposition deteriorated into a mere transaction – an unequal exchange in which employers continued to expect hard work and loyalty, but only in exchange for pay over a limited, but undefined period of time. Not only did this alter the nature of the transaction, it inflicted a psychological debt on the employee. As a consequence, workers redefined the psychological contract from their perspective. Under the new terms, employees are willing to work for employers provided that the latter makes the former more employable through development opportunities and experience. Those organizations who fulfill these new terms retain staff; those who do not, cannot. The value that employees provide is different now from what it was under the old psychological contract. It has been rebalanced to equal what workers believe they now receive from their employers.

Short-term strategies short-circuit relationships, which, in essence, depend on long-term commitments. Recent advances in electronic technology, for example, have accelerated the introduction of new products and, as a result, shortened product life-spans.[26] This has reinforced the belief that "things are not made the way they used to be." While it is true that products often have built-in obsolescence, many of them are made better than their forbears. Product capability, however, has increased dramatically, but consumers have been sold on the idea that only the best technology can do the same job today that only slightly older equipment did yesterday. Computer hardware, in particular, often becomes obsolete in this respect before it wears out. This push for short-term gains has fueled a society in which useable items are replaced rather than repaired. Replacement provides an instant solution; repair takes a little longer. Manufacturers share much of the responsibility for this change in consumer behavior by making it uneconomical to repair items either through excessive charges for expendables, such as printer cartridges, or by refusing to sell those parts most likely to wear out to third parties and demanding return of the equipment to the

manufacturer for repair.[27] This focus on the short term has contributed to society's short-term attitudes, the opposite of what is needed to establish long-term relationships. This dichotomy is responsible, in part, for the idea that customer relationships can be managed.

The essence of customer relationship management resides in the belief that customers will engage in iterative transactions in exchange for regular social contact from the supplier[28] and willingly pay over the odds in the process.[29] Apart from the obvious incongruence in this attitude, suppliers seldom keep their end of the bargain.[30] This approach resembles the now outlawed bait and switch selling technique in which consumers, having been lured into a store on the pretense of saving money on one product, discover upon their arrival that although it was out of stock another similar and often more expensive model was available instead. In such instances, the supplier tried to pass off an ordinary transaction as a value transposition. Suppliers who fail to understand this fundamental concept fool only themselves since all with whom they have contact will recognize that attempts to receive value outside of the value transposition are nothing less than a social ruse to obtain more business rather than because of any heartfelt interest in them personally.[31] In view of this, the notion of managing customer value is little more than a euphemism for increasing supplier profitability.[32] This approach only sours potentially profitable relationships by casting doubts on the trustworthiness of the supplier. Not surprisingly, customers do not want relationships of this kind.[33] They only want relationships that will deliver to them the value available to them in value transpositions. Relationships are not a means to an end.[34] They are the end. Members of the Kiwanis and Lions clubs understand this principle eminently. The relationships they form cooperating as volunteers give them the basis for doing business with each other, but the relationships are what matter; the business is secondary.

Trust extends beyond motives. It also includes a commitment to developing the relationship as well. In practice, this means that both partners continually strive to deliver higher levels of value to one another and eschew products and services that have not been tailored to meet the needs of the other. In addition, they collaborate together to solve mutual challenges and seek opportunities to help each other establish the value transposition with new partners. As in all relationships, value extends beyond monetary exchange. Those who give the most stand to gain the most.[35] Those, however, who seek a quick sale demonstrate that they are committed to obtaining transactions only and have failed to grasp the essence of transpositions.

ORGANIZATIONAL IMPLICATIONS

The emphasis on value and the obsolescence of traditional structures have enormous implications for all organizations. Clearly, they are no longer hierarchical entities with omniscient managers who direct uneducated automatons to their own ends; rather they are loose networks of people who are jointly committed to exchanging value and who share mutual respect for one another. Far from being vulnerable to managerial exploitation, workers now have the power to change jobs almost at will even in recessionary times. The most significant factor in this change of fortunes was the rise in the education levels of society as a whole. As recently as 50 years ago, less than two-thirds of Americans finished high school,[36] and those who went on to obtain university education were rare. Apart from the opportunities afforded by the GI Bill, those who attained such levels of education tended to be among the wealthier social classes. Those with university degrees were given white-collar jobs, while the uneducated were given blue-collar jobs. By the beginning of the 21st century, 75% of Americans were graduated from high school and went on to be matriculated at institutions of higher learning. Of these, half earned university degrees.[37] This has meant that managers and workers alike are often educated to a similar level. Indeed, it is not unusual for junior workers to have achieved post-graduate training as well, making them more skilled, on paper at least, than many of their supervisors. Since the increase in knowledge and the demand for those who possess it now features large in most organizations, changes in organizational attitudes towards the creation, acquisition and application of knowledge are of paramount importance.

CORE BUSINESS

How an organization defines core business has implications of its own. Core business is the organization's source of greatest value, and it is that for which customers are willing to exchange some of their value. It is much more than simply exchanging money for products and services. It is the supplier's contribution to the value transposition. There are only two categories into which all people and all organizations fall, and at one time or another we all are in both. To some, we are suppliers; to others we are customers. When we are suppliers, other persons or organizations are the customer. Figure 4.3 illustrates this relationship.

All organizations engage in both core and non-core business, but the value-based organization by its nature is committed only to core

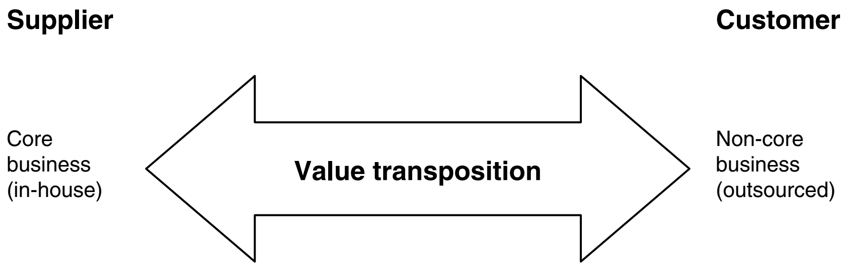


Figure 4.3 The value transposition

business – creating and expanding its ability to participate in the value transposition. To focus on core business is to acknowledge that some organizational activities are not core business and will need to be outsourced. Outsourcing, in reality, is a process whereby one organization transfers non-core business activities to another organization whose core business consists of those same activities. It is a business version of the idea that one man's junk is another man's treasure. Outsourcing has become the new vehicle for obtaining non-core services[38] without carrying many of the overheads associated with doing it in-house. Outsourcing will be discussed more fully in Chapter 7.

INNOVATION PROCESS

Value-based organizations engage continuously in the *innovation process* through which they create and expand their ability to participate in the value transposition. The three steps in this process are 1) identifying its knowledge – what it knows; 2) learning – that is, adding new knowledge to existing knowledge; and 3) innovating – using what has been learned.

Knowledge

In Chapter 1, we described society in the pre-industrial era. You will remember that the level of ignorance at that time was quite high. Few could read or write, and only the wealthy attended school. In America, the influx of immigrants from all over the world meant that many different languages were also in use. Those who were bound by servitude remained so. Workers were engaged in all manner of labor: some skilled, some unskilled. Most performed jobs that were connected directly with agriculture. The knowledge and skill required to do this work was acquired over many years, often through formal apprenticeships, but always under the direct supervision of

someone who was older and more experienced. Typically, sons did the work of their fathers, a fact reflected in many of their surnames: Smiths crafted ironmongery and shoed horses and Bakers made bread. Improvements in the way that such work was performed came about through trial and error. In England, tightly controlled craft guilds ensured that competent apprentices could demonstrate quality work before advancing to become journeymen. In America, it was impossible to enforce these measures for a variety of reasons, and as a result both competence and quality suffered.

During the period of the English Industrial Revolution, levels of illiteracy remained high. Business success was attributed to trial and error methods and not education. Americans, on the other hand, became considerably more literate. The need for generalist knowledge and skill diminished during the English and American Industrial Revolutions. The work available in factories required specialization. Specialization in the Industrial Revolutions was the application of specialized knowledge and represented the skill that employers recognized, that is, the value they needed. Some mechanical skills would have been learned while working on farms, but none of them would have prepared laborers for what they needed to operate the dozens of large spinning and weaving machines that were powered by water and later by steam engines. Literacy in America improved somewhat in the years just prior to its own Industrial Revolution, during which time many apprentices were able to expand their job knowledge by reading books written by master craftsmen, instead of enduring a further period of years working under their supervision. Workers in both England and America were ignorant of the laws that prescribed monetary payment for their labor, and consequently powerless to invoke it. In addition, they lacked sufficient knowledge to resist oppressive employers successfully.

The increased complexity of larger companies, most notably the railroads, forced organizations to restructure themselves into elaborate hierarchies. In this way they learned how to organize work in a manner that was most efficient and effective and which took into account the largely unskilled workforce that they employed. They also learned what systems needed to be created in order to manage the much larger group of employees. Once stability returned to the organization and management of work around the end of the 19th century, the need to improve managerial methods was mitigated, and companies focused on maintaining the status quo. After World War I, some of the largest companies (though by no means all) felt it necessary to redistribute some of the authority concentrated in the chief executive officer, a model that formed the basis for the organization of the firm for the most of the 70 years that followed.

Since the early 1990s, a body of literature has grown up around the concept of organizational knowledge. This knowledge defines what the

organization as a functional unit "knows." The difference between information and knowledge is that the latter results when the former is refined, revised, and integrated. In the value-based organization, there are two types of knowledge: 1) material knowledge and 2) value knowledge. Material knowledge pertains to facts – things that are known about the organization itself. For example, how many people work there, its turnover, its share price, and so on. Value knowledge is refined information that the organization uses to give worth to the unit of value it exchanges. It consists of what can be known that will enable the value transposition to take place. Material knowledge describes what the organization is; value knowledge describes how the organization delivers worth and why it does so. In the traditional organization, material knowledge would have been available to most people in the organization; value knowledge, however, would have been the preserve of senior managers. Since all who work in a value-based organization, however, routinely participate in the value transposition, access to value knowledge in the value-based organization is readily available.

Sometimes, organizational knowledge is referred to as intellectual capital, but, true organizational knowledge is more than the collective material knowledge possessed by individuals in the organization:[39] it is the knowledge that enables the organization to do what it does, not merely by sharing it, but by exchanging it freely as well. To think of it another way, an organization's intelligence is measured by the degree to which its aggregate value knowledge is known by all who work in it.

Learning

Learning can be defined as adding new knowledge to existing knowledge. It is a process in which everyone, individually or collectively, engages to a greater or lesser extent everyday. When an organization learns, it does so as a unit, acquiring new knowledge, comparing it with what is known, and discarding what is not needed, including what has been understood and relied upon in the past. These activities are performed both by individuals and groups within the web-like network that is inside and outside of the organization. There is an almost innumerable combination of groups. The smallest is two people; the largest can include the entire network.

Learning occurs through a variety of means, personally or vicariously, strategically and randomly, but all learning has the potential to change behavior. When the behavior of individuals or organizations changes, it is always the result of applying in a new way what is known already or by discovering something that was unknown previously. Strategic learning is intended to ameliorate existing outcomes[40] by changing the behavior of the learners. For example, school lessons are directed beyond simply obtaining

a diploma. Instead, what is learned is intended to provide the knowledge and skills that will be needed ultimately for a productive life. Learning in a classroom or in an organization does not guarantee that performance will improve or even that behavior will change as a result. That new knowledge simply may confirm or contradict existing beliefs, and what is learned may or may not be relevant or beneficial, or the organization itself may not permit the implementation of the knowledge that has been obtained. When new knowledge is applied, however, it may make things better or worse, or make no difference at all. The degree to which learning has occurred, however, cannot be known unless the individual is held accountable for the domain of that new knowledge. In a classroom, a quiz may follow a reading assignment or a lecture. In the workplace, the organization may be called upon to apply that new knowledge in order to accomplish its work under different circumstances. Random learning occurs subconsciously.

Organizational learning is more than the sum of what is learned by the individuals who work in it.[41] It also is more than the collective knowledge of the senior management team, and it goes beyond the results obtained when employees simply follow the directions of senior managers. True organizational learning is an evolutionary process[42] that is evidenced by the behavior of people in the organization as an entity or a collection of entities in the absence of or in spite of directions given by its managers;[43] and a learning organization is one that not only learns what is relevant and beneficial, but applies it over and over again with the result that it improves continually.[44] Internally, it is driven by a fundamental dissatisfaction with what is known, a first step in the process of continuous improvement.

The process of learning is life-long and applies to organizations as well as individuals. When they seek to learn, they are students, but, when they seek to learn so they can help others, they are teachers. All organizations and individuals, at one time or another, fill both roles. The role of the teacher is filled by those who possess a particular expertise; the role of the learner by those who do not. Organizational learning is accomplished through the value transposition through this same student/teacher relationship, each teaching the other the level of value expected and each learning from the other how to deliver that value.

The value transposition, in a very real sense, is a market-based exchange. Not all potential customers will want to exchange value with all potential suppliers. Most, in fact, will transpose value with a select group within a network of their own choosing. The participants in that exchange of value propel the learning process, not the managers above them.[45] Workers today learn by acquiring new skills almost at will. Some landscape designers become qualified electricians so they can install water gardens, obtain chain saw training so they can prune large trees, and bricklaying skills for laying

patios and building al fresco eating areas. Many of those who rely on computers read books or seek advice from online forums or specialized websites on how to solve various hardware and software challenges. This is how knowledge workers learn. They themselves combine the skills they require to do the work they want to do. They do not settle for traditional attitudes towards division of labor.

Whenever value is exchanged, the parties concerned learn something more about how the transposition works and their ability to deliver value. All have unique expertise, though some have more than others. Learning needs differ from organization to organization and from individual to individual. Apart from technical skills, it is unlikely that two employees within the same organization will have exactly the same learning needs. In a world where employability issues loom large, individual learners will be expected to identify and pursue their own personal development. Because of this, the standards for improvement are likely to be different between employer and employee.[46] People learn at different rates as do organizations, and different parts of the organization will learn more quickly or more slowly than other parts of the organization, partly because learning from experience is restricted by the limited number of events within a period of time and partly because of the limitations placed on the interpretation by the organization's own biases.[47] Learning seldom occurs in a neat and tidy fashion. Far from being linear, learning is web-like, consisting of a multitude of converging footpaths that expand understanding like the emerging picture in a jigsaw puzzle.[48]

Innovation

Knowledge is the potential energy of the organization. Of itself, it has no power. It exerts power only when it is used. Knowledge has a shelf life. For an organization to use knowledge, its understanding must expand by learning – learning from mistakes, learning how to learn, and by creating an environment that both supports strategic learning and generates spontaneous learning. Organizations must learn, but so must all who are in them. When individuals or organizations acquire knowledge, they create opportunities to learn. Learning drives method – how to work. Knowledge and learning imply growth – stretching. Innovation is the act of value creation, which is the goal of learning. To fail to innovate is to rely on the status quo. Innovation is the antithesis of standing still. Organizations, however, behave according to what they know or what they believe they know. When it comes to innovation, the attitude often is, "This is the way we've always done it." Knowledge for its own sake is a worthy personal pursuit. It expands the mind and gives a more balanced perspective of oneself and the

world, but organizational knowledge must be applied to be of any value. It is utter nonsense to suggest that organizations pursue knowledge for a purpose other than changing something they are doing already. Equally, it is senseless to learn what to do and then to do something else because what should be done is difficult or unpleasant. Although there is an increasing demand for knowledgeable workers, organizations must devote themselves to discovering how to create new knowledge that will enable them to raise the bar in the value transposition.

The dissemination and application of what is learned is an indispensable part of the process of delivering value, for without it, there is no innovation. The organizational structure has implications for the firm's ability to innovate, because the focus is on the end result, not on retaining tight control over how it gets there. Networks eliminate bottlenecks. In traditional structures, the most efficient path was predetermined. Everything followed that path. Such action often clogged communication channels. Networks allow each person to find his or her own path. The system becomes more efficient without controls than with them because overall, information moves from one place to another without having to pass through the same points simultaneously. In a very real sense, intranets and the Internet are the Industrial Revolutions in the distribution of knowledge, the lifeblood of the organization. Networks enable the transfer of knowledge in real time. Missives no longer linger on the desk of a gatekeeper awaiting approval at the next echelon in the hierarchy. Instead, knowledge is transferred within and across traditional departmental boundaries. This reality is reinforced by electronic mail, which enables, among other things, any message to be sent to anyone. Even so, everyone is expected to communicate with whomever they need to so that the knowledge that is required can be received by the person who wants it as soon as possible.

Managers must be more concerned about freeing the greater ability to innovate than controlling the means or even the outcome. Controlling both is possible, but at the expense of less innovation. All are expected to innovate – to create new and better value, but, how they do it should be left up to them. Although Frederick Taylor (Chapter 2) acknowledged that the workers probably could figure it out if they had the time to do both the research and the work and that as a consequence it should be the managers who decided how to do the work, it is a sobering thought to consider that the political hierarchy in Confucian China may have prevented the necessary innovation that would have enabled that nation to industrialize hundreds of years before the English.[49]

Innovation also has strategic implications. Since greater responsibility has been delegated down into the organization to the extent that everyone is a manager who is accountable for results and the use of resources, and so

on, strategic decisions have also been delegated down into the organization, in fact, throughout the network. From a practical standpoint, those within the network have a right to the information available to others within that network, and they should be able to obtain it on demand. This means that strong relationships embedded with trust must be in place so that when otherwise sensitive information is passed on, both parties know that it will not be used in a way that will harm those within the network.

SUMMARY

The value-based organization is distinguishable from all other organizational forms by its unswerving commitment to deliver value to *all* of its stakeholders all of the time. The value transposition provides the mechanism through which this value is exchanged as well as the constituent parts. Unlike transactions, the value transposition emphasizes parity of exchange, as well as long-term and ongoing relationships between suppliers and customers. The value exchanged is not limited to monetary compensation, personal or organizational worth. It is defined by perceptions of worth, and therefore includes personal and professional respect.

The network, as an organizational form, is a transition from the old hierarchical structure, to something else that is yet to emerge. Networks resemble honeycombs in shape, but function in a manner that is similar to the Internet, in that the people within them interact beyond the boundaries of any one organization or industry, or even national boundaries, and are not controlled by any one central authority. Within the network, proprietory structures offer the greatest autonomy, while corporate structures more closely resemble a traditional organization. Regardless of the organizational form that is used by a firm, however, the sole basis for determining whether or not an organization is value-based is the pervasive presence of the value transposition. The structure it adopts, whether proprietory or corporate, is incidental.

Relationships are a key component in value-based organizations and depend on a long-term commitment. These changes have implications for the organization's attitude toward knowledge, learning and innovation. The general ignorance of workers in past centuries has been replaced by a new kind of knowledge. Although physical knowledge is important, value knowledge is paramount, and the degree to which the latter permeates the organization reflects the organization's intelligence. Knowledge, however novel, has a shelf life. Unless organizations and the people within them pursue a path through which they add new knowledge, they will become disenfranchised from those who do. For individuals, this may mean long-term

unemployability; for organizations, closure. The acquisition of new knowledge is essential, but of itself is not enough. It must be shared and applied to create new and better value. Only in this way can organizations engage in continuous improvement. Value knowledge is no longer kept for those who need to know; it is given freely to all because they have the right to know.

The value-based organization is a radical departure from the traditional organization. At this historical juncture, some will have experienced these changes already; some will have avoided them altogether, and others will have had a mixed experience. For many, the idea that organizations will consist entirely of members who participate in the value transposition and whose organizational boundaries are limited only by those within a network may sound alien, even unlikely. But, as more such structures develop, we will take all of this for granted. Soon, only those who cling to the past will seem like aliens. Like technology,[50] the more ubiquitous value-based organizations become, the less we will think about how it used to be.

NOTES

1. Ostroff (1999).
2. Francis and Minchington (2002).
3. Chandler (1963, 1977).
4. Chandler (1977).
5. Likert (1959).
6. Porter (1998).
7. Hagenbaugh et al. (2003).
8. Leontiades (1986).
9. Ostroff (1999) says that the horizontal organizational design is intended to provide internal customers with what they need to deliver their firm's value proposition to its external customers, an approach that mirrors TQM. This is not the same as saying, however, that value will be delivered to internal customers, nor that that value will be of equal worth.
10. Oakland (1993).
11. Tribus (1995).
12. Oakland (1993).
13. Deming (1982).
14. Porter (1985).
15. Mann (2002).
16. Hoyt (1965).
17. Morse (1975).
18. Hoyt (1965).
19. Dyson (1997).
20. Davis and Meyer (1998).
21. The product of a factorial number is calculated by multiplying it by all of the numbers below it. For eample, 10 factorial = $10 \times 9 \times 8 \ldots$
22. Kelly (1999).
23. Davis and Meyer (1998).
24. Whyte (1957).

25. Gates (1995).
26. Davis and Meyer (1998).
27. As of 2003, Sony will not sell mouse parts for its VAIO notebooks. Instead, customers are expected to send their computer to the manufacturer for repair. Sony makes it clear that such repairs include software diagnostics for which customers are charged even if the fault is declared by the customer to be solely a hardware problem.
28. Verhoef and Langerak (2002).
29. Verhoef and Langerak (2002).
30. Fournier et al. (1998).
31. Bruce Hoag received one chopstick in the mail. In order to obtain the other one, he was invited to contact the company who had sent the first utensil.
32. Maxwell (2002).
33. Dourado (2002) and McKean (2002).
34. See for example Grönroos (1995); Aijo (1996) and Gummesson (1996).
35. Mead (2000); see also Dourado (2002).
36. Russell (2000).
37. Gladieux and Swail (2000).
38. Mazzawi (2002).
39. See for example Leinhardt (1992) and Stewart (1998).
40. Huysman (1999).
41. Leinhardt (1992) and Huysman (1999).
42. Huysman (1999).
43. See for example Stewart (1998).
44. Huysman (1999).
45. O'Neil (1995).
46. Huysman (1999).
47. Tsang (1997).
48. Fischer and Rose (2001).
49. Dugan and Dugan (2000).
50. Kelly (1999).

PART II

The traditional hybrid

5. The myth of rightsizing

Those who have read the first four chapters[1] will not need to be convinced that traditional and value-based organizational forms are mutually exclusive. To have one is *not* to have the other. Fundamentally, their assumptions, characteristics and expectations are different. The traditional organization was born out of the Industrial Revolution where the context for the organization and management of work necessitated the simplification of jobs for its unskilled and illiterate workforce coupled with the need for greater coordination of work and strict control over everything and everyone. The value-based organization, on the other hand, was born out of the growing mass of a highly skilled and highly educated society concomitant to the dissolution of the psychological contract and a long-term shortage of people in general. Networks and rigid hierarchies do not go together; neither does innovation and strictly enforced chains of command. Nevertheless, there are still many organizations that believe that they can have it both ways and, unfortunately, there also are a significant number of scholars who agree with them.[2] It is for this reason that Chapters 5, 6 and 7 have been devoted entirely to dispelling this transcendent myth. As we will see, there is much in the traditional organization that is incompatible with the value-based organization, and therefore, at the very least, the notion of a hybrid is impractical if not dangerously deceptive.

It has been said that it is a form of insanity to do the same things day after day and expect a different outcome, but, such logic assumes a homeostatic context, something that has eluded organizations since the beginning of the horizontal revolution. The reality is that doing the same things day after day will not only produce an outcome that differs from what was experienced in the past, it will also almost certainly guarantee that the results will be even less favorable than they once were. This is because the agents of the old context themselves have made changes to improve their situations. For example, we have demonstrated already (Chapter 3) that society as a whole is more educated now than it has ever been. In 1900, a student would not have expected to complete high school. Today, however, the vast majority of society has and does, and so to pursue the same strategy, that is, to do the same thing day after day from 1900 onwards would have resulted in an individual being proportionately less educated than those around him or her with the effect that he or she not only would find it as

difficult to get a good job, it is unlikely that he or she would be hired for much of anything because his or her proportionate level of education would be lower than most of his or her peers. In other words, the qualifications of the labor pool would have risen to exceed those of the person who had failed to keep pace with changes in society.

It is equally futile to expect to obtain the benefits of a value-based organization by continuing to organize and manage work in a manner that supports traditional assumptions. Yet, it is this behavior that personifies the traditional hybrid – an organization that wants the benefits of becoming value-based, but wants to continue to do things the way they have always done them. Indeed, it illustrates the attitude that is so common in much of the popular business literature, that exemplary organizational performance can be achieved either by devoting great attention to the organization of work, while at best only tweaking the management of it, or by adopting every technique for the development of people espoused by the guru of the day, but failing to change the structure to support them.

There is considerable debate about how to mix traditional and value-based elements within organizations. Metaphorically, the traditional organization – Humpty-Dumpty – was pushed off its wall of stability and certainty by the horizontal revolution, but neither the King's men nor the most talented chief executive officers have been able to rearrange the pieces of this broken and obsolete system and reassemble it into a slimmer, people-friendly egg. On the contrary, it appears that organizations that have adopted this approach have been far more likely to retain the worst elements of the traditional in the hope that they can obtain those benefits that only the value-based organization can deliver. Notwithstanding the opposing agendas between the traditional and value-based organizations, there is substantial confusion concerning the differences between work that is organized formally and work that is not.

In a straw poll of senior managers in more than 50 companies, the vast majority believed that their organization tended toward flatter organizational principles, but in a another poll[3] of a few hundred human resources professionals, about 90% believed their organizations followed traditional principles. Although many managers felt that their organizations were no longer traditional, they found it difficult to describe how they were different from those which were. The most common distinction made was with respect to the organization chart. Those who described themselves as proponents of a flatter structure most frequently referred to the reduction in the number of layers of management in their organization as the primary evidence that the tenets of traditional organization philosophy had been abandoned. The next most common distinction was the presence of employee teams, but the diversity of definitions created its own confusion.

Other distinctions included the use of a flexible workforce and learning centers, and an emphasis on employee-managed careers.

There is the perception, too, that the traditional organization and the value-based organization are at opposite ends of a shared continuum,[4] and that because all organizations are located somewhere on it, traditional organizations will evolve eventually into ones that are value-based. This reasoning, in part, supports the folklore that both types can cohabit during the transition, and that in the end, the best of both will emerge. In fact, there is a chasm that separates the traditional and value-based forms. Regardless of how far the traditional organization drifts from its roots, it will be unable to breach the gap unless it chooses to do so (Chapter 8), and having made that choice, it will find it necessary to leave behind its traditional baggage.

The traditional hybrid embodies this folklore in the collection of myths it promulgates regarding the way work can be organized and the way it can be managed. There are two myths that pertain to the organization of work: the myth of rightsizing and the myth of competitive advantage (Chapter 6). These myths support the traditional philosophy that structure supports strategy.

MYTH OF RIGHTSIZING

In the late 1980s, at the end of the Cold War, the United States reduced the number of its military personnel by more than half in what was described in the politically correct term of the day as *rightsizing*.[5] Like so many popular management terms, this one belied much of its true meaning. It suggested that there was a right size for organizations, and that the right size could be identified and created. It implied that the circumstances in which the right size was achieved would be constant, such that the right size, whatever it was, would remain right. More importantly, organizations expected that by reducing their size, less direct supervision would be required, the hierarchy would shrink, and control and coordination problems would decrease.[6] Of itself, however, reducing organizational size does not make an organization less traditional, and therefore, for the purposes of this discussion, the myth of rightsizing refers to all such attempts – from the 1920s when Sloan reorganized General Motors, to the present day – where restructuring has produced a leaner version of a traditional organization. The pursuit of rightsizing is the natural conclusion of an organization that is committed to effectiveness and efficiency – doing the right things in the right way.

It is a mistake to assume that size and shape are related in some way. In

fact, they are *un*related. Hierarchy reflects the nature of the organization itself. That nature is based on the principles of control and coordination, predictability and stability. It conveys much about the organization itself and assists in the evaluation of all such attempts to find new ways to restructure. The meaning of hierarchy is both implicit and explicit. It has as much to do with how people are expected to interact as it does with where those people are in the structure of authority. Simply squashing the hierarchy by removing layers, of itself, does not make an organization less hierarchical. Hierarchical structure can exist in an organization of just two people, the boss and his or her personal assistant *cum* secretary *cum* coffee-maker *cum* janitor. A firm in which that single employee is expected to follow orders and is prevented from making even the smallest decision can be as hierarchical as a giant manufacturer with hundreds of thousands of employees working within a complex chain of command. Equally, a large firm that gives its staff authority as well as responsibility to participate in the value transposition can be as value-based as a firm in which its single employee has been given the knowledge and discretion to act on behalf of the owner on all but the most important occasions. Neither size – large or small – nor shape – vertical or horizontal – is related to the degree of hierarchy within a firm. The organization chart reflects how work is organized, and the hierarchy it depicts portrays the existing authority structure. A particular danger to organizations who equate reduction in size to reduction in hierarchy is that creating and preserving the new, albeit stripped-down, structure becomes a precondition in any subsequent reorganizations just as it did prior to the horizontal revolution. In other words, for many organizations, the goal of restructuring is to retain as much of the old form as possible but with fewer people.

Since the days of scientific management, managers have sought an optimum pattern through which to organize work. During reorganization, managers determine what assets are required to accomplish the available work. Almost invariably, staff numbers are reduced, and the work is redistributed among those who remain. The bases for most rearrangements fall into two categories: organization according to 1) the goal and 2) the means. Where one form has been emphasized, the other has tended to be de-emphasized. Goal organizational forms focus on production and sales, what has become known as the functional organization;[7] means organizational forms focus on rearranging the work according to the groups of people that achieve the goals, viz. a committee,[8] department,[9] or division.[10]

There have been many attempts to create new forms of reorganization, but in the final analysis, tasks – a means form – has predominated. Predating the assembly-line, the first factory workers performed like tasks together in the same rooms. Henry Ford's assembly-line linked together

what amounted to rooms of workers in a sequence of similar tasks. Sloan separated the formulation of policy from the administration of it such that some parts of the bureaucracy became responsible for executing policies that they did not make. Since then, other task-based forms have appeared in which work has been organized. Geography, another means-based form,[11] emerged in the early 20th century, as a result of the increased use of the automobile to transport salespeople around the country and of trucks to deliver the goods that had been sold. Initially, geographical organization was confined to the groupings of a few states, but globalization has since divided the world into large recognizable regions, notably the Americas (North and South), Europe, and the Far East.

The Matrix

Some reorganizations have stemmed from product divisions and have attempted to combine goal- and means-based organizational forms.[12] This has led to the product–function dilemma in which managers have had to decide whether workers should be grouped according to the product on which they worked or according to the function within which they did the work, even if it involved many products. Among the difficulties in attempting to resolve this predicament are variations in the types and complexity of problems and the need for a greater or lesser degree of mutual dependence. Some firms have used interdisciplinary teams whose job it is to help staff from different functions work together.[13] The administration of these groupings has often depended on the nature of the tasks. Bureaucratic structures seemed best suited for overseeing routine work or short-term workers, while personal autonomy and responsibility seemed to work well with the performance of varied tasks.[14] One attempt laid the product form over the functional form. This design, named for its graphical appearance, was called the matrix.[15] Much controversy has surrounded the use of this organizational form[16], which was first observed in the 1950s and 1960s,[17] captured the attention of the corporate world in the 1970s, and lost much of its appeal by the 1980s,[18] though it has enjoyed something of a renaissance in recent years.

For many, matrix organizations were thought to exist at the midpoint of a continuum between product and functional forms.[19] The matrix was intended to obtain the best characteristics of both the functional and the product organizational structures[20] in order to solve a particular combination of managerial problems.[21] These difficulties all existed within the aerospace industry in the 1960s, which at that time was building space vehicles as part of the US Government's program to put a man on the moon. The large number of independent project teams in a multitude of specialist

disciplines presented an organizational dilemma for senior managers in determining how to organize and divide the work. To organize by product would have accounted for the design and acquisition of the thousands of new and existing components needed to build the spacecraft, but it would have ignored the different functions, such as the various space-related systems that were needed to design and build those products. To organize by function would have made communication among all of these specialist groups more difficult and time-consuming, since universities, government research establishments and other subcontractors, as well as the parent company itself, contributed technical expertise. In addition, the National Aeronautics and Space Administration had insisted that some form of project management was used by its contractors.[22] This meant that both forms of organization, product and function, were important. One could not be minimized in favor of the other as it was in the established, traditional form.

Another problem was the need to process and interrelate copious amounts of information. The long-term goal was to put a man on the moon and return him safely to earth – a feat unrealized at the time in human history. Every eventuality had to be considered. No informational stone was left unturned, and all that was learned, of necessity, was shared among those involved in the project. A third problem was the need to balance limited human resources with the greater need for a high-quality output. Getting a man to the moon was only half of the problem – a large enough rocket could propel a man almost anywhere, but insuring his safe return was much more difficult.

On the face of it, the matrix design appeared to be suitable for many firms, not just the aerospace industry, but this form was not intended for use in most organizations, nor was it expected that it would be applied organization-wide in the few firms for which it was originally envisioned. Nevertheless, the criteria for implementing the matrix design did seem to address the needs of many large organizations at the time.

At the heart of a matrix organizational design are two allegedly complementary organizational forms: the traditional or functional form and a project or product form. The traditional form is considered to be permanent, but the project form is considered to be temporary and as such is superimposed over the traditional form. At the top of the organization, unity of command is preserved in the form of one boss, but at the matrix level itself, two separate chains of command co-exist: one from the product or project stream and the other from the functionally-organized parent organization.[23] At this level, the principle of unity of command has been abandoned. The product or project chain of command controls the output, but the function chain of command controls the means. As a result, the

performance of each project manager is assessed by two superiors,[24] and both of them oversee the work of every employee within the project. In a traditional organization, the means through which the work was done was subservient to the product or service it delivered, but in a matrix, the disbursement of means was negotiated between the heads of the different chains of command since the organization's resources had to be shared between the parent organization and the projects it supported. The managers who headed each chain shared equal authority and were expected to negotiate for these means. Neither could override nor veto the other's wishes, and it was the responsibility of the project manager to call a meeting of the two supervisors if he or she could not get their collective cooperation.

Graphically, the shape of the matrix organization was depicted as a diamond on top of a triangle. The four points of the diamond, beginning at the top, represented the top manager, the two supervisors (the two bosses), and the project manager with two bosses.[25] Another pictograph illustrated the interplay between the two organizational forms: each product manager was a separate row and each departmental director an individual column.[26]

The matrix design purported to offer a number of advantages. Primarily, it integrated function and product into one unit[27] enabling managers to exercise authority over and create strategy for both.[28] It gave participants a wide range of experience that came from working on different projects with different people from other parts of the organization. It was expected that these collaborative efforts would encourage people to share ideas and take responsibility for decision making.[29] Senior managers should have received information more quickly because the project team did not have to follow the traditional chain of command. In the same way, the team leader should have received information directly from the senior manager.[30] Project teams were unified into cooperative units of work[31] that should have been able to respond to the need for change[32] without reorganizing[33] because the lines of authority were considered to be more flexible. Motivation is thought to have improved because team members were more involved in making decisions that affected them,[34] a modern day version of taxation *with* representation.[35] In addition, the matrix design provided for the maximization of resources by sharing them across the organization as needed, mitigating any excess capacity retained in the firm.[36]

Disadvantages of the matrix design

Despite these apparent advantages, the disadvantages were overwhelming. As we have already seen, the traditional structure is incompatible with a network structure. Although they share some common goals, the means to those ends are diametrically opposed because the matrix is based on

traditional principles.[37] For example, the matrix was intended to help managers organize the work in a way that would consider the importance of the product, the function, and later, the end user.[38] In the value-based organization, what organization there is exists within the network and is designed to enable more value to be exchanged. The purpose is to facilitate the means – to make the value transposition more likely, not to control every step in the process. Attempts to exert such controls within a matrix made the management of the organization needlessly complicated.[39] Indeed, it seems incredible that managers would believe that they could obtain the benefits of less control by forcing two chains of command to operate simultaneously on the same group of people.

The matrix design proved to be very expensive in both managerial time and return on investment. In reality, full implementation of it took about ten years to complete[40] but, several organizations curtailed their efforts to change to matrix design after only a few years.[41] The operating expenses of the organization also increased, beyond what they would have been had it not been adopted.[42] The cries that organizations had two of everything were well founded. Within a matrix, employees were expected to generate separate plans and budgets for the managers from each chain of command,[43] and more managers were required,[44] both to manage the projects and to train others to use the new system.[45] Instead of spending their time doing the work, they spent it administering and helping everyone learn the new system.[46] Eventually, the administration took on a life of its own, equaling the importance of the project itself.[47]

Inherent in the matrix design was the ongoing process of negotiation between the managers of the two chains of command. Each had his or her own interests to protect, especially within the context of the parent organization. As a result, such negotiations took longer than necessary or remained unresolved. Rather than confronting problems, project managers often ignored them, waiting instead to bump decisions up to a more senior manager when things became desperate. The postponement of decisions delayed the organization's reaction time,[48] and slowed innovation.[49] Where such negotiations took place within an international setting, negotiations often broke down altogether due to misunderstandings within multilanguage and multicultural environments.[50]

There were internal struggles for power, too, as each manager attempted to get the resources he or she needed for his or her part of the project. Unwillingness to compromise was often taken personally. Issues such as responsibility and especially blame entered the fray[51] over activities such as what should be done, when, how, and to what standard.[52] In fact, the conflicts that ensued as a result of the need for such negotiations were considered by some top managers to be a gladiatorial arena for those

who aspired to more senior positions. This strategy made the staff, who in a matrix were merely part of the negotiable resources, pawns in a giant, politically-motivated, managerial game.

It was not only managers whose performance declined; the matrix made employees less productive as well. This was due primarily to the dual chain of command – an integral part of matrix design – that was imposed on staff.[53] For the duality of authority to work, mutual cooperation between the managers of the two chains was essential. The nature of the traditional organization, however, militated against such partnerships since to succeed, the project team depended on being able to create a culture for itself that was the opposite of the culture within the parent organization in which it operated.[54] Employees commonly felt that there was no one in charge because decisions were negotiated between two authorities rather than only given by one. For those accustomed to unity of command, these experiences increased personal stress.[55] When managers failed to agree, staff perceived that they now were accountable to supervisors with conflicting management styles.[56] Whether or not this actually proved to be the case was irrelevant, since employee productivity declined when those who were cognizant of these differences, pondered the possibility. Being pulled this way and that, created the feeling of divided loyalties. These feelings may have been justified during the performance review. Although the managers within the duality of authority should have conducted performance assessments jointly, it is less likely that they would have done so or that the assessments would have been of value to the employee if the two managers could not get along with each other or bickered over issues connected with the project and the resources needed to complete it. It may have sounded wonderful to have had the flexibility to shunt people from one team to another,[57] but when the teams were disbanded and the project had finished, these people had to go back to working under the old regime and for their former bosses. Once back in the old job, whatever work they did for one manager might have been taken as evidence of disloyalty to the primary manager for whom they had worked before that project began.

Attempts have been made to resolve the dual authority problem by creating what was intended to be two new types of matrix. In contrast to the matrix design we have been discussing, which balances the product or project against the function, the *project matrix* places the functional manager under the authority of the project manager. In the *functional matrix*, the functional manager holds sway.[58] It has been argued that one reason why the matrix structure failed to be integrated into the organizational milieu was due in part to a clouding of this distinction.[59] However, where one manager has direct responsibility for completing work that would normally have fallen within the domain of another, as well as the

authority to make decisions rather than having to negotiate them, in practice, these organizational forms were no different from what existed before the matrix design was introduced. When the duality of power was dissolved, the matrix ceased to exist. That teams operated within its chain of command or that project management was practiced changed nothing.

One problem with this approach was the loss of flexibility. Why not recognize the network and encourage it? Why attempt to control it? In other words, control needs to be exercised *where* it is most important, and only by those in the value transposition. Everyone else is superfluous for that transposition. The matrix design admittedly tried to have it both ways, making it a true hybrid. The multiple-boss model, however, does reflect the direction in which the management of work is headed. Subcontractors do have to satisfy the needs of all of their clients. If they want to and are able to order their contracts so that they are working for only one employer at a time, then they ought to be able to limit the number of people to whom they report to one or two: the immediate client and, if he or she is different, the person who authorizes payment for his or her work. Those individuals, however, who have several projects on the go will have at least one or two different bosses for each project. In both cases, independent contractors will have to manage both themselves and their clients.

Structurally, the difference between a matrix and a value-based organization is that the structure of the former is designed to retain as much of the traditional hierarchy as possible, whereas the value-based organization seeks to distance itself from any form of hierarchy, since the network and the nature of the work drives the structure. All of the advantages of the matrix, however, can be obtained with none of the disadvantages by removing the additional structure and controls. Trying to have it both ways itself is the problem. It is true to say that the matrix may not be for everyone.[60] More probably, given the goals of most organizations, it is not for anyone.

Multidimensional design

We have seen already that the matrix was designed as a means to manage complex projects more effectively. Because these projects had a discrete beginning and ending, this structure existed only temporarily. When the project finished, the team was dissolved, and everything went back to the way it was before the matrix design was applied. In the 1960s, Dow Corning reorganized according to matrix principles, and following a period of experimentation, turned itself into what it called a multidimensional organization. Their search for a better system of organization occurred as a result of various managerial problems that it and other American firms were experiencing. Although the matrix had experienced some success in the aerospace industry, where the complexity of the projects had demanded

an approach that deviated somewhat from the traditional organization of work, it was unable to respond to the challenges of a multinational business in a rapidly fluctuating environment. Since Dow had been divided into both profit and cost centers, its senior managers struggled to obtain acceptable pecuniary data, and this weakness hampered their attempts to exercise appropriate controls. For example, the functional organization of work prevented the marketing department from understanding manufacturing operations, and vice versa. Department competed against department, and resources were wasted. To correct these problems, the company, in effect, subdivided itself into ten separate businesses, each of which was managed by a single manager who was responsible for generating profits for his or her respective business and who decided how to coordinate all of the various groups and teams that operated within the company. Under the dual authority structure common to the matrix, however, he or she had to negotiate for the use of the organization's resources from fellow Business Board members who represented the parent organization's functions.[61] This approach was not the earth-shaking reorganization that Dow thought it was. It simply decentralized authority away from the head of the corporation to the manager of the newly separated businesses. By placing the responsibilities for profit generation and the improvement of the function together in one person, authority moved down from top management. As a result, Dow more closely resembled the organizational form of General Motors, in the early 20th century, than it did the Ford Motor Company. Although the firm intended that junior staff should be permitted to make decisions whenever possible, the distribution of information was restricted to those it felt needed to know.

In recent years, a new form of multidimensional design has eliminated this management schism. The two original dimensions – product and function – have been retained, and a third one, external customers, has been added. Dual authority – the primary source of the failure of matrix – has been abandoned. The goal of this new design is to avoid restructuring altogether by providing the elements of all three at every level of the organization so that a change in emphasis does not require redistribution of its assets.[62] This organizational form is intended to be all things to all people. Instead of having two of everything, it could be argued that, under a multidimensional design, an organization would have multiples of everything. Whatever costs had increased under the matrix design, instead of rising by a factor of two, instead would rise by three or more. The initial redistribution of resources needed to achieve this form would make any other restructuring seem tame by comparison. For example, Air Force wings, historically, have been organized functionally: accountants worked in the Accounting and Finance Office, and pilots worked in their respective

squadrons. If, however, an Air Force wing was to be reorganized according to the service it provided, then aircraft and their supporting equipment and staff would have to be redistributed so that each wing was composed of the different types of aircraft that flew together in a typical mission. If the wing was reorganized according to its customers – the citizens of a particular nation – then it might include ground and sea units as well, which collectively would protect the nation against a particular kind of threat.

It has been argued that when all three dimensions are present at the same level, units can be appended, and old ones changed or eliminated without affecting the rest of the organization.[63] In other words, reorganization at one level need not impact any other levels. It has been suggested, too, that managers at a given level would obtain more experience as general managers, and quantitative performance of each unit would be easier to measure. All three of these forms, however, are consistent with the principles that underlie a traditional organization, and all three can exist and function within the framework of a rigid hierarchy. Fundamentally, however, such reorganizations have not made the organization value-based. Significantly, the need to adopt one form over another may be only temporary and, therefore, the cost of reorganizing in this way may offset any benefits that are realized. Whether an organization has the capability to emphasize functional, product or service, or external customer needs seems to be of no consequence since none of them lives in isolation. They all must work together for any of them to be of value.

Although organizations using multidimensional design can be graphically represented simply as flatter hierarchies, it has been argued that such diagrams ignore the interaction that occurs within them. Instead, a cube in which the three dimensions visually interact has been suggested.[64] An organization chart, however, should show the flow of work so that it can be understood at a glance. In a value-based organization, there are an almost infinite number of possible interactions within a network. Mapping them would just produce a piece of paper with, at the very least, thousands of lines on it. Since it would be impossible to make any sense out of them, it would be of little value to anyone.

Referring back to the example, under a functional organizational structure, Air Force wings have been able to respond to particular threats, as they did throughout the Cold War. At the command level, aircraft were managed by the service they provided. The Military Airlift Command (now the Airborne Mobility Command), for example, relied upon several different types of transport aircraft to carry large military loads, including armored vehicles, and sometimes other aircraft, to distant destinations. At the Department of Defense level, military units were managed according to a particular threat. In fact, it could be argued that all three dimensions

were represented at that level already without being physically present. Units from the Army, Air Force, Navy, Marine Corps and the Coast Guard were all coordinated to protect the United States then, as they do now. Multidimensional design, therefore, is not required at all levels to make effective use of the organization's resources, nor is reorganization necessary to emphasize one requirement over another. The units at or below a particular level can be temporarily redistributed without having to make permanent changes to their locations. Who reports to whom in the lower echelons at the end of the process does not matter very much since the senior managers ultimately make those decisions anyway. Whatever form the restructuring process takes has more to do with eliminating excess capacity than with emphasizing the particular use for those assets that remain.

The Horizontal Organization

There is one more type of hybrid that must be considered: the so-called horizontal organization.[65] In contrast to the functional approach, the horizontal organization groups workers cross-functionally according to the few processes that are central to its ability to deliver its value proposition. These central process groups bring together all of the skills necessary to complete the work, as well as the data and resources required from the firm. All of this is geared to what the customer desires or needs. At the head of each process is a team or individual who is also part of the process team and bears responsibility for everything that occurs in it. Individuals in one team may move to other teams depending on the need for their expertise at the time. Although one team may be able to complete an entire process, more likely, several teams will share the work. The horizontal organization borrows the project team idea from matrix organizations and the permanence of such teams from multidimensional organizations, but loses the dual authority that plagued them both. However, since the goal is not to eliminate the management hierarchy, some vertical structure remains. The teams in the horizontal organization resemble Dow Corning's separate businesses. On the organization chart, the teams themselves are linked together in a linear sequence. Although the generic version of the chart suggested by the author seems to be flatter than a traditional rendition, appearances can be deceptive. If the processes were drawn in a vertical rather than a horizontal manner, and they could be quite easily, the whole chart would resemble more closely the traditional model. This is further evidence of the traditional nature of this type of hybrid.

It has been suggested that the horizontal structure is suitable for firms whose products or services depend on unified functional cooperation in

order to deliver superior customer service in the minimum of time.[66] It would be fair to say, however, that the vast majority of companies today would attest to the importance of these virtues and, whether horizontal or not, would assert that their particular form of organization – whatever it was – was a suitable structure to achieve them.

The horizontal organization professes to offer three advantages over other organizational forms. First, it is organized around the capabilities of the workforce rather than according to function, product or end user. This means that there is an interdisciplinary structure and working environment. Routinely rubbing shoulders with those outside of one's discipline helps everyone to see the big picture instead of focusing on one's own department or division. This broader view can promote multiskilling, as people see how their discipline dovetails with someone else's. Second, it allegedly gives employees authority as well as responsibility, holding those who do the work responsible for the process, and promotes communication across all of the normal channels set down in the traditional chain of command. This comparatively new empowerment can improve cross-departmental cooperation and multidisciplinary collaboration, and generally make people feel better about themselves and their work. In addition, it measures its success

Table 5.1 Summary of organization types

Organization type	Purpose	Basis	Extent	Permanence
Traditional	maximize control, minimize cost	function or product	organization-wide	permanent
Matrix	to give function & product equal importance	function & product	project-wide	function – permanent; project – temporary
Multidimensional (two elements)	make matrix organization-wide	function & product	organization-wide	permanent
Multidimensional (three elements)	obviate reorganization	function, product, & end user on each level	organization-wide	permanent, with planned flexibility
Horizontal	maximize performance	process	organization-wide	permanent
Value-Based	maximize flexibility and innovation at lowest cost	relationships	network-wide	permanent, but self-adjusting

in terms of performance objectives at the end of the process instead of upon the completion of smaller units of work.[67]

Disadvantages of the horizontal organization

There are, however, a number of disadvantages. First, to improve processes, a firm must begin by focusing on improving tasks. Although a process is more than a linear collection of tasks, it is no more than a grouping of them. To concentrate on improving the performance of tasks as the central point of development is micro-management, making incremental changes to how work is done. The control and coordination of those tasks, of itself, necessitates closer supervision than what would be applied if those activities were left to those doing the work. While the number of handoffs may be reduced by focusing on processes, it is less likely that they will be eliminated altogether because minimizing it is not a goal of the organization, nor does it support a progressive attitude to the division of labor. Where control increases, innovation decreases. It is worth considering, for example, that although the Old Soviet Union created some innovations during its 70-year reign, the United States, a nation with fewer people and fewer natural resources, achieved much more where such controls were not present. In fact, there are no historical examples in which agrarian nations with a rigid hierarchy ever emerged as a leading industrial nation.[68] Whether a nation or an organization, innovation depends on a free flow of information and ideas. Proponents of the horizontal organization make no attempt to eliminate hierarchy, arguing that some will be needed constantly. This view differs from the value-based organization, which explicitly desires to minimize hierarchy. On the one hand the horizontal organization asserts its determination to eliminate non-value work, but expects to do so while retaining hierarchy. Where minimal hierarchy is not a primary goal, bureaucracy will increase, as will its attendant administrative costs. The potential for value from administration is considerably less than it is from fostering innovation and clearing the way for the exchange of value. In public sector organizations, the goal is not to finish the work. Where profit is not an issue, no manager wants his or her staff sitting around with nothing to do. Notwithstanding their need to account for public money, government agencies have a reputation for creating more forms and more copies of forms than anyone else. This constant flow of paper prevents their staff from ever completing their work.

Second, to organize around workforce capabilities as they pertain to the needs of external customers limits the extent to which value can be exchanged. The nature of what the workforce can do is centered around tasks only. In the value-based organization, less emphasis is placed on what is offered in the exchange than in enabling that exchange. This is not to say

that what the organization has to offer is not important, but, when an organization concentrates all of its resources on its products or services, it overlooks its reason for being – to exchange that value. An organization's value proposition is worthless if it is not exchanged. In the horizontal organization, substantially less value is delivered to internal customers than to external customers. To be sure, external customers pay for goods and services with money and expertise, whereas internal customers primarily provide expertise. But, without internal customers, there can be no external customers. The opposite is also true. Nevertheless, when either internal or external customers receive negative value, the overall value of the organization and the network declines because either or both may decrease the quantity of value they deliver or disengage from the organization altogether.

A third problem is what we call the *Reverse Hawthorne Effect*. The Hawthorne Effect was so named as a result of an early management consulting intervention at the Hawthorne Electric Plant in Hawthorne, Illinois during the 1920s (see also Chapter 7). The consultants informed the workers that the management was concerned about the level of light available to them, and that experiments would be conducted to ascertain what the most effective level was. This was no ordinary experiment, however. When the researchers said they would raise the light levels, they actually lowered them. When they said they would lower the light levels, they raised them. To their great surprise, productivity continued to increase until the light levels were lowered to that of moonlight. The researchers concluded that the increase in productivity was caused by the interest managers took in the staff rather than because of any changes in the working conditions. This phenomenon became known as The Hawthorne Effect. This effect is reversed when managers raise the expectations of their staff, but then fail to deliver. This behavior almost certainly guarantees that the workforce will become disillusioned, demoralized, and demotivated.

SUMMARY

In the traditional organization, work was organized by function or product. Among the disadvantages was the fact that each function or product artificially separated one part of the organization from the other to the extent that the one did not know what the other was doing. Traditional hybrids attempted to rectify this by integrating these two forms. In a matrix, one form was superimposed temporarily over the other, creating one organization inside of another. In a multidimensional design, the goal was to create permanence in the design and later to eliminate the dual

authority structure. In addition, multidimensional design was thought to be the optimum organizational form that eliminated the need for further reorganization. The horizontal organization attempted to integrate the two (or three) dimensions by focusing on the processes needed to complete the work. All of these hybrid designs, as did the traditional organization itself, focused on tasks – a means to an end. Although tasks are important, they are not the most important, and neither are the processes. Since there is no best way to organize, the goal should be to organize in such a way as to enable those within the firm – indeed, the network – to participate as much as possible in mutual exchanges of equal value. In a national economy, the wealth of the nation is determined by how often money changes hands. Many more transactions occur within a strong economy than in a weak one. "A rising tide raises all boats."[69] The same can be said of a value-based organization. The ongoing exchange of value adds wealth to the firm and to the network. The more transpositions occur, the wealthier the organization, and the network, becomes. To attempt to control the exchange of value adds bureaucracy, reduces the number of exchanges that can occur within a period of time and, ultimately, diminishes overall value. The focus should be on developing relationships and creating maximum flexibility so that those relationships can flourish.

NOTES

1. Those readers who have skipped or just skimmed the first four chapters are encouraged to go back and read them carefully. The full understanding of the historical evolution of the organization and management of work obtained from this exercise will enable readers to benefit from the remainder of this book.
2. See, for example, Staiger (1968); Walker and Lorsch (1968 [1987]) and Ostroff (1999).
3. Both surveys were conducted by Bruce Hoag.
4. Burns and Stalker (1987).
5. The new term of the day is *transformation*.
6. Marsden et al. (1996).
7. Waterman et al. (1980b [1995]).
8. Sloan (1963a [1986]).
9. Woodward (1980).
10. Stieglitz (1968a).
11. Lee (1937).
12. Walker (1968 [1987]) and Waterman et al. (1980b).
13. Walker and Lorsch (1968 [1987]).
14. Perrow (1973 [1978]).
15. Walker and Lorsch (1968 [1987]).
16. Larson and Gobeli (1987).
17. Goggin (1974).
18. Larson and Gobeli (1987).
19. Ford and Randolph (1992).
20. Gordon (1999).
21. Davis and Lawrence (1977 [1987]).

22. Ford and Randolph (1992).
23. Newstrom and Davis (1997).
24. Galbraith (1977).
25. Davis and Lawrence (1978).
26. Daft (1998).
27. Larson and Gobeli (1987).
28. Newstrom and Davis (1997).
29. Ford and Randolph (1992).
30. Larson and Gobeli (1987).
31. Argyris (1967).
32. Newstrom and Davis (1997).
33. Johns (1996).
34. Larson and Gobeli (1987).
35. Newstrom and Davis (1997).
36. Daft (1998).
37. Davis and Lawrence (1978).
38. Ackoff (1999).
39. Peters and Waterman (1984).
40. Davis and Lawrence (1978).
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62. Ackoff (1999).
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6. The myth of competitive advantage

The myth of competitive advantage is predicated on the notion that one firm can obtain and maintain an insurmountable superiority over all other firms in its industry by making incremental changes to its strategic components. The advantage is said to be derived from collectively fine-tuning the organization's systems and processes, that is, by increasing the value added by each of the strategic components and by improving the interrelationships between them. The purpose of this strategy is to minimize competition.[1]

There are five primary channels through which, it is asserted, an advantage can be realized: minimum price, commodity uniqueness, customer concentration, organizational magnitude and, more recently, knowledge. Some firms attempt to create an advantage by selling their products or services at a lower price than any of their competitors. Larger firms, it is argued, who possess the greater market share in a given industry, dissuade competitors from significant expansion for fear of saturating the market with too many similar goods or services. A variation on this channel is the preferred source. Some organizations attempt to make themselves the preferred source by forcing customers to buy replacement parts or expendables from them, or by creating contractual obligations that require customers to use them for subsequent maintenance. Commodity uniqueness refers to attempts by organizations to distinguish their products and services from their competitors in such a way as to make them unique in the marketplace.[2] In customer concentration, a firm may attempt to be both inexpensive and unique, but to a smaller number of customers.[3] Less well known, perhaps, as an alleged path to competitive advantage, is knowledge. Here the firm seeks to obtain better information than its competitors[4] and to apply it efficiently and effectively.[5]

FLAWS

The myth of competitive advantage overlooks three flawed assumptions: the assumptions of 1) novelty; 2) ingenuity; and 3) permanence. The *assumption of novelty* reflects the view that a firm in a particular industry is seeking an advantage that differs from its competitors. This perspective

is implicit in its behavior when the firm commits the majority of its resources to avoiding competition so as to secure some market share it can call its own. It would be an expensive strategy if the firm believed that one or more other competitors were also attempting to do the same thing. Therefore, its assumption must be that it believes itself to be unique in that respect. Clearly this is not the case as the benchmarking and best practice movement has shown (see Chapter 7). Indeed, the ubiquity of the phrase, competitive advantage, demonstrates that most organizations are trying to obtain it, and that no firm can assume that it is the only one attempting to do so. Moreover, Porter (1985) outlines in detail what he believes one firm needs to do to gain an advantage over another. Presumably, fellow competitors in similar industries have studied this literature. Some firms may recognize that their competitors are seeking the same goals through the same means, but persist in their efforts because they believe that they will obtain the advantage while others will not. This leads to the next assumption.

The *assumption of ingenuity* refers to the attitude implicit in firms that believe that no one else is capable of obtaining competitive advantage in their industry through a given set of means. The truth, however, is that all firms can and do copy one another's business models, analyze the value chains of competitors, and emulate the achievements of others. But such action does not give them an advantage. It only keeps them in the game.

The *assumption of permanence* refers to the conviction that an advantage can be sustained.[6] This assumption is closely related to the previous one, because anything one organization can do, another also can do, and therefore no advantage is permanent. For example, all firms can expect to obtain the same benefits from the implementation of a new technology. Anyone can do it, and it is reasonable for them to expect to be able to do it. In fact, the sale of such technology depends upon it, but whatever performance guarantees are given to one organization also apply to every other one that implements it.

True competitive advantage occurs only when an organization holds a monopoly on the products or services its customers want. On these rare occasions, anti-trust laws are normally invoked, forcing the firm to either sell off large parts of itself or break up altogether. Relatively few companies in the 20th century were judged as anti-competitive monopolies – most notably, Standard Oil and American Telephone & Telegraph. The Microsoft Corporation was sued for anti-competitive practices but, at the time of writing, has managed to remain intact. Since competitive advantage is at best only temporary, it is, by definition, unsustainable.

MINIMUM PRICE

An organization errs when it assumes that competitive advantage is achievable by pricing its products or services lower than its competitors. This is due in part to the fact that they have no direct control over the prices their rivals pay for raw materials, nor can they determine the labor supply within a given industry. Discounts can be offered in exchange for a variety of practices that benefit the supplier such as bulk buying and cash on delivery, and the expanding global marketplace has made it difficult to track the rise of new competitors. To compete on price alone assumes that customers will be satisfied with the lower cost to them as the primary difference between suppliers and that the benefits offered by competing suppliers are more or less the same. It further assumes that, as a result, customers will be attracted to the cheaper option. This, too, is a flawed assumption because suppliers must persuade their customers constantly that they are being given the best price possible. That this is the case is observable in the advertising in which firms boast that their prices are "competitive." But, competitive pricing does not distinguish one firm from another. In reality, it is just another way of saying, "Our prices are the same as our competitors."

Some firms attempt to obtain an advantage by creating a product that mitigates some of the flawed assumptions. A good example of this is the Apple Computer Corporation. From the beginning, its operating system has worked only on its computers, and users have been forced to buy software that would work with it. When the desktop computer industry was in its infancy, the company was able to limit competition by producing a more reliable computer, albeit for a premium price. The higher price reflected the fact that Apple's operating system was hard-wired into the computer itself. This strategy insured that the company was the only one who manufactured computers that worked with its software, and as long as it has customers, it probably will be the only one that does for the foreseeable future. The Microsoft operating system, on the other hand, can work on many different computers except of course those made by Apple. Economies of scale plus the fact that much of its operating system is written into each computer program has meant that consumers can choose from many different computers and have access to a wider range of software that is also less expensive. This preferred source strategy that Apple adopted has backfired in the longer term. Instead of limiting competition, it limited the size of its market. In recent years, owing to the ubiquity of Microsoft products, Apple has been forced to build machines that will read Windows-based files. To this day, Apple computers are more expensive than Windows-based machines and used in only a limited number of industries, having failed to penetrate the wider market to any degree.

Not only do all compete on price to one degree or another, but all are able to do so. For example, some organizations, as a matter of policy, expect their suppliers to provide goods and services to them at prices that will cover only their operating costs, such as materials, labor, and set-up, but not overheads. The suppliers accept a much smaller profit margin in exchange for a higher volume order. They are expected to obtain most of their profits from their smaller volume customers. It is reasonable, therefore, to assume that many firms within the same industry will practice this buying strategy, and so the firm seeking to obtain a minimum cost advantage is, in effect, attempting to get customers by competing directly with other firms on more or less the same terms – a practice that, by definition, is the opposite of what competitive advantage was intended to be.

Because of the ongoing negotiations between suppliers and customers for the best price, no supplier can take it for granted that his or her customers will continue to buy from him or her on that basis alone. In fact, some customers routinely ask their suppliers to reduce the cost of their products and services to them by a fixed percentage every year or to extend their payment periods. This can lead some firms to under-spend and under-invest. Price wars among suppliers have driven some organizations out of business. This relentless screwing down of material costs means that suppliers invariably change.

COMMODITY UNIQUENESS

It is quite common for a firm to believe that it has created an innovative product or service that will give it competitive advantage. In fact, some businesses have been formed for this reason. All such uniqueness, however, is short-lived because neither products, services nor processes can be protected for very long, not only because patent laws in one nation are not subject to the jurisdiction of another, but also because no firm or nation has a corner on good ideas. The probability that two or more organizations will "discover" the same technology or market niche is so high in fact that scholars race to be the first to publish their findings. Naysayers should reflect on the reality that competitors possess full knowledge of nearly three-quarters of all new products within one year of their launch, and also that patents do not protect processes or prevent copying.[7]

Commodity uniqueness, by definition, assumes not only that it is possible to be unique, but also that, from the standpoint of the customer at least, it is desirable. We are being reminded constantly that consumers want more choice, and firms are doing their best to deliver it. For example, consider the number of different cellular or mobile telephone packages that are

available. Some telephones only work in the home nation; some work in Europe, but not North America, and relatively fewer can be used worldwide. Some networks have greater coverage than others, but most networks cover the same geographical areas and share the same black spots. Some handsets can send text, color pictures and video, as well as give users access to the Internet. And what about ringing tones? It seems that any tune can be used to personalize a handset. The problem is not that there is insufficient choice, but rather that there is too much. As each vendor vies with the other, matching package for package, customers become progressively confused by the infinite variety. But such variety does not separate one company from the next; instead, many customers sense that they are dealing with just one telephone firm. As we discovered in Chapter 4, there are so many niches that the market resembles a honeycomb in which every niche interacts with every other niche. It is not specialization that differentiates one firm from another, rather it is the value that it transposes.

Japan's economic success since the 1970s has been due largely to its ability to copy Western technology while making relatively minor improvements to it. Prior to World War II, the Ford Motor Company and General Motors built nine-tenths of the automobiles exported to Japan.[8] In the 1950s and 1960s, *Made in USA* was a trademark that represented quality throughout the world, and American industry was able to sell virtually everything it produced. However, during the 1970s, a decade characterized by rising oil prices and a significant loss of faith in the federal government, Americans began to buy more imports. Meanwhile, American industry – most notably the automobile industry – failed to recognize that the nation's preference for foreign goods represented a shift in spending values. Americans no longer believed that buying goods made in the United States was economically prudent, since foreign products were cheaper than US goods and of the same or better quality. American industry continued to manufacture the same items in the traditional way. It did not upgrade its equipment, and it allowed the quality of its own products to decline. During that time, the Japanese, in particular, captured a large percentage of many areas of traditional US markets, proving to be quality imitators in several important industries. Whereas *Made in Japan* used to be synonymous with low price and low quality, it has since become the global trademark of quality for many products manufactured today. Although American industry eventually recognized these adjustments in consumer spending, it was unable to avoid losing market share. As recently as 1992, Japan had 30% of the United States automobile market while the US had less than 1% of the Japanese market. The Japanese, it seems, consider American cars to be inferior to their own.[9] Improvements in the 1990s in American automobile manufacturing coupled with the affordability of

European cars have demonstrated to Japanese manufacturers, however, that quality alone is no advantage either.

The discovery of new innovations or simple replication of another product or service is not the only thing that threatens commodity uniqueness. Where employees believe that they have a moral responsibility to inform others of what its firm is doing, information about its activities may be leaked. For example, several years ago an oil company decided to submerge an unused platform in the deep ocean. That information was leaked to the press and as a result, Greenpeace sent small boats to intercept the process on the high seas. The attendant media coverage forced the company to find an alternative disposal method, and eventually the firm agreed to cut up the platform instead. No matter what the apparent advantage, if someone in the company thinks someone else should know about it, the Internet will enable them to tell the whole world in no time at all. In fact, any firm that creates an industry standard is simply waving a red flag at its serious competitors, inviting them to raise the bar. Those who have yet to achieve this higher standard will employ all necessary means to obtain it and make it part of their own strategy. The end result is that whatever advantage has been achieved will be short-lived at best. Hence, such innovations, however unique when they come to market, cannot be relied upon to give competitive advantage.

Some suppliers deliberately provide their products or services for a higher price than others, normally because they believe they are delivering higher quality or because they are targeting a wealthier clientele. This approach is evident in the automobile industry where dealers emphasize the value of using genuine parts and obtaining regular servicing from an engineer who has qualified to work on that particular car. Apple and its devotees certainly would argue that its products were superior to Windows-based machines and the Windows operating system. Nevertheless, whatever the product or service, the price a customer is willing to pay reflects the value to him or her of what he or she buys. All want value, though some want more than others.

CUSTOMER CONCENTRATION

A firm that attempts to obtain an advantage by being inexpensive as well as unique, but to a smaller number of customers, exposes itself to all of the risks mentioned above for those who concentrate on one or the other. It is naked delusion to assume that by limiting the number of customers targeted, an advantage will be achieved. It is instructive to remember that whatever an organization attempts to do to marginalize its competitors, its competitors undoubtedly will do to them and everyone else. One problem

with this strategy is that once customers discover someone who can do it cheaply and another who does it exceptionally well, those same customers will expect each supplier to provide both, playing off one against the other. The cost leader will be expected to raise his or her standards or lose customers; the differentiator will be expected to lower his or her prices or lose customers, and customers will negotiate with both for the best deal. Indeed, as cost leaders strive to obtain more customers, they will look for ways to increase their standards. For example, powerful search engines have made shopping for all manner of products and services much easier. It is cheaper for the firm to publish information about its products and services online than by producing four-color catalogues and mailing them to interested parties. The customer does not have to leave home to compare prices or view products, and delivery is often free. In addition, the products as well as the delivery date are guaranteed. What is left for the differentiator? Any better quality product offered by a competitor, no doubt, would be available from a less expensive supplier. If it cannot be, it may be that it cannot be bought. For example, solar-powered battery chargers for use solely on laptop computers seem to be limited for sale to those working in those parts of the world that do not have regional electricity grids. Even proprietary items, such as printer cartridges, now have generic substitutes. Customers are forcing suppliers to abandon minimum cost and commodity uniqueness strategies in favor of both. This will further diminish the effectiveness of low prices, uniqueness, or customer concentration strategies. Suppliers will be unable to trade on the first two, and there will be an abundance of competitors vying for the same business using the third.

MAGNITUDE

The size of the firm can also be circumvented by the size of the market. To assume that a larger firm will dominate a market because it is bigger than anyone else in that market is to overlook the fact that the overall size of the market has also increased, and the opportunities to create and transpose value have increased to a greater extent and at a faster pace than any increase in a firm's market share. The market is no longer limited. The opportunities are now so great, that it is unlikely that firms or customers will be constrained by any limits in the market because the scope for exchanging value has increased so dramatically. For the majority of firms, trying to limit competition by creating a firm of overwhelming magnitude is similar to buying shares in a company. Following an initial public offering, a person may buy a few hundred shares and, in doing so own perhaps 1% of the company. In subsequent months or years, however, the

firm may decide that in order to raise the capital it needs to expand it should sell more shares, perhaps tens of thousands. Under these circumstances, the few hundred shares would represent a fraction of the worth of the company because the total number of shares available had increased by many times. The same thing is true of the global marketplace, and because there is no longer the threat of saturating the market with too much of one product or service, creating a large company cannot be relied upon to give any firm an advantage over smaller firms. For example, it has been estimated that more than 90% of all computers use the Windows operating system, but the majority of people in the world today do not own a computer.

It is worth reiterating that a firm cannot create an advantage by tying its customers into binding maintenance contracts or by demanding that customers use its products and services in conjunction with the products and services that are purchased. As we have already demonstrated, the marketplace is too big for such controls to be effective. Since such limitations reduce the value the customer can receive from suppliers, the tendency will be for customers to write off the costs in exchange for greater flexibility and, ultimately, greater value. Furthermore, if a relatively small organization believes that becoming a big company will give them an advantage over its competitors, the presence of another big company in that industry will not dissuade the former from taking these steps.

KNOWLEDGE

The flawed assumptions of novelty, ingenuity and permanence apply to knowledge, just as they do with each of the other attempts to obtain competitive advantage. Most firms recognize that knowledge and learning are indispensable parts of doing business. They have discovered that they cannot rely on what was thought to be true or even successful in the past, nor can they assume that their competitors will ignore the pressures they feel to increase organizational knowledge. Nearly all firms endeavor to learn something different and to learn it faster, so is the nature of a culture immersed in life-long learning. But, all organizations do this and many have been doing it for some time. Knowing, however, differs from doing. Knowing is not doing, and therefore, knowledge of itself is not a source of advantage.

As we have said already, a competitive advantage, in its purest sense is, at best, only temporary because protections such as patents offer only limited protection and only for a short time. Any advantage that can be obtained, for example, by introducing new technology can be eroded relatively quickly. As new knowledge is created, that same technology can be replicated, either

legitimately through marginal improvements to existing patents or intense research and development programs, or illegitimately by reverse engineering, corporate spying, or even blatant copying, as is done when software or videos are pirated and sold. New products can be created in less time and at less cost by those who copy the technology than by those who invent it.[10] This simple truth enabled post-war Japan to supplant American cars with its own within the US market. A much less covert form, but one that can be just as damaging, occurs when CEOs who are proud of their accomplishments tell the whole world how clever they have been by giving interviews or writing "tell-all" autobiographies.

ORGANIZATIONAL BEHAVIOR

Despite the overwhelming evidence that competitive advantage is a myth, many firms, nevertheless, have chosen to engage in a kind of organizational alchemy through which they believe they can obtain an advantage. This frenzy of activity embodies the silver bullet – a killer or breakthrough product, service or technology – that will isolate or eliminate werewolf competitors. It feeds on another myth that suggests that organizational competitiveness can be improved quickly and relatively easily, something that a surprising number of managers desperately believe is possible. This thinking is a product of our age. Instant coffee, weekend garden makeovers, and effortless, but effective organizational change just seem to go together.

Belief in the myth of competitive advantage, however, actually hinders an organization's ability to create value and to perpetuate the exchange of that value. It causes the organization to behave in a particular way and prevents it from behaving in any other way. To make the attainment of competitive advantage a goal endangers organizational health in two ways. First, it compels the enterprise to commit all of its resources to obtaining the unobtainable. For example, the pursuit of an advantage through the creation of a killer product or service places an unbalanced emphasis on one part of the organization while ignoring the needs of other parts of that enterprise. In addition, such redirection of the firm directly impacts the way in which work is organized and managed. Believing a myth does not make it the truth. Second, firms that think they have a competitive advantage no longer feel the same pressure to innovate as they once did and, as a result, diminish their ability to create value. Organizations that are trying to catch up and overtake competitors are more determined to innovate than those who think they have outdistanced their nearest rivals. Organizations that believe they already have an advantage may continue to improve, but with less urgency, choosing instead to exert only enough energy to "stay ahead" rather than by

attempting to make the giant strides they felt were necessary when they were the underdog. The risk of such an approach is that a new competitor can emerge from a blind spot where such a threat is least expected, something that can happen easily in a global market. Organizations that recognize competitive advantage for the myth that it is are less likely to be caught off guard because their focus will be on continuous innovation and constant improvement, not just trying to stay ahead of another firm.

One of the problems with the whole idea of competitive advantage is that the advice on how to achieve it is source-specific, that is, it depends on who you ask. Information technology specialists believe that the processes by which an organization acquires, administers and applies information are the key to distinguishing it from its competitors.[11] Marketers believe that marketing departments are in the best position to create this distinction,[12] and so on. Indeed, the method for obtaining competitive advantage was made popular by a professor of strategic management.[13]

STRATEGY

The beliefs regarding the formulation and efficacy of strategy have their roots in the history of management. The traditional organization gave it life and meaning, and established the ground rules. It promised to deliver planned-for outcomes. When the traditional organization became obsolete and these rules changed, strategic expectations remained more or less the same. For many, the opinion was that no major changes were necessary, only minor adjustments.[14] This has led to the biggest problem of all – deciding what strategy is.

There are hundreds, perhaps thousands, of books and articles on strategy and strategic management, most of which claim to hold the keys to finding this holy grail. Despite the large body of literature, there remains more debate than agreement about what strategy is,[15] who makes it, how it is made,[16] or if it even works. In Chapter 2, we described how the words strategy and planning were used synonymously. However, the confusion does not end there. Strategy can be a policy,[17] plan, process, or outcome. It can be created intentionally by senior managers, accidentally through market forces or societal behavior, or can simply become apparent as a result of day-to-day manipulation of organizational resources in the completion of tasks. Some make strategy in the belief that it will increase profits; others as a means of intraorganizational trade – one compromise for another; still others out of a sense of professionalism, or the desire to exert power within the organization, or national pride.[18] These are many of the interpretations of strategy organizations adopt when they look

forward. When they look back, however, and ask, "Did it work?" the answer is much less promising. It is widely believed that fewer than 10 % of organizations are capable of creating and implementing strategies that actually work, irrespective of whether they are prepared cautiously and meticulously or left entirely to chance.[19] It seems that no matter how much or how little planning is invoked, events do not materialize as expected. Given the enormous emphasis on the importance of strategy, it is apparent that few organizations actually get around to asking this question at all.

Carl von Clausewitz (1832 [1968]), the father of strategic warfare, said that strategy prescribed the time, place and means through which a battle was fought, and that constant changes were needed in the overall plan to effect it. He stressed that strategy was both uncomplicated and difficult, that is, that it was easy to make plans and garner the organization's resources together in support of these plans, but difficult to implement or to obtain the planned results. Choosing the time and the place meant that the Army did not just run headlong into battle, but carefully decided on the place of engagement. This could be effected by ambush – a scenario in which the enemy was lulled into a false sense of security or enticed by misinformation, and then ruthlessly assaulted by surprise. Clearly von Clausewitz intended that strategy should include both planning and execution as well as sufficient flexibility to make constant changes to the original plan. Battles are excellent examples of instances in which complicated encounters are planned in some detail, but which leave the participants to work out the exact procedures. Battle plans also provide a framework for introducing troops and equipment according to a prescribed timetable, but these plans can change with the occurrence of any one of a number of unforeseen events due to the strength or tactics of the enemy.

Early strategic management included the activities of both planning and the application of those plans to the firm's long-term goals, as well as the provision of resources required to accomplish them.[20] Planning was thought of generally as the means to identify those actions necessary to meet anticipated events that had yet to occur with a view to determining a particular outcome.[21] This approach gave organizations a kind of dress rehearsal for events, allowing them to make mistakes without suffering the catastrophic consequences such actions might have had had they actually put them into practice.[22] Some equate strategy with this activity,[23] though these exercises cannot encompass every eventuality, nor can they anticipate every possible result. This fact does not obviate the need for planning, but it does set out the boundaries of what can be expected from it. Planning, as with most things, is subject to the law of diminishing returns. Detailed planning cannot account for everything, nor can it guarantee a particular outcome.

The second part of strategy is the execution of the organization's plans. Until these plans are put into practice, they remain nothing more than a theory about what might work, could work, or should work. They are a wish or a whim, a fiction, but while they cannot guarantee a result, they have no chance of becoming a reality unless they are applied. For some, the act of implementing the organization's plans is strategy.[24] Still others suggest that strategy is the achievement of its expressed goals, whether planned or unplanned.[25] The emphasis here is not on what was planned, but rather on what really happened.

The principles that undergird current strategic management have their historical roots in the traditional organization, which presupposes a rigid hierarchy with close supervision within an enforced chain of command. In this context, the markets as well as the workforce are known to be stable and predictable. It is accepted that there are right things to do and only one right way to do them. There is a clear distinction between those who decide what should be done and those who actually do it. Planning, especially long-term planning, is the first principle in the acronym POSDCORB (see Chapter 2), which describes what rational managers do in a rational organization. The planning process is conducted in an orderly and thorough manner by senior managers who have adopted a panoramic view of what the firm can do and what opportunities it should pursue. Within the process, a hierarchy of sub-plans is also formalized, each with its own timeline and budget.[26] All plans are executed by those in the lowest part of the organization chart under orders given by those at the top. When these plans do not yield the predicted results, they are revised as necessary following this same methodical process.

The traditional organization was intended to epitomize uniformity within a given enterprise, and it was expected that as a result, homogeneity of firm behavior would prevail across a given industry. The reality, however, is quite the opposite. There is wide variation in the performance of firms of the same size in the same industry. Some argue that it is the corporate strategy of the more successful firms that has made the difference, that they instead have realized a competitive advantage by simply going to market first, for example, or by learning faster than their competitors.[27] The factors that determine why several organizations experience such widely varying results in spite of their similarities, nevertheless, are much larger than issues of plans. The discrepancy between the performance of similar firms has suggested that the organization's strategy should and could be designed in such a way as to fit, hand-in-glove, with the competences of the organization and the opportunities afforded to it in the marketplace. All this gave rise to the view that the structure of an organization follows the creation of its strategy.

Strategy and Structure

Alfred Chandler, a business historian, first asserted that structure followed strategy in General Motors (GM),[28] an organization to which he himself was linked financially through his blood relations.[29] In Chapter 2, we discussed the reorganization of GM in which policy-making was separated from administration, and the former was centralized and the latter decentralized. Soon thereafter, GM felt the need to maximize its manufacturing capacity by making trains, white goods, farm vehicles and aircraft.[30] The complexity associated with this change in strategy compelled the company to change its overall structure.[31] In the early 20th century, DuPont changed its structure from a functional organization to one divided along product lines, following a decision to manufacture a larger range of products.[32]

Organizational structure refers to the way in which work is organized and, to a certain extent, how it is managed. From the early 1960s, when strategic management was first described, structure included all of the resources needed to execute the strategy as well as the administrative systems that oversaw its implementation. It incorporated organizational forms, whether by function, product, or something else, and management hierarchy. Such hierarchy was deemed essential to insure the proper coordination and control of organizational resources as they were applied to the goals of the firm.[33] The need for structure to follow strategy concerned efficiency – how to get the most out of the available resources. As firms grew in size and scope, the continued expansion of the enterprise was threatened by the risk that senior managers would be drawn into day-to-day operations. As a result, it was considered necessary to adjust the chain of command so that information could pass predictably through the organization and so that the work could be administered efficiently. Despite the conviction that structure was created to support the strategy, such structures tended to lag many years behind the articulation of that strategy, or failed to materialize at all. Often, this was due to the rapid growth of the firm. As managers scrambled to meet the demands of their expanding departments, some duplicated the activities of others. Each part of the organization in effect became a separate business with its own administrative functions. In terms of efficiency, it soon became obvious that the administration of the organization's departments needed to be centralized so that the redundant activities could be eliminated.[34] Policy-making was centralized within the firm's headquarters. From this office, senior executives developed the overriding strategy for the firm and determined the most efficient structure to deliver it. They took a more personal interest in the performance of the organization's business units, redistributed resources within and across sub-units, and took steps to avoid making costly errors.[35]

Although the structure-follows-strategy paradigm has remained largely unchallenged – it is the pre-eminent viewpoint in business textbooks[36] and business schools[37] today – it does not tell the full story even in the context of the traditional organization. Notwithstanding the considerable time lapse most organizations experience between the formulation of the former and the implementation of the latter, the opposite conclusion is just as plausible, that strategy depends on structures already in place.[38] Even in the case of GM, this perspective was viable. The excess capacity within that firm caused it to adopt the new strategy.

Structure not only creates opportunities for new strategies, it can also impede them by resisting the internal changes[39] needed to enable them to mature. For example, enforcing the chain of command inhibits cross-departmental communication and may prevent vital information from reaching senior managers in a timely manner, if at all.[40] In addition, it is impractical to expect an organization to change its structure every time it adjusts its strategies.[41] In all probability, strategy and structure coexist like chickens and eggs. Understanding how to manage either is not advanced by laboring over which comes first. Any attempts to change one, however, must consider the impact it will have on the other.

Other Views of Strategy

Despite the widespread acceptance of Chandler's thesis, there are a number of other opinions regarding the meaning and formation of strategy that have been gaining ground. It is not our purpose to examine all of them, but instead to offer some stimulating comment. Strategy may be a means through which managers make decisions based on what they learn through what they investigate and subsequently discover. Strategy could be a simpler means to describe something that is inherently complex. It could be just a plan that gives managers the confidence to take action, even if the plans themselves are not followed; or it may be that strategy is revealed after other actions have occurred in the passage of time. One view suggests that what passes for effective strategic management in the West, in reality, is nothing more than serendipity or "the will of God" in other parts of the world. Managers make strategy according to the rules of their home nations, and the culture within which the organization lives interprets the reasons behind organizational success.[42]

Another view is that strategy is created by an accident of nature through some sort of evolutionary process. The thinking is that those actions that constitute effective strategy occur by virtue of the fact that one organization is better able to survive in the business environment intrinsically rather than as a result of some deliberate managerial activity. The degree to which

a firm fits its environment is thought to be influenced by the capabilities of its managers. The more capable can obtain resources, both in labor and capital while the less capable are marginalized through the natural selection of the markets. For strategists of this persuasion, managers can only increase the probability of producing a winning strategy by giving the market a wide range from which to choose.[43]

The notion that the markets naturally select the best companies for survival overlooks the fact that many firms seem to go on in spite of their bad decisions, low market share, and abysmal customer service. It seems there is a larger margin for performance error than the evolutionary view allows. Furthermore, that these same markets can select competent managers for success and reserve incompetent ones for failure contradicts the Peter Principle, which says that at some point in a person's career, that individual will be promoted from a position in which he or she is competent to a position in which he or she is not.[44] The question for evolutionists has to be, how did this person reach his or her level of incompetence in a market that was supposed to remove him or her before he or she got this far? It seems that, in practice, both competent and incompetent managers are promoted and, as a result, the incompetent exerts more influence, not less.

Another view suggests that effective strategies emerge gradually, even accidentally, from the morass of businesses and their competitive environments in which managers, in effect, discover as they work. The thinking is that out of the apparent chaos comes order. There is a difference, however, between that which emerges and that which evolves. Indeed, what emerges has not necessarily evolved. To assume that emergent strategy has evolved violates the second law of thermodynamics, which says that order tends to give way to disorder.[45] That this is true is evidenced in the aftermath of the horizontal revolution discussed in Chapter 3. For all of its faults, the traditional organization was the bastion of order at work, but the revolution that followed, instead of creating more order, created less, a kind of dis-organization. This is why so many people in general perceive that there are higher levels of chaos than there were in the past. In principle, there is nothing wrong with observing what seems to work and then copying or adapting it, but if strategy that works actually comes about as a result of chance, then managers cannot take credit for the success it brings nor can they be blamed when things go wrong because the market decides what will work and what will not. Managers, then, are nothing more than highly paid, titular employees, hostages to fortune.[46] More probably, emergence is not the revelation of an orderly plan, rather it is simply the unmasking of what actually happened, orderly or disorderly. That we are unable to explain the complexity of what occurs, however, does not mean that there is no explanation. There are many complexities

in the world today that we cannot explain and which, until we can, may seem like chaos to us.

Why Strategy Does Not Work

Strategic management fails to work, principally, because what is planned is not implemented.[47] But, it is an oversimplification to suggest that such implementation did not occur because the strategies were badly formulated. This is because it simply is not possible to know all that one would like to know before creating or implementing a plan, nor is it likely that the relationships between causes and effects will be fully understood.[48] Having said that, organizations are frequently guilty of creating elaborate strategies that look great on paper but are impractical if not impossible to apply. This is a natural by-product of a strategy-making process in which the plan is formulated by one group, but implemented by another.[49]

There are at least four reasons why organizations fail to implement their strategies. The first reason pertains to organizational context. Strategy is never created in a vacuum, rather, it is made in the context of what has occurred already. The debate over whether structure supports strategy or strategy supports structure amounts to a circular argument,[50] because one or both elements are already in place. The formulation of any new strategy begins by looking into the past – what seemed to work, what did not work, and what has changed since the last time the organization went through its strategy-making exercise. When a firm creates strategy, what has been done previously and what it does in the future will be biased toward actions that are consistent with its culture.[51] Consequently, the process can never be entirely objective.

A second reason why strategies are not implemented is because organizations work at cross-purposes to themselves. True to the ideology of a traditional hybrid, most, it seems, still believe that they can have the benefits of change by doing what they have always done. They say that their strategies are designed to deliver one end, but what they do and the limitations they place on themselves often make it unlikely that they will achieve them. For example, strategies are known to entail the formulation of long-term objectives. Long-term can mean a few years or a decade, but firms sabotage their own efforts to achieve long-term objectives by evaluating and rewarding organizational behavior that delivers short-term, or tactical results.[52] Short-term results sometimes are an indicator of what might happen later, but a constant focus on the short term will inevitably jeopardize what is desired in the longer term. In truth, many organizations actually penalize staff who attempt to cultivate behaviors that will deliver the long-term results the organization says it wants.

Planning, too, is part of the strategic process, yet for some it has become *the* end, rather than *a* means to an end. At the other extreme, there are those who would argue that planning should be abandoned altogether because the context within which those plans are made is dynamic. But, to fail to plan, as a sage put it, is to plan to fail. A failure to plan is almost a guarantee that the organization will lose its way.[53] However, it is one thing to plan; it is quite another to make the plans work.[54] Whatever managers say about the virtue or obsolescence of long-term planning, their behavior in general suggests that short-term planning tops the agenda. That organizations are concerned with short-term profits is almost a proverb, and this indicates either that they are wasting time creating plans they do not intend to follow, or they are not creating the plans in the first place. The evidence supports the latter. Many, it seems, are dragged into daily business concerns[55] or spend their time extinguishing organizational conflagrations instead of planning measures to prevent them.[56] The management style appears to be passive: wait for something to happen and then react. If what emerges is successful, take credit for it; if it does not work, distance yourself from it or blame something else.

A third reason why strategies are not implemented is that the strategy-making process is typically concentrated in one person or organizational level.[57] Creating and communicating a vision to the rest of the organization is seen as one of the primary roles of chief executive and those in his or her team. This apparently progressive thinking, however, is just a repackaged version of Sloan's reorganization of GM in which he assigned the task of policy creation to himself and separated it from the implementation of it. In recent times, much has been made about the importance of top-down management. The central argument is that if the senior team does not lead the organization in a particular direction, the enterprise will not get there. This view, however, is also an oversimplification. Leaders are recognizable primarily by the fact that they have followers. True followers make the vision of the leader their own, but that is not the same thing as a group of people following someone because they have been coerced or they are afraid of the consequences of not doing so. It must be said that, in those circumstances, vision has very little to do with the behavior of those who are apparently following willingly. In cases where employees are the champions of top management's vision, true leadership is found. Where it is not, a new leader is required, not necessarily a new vision. In the value-based organization, true leadership is exhibited by enthusiastic partnership of its own members. Here no distinction is made between those who make strategy and those who implement it. They all do it together. When this happens, it is not the leader who has the vision, it is the organization itself.

The last reason we offer why organizational strategies are not implemented is that many senior executives are apparently more committed to their own compensation packages than they are to the success of the corporations they manage. This is borne out by the salaries they insist upon as a condition of their employment.[58] Much is made of the bonuses and stock options afforded to them, but setting those aside, enormous salaries are often guaranteed whether they are successful or not. Whereas the average employee cannot expect to get a decent referral if he or she is fired, many senior executives can expect millions, if not tens of millions, of dollars if they are forced to leave due to underperformance. Such financial assurances mean that the most senior professional managers have very little to lose for being incompetent or even dishonest. And since many of these executives also have large personal shareholdings in the firms for which they work, their stated desire to deliver value to stockholders in reality is just an economical way of saying that their primary purpose in coming to work every day is to deliver more value to themselves. Much is made of the necessity of paying huge salaries in order to attract the best people, but considering that their compensation is largely unaffected whether they succeed or not, this must be one of the great deceptions in American business today.

Organizational Implications

Given this enormous failure rate attendant to the creation and implementation of management strategies, the question must be asked: are organizations focusing on what is most important? In other words, if strategic management is as important as we have been led to believe, what is preventing organizations from getting it right? We have demonstrated the futility of pursuing competitive advantage, and that may be a root cause for the failure of organizations to formulate effective strategies. But, there are other contradictions and inconsistencies that ought to be recognized. In America, for example, organizations are five times as likely to pursue profit as its primary goal as Japanese companies,[59] yet both American and Japanese firms experience global success. This means that diametrically opposed strategies can produce similar results, and, therefore the view that precise strategies are necessary is nullified. In fact, the most successful companies often experience success without creating complicated or detailed strategies at all.[60]

Many managers engage in a strategy creation process, not because they think it will make a difference to organizational outcomes, but because there is a cultural expectation to do it.[61] Doing anything in an organization because it is traditional to do so should be understood as another way of saying that it is the way it always has been done. Some organizations waste thousands of hours every year zealously upholding such traditions, which

of themselves contribute to neither the creation nor the exchange of value. In addition, there is a real danger that the methods employed to create strategy will follow the management fad of the day.

In recent years, much has been made of the idea that learning is a form of strategy, or that strategy is created by learning about what works and what does not.[62] Such an idea contradicts the basic definition of strategy – that it is planned beforehand and then implemented. Emergent strategy, therefore, is an oxymoron because it claims to have accomplished something after the fact in the absence of something that was indispensable before the fact. Organizations cannot know what they have learned until after they have learned it. If what emerges was unintended, then the steps that yielded that result were not implemented deliberately. To credit emergence as strategy is nonsense. It makes strategy non-strategic by asserting that forward planning takes place in retrospect.

Is it not proper to ask if we are expecting too much from strategic management, especially since so much of what passes for strategy in reality is simply copying what has worked in the past rather than actually planning for what might work in the future? Is not this question particularly relevant since so much of what is planned is not implemented, and since so much of what is implemented does not work? It seems that organizations are asking the wrong questions and pursuing the wrong agenda. Whittington (2001), in a book of the same title, asks two questions: what is strategy and does it matter? The evidence suggests that the answer to the first question is nobody knows, and the answer to the second question is, it probably does not matter very much anyway. Although different strategies can lead organizations in different directions,[63] one strategy seems to be as good as any other, and neither is likely to work regardless.

Planning has its place. Consideration must be given to where an organization wants to be, when it wants to get there, and how much it will cost, but when it comes to making strategy, the law of diminishing returns kicks in sooner than many realize or are even willing to admit. It is a carry-over from traditional thinking, which mandated that meticulous planning was the method to insure the organization moved ahead predictably. Organizations would do well to make the "Serenity Prayer" part of their mission statements.

> God grant me the serenity (i.e. Help me not to panic)
> To accept the things I cannot change;
> Courage to change the things I can,
> And wisdom to know the difference.

Among the things that organizations cannot change are the effects of the horizontal revolution. This is not to say that chaos should run riot, but that

organizations need to recognize that the apparent level of order that existed prior to the horizontal revolution is gone forever. Organizations must not bet their futures on trying to reverse the irreversible. Wisdom is found in realizing where changes can be made and focusing on them.[64] Such an approach is less stressful, provides for more innovation in the organization, and more productivity for everyone it employs. Each organization must find the balance that suits it while simultaneously resisting the propensity to hold onto what it had before to the same or greater extent. Less is more. What matters most is the result, not the elaborateness of the plans. To fail to plan can be a plan to fail, but the tendency to make plans in the traditional manner where strategy and work are separated, makes planning the end instead of the means. The most effective strategy in a value-based organization is to minimize the commitment of resources to the formulation and implementation of detailed and complicated strategies – in effect, to have a strategy of no strategy. The thought of adopting this approach will instill panic in the hearts of traditional strategists who still believe that competitive advantage results when the firm's most senior managers create and implement strategy that is unique to them.[65] In the value-based organization the focus is on creating an environment in which value can be exchanged constantly, not on organizing around a particular capability. The focus is on the mechanism, not the inputs or even the outputs. Relinquishing all strategy-making at the top and instead decentralizing it to an individual level means giving up control, something traditional hybrids will do anything to retain. The exercise of personal strategy, however, is part of self-management (Chapter 10).

SUMMARY

The myth of competitive advantage is based on the belief that organizations can obtain an insuperable edge over their competitors by adopting strategies of minimum price, commodity uniqueness, customer concentration, organizational magnitude or knowledge. The reasoning for such confidence, however, ignores three flaws, each of which exposes this myth for the fiction that it is. In effect, it is argued that the organization seeking the advantage is the only one in its industry who is pursuing it, that it is the only one that is capable of pursuing it, and that it is the only one that can sustain it. In reality, every firm in all industries believes that their niche affords them sufficient uniqueness for competitive advantage, and everyone is able to do this, but none of them can sustain whatever advantage they achieve. Nevertheless, many organizations have chosen to ignore this evidence in the belief that they are different from their competitors, and that they can create

the killer product or service that will give them this unchallenged prosperity. The pursuit for competitive advantage, however, impedes organizational innovation by preventing the enterprise from pursuing options that are achievable and, in so doing, limits its ability to create and exchange value.

Strategic management is accepted widely as the means through which competitive advantage can be realized. But, management strategy has its own contradictions. There is no agreement on what it is, who does it, how it is done, or if it makes any difference at all. Most strategies fail because they are not implemented, and most of those that are put into practice are formulated improperly. A root cause for the management failure to create and implement effective strategies is that they are designed to deliver competitive advantage, which itself is undeliverable. Typically, organizations use the wrong belief as a basis for making strategy, which they do for the wrong reasons, using the wrong method, in the hope that they can obtain preposterous expectations. Having the courage to decentralize the creation of strategy to a personal level, as in the value-based organization, however, can give firms a performance advantage, because in so doing they give their employees the power to create and exchange value in a manner that is easiest for them.

NOTES

1. Gluck et al. (1980) and Huysman (1999).
2. Porter (1985) and Ghemawat (1986 [1996]).
3. Lumpkin et al. (2002).
4. Ghemawat (1986 [1996]).
5. Davenport and Prusak (1998).
6. Porter (1985); Ghemawat (1986 [1996]) and Lumpkin et al. (2002).
7. Ghemawat (1986 [1996]).
8. Adams (1992).
9. Adams (1992).
10. Deane (1979).
11. Gates (1999).
12. McKenna (1991).
13. Porter (1985).
14. Gaddis (1997).
15. Mintzberg et al. (1998) and Whittington (2001).
16. Davis and Meyer (1998) and Markides (2000).
17. Rumelt et al. (eds) (1994).
18. Mintzberg et al. (1998) and Whittington (2001).
19. Kiechel (1979).
20. Chandler (1963).
21. Wildavsky (1973 [1996]).
22. Bracker (1980).
23. Ansof (1965) and Ostroff (1999).
24. Ostroff (1999). It is unclear whether Ostroff believes that plans qualify as strategy or if they must be implemented.

25. Farjoun (2002).
26. Mintzberg et al. (1998).
27. Rumelt et al. (eds) (1994).
28. Waterman et al. (1980a).
29. Whittington (2001).
30. Whittington (2001).
31. Waterman et al. (1980a).
32. Hammond (1994).
33. Chandler (1963).
34. Chandler (1963).
35. Rumelt et al. (eds) (1994).
36. Whittington (2001).
37. Rumelt et al. (eds) (1994).
38. Hall, DJ and Saias, M A (1980) and Mintzberg et al. (1998).
39. Hall and Saias (1980) and Hoag et al. (2002).
40. Hammond (1994).
41. Mintzberg et al. (1998).
42. Whittington (2001).
43. Whittington (2001).
44. Peter and Hull (1969 [1978]).
45. Bridgman (1953); Blum (1955) and Lindsay (1959).
46. Hoag et al. (2002).
47. Whittington (2001).
48. Gaddis (1997).
49. Mintzberg et al. (1998).
50. Waterman et al. (1980b [1995]).
51. Mintzberg et al. (1998).
52. Likert (1968b).
53. Toffler (1985).
54. Waterman et al. (1980b [1995]).
55. Chandler (1963).
56. Hoag et al. (2002).
57. Mintzberg et al. (1998).
58. Whittington (2001).
59. Hampden-Turner and Trompenaars (1994).
60. Collins and Porras (1994).
61. Meyer and Rowan (1977 [2000]) and Whittington (2001).
62. Mintzberg et al. (1998).
63. Whittington (2001).
64. Covey (1989).
65. Inkpen and Choudhury (1995).

7. The myth of the balanced scorecard

A pervasive theme in business today is that there is no management without measurement. The degree to which change has occurred, whether it is the number of inches a teenager grows in one year or the increase in profits made by a corporation in the same 12 months, cannot be determined without comparing numerical values at the starting point with the ending point. In view of the amount of measuring that managers do, however, it seems that there is an underlying belief that more measurement yields better management, and that the more parts of an organization that are measured and the more frequently they are measured, the more likely an organization will be able to implement its strategies.[1] These convictions have led to the creation of various management tools and techniques that have enabled managers to measure everything and everyone. The myth of the balanced scorecard pertains to this obsession. At an organizational level, it is observable in the activities contained within the use of the balanced scorecard, benchmarking and best practice and at an individual level in the use of management by objectives, individual scorecards and performance appraisals.

THE BALANCED SCORECARD

The horizontal revolution rendered many traditional organizational systems obsolete, and managers soon recognized that measuring the success of their firms solely in financial terms was also inconsistent with these changes.[2] It was in this context that the balanced scorecard[3] was designed as a means to give managers a more complete picture of the organization's performance. The scorecard was intended to augment existing financial measures and to provide an orderly method through which organizational strategies could be implemented.[4] The measure was considered to be balanced because it integrated both financial and non-financial activities[5] and short- and long-term views in the context of several operational perspectives.[6] The determination to link daily work to long-term objectives,[7] however, was considered insufficient because managers who could not understand the causes, could not change the outcomes and could not deliver planned results. By identifying both the causes and the effects, it was

argued, the scorecard provided a structure through which organizational performance dynamics could be evaluated, blending an equal emphasis on both developing and developed evidence.[8]

Senior managers constructed the scorecard to answer questions about customer perceptions of their firms and the abilities inherent in them to innovate and advance, and deliver value to shareholders.[9] It was their responsibility to render the vision for their enterprise in language that was both intelligible to and supported by all employees,[10] and to commit their organizations to developing the scorecard. Others in the firm whose opinions were respected were also recruited to create the vision, and a separate team was appointed to oversee its implementation.[11] Following the identification of the vision and goals, managers examined the internal processes[12] they believed were linked to the organization's strategy, and in some cases those found in other organizations that closely cooperated with them.[13] Since strategy reflected organizational assumptions about what actions generated which outcomes, these relationships provided the basis for identifying its core competencies[14] – the progressive abilities of an organization to provide value[15] – and those processes on which the firm believed its success depended[16] – in particular, those that met the needs of customers and shareholders.[17] In this way, perceived causes were matched to anticipated effects. Senior managers then knit together the system of causes and effects into a strategic fabric consisting of goals and targets. Appropriate resources were assigned to support each cause, and progress markers were identified.[18] The actions of individuals were linked to smaller goals, which shared collectively in achieving the global strategies of the firm.[19] Each couplet of cause and effect constituted a link in the strategic chain of the organization[20] and established the sources of momentum behind specific organizational performance.[21] In this way, a chain of events, like falling dominoes, was set in motion. If one person or department did this and another that, then together the organization would initiate a first cause that would lead to a planned effect. The scorecard enabled managers to reflect systematically on the degree to which the organization's strategies were implemented, make changes as necessary and, at least in theory, to learn what worked and what did not.[22] From this new understanding, managers were supposed to be able to identify any discrepancies between organizational administrative capabilities, information technology requirements and individual skills and, as a result, to be better informed about adjustments they needed to make to the way in which work was organized.[23] Scorecards were understood to be works in progress since ongoing adjustments were necessary to ensure that the organization continually supported its strategies.[24]

Short Termism

Although the scorecard was created to balance short- and long-term perspectives, in practice, it was more concerned about measuring short-term financial performance than anything else.[25] This was borne out by the emphasis placed on the organization's ability to stipulate the linkage between progress in product development and sales, delivery and customer support with lower operational costs, higher margins, and greater market share.[26] In addition, publicly-traded companies were expected to realize the doubling of their stock prices within three to five years.[27] Stock price, however, is a product of more than just a company's financial performance. It can fluctuate according to senior management behavior as reported in the media, slide as the national economy weakens, or plunge on the occurrence of world events. In recent years, the problems at WorldCom and Enron, 9/11, the Iraq War and suicide bombers, the long bear market of the early 21st century, and the loss of confidence by ordinary shareholders, all hammered stock prices. In fact, the WorldCom and Enron failures caused the loss of faith in accountants for a time and seriously damaged the viability of one of the world's largest accounting firms. Consumer confidence can also cause stock prices to rise and fall. All of these events and attitudes contribute to, and to a certain extent, determine stock prices.

Chapter 6 emphasized the fact that the failure to apply strategies has been a principal reason why such plans are usually unsuccessful. The scorecard attempts to overcome four of the many obstacles to the implementation of organizational strategy. Sometimes, goals and strategies are misunderstood by those who are responsible for their implementation, and consequently no action is taken. A second obstacle is that plans at the corporate level are often disconnected from the rest of the firm. In these circumstances, the goals of departments and individuals may not support the organization's goals. This can be especially true if the timelines for each part of the enterprise differ as well. A third obstacle exists when plans are disconnected from the resources that are needed over both shorter and longer time periods. It is not unusual for firms to make short-term financial evaluations without considering the longer-term impact on its strategies. The fourth obstacle the scorecard attempts to overcome is a lack of timely criticism. Short-term financial reports alone are insufficient for determining whether longer-term strategies are working.[28]

Although the success of the scorecard in overcoming these obstacles is doubtful, even more poignant is its failure to ameliorate the four obstacles we discussed in the previous chapter. First, the scorecard may provide organizations with a new framework for considering its processes and evaluating the extent to which its strategy has been implemented, but it does

nothing to mitigate the cultural influences attendant to the execution of that strategy. For example, as long as organizations view their employees as resources[29] that are managed like plant and equipment or cardboard boxes – for all the corporate good that is intended – they will fail continually to understand them as customers and suppliers of value. We have seen already that, in the second place, organizations that use the scorecard as a means to balance short- and long-term priorities militate against their own success by evaluating their success in terms of financial performance, a short-term objective. Notwithstanding any benefits that arise from methodically considering the bases upon which organizational strategy is derived,[30] if short-term operational results are most important, then any decision-making processes will be driven by them. Our third obstacle to the implementation of strategy concerned the propensity of organizations to concentrate the creation of their vision at the executive level as a precursor to the strategy-making process. The balanced scorecard follows this same model, whether it is in a strategic business unit or at the corporate level. The collective strategies of each of the strategic business units as reflected on their scorecards are linked to the larger strategies within the organization's headquarters as depicted on the corporate scorecard. But, this practice is nothing more than a variation on the theme of big plans supported by smaller plans, or a big evaluation tool supported by smaller evaluation tools. Although the scorecard can identify new business processes that contribute to a firm's goals and the goals of its customers, it may also simply identify processes that are already in use.[31] The dissemination of the vision contained within the scorecard is the responsibility of the senior team who typically use organizational newspapers and notice boards or electronic means.[32] This style of communication is common in traditional organizations and is known *not* to be effective because employees seldom play a meaningful role in the creation of the vision and therefore see all such corporate communication as propaganda. One author has suggested that misunderstandings regarding the vision could be clarified in a subsequent discussion if each employee described briefly how the organization would look in the context of the vision as he or she understood it.[33] The importance of participative decision making has been recognized for many years, but of itself, it does not go far enough. It is altogether too easy for an organization to find a form of words that expresses a vision shared by everyone that is filled with ambiguous phrases that mean different things to different people. The fourth obstacle we discussed focused on the dishonesty of some senior managers. While it could be argued that no management tool can prevent this, executives who devote themselves to value-based principles are more likely to have a high value ethic that contradicts the inclinations that others might have towards sabotaging the efforts of the organization that

has employed them. Organizations should strive to employ those with a reputation for a value-based ethic rather than for performance at any cost.

Damaging Strategy

The balanced scorecard addresses the heartfelt need of managers to implement strategy effectively, but it fails to address the issue of deleterious strategy formulation. Another way of looking at this is to recognize that harmful strategy effectively implemented is just as damaging as good strategy poorly implemented. In Chapter 3, we discussed the pilot who was lost, but traveling at 500 miles per hour. His plight would have been just as precarious if he had known exactly where he was, but had suffered catastrophic engine failure. One without the other is useless. Why make a virtue out of it? Even if the process involved in constructing the scorecard enables the organization to articulate its strategy in measurable terms that everyone in the firm supports,[34] it nevertheless may reflect a strategy that will not work.[35] Consequently, managers may continue to implement bad strategy because the fulfillment of the scorecard criteria has encouraged them to do so.[36] Managers may realize eventually that poor strategy and not poor implementation is the culprit, but the scorecard itself can hardly be given credit for identifying this discrepancy.[37] Mere observation of the effects of trial-and-error strategy formulation and implementation would be just as instructive.

Proponents of the scorecard laud it as an effective tool to promote change by identifying where the organization is going compared with where they want it to go,[38] but refute any suggestion that it ought to be used as a diagnostic to clarify the differences,[39] since such systems include measures that are incidental to strategy execution.[40] Diagnostics, however, by definition describe what is not working by comparing it with what it is believed will work. But, it seems that in the determination to avoid measuring what is considered to be superfluous to strategy execution, what is needed to effect meaningful change is also omitted.

Linking causes to effects in the form of “if we do this, then we will get that”[41] is a great theory, but devilishly difficult to do. It is not that managers should avoid undertaking demanding activities such as these, but rather that they must recognize that the nature of such connections are often not known nor can they be determined.[42] High correlations between events, of themselves, do not demonstrate cause. For example, satisfied customers seem to be loyal, but it is not known if they are or what the relationship is between these factors.[43] The time required to document such relationships to the degree necessary to interrogate the data for true cause and effect make such research by managers impracticable; and given the constantly

changing business environment, what has worked in the past is unlikely to be relevant[44] (see Chapter 3). Therefore, the activity of accumulating data to document significant correlations and causation may only establish what has worked, but not what will work now or in the future.

Core Competencies

The identification of core competencies – an integral part of the value creation process in a traditional hybrid – depends on managerial ability to determine the relationships between cause and effect. A core competence is an organizational capability that opens new opportunities for the firm, benefits considerably the consumers of its end products, and cannot be copied easily by its competitors, but does not necessarily require more expenditure or dependency on shared resources. The collective noun of a group of core competencies is subsumed within a core product, which itself delivers end products.[45] Prahalad and Hamel (1990) describe this concept using the metaphor of a tree: the trunk and largest limbs are equated with core products; the lesser branches with business units; and the fruit, flowers, and leaves are end products. Like trees, time and determination are required to identify and obtain them.[46] Many organizations believe that those firms that can create new products more quickly and more cheaply than their rivals will also be more competitive. Such capabilities, they argue, depend on core competencies.[47] They also suggest that senior management attitudes about what a company is and how it should function actually restricts their ability to make the most of their technologies. Indeed, the reason Japan outperformed the United States was because it exploited sources of customer value to customers that American managers felt were part and parcel to their domain in business viz. deciding what to make and how much to charge for it. The responsibility of the American consumer was to buy what American manufacturers made, not to discuss what should be made or how much they should pay for it. For many years, in the absence of a credible alternative, they got away with it. Japan, on the other hand, recognized that American consumers were looking for better value and, in time, delivered it to them. The same thing could happen to Microsoft, and Bill Gates knows it.[48] Organizations that perceive themselves as a group of interrelated competencies rather than as a collection of business units already have begun to think outside traditional boundaries. They are seeing their capabilities within the network. But, as long as they continue to focus on competencies, which themselves are based on tasks and skill sets, they will limit their understanding of what really is at the root of true value exchange. The development of core competencies demands a centralized management structure,[49] a characteristic in the organization and management of work

that is diametrically opposed to the principles of a value-based organization. It is impossible to isolate all the skills that are needed or to determine the degree to which they are needed and in what combination. In essence, this is another attempt to carve up complex jobs into smaller, digestible parts. It is the application of the division of labor under a new guise. The optimum recombination of tasks should be determined by those who are doing the work. If greater skill is needed, then employees can tap into their networks or build longer-term improvements into their own personal development. This does not require managerial intervention.

It has been suggested that a quality scorecard will link its if-then assertions to more general, long-term goals such as expanded business development or increased return on investment[50] that can be disseminated more easily, but a vision that does not articulate specifically each employee's contribution will fall on deaf ears and be considered as the latest parting shot of the guru of the month.

The Role of Employees

The scorecard approach also fundamentally misunderstands the role of employees as internal suppliers and customers. It is framed so that the organization can examine itself from four different perspectives within a financial context[51] and deliberately omits any consideration of those who are not considered to be essential to the creation of competitive advantage.[52] Since competitive advantage is a myth, it is logical to conclude that all scorecards should be blank. Supporters of the scorecard, however, argue that decisions on how to develop products and services should be made by top management on the basis of the value it adds primarily to external customers. Such decisions are not taken on the basis of its people – its internal customers without whose involvement value could not be given to its external customers. Furthermore, it suggests that having gone through the long and drawn out participative process of developing a vision, that once agreed, decisions to implement should be centralized back into top management. It misses the fact that employees are simultaneously customers and shareholders and in so doing marginalizes the contributions that they make. The value that they receive from the organization apparently has no place on the scorecard. In addition, it separates employees from shareholders and ignores the fact that both are financial as well as emotional shareholders. To serve one while ignoring the other is unwise.

The scorecard approach also misunderstands what motivates people. Just because employees understand the organization for which they work or are in receipt of information about it, whether good or ill, does not mean that as a result they will be any more motivated, receptive to change,

or likely to support managerial strategies.[53] Employees do expect to be kept informed, and they do expect to be asked for their opinions on decisions that concern them, but it is a quite a leap to assume that knowing bad news will motivate staff to implement organizational decisions, especially if they themselves are not involved in the decision-making process. In fact, it would give some, regardless of the personal consequences, great pleasure in seeing the company go down the drain, taking its managers with it.

Personal vs. Organizational Goals

The scorecard approach attempts to separate the implementation of its strategy from the less popular, but traditional ideal of organizational control. It supposes that employees will do whatever is necessary to help their organization achieve the goals its managers have set because the criteria on the card are measurable.[54] It fails to recognize that within the value-based context, whether the organization acknowledges its existence or not, people will work wholeheartedly toward organizational goals only in the short term unless achieving those goals enables them to accomplish their own longer-term personal goals as well. The value-based environment is an employees' market, though admittedly, most of them have not yet realized it. Staff who become disillusioned with the imposition of organizational goals to the cost of their own personal goals will make every attempt to find greener pastures elsewhere; and short-term attempts to win their loyalty, by rewarding them on the basis of their success in fulfilling criterion on the scorecard, will ultimately fail.[55] The danger, of course, to a traditional hybrid is that managers in other organizations are beginning to wake up to this value-based reality, providing just the sort of working environment that this new generation of workers wants. Therefore, rather than contriving the alignment of personal with organizational goals through the use of a management tool,[56] managers need to hire for it. Ironically, employees are hired, instead, for their talent. That they will conform their personal goals accordingly is assumed.

The measurement obsession is a form of micro-management, which itself is another way of imposing more control. Although it is a worthy aspiration that everyone should understand how the enterprise intends to achieve its goals, this can be accomplished more quickly and more thoroughly by encouraging the exchange of information across traditional supervisory boundaries than by attempting to subdivide work into minute units in the hope that employees will comprehend how a set of tenuous cause-and-effect relationships might accomplish broader organizational strategies.[57]

BENCHMARKING AND BEST PRACTICE

The balanced scorecard intended that an organization should evaluate its performance against its own objectives. Similarly, benchmarking intended that an organization should compare its operational performance against that of other enterprises.[58] Benchmarking is a land-surveying term that denotes a reference point. In its original organizational context, it meant *a* standard. The meaning of this reference point, however, soon changed to become *the* standard or the *industry standard*, the performance standard to which all underperforming organizations tried to reach.

The means through which organizations expect to rise to the industry standard are by the use of other organizations' so-called best practices. A best practice is a technique, method, process, activity, incentive or reward that seems to be more effective at delivering a particular outcome than any other technique, method, and so on. The idea of a best practice is not new. Frederick Taylor said as much at the beginning of the 20th century: "Among the various methods and implements used in each element of each trade there is always one method and one implement which is quicker and better than any of the rest."[59] This viewpoint came to be known as the *one best way*. In modern parlance, best practice. History, however, is filled with examples of people who were unwilling to accept the industry standard as the best way to do anything. Notwithstanding the enormous technological changes that have been witnessed since the Industrial Revolutions of England and America, consider this more recent example. During the 1968 Olympics, Dick Fosbury changed high jump technique forever. In what became known as the Fosbury Flop, he set a new world record by going over the bar back-first instead of head-first. Alternatively, he could have asked all the world-class high jumpers of his day how to attain the industry standard. They all would have told him that head-first was the best practice. If Fosbury had listened to his peers, it is doubtful that he would have won the event. By ignoring best practice, however, he raised the performance bar – literally – for everyone else. The purpose of a standard is to provide a kind of plumb line, and therefore that standard must be "What is possible?" and not "what is somebody else doing?"

Kaizen

The Japanese word *kaizen* has been imported into Western organizational language and stresses the importance of efforts to improve constantly. This ethos is antithetical to the commonly accepted notions of best practice. In fact, best practice can breed a complacent attitude. Some organizations wear it as a badge of honor. They figuratively grasp their lapels and proclaim,

"We've adopted best practice!" The sense is that having adopted this technique, process or method, this particular organizational problem has been solved and no further improvements are necessary. But, in reality, best practice could be nothing more than mediocrity in a different context, a form of unplanned obsolescence. Adopting the practices of another only means that that organization has risen to the level of someone else's standard. Far from adopting best practice, they have abandoned old practice and embraced standard practice. It is a mistake to believe that improvement ends here.

The principle of constant improvement, also contradicts the principles of total quality. In Deming's (1982) view, organizations should strive for constant improvement in the methods of output and utility to customers, but the goal of such improvement is to eliminate defects because the absence of them epitomizes total quality. But, if this is the price of quality, then it is a price that is not worth paying. For the traditional hybrid, to minimize variation is to minimize that which is unpredictable, and therefore to reduce risk. Successful innovation depends on the freedom to make mistakes, or the loss of some control. If organizational processes have been refined to the extent that uniformity has eradicated variation,[60] then innovation will cease. Total quality control ultimately leads to attempts to control people as well. The outcomes of an organization that has adopted the practices of another may be predictable only if the market remains constant. The real danger, however, is that the organization instead will be making perfect products for a market that no longer exists.[61]

The myth surrounding this form of measurement ignores the historical reality that "best" is temporary and contextual. It is temporary inasmuch as the context is changing continuously, and contextual in that the meaning of best is contingent on who, what, where, how, and why. That is, to whom, in what circumstances, in what culture, applied in what manner and for what reasons. No so-called "best practice" is a silver bullet. Furthermore, rising to a standard is a far cry from actually determining the standard. Semco, the radically self-managed producer of electrical goods, based in South America, questions everything it does all the time. Nothing is done because someone else does it – the ethos of best practice. Why should they? Organizations that set the standard and who seek constantly to improve do not pat themselves on the back for reactively incorporating someone else's practices into their own operations. Such an approach insures that an organization will only ever be commonplace.

Benchmarking and the consideration of other organizations' operational practices as a means to shorten the time it takes to progress from mediocre to average is worthwhile if, and only if, doing so does not lull the enterprise into some false sense of security that everything will be okay henceforth. The balanced scorecard reinforces the notion that best practice is possible.

It is alleged that the scorecard is optimized when it successfully balances short-term activities with long-term objectives.[62] But, optimization implies that improvement is not possible and that the outcomes realized are what were expected.

MANAGEMENT BY OBJECTIVES

Thirty years before the balanced scorecard was created for organizations, management by objectives (MBO) was christened for individuals.[63] The principles found in MBO, viz. identify goals, decide what actions need to be taken to achieve those goals, and periodically evaluate one against the other, were conceived thousands of years ago, and today are easily recognizable as part and parcel of modern strategy-making. Indeed, the balanced scorecard bears a remarkable similarity to MBO, though Kaplan and Norton (2001) refute this.

MBO was received widely as a positive management tool. It was thought to make better use of human resources by assigning particular objectives to an individual according to the skills he or she possessed, improve planning by forcing managers to devote their time to those actions that impelled the organization toward the achievement of its goals, motivate managers through the process of setting explicit personal work goals, provide appraisal criteria based on what the manager accomplished, and mitigate interference by other more senior managers who had their own agendas.[64] It also allegedly gave managers greater control over their own performance,[65] though this view is given to circular reasoning since such control would only occur if the manager actually achieved his or her objectives. The perception of control, however, as opposed to authentic control, may make managers happier about the foundation upon which their and their subordinates' performance is based[66] and consequently act as a motivator. This would make the process one of management through the self-control of staff rather than by domination from the manager.

Drawbacks

MBO has suffered from serious drawbacks. Since the objectives of the organization were divided among the smaller business units and the managers who oversaw them, everyone in the organization had to participate, and to a large extent, success in this respect depended upon a willingness to participate. In organizations that made no apologies for their Theory X management style,[67] this approach, like all the others that preceded it, was simply rammed downwards through the chain of command. But, in those

organizations that wanted to be seen as exponents of the principles of Theory Y, the Theory X approach would have been self-defeating. In these circumstances, participation was touted as voluntary. In the end, however, it had to be mandatory to insure that all of the organization's objectives were covered. Another problem was that objectives were often couched in unintelligible jargon so that the objectives set were low enough to be achieved. This problem arose because bonuses were often linked to appraisal ratings that reflected the degree to which those objectives were reached. So, although the objectives were achievable, often they were much less than what was possible. A further problem was that MBO assumed that both parties had the interviewing skills needed to agree the objectives, a tenuous assumption at the best of times. By far the most significant problem with MBO was the amount of time it required. In fact, the process was so time-consuming that it was impractical for members of a firm to repeat the cycle more often than once per year. In addition, the attendant documentation made the exercise immensely complicated and tedious.[68]

MBO and the Balanced Scorecard

Kaplan and Norton (2001) have argued that management by objectives and the balanced scorecard differ substantially. They allege that MBO is applied in a given organizational unit in isolation from other units within that organization. But, Drucker (1985) makes it clear that each manager and each unit should be able to describe how his or her part of the business works with other parts of the business, and how collectively they all contribute to the organization's overall objectives. Although there are exceptions to most rules, it is inconceivable that managers and units with this level of understanding would ignore that knowledge and set as their goals, objectives that were unrelated to that bigger picture. Equally, it is unimaginable that any senior executive would approve unit objectives that did. Moreover, the balanced scorecard was intended for use as a management tool regardless of the nature of the organizational context in which it was implemented. Their second objection is that when MBO is used, the objectives created are intended to support the goals of the business unit, making them tactical rather than strategic, but the authors, by their own admission,[69] state that the scorecard is most concerned about measuring short-term financial performance and that all other measures in the scorecard should be considered in that light.

Notwithstanding these objections, the primary difference is that MBO is a tool that line managers use with their direct reports. The objectives they agree together and collectively with all of their other subordinates articulate how that manager expects to accomplish his or her objectives, and the

objectives that are agreed through the application of MBO throughout the rest of the organization all fit into the larger plan of organizational objectives. The balanced scorecard was intended to describe formally these interactions from the top down, rather than by allowing them to accrue from the bottom up. The scorecard may have given top management a better understanding of how the organization worked, and if the vision of that organization really was communicated deep into the firm in a more effective manner, then perhaps describing these interactions from the top of the organization using the scorecard may have been beneficial. But, fundamentally, these tools are identical to each other and are identical to strategy-making in general. In fact, it could be argued that MBO is used by managers in the lower echelons of organizations that themselves are using the balanced scorecard. Whether at the top, middle or bottom of the management hierarchy, managers set objectives for themselves, their departments or divisions on the basis of general expectations and/or specific goals held by those who manage them. To a greater or lesser extent, how these goals are achieved is subject to senior management approval, since invariably the expenditure of resources is involved, and the degree to which these goals are achieved form the basis for performance reviews, bonuses, and promotions. Although management by objectives and the balanced scorecard may provide a framework for thinking through this process, neither is essential to its success. This is an inescapable fact.

Management by objectives was not the only management tool that required a lot of time to implement or voluminous documentation to support it: the balanced scorecard also suffered from this same malady. In fact, information technology has been deemed an essential component to its success because the size and complexity of the plans attendant to them and the follow-up required to sustain interest in its use would be impossible to accomplish manually.[70] Such an administrative burden flies in the face of its original purpose, which was to implement organizational strategy,[71] not to commandeer an entire department in which half are involved in helping people create scorecards while the other half are following them up. Indeed, management by objectives may well have risen to new heights of popularity if desktop computers were available in the 1950s. Nevertheless, neither the balanced scorecard nor management by objectives can be considered as effective tools simply because computer power makes them possible.

INDIVIDUAL SCORECARD

Although management by objectives was intended as a means to manage managers,[72] the principle has been extended down to the level of individual

employees. Similarly, the principles of the organizational scorecard have also been applied to the individual employee level. The balanced scorecard in practice is the application of management by objectives at an organizational level, and the individual scorecard is just a repackaged version of management by objectives. This approach has enabled employees to understand more specifically how their personal work contributes to the mission of the firm, and it has been argued that it has also made them feel some responsibility for the success of it.[73] When employees understand how their work benefits the organization overall and how such benefits can help them realize their personal goals, this can motivate them to higher levels of performance. In a very real sense, involving employees in the formulation of work goals, for which they will be held accountable, encourages them to pursue those activities that will not only help them achieve their personal goals, but to contribute directly to organizational objectives as well.[74] In effect, this has put the responsibility for the value of the rating on the person being rated. In part, it was an attempt to minimize the emotional trauma that often occurred during a performance review. Although employees might have been less than satisfied with the degree to which they realized their objectives, they could not argue with the fact that they had set them, albeit with their manager's approval.

PERFORMANCE APPRAISALS

One of the most contentious issues in organizations today is performance appraisals. Most people believe they are necessary, but few look forward to giving or receiving them. In a study of 80 companies, a leading human resources consulting firm found that although organizations relied heavily on the information that appraisals provided, there was little quantitative proof that they were effective.[75] This meant that assumptions had been made about what appraisals could measure and what impact they could have. Among those that were surveyed, more than 97% used them to review past performance; but 95% also used them to identify training needs, 90% to motivate employees, and 50% to determine salaries and bonuses. The same study found that the results obtained through the use of performance appraisals were nothing like as promising as would be expected given the wide range of uses to which they are applied. Of the 90% who used them to motivate employees, not one felt appraisals had done a very good job. Of the 50% who used them to determine salaries and bonuses, only 1% felt they did a very good job. Some 42% were dissatisfied to a certain extent and only 5% were very satisfied with the results of this activity. The company that carried out the survey said that this attempt to use appraisals for such

a wide variety of purposes contributed to the failure of them to meet any of their goals convincingly. Some 42% of the respondents spent up to two hours – the average length of a typical appraisal – on each employee participating in an activity that produced unsatisfactory results. If instead of an activity, appraisals were products, they would have been removed from the inventory long ago.

Ineffective

There are several reasons why appraisals cannot give the results that companies want. First of all, they are emotionally painful. No one likes to be told he or she is doing something wrong, and most people do not like to criticize others face to face.[76] Some people will distance themselves from their supervisors prior to and after an evaluation. The general dislike for performance evaluation causes managers to procrastinate in the hope that they will not have to do them at all. Many feel that 20 minutes, one hour or even two is insufficient to learn all that is needed about an individual's accomplishments and challenges, training needs, and eligibility for pay raises and bonuses, and many others believe that they could make better use of their time doing other things. The word *appraisal* means *to give praise*, something that many managers find difficult to do well or at all. Very few people, in fact, have well-developed interviewing and listening skills.[77] A typical appraisal goes something like this: You did well in this area and that area. You could have been better here. On balance, you get this rating, which is worth this much bonus. Sign here. Better luck next year. Few look forward to an evaluation like that.

Abusive

Performance appraisals are often the proverbial hammer that views everything as a nail, and how they are used influences how ratings are determined.[78] Subtle and subjective distinctions are often made between employees that can have enormous financial consequences in both the shorter and longer terms. There are several ways in which appraisals are abused. Many organizations operate a quota system. Only so many people can be given higher ratings because these ratings correspond to bonuses, and there is only enough money to pay a few people. This makes the evaluation a zero-sum game. For every person who wins, someone else loses. There will always be people at the bottom, but that does not mean that they do not contribute value. This approach presupposes that someone has to fail or be less successful. The net result is that employees are forced to compete with each other. This, in turn, foments suspicion and distrust, and

makes staff reluctant to share their knowledge with fellow employees because the person who shared the information risks being penalized if the person with whom the knowledge was shared receives a higher salary increase or bonus, or is even promoted.[79] In some firms, organization-wide ratings are averaged and scores are plotted to insure that they fit into the bell-shaped curve that everyone learned about in their undergraduate statistics class. Since the ratings have not been obtained from a random sample of the general population, it would be surprising if they conformed to the curve at all. This is because the people in the firm were selected for employment for particular reasons and not hired randomly off the street. It is unethical, to say the least, to massage any data to fit some preconceived idea of what they should say, and it is equally iniquitous to do so considering the impact that such manipulation could have on the lives and careers of those concerned.

There is also a tendency to typecast employee performance. In this situation, high performers tend to get the highest ratings, average performers get average ratings, and so on. Those who are considered average find it difficult to break out of their original typecast. Once a manager has formed an opinion about someone, he or she will resist moves to change that opinion. This can be a particular problem when a new supervisor writes his or her first appraisal. That supervisor might be tempted or expected to re-read the appraisal from the previous year before writing the new one. The rationale for this behavior is continuity, to avoid underrating or overrating, but, to do so immediately fixes an expectation of how the end product should read rather than contributing an objective assessment of what has happened already. A related problem occurs when the impressions created by employee success or failure in one area carry over into the evaluation of that individual's performance in others. Employees who seem to be unsuccessful in one area can often be seen to be less successful in other areas, whether this is true of them or not.

Unreliable

Although appraisals often require the approval of the human resources office, few of them have been properly tested for reliability. The subjective nature of evaluation makes it likely that two different raters will rate the same person in two different ways for the same standard of work. In addition, these ratings could vary over time for reasons other than changes in the standard of work. One problem can come with the rating categories themselves. Research has shown that different people use different words to describe work of the highest quality. Some people use the word *Good* for work of the highest standard; others use the word *Excellent*; others use

Superior, still others *Super* or *Fantastic*. But the person who uses *Good* will rarely use the word *Excellent*, even if it is on the appraisal form, because this is not a word that he or she uses. *Good* is as good as anyone gets.[80] Most people are not likely to remember what happened from one day or week to the next. As a result, a recent bad experience can bias the evaluation of what essentially was a satisfactory evaluation period. Something as banal as a personality conflict can also yield a lower rating, regardless of the standard of performance.

Invalid

Behaviors themselves are difficult to measure. It may be impossible to determine what person or behavior contributed to a particular outcome, a fact that has been acknowledged since the middle of the 19th century.[81] Where it is possible, the resultant supervisor ratings, however reliable, may not be an appropriate measure of how well a person did his or her job.[82] Some organizations evaluate staff in terms of what they did not do. For example, not more than a certain number of complaints within a particular time period. This approach demonstrates that the appraisal is invalid, that it does not measure what it claims to measure. It claims to measure performance, but instead it measures the extent to which the employee stayed out of trouble. Ordinary members of the public who are chronic complainers can create havoc for public sector workers under a system such as this.

Another problem is that no matter how many rating points are available, few managers use more than just the top two or three. So, for example, a five-point scale becomes a three-point scale. Some years ago, the United States Air Force used a weighted nine-point scale for its enlisted personnel. In practice, however, nearly everyone was rated either an eight or a nine for a whole range of criteria. To be given an overall rating of a seven meant that you were borderline. Fives and below were reserved for people facing dishonorable discharges. Failing to use all of the points can cause rating inflation in which scores are given on the basis of where the manager feels his or her subordinates should be in the context of where other managers are believed to be rating their own people. The justification for this practice is that managers do not want their staff to be penalized by the objective use of a system that is being abused by others. The underlying fear is that employees whose ratings are too low to qualify for a pay award may leave the organization as a result. Managers at all levels can render appraisal systems useless by focusing on those issues that matter most to them. When people evaluate others against criteria that supports their own vested interests, they introduce greater subjectivity into an already subjective evaluation process.[83] Such judgments smack of unfairness, which themselves can lower productivity.

In the last half of the 20th century, three new types of appraisal were introduced. Management by objectives has been discussed already. Multi-rater evaluation and self-appraisal are in use today and gaining in popularity.

MULTI-RATER EVALUATION

Multi-rater evaluation, commonly referred to as 360° (which includes other staff and managers in the firm) or 540° (which includes suppliers and customers) evaluation, was designed to replace the traditional supervisor to subordinate approach used by traditional organizations. In a multi-rater evaluation, anyone who has contact with the employee whose performance is to be evaluated rates that individual against criteria that are important to them. In practice, everyone evaluates everyone else, a kind of mutual admiration society. This approach tends to minimize the perception that anyone is being victimized, since it is unlikely for anyone to have a personality conflict with everyone with whom he or she works. It is thought that this composite evaluation generally provides a more complete picture of an individual's performance.

Perceived Dishonesty

Multi-rater evaluation, however, does have weaknesses. For many, there is the perception of overall dishonesty. Proponents of this system stress the importance of confidentiality so that raters are free to be candid, but, confidentiality in this respect is similar to being tried by a jury that is hidden from the defendant in order to protect their identities. Although frankness is important, it misses the point. Is the goal to "tell on someone" or to fix the problem? The secrecy associated with this type of evaluation does not promote communication. There is also a danger of, "You scratch my back . . ." as well. Another weakness is that people generally accept the use of multi-rater evaluation when the purpose is to identify development needs, but not as a measure of their performance,[84] and there are doubts about its claims to objectivity.[85] In addition, there may be greater potential for anxiety on the part of the person being evaluated because so many different people will be providing opinions, instead of just one supervisor.[86]

Expensive

Perhaps surprisingly, multi-rater evaluation costs the organization more time than management by objectives. In a traditional appraisal, the entire

interview would be completed normally in less than two hours. Completing just one composite evaluation that involved a number of subordinates and peers, as well as customers and suppliers, could take several hours for each person, and in a medium-sized company, a period of years to work through the entire organization. These estimates assume that the standard 15 minutes for each rater is used.[87] Longer evaluations would require even larger time commitments. This raises another important issue: how much can be learned about someone in 15 minutes? Although this depends very much on the interviewing and listening skill of the rater, the ramifications connected with the outcomes attached to these ratings demands much more careful consideration than can be accomplished in a quarter of an hour. Such paltry time commitments cast aspersion on the whole process. The organization faces a serious dilemma: how can it devote an appropriate amount of time to evaluation without spending all of its time evaluating?

There are other costs that must be borne by the organization: few firms have the skills to create and implement a multi-rater system effectively. Consequently, they must contract consultants to write, test, administer, and evaluate the surveys used, and then report those results to the organization. If this was not enough, multi-rater systems are considered to be the most effective when they are used regularly, but, this system depends on the use of a lot of forms, which adds more administration and more bureaucracy, both of which impact directly on the timeliness of the results when finally they are given. The system relies on an insufficient knowledge of the person being rated, and this affects the quality of the information provided about that person and the perception of overall fairness. Ultimately, a system that is improperly designed and badly implemented can cause much more harm than good. These costs far outweigh any benefits.

SELF-APPRAISAL

There is another type of appraisal that has gained in popularity in recent years, and that is the self-appraisal. It works like this: the employee documents his or her own work and submits it to his or her supervisor who plugs that information into the expected organizational format. In essence, the employee writes it, and the supervisor approves and signs it. Far from being an objective assessment of past performance, the whole exercise becomes a game through which both parties attempt to look their best. It is remarkable that this practice is so widely accepted and that there has not been strong union opposition to it. More to the point, if a manager does not know enough about an individual's performance to conduct a meaningful evaluation, why is that person making any evaluation at all?

FAILURE OF APPRAISALS

There are two fundamental causes that explain why appraisals fail to deliver convincingly, causes that simply are not being addressed. The first is that incorrect assumptions have been made about what can be achieved by using them. The second cause, discussed in Chapter 8, is that the method itself is flawed. If the assumptions are wrong, then there is little chance of adopting an effective method. The appraisal process has drawn together (all too conveniently) a number of activities that otherwise would not be seen in that light.

Ineffective for Motivation and Discipline

The first incorrect assumption is that appraisals are effective for motivation and discipline. The literature is replete with studies that identify what does and does not motivate people at work. Nevertheless, organizations continue to dabble with non-motivators in the vain hope that somehow they will be the exception. There cannot be many people who come to work early, go home late, take work home, or work on the weekends because as a direct result he or she will get a better appraisal. Appraisals do drive other outcomes, but it is not the appraisal that motivates. There is another more likely explanation. The Hawthorne Effect (see also Chapter 5), so named because of some experiments that took place at Western Electric in Hawthorne, Illinois,[88] may be the underlying cause that explains the supposed motivational effect of performance evaluation. Researchers had expected to find a direct link between the levels of lighting in the plant and worker productivity. It was simply a matter of identifying the optimum level of light required. In the first experiment, they told the workers that they were going to increase the light levels. Although no changes were actually made to the light levels, productivity improved. In the next experiment, they told the workers that they were going to decrease the light levels. Again, no changes were made to the light levels, but productivity decreased. In the third experiment, they said they would increase the light levels, but instead actually decreased them. Productivity improved again, and only when it had been reduced to the intensity of moonlight was there a measurable decline in productivity. Changing from a traditional appraisal system (which is unfriendly) to a multi-rater system, which is perceived as being more people-oriented or a self-rating system, which potentially gives the employee more control over the evaluation is bound to improve results. But it is not the appraisal that has created the motivation; it is the interest the management has taken in its employees, just as the researchers at Western Electric discovered. Therefore, in the absence of any prior

management interest in its employees, any initiatives are bound to be beneficial. But, just because motivation increases with the introduction of a new evaluation tool does not mean that the one caused the other.

Twenty years after the Hawthorne study, Frederick Herzberg engaged in a study that has become the basis for many other studies on motivation.[89] He equated job satisfaction with motivation. In his study, he identified five organizational events that improved job satisfaction and five that did not. The five events that motivated and gratified workers were accomplishment, credit for that accomplishment, the essence of the work, responsibility, and promotion. The five events that he identified as not motivating workers were organizational policies, supervision, salaries and bonuses, good working relationships and working conditions. It is significant that these factors are not antithetical. That is, none of the motivating factors is the opposite of the non-motivators. In other words, improving a non-motivator does not make it a motivating factor. Non-motivators are those things that all employees expect at work. They expect that all policies will apply to everyone. They expect to be paid at a level that is commensurate with the value they contribute. They expect to be given a safe place to work and to be treated with respect by those who manage them and those they manage. When these expectations are dashed, they become demotivated, but the presence of these factors does not motivate them because they believe they are entitled to them. In other words, employees will be motivated by the motivating factors as long as the organization supports them with the non-motivators. Changing the rules in the application of the non-motivators will cause demotivation, but improving them, at best, will only yield comments such as "It is about time" or "We are finally getting what we should have received all along." Employees know when they do good work. Those accomplishments motivate them to more and the organization's recognition that they have performed at a high level motivates them further, but telling them that they will receive a lower rating on their appraisal if they do not improve threatens them and induces fear. Fear lowers productivity; it does not increase it.

There will be some who will argue that sales people are motivated by money. There are two parts to answering this objection. First, sales people are not motivated by money, but they do have direct control over their total earnings, something that separates the computation of their compensation from almost all other employees. Instead, they are motivated by the chase, the moving and the shaking. Making the sale gives a temporary buzz, and the big commissions that come with it are seen as a just reward, but, true sales people – those who have been doing it long enough to know how hard they have to work for it – keep on doing it because chasing that sale pushes all their buttons. Second, the size of the commission or bonus involved for

making a particular sale or exceeding sales targets is much larger than anything the average employee is offered. Many sales people can expect to nearly double their annual incomes on the basis of what they sell. This level of compensation makes the bonuses of a few percentage points that are generally offered to average employees laughable.

Not only can appraisals demotivate, the manner in which they are delivered can also demotivate. One study suggested that only 17% of supervisors were interested in maintaining the self-esteem of those whom they appraised.[90] So, not only are employees told that their work is substandard, they are made to feel badly about themselves. The desire to achieve is closely linked to personal perceptions. It is almost impossible for employees to do good work if they do not feel good about themselves. If 83% of those who conduct the evaluations do not care about the self-esteem of those who they evaluate, how can that appraisal experience be expected to motivate anyone?

Some managers argue, however, that appraisals are needed because of potential disciplinary problems. This means that managers are documenting employee performance in case they fail. The Pygmalion Effect demonstrates that people will behave according to what they believe. They will see what they expect to see, and when they do, it will support what they originally believed. If they expect to have problems with a particular employee, it should surprise no one when they do. To be sure, habitually poor performance should be documented, but the appraisal is not the right tool.

Ineffective for Identifying Training and Development Needs

The second incorrect assumption is that appraisals are effective for identifying training and development needs. To use appraisals for anything except the evaluation of past performance against an objective standard is to send mixed messages to the employee. On the one hand they are being told that some judgment will be made on their performance, while on the other hand they are being told that any weaknesses should be raised so that the proper development can be identified and obtained. Especially in circumstances where the appraisal rating is linked to pay or bonuses, no sane person will admit to having such weaknesses if there is a chance that those deficiencies will reduce his or her rating. In addition, it must be recognized that both training and development are ongoing activities. They are not annual, semi-annual, or part of a 15-minute evaluation. Waiting until the annual appraisal to assess training needs or to identify development opportunities is like closing the door after the horse has bolted. Regardless of the efficacy in the creation or implementation of organizational plans, such goals provide an indication of what could be required in the coming months. On that basis, the need for new skills can be identified and the

means to obtain them can be acquired. Using appraisals for this exercise makes any decisions taken as a result reactive rather than proactive.

Ineffective for Determining Salaries and Bonuses

The third incorrect assumption, and this is the most popular, is that appraisals are effective for determining salaries and bonuses. There are a lot of organizations that still believe that employees are motivated by money, but as we have seen from the discussion above, this simply is not the case. Nevertheless, it seems that there ought to be some logical link between performance and pay. As we mentioned at the beginning of this discussion, there are a number of factors that have been drawn together for consideration under the umbrella of appraisals. These factors include performance, pay, training and development opportunities, training plans and motivation. Training and development plans generally support larger organizational plans by providing opportunities for employees to achieve, and such opportunities motivate them. Achievement collectively improves company performance, which delivers the objectives in the business plan. The odd-one-out is pay.

Performance-related pay

There are three popular ways in which pay is tied to appraisals. The first is through performance-related pay (PRP). PRP is nothing more than management by objectives or an individual scorecard with a pay award attached to it. Each year, the manager and employee agree a set of targets. A year later, the extent to which those targets have been met is assessed, and the outcome of this assessment becomes an overall performance rating, which then determines the pay award.[91] There are a number of problems with this approach. It is difficult to set measurable targets, to convert assessments of different activities into a single rating, to identify and separate the work of one individual from another as it pertains to organizational impact, and to exclude the impact of external factors. In addition, goals can be manipulated. Employees see PRP as a reward for past performance, whereas managers prefer to see it as an incentive to achieve in the future.[92] PRP has been shown to be ineffective, partly because money does not motivate and partly because of the differences in perceptions between managers and staff. The only practical use for PRP is in situations where a person or firm works as a sub-contractor who is paid specifically for what he or she does.

Competency-based pay

A second popular way in which pay is attached to appraisals is through the use of competency-based pay. Annually, a complete assessment is made of

the performance of employees, and this is compared with a group of competencies, such as what they know, what they can do, their attitudes, and their behaviors. Competencies are determined by the company in the absence of any discussion with employees.[93] This makes the process entirely subjective and demands skilled managers to make it work. But, basing ratings, and therefore pay on potential takes the focus away from results. If rewards were based on good intentions, everyone would be rich.

Stock options

A third popular means through which pay is linked to appraisals is through the use of employee stock option plans. In a recent study, the American Society of Training and Development found that despite the high levels of stock ownership by private citizens in the United States, such plans made no difference and did not deliver higher employee performance. These findings were made *before* the collapse in stock market prices following 9/11. One probable reason is that few employees own enough company stock to make a significant impact on their overall income. No matter how it is packaged, money does not motivate the vast majority of employees, and all such programs that are designed in the belief that it does do not change this fact.

SUMMARY

This chapter examined the mythological link between effective management and excessive measurement. Several popular tools and techniques were discussed. The balanced scorecard was designed to enable an organization to evaluate the degree to which it implemented its own strategies. It attempted to integrate both financial and non-financial measures of organizational performance so that short-term as well as long-term goals were considered. In practice, however, it evaluated the success measured by non-financial measures in terms of the success of the financial measures creating an imbalance that favored financial, and therefore short-term evaluation.

Benchmarking is a process through which one firm holds up another firm as the plumb line of its industry so that it can identify and adopt as many of its so-called best practices as possible. Adopting this practice, however, is subjective and makes the best practices of one organization the standard practices of another.

Management by objectives applied the same principles embodied in the scorecard to individuals. Employees agreed their goals and the means to attain them with their managers, and then after a prescribed period of time

evaluated their success in reaching them. More recently, these principles have been extended for use in the individual scorecard, the repackaged version of management by objectives.

Performance appraisals, though designed specifically to describe an individual employee from a number of perspectives, viz. his or her performance, training and development needs, as a means to motivate, discipline, and reward, do none of these things very well. This is due in part to the emotional pain they induce, their subjectivity, unreliability, and divisiveness. Managers have attempted to mitigate these problems through multirater evaluation, but the perceptions of dishonesty and the increased expense in implementation has offset any benefits it may have had to offer.

Self-appraisal has also been gaining wider acceptance, but far from assessing work performance, this method only reveals the ability of the manager and employee to cooperate in making them both look good to managers higher up the chain.

Appraisals are ineffective for performance evaluation, motivation and discipline, for identifying training and development needs, and for determining pay and bonuses. However noble their intentions, they have no place in value-based organizations.

NOTES

1. Kaplan and Norton (1996a).
2. Olve et al. (1999).
3. Kaplan and Norton (1992).
4. Kaplan and Norton (1992, 1996a, 1996b).
5. Kaplan and Norton (1996a).
6. Olve et al. (1999).
7. Olve et al. (1999).
8. Kaplan and Norton (1996a).
9. Kaplan and Norton (1992).
10. Kaplan and Norton (1996b).
11. Olve et al. (1999).
12. Kaplan and Norton (1992).
13. Olve et al. (1999).
14. Kaplan and Norton (1992).
15. Prahalad and Hamel (1990).
16. Kaplan and Norton (1996a, 1996b).
17. Kaplan and Norton (1992).
18. Kaplan and Norton (1996a).
19. Kaplan and Norton (1992).
20. Kaplan and Norton (1996a).
21. Olve et al. (1999).
22. Kaplan and Norton (1996b).
23. Kaplan and Norton (1996a).
24. Olve et al. (1999).
25. Kaplan and Norton (1996a).

26. Kaplan and Norton (1992, 1996a).
27. Kaplan and Norton (1996a).
28. Kaplan and Norton (1996a).
29. Olve et al. (1999).
30. Kaplan and Norton (1996b).
31. Olve et al. (1999).
32. Kaplan and Norton (1996a).
33. Olve et al. (1999).
34. Olve et al. (1999).
35. Kaplan and Norton (1992).
36. van Veen-Dirks and Wijn (2002).
37. Kaplan and Norton (1996a).
38. Kaplan and Norton (1996a).
39. Kaplan and Norton (2001).
40. van Veen-Dirks and Wijn (2002).
41. Kaplan and Norton (1996a).
42. Gaddis (1997).
43. Olve et al. (1999).
44. Kaplan and Norton (1996b).
45. Prahalad and Hamel (1990).
46. Olve et al. (1999).
47. Prahalad and Hamel (1990).
48. Poundstone (2003).
49. Prahalad and Hamel (1990).
50. Kaplan and Norton (1996a).
51. Olve et al. (1999).
52. Kaplan and Norton (1996a).
53. Olve et al. (1999).
54. Kaplan and Norton (1992).
55. Kaplan and Norton (1996b).
56. Kaplan and Norton (1996b).
57. Olve et al. (1999).
58. Jacobson and Hillkirk (1987).
59. Taylor (1919).
60. Gabor (1990).
61. Kelly (1999).
62. Olve et al. (1999).
63. Drucker (1955).
64. Carroll and Tosi (1973).
65. Drucker (1985).
66. Carroll and Tosi (1973).
67. Douglas McGregor described a Theory X management style as one that a manager would use to motivate employees who disliked work and who spent their time looking for ways to get out of doing it. The Theory Y management style was described as how a manager would behave toward his or her employees who enjoyed their work as much as they enjoyed life itself. See McGregor (1960).
68. Carroll and Tosi (1973).
69. Kaplan and Norton (1996a).
70. Olve et al. (1999).
71. Kaplan and Norton (2001).
72. Drucker (1985).
73. Olve et al. (1999).
74. Kaplan and Norton (2001).
75. Parry (1997).
76. McGregor (1957 [1979]).
77. McGregor (1957 [1979]).

78. Boswell and Boudreau (2000).
79. Boswell and Boudreau (2000).
80. Gregorc (1997).
81. Cochran (1977).
82. Bertram and Lindley (1994).
83. Parry (1997).
84. Boswell and Boudreau (2000).
85. Fletcher (1998).
86. Geake and Gray (2001).
87. Fletcher (1998).
88. Roethlisberger ([1941] 1979).
89. Herzberg ([1968] 1979).
90. Parry (1997).
91. Fowler (1998).
92. Parry (1997).
93. Fowler (1998).

PART III

Surviving the upheaval

8. Implications for organizations

Throughout this book, we have sought to answer two questions: how is work organized, and how is it managed? Chapters 1–4 demonstrated why work was organized and managed the way it was from the 16th century to the present day. Chapters 5–7 showed how organizations manipulated these traditional practices in the belief that such adjustments would give them the benefits of radical change while maintaining the status quo. We hope that this myth has been dispelled utterly and completely. The final section of this book is intended to answer the question, so what? What does an understanding of the historical basis for the organization and management of work mean for organizations today, and what does it mean for those who work in them? Chapter 8 considers the implications for organizations. Chapters 9 and 10 discuss the implications for managers and employees in general, and Chapter 11 is given to human resources managers specifically.

A good metaphor for an organization is a bungee cord. At rest, the cord has a fixed length. When stress is applied to the cord, it lengthens, but when the stress is withdrawn, the cord quickly returns to its original length. The cord personifies a traditional hybrid. At rest, it comfortably maintains the status quo. When change initiatives are applied, the organization stretches beyond where it normally would be without the application of these forces, but, when the initiatives come to an end, the organization goes back to the way it was. The net result is no significant change. This is because fundamentally the organization has not been changed to support either the new objectives or the initiatives. In the event, it performed in exactly the way it was designed to perform in the first place – to sustain the status quo and to prevent change.

Numerous books have been written in recent years that describe or prescribe various collections of steps, easy or difficult, to bring about organizational change. There is no need to name them here since a glance in the business section of any bookstore will reveal the latest fad. This chapter, however, is written specifically for those managers who are determined to let go of the traditional organization in favor of one that is value-based; to help them think differently about organizational change and to help them consider the implications for their organizations in this new context. Its main thrust is to demonstrate that the principles of a value-based

organization must be designed into it – that to become value-based is to make a deliberate choice to change from one type of organization into another. It is not intended to describe or prescribe the process by which it is done. Indeed, there can be no typical value-based organization. Every network and every organization has different projects, different people, and different customers. There can be no prescriptive design, nor indeed is that the goal. That said, we make no apologies for recommending that all organizations, in both the public and private sectors, strive to become value-based; nor do we shrink from reminding readers that to try to have it both ways will relegate all such organizations to the graveyard of traditional hybrids. Three characteristics separate value-based organizations from every other. First and foremost, they are in business to create and exchange value. Second, the infrastructure fully supports this objective. Third, the management and measurement of performance promotes value transpositions.

FRAMEWORK

The framework for rethinking the process of organizational change follows a simple mnemonic: CHANGE.[1] The considerable challenges managers face in changing their organizations, however, should not be confused with the simplicity of this acronym. Managers will have to battle constantly against their own propensities to revert back to traditional hybrid thinking and behavior. Thinking like a manager of a value-based organization requires equal measures of determination and flexibility since the change from a traditional organization or a traditional hybrid into a value-based organization for many will feel unnatural and uncontrollable. Within the mnemonic, ***C*** means *company* (organization) *desired objectives*. It answers the question, "Why is this organization here?" ***H*** refers to the health of the organization. It answers the question, "In what ways are we *not* value-based?" ***A*** refers to those *activities* that are preventing the organization from being value-based and that support and reinforce its traditional heritage. ***N*** refers to those activities that are *necessary* for an organization to become value-based. It answers the questions, "What must be done differently? How do value-based managers and employees behave, and how can we get everyone to behave that way?" ***G*** stands for *Goals*. It answers the question, "What does a value-based organization look like?" ***E*** stands for evaluation. It answers the questions, "How will an organization know when it has become value-based, and how can it prevent itself from drifting back into a traditional hybrid?"

VALUE

In the value-based organization, there are two brutal categories of activities: those that create value and enable the exchange of it, and everything else. This means there is really only one objective: to create maximum value and to exchange value as often as possible. It constitutes a single objective because the meaning of value is defined by both the one who creates it and the one who receives it. The two cannot be separated from one another. The words of the second sentence in this paragraph have been chosen very carefully. The value that an organization seeks to exchange is not limited to the value it creates. In the course of its business activities, it will acquire value it does not create, but, it always will seek to maximize the exchange of both the value it creates and the value it acquires.

All value-based organizations are designed for the expressed purpose of creating and delivering value all the time and to every customer and supplier. It is not about thinking outside the box; it is about discarding the box. In practice, this means that every form that is completed, every report that is written, and every telephone call that is made is done primarily to create and deliver value. Undoubtedly, this will be a contentious issue for some, but it must be recognized that to be value-based means that value and only value matters. It cannot be value plus non-value.

Arguably, the traditional organization was designed to deliver some value, but it did so only part of the time and only to some people. For example, in an automobile manufacturing plant, the finished car represented a unit of value. In exchange for the value received, the customer paid a sum of money to the company, and the company then paid its suppliers and its employees. Contained within the price of the car, however, were all of the administrative costs attendant not only to the acquisition of raw and partially finished materials for the car itself, but also to support activities such as payment for building rent and utilities. These latter expenses represented value that was delivered to the company by other suppliers, but not to the customer who bought the car. So, while the organization allegedly charged the customer for a particular unit of value, in fact, much of what he or she actually paid instead contributed value to others at his or her expense. This form of exchange has been acceptable throughout the industrial age, but it demonstrates that the traditional organization was not designed solely to deliver value all of the time and to every customer.

Chapter 4 described the nature of value in detail. In essence, it is a unit of tangible or intangible worth that a person or organization is willing to give or receive in exchange for a unit of equal worth, tangible or otherwise, from another person or organization. This reminder of the meaning of value and its continuous exchange through the value transposition invites a

comparison between what the organization wants and what it actually gets. Organizational health is defined by the extent to which it maximizes its creation and exchange of value. During such an examination, managers must be candid about organizational weaknesses, accepting the blame that is theirs, instead of blaming other factors or other people.[2] This presents opportunities to identify what value is being created and by whom, with whom is it being exchanged and, more importantly, who is being left out. Although the identification of activities that prevent organizations from becoming value-based is not intended to follow a strict cause-and-effect relationship, such as with the balanced scorecard, a frank analysis of what the organization experiences compared with what it desires is likely to reveal areas where value is not being transposed. For example, traditional organizations and traditional hybrids believe their raison d'être is to deliver value to stockholders. Regardless of whether this is the legal requirement (since laws frequently become out of date), most organizations cannot know who all of their stockholders are (see Chapter 4). Where the creation and exchange of value is pursued to the exclusion of all else, however, the value of the organization will rise, an event that will please and benefit stockholders. But, engaging in activities that are solely for the benefit of stockholders excludes other opportunities to create and exchange value. Stockholders should not receive value at the expense of employees who do not own shares, for example, and vice versa. Similarly, adopting a new process may enable the organization to generate greater profits, but it may also damage the local environment. Apart from the negative value exchanged and the consequent deterioration in public attitudes, the health of employees and their families may be affected, jeopardizing the productivity of the firm's workforce.

Creativity and Flexibility

Another activity that typically inhibits the creation and exchange of value is the organization's pursuit of greater control or its efforts to retain historical control. Value-based organizations demand an increasing degree of creativity and flexibility, something that is difficult to do in traditional organizations where the retention of that control is considered sacrosanct. For example, the total quality movement sought to eliminate variation and maintain uniformity, but creativity demands variation, and change is impossible without varying what has occurred in the past. To restrict variation is to prevent change.

In recent years, the need to innovate has become more important than sustaining high levels of control.[3] This is not to say that innovation was not important to the traditional organization, but only that attempts to innovate and the accompanying employee freedom needed were judged according

to the degree of control that would be lost. The nature of the traditional organization implied that there was a desire to retain the maximum control, but still innovate. The desire now is to exercise a minimum of control so that the greatest innovation is possible. The need for flexibility in establishing a climate for creativity is a result of the emergence of competition from nations who do not have the same bureaucratic baggage to shed as America, Britain and other older industrialized nations in which the traditional organization has been long established.

Creativity can be smothered by bureaucracy, stifled through unreasonable financial expectations, and scuppered by greedy organizations that are unwilling to give proper financial and professional credit to innovators.[4] The creation of value and new ways to exchange it often occur intuitively. Therefore, it is unlikely that such innovations will occur as the result of preplanned or restricted step-by-step development. More likely, it will occur in fits and starts. Maximizing the creation and exchange of value is also more desirable than efficiency. In fact, efficiency may no longer be a priority at all.

The creation and exchange of value can occur either because another means has been identified or because a problem has focused organizational attention on finding a novel solution. But, it is unnecessary to begin with a problem in order to find another way to create or to exchange value. For example, organizational learning is more than learning how to fix errors. To suggest otherwise is to infer that it is an entirely reactive process. Learning can result from both the identification of faulty behaviors and simply by doing something differently the next time; but adding new knowledge to existing knowledge does not presuppose that mistakes are necessary to instigate it. Learning must be proactive as well as reactive. It may be reactive from the standpoint that a gap has been identified, but that doesn't mean an error necessarily was made in the first instance.

An organization that focuses on delivering value asks of itself, "What do we do really well, and where else in the world can our technologies, experience, and expertise be exploited?" In traditional hybrids, there is the solemn lament about the decline in manufacturing capacity instead of the acknowledgement of the new opportunities to increase the volume or frequency of value delivered. Manufacturing will not cease to be important any more than the need for agriculture. People still have to eat, and society depends on machines, but, only those companies that deliver the most value the most frequently will survive.

Outsourcing and Offshoring

Organizations need to divest themselves of all that does not create value or does not assist directly in its exchange. This includes products, services,

practices, procedures, policies, attitudes, beliefs, traditions, and so on. Outsourcing – expertise drawn from outside of the organization, or offshoring – expertise drawn from another country – can be a valuable means to do this. It can enable an organization to obtain what it needs through short- to medium-term contracts without becoming distracted from its primary goal of value creation and exchange. Managers inhibit the ability of their organizations to create and exchange value by insisting on retaining activities that neither create it nor increase the opportunities to exchange it. A perfect example of this is administration. It has been estimated that, on average, human resources departments spend 90% of their time on administration. A value-based approach would be to subcontract as much of that activity as possible. The attitude must be, "How could we do this differently? How could we decrease our administrative workload?" One exercise would be to evaluate every form used by the organization to determine what is used, why, who reads them, and what is done with them. For most organizations, documentation grows with bureaucracy. The more bureaucracy, the more forms and the more copies of those forms. It is not unusual, during such an audit, to discover that many forms are completed solely to fulfill internal requirements that have since been superseded by newer forms or organizational policies. Once created, however, bureaucracy has an innate capability to survive. Managers seldom identify these activities as redundant because they have become part of the routine. It is also easier to moan about the volume of paperwork than to do something about it. The attitude should be "What *must* be kept?" not "How much can we keep?" It must be "How much can we discard?" not "How much can we retain?"

Suppliers who provide outsourced products and services should be chosen on the basis of their willingness to participate in value transpositions, not on price, past service, and not because too much time and effort is required to find someone else. Organizations also need to look for non-traditional markets in which they can enter into the value transposition. For example, Xerox decided to exploit the paper output market, rather than just make copying machines. One British company that made tarpaulins for more than a century now manufactures larger-than-life inflatable icons of other companies' products for use in exhibitions and sporting events. New markets can also be identified by improving the environment in which the organization resides, creating opportunities to exchange value with the community at large. The organization must decide for itself how it will recognize the ethos of its value-creating and value-exchanging personality and what evidence will be necessary to satisfy its skeptics. These decisions must not be limited to managers, but must include all those who themselves are involved in these activities.

INFRASTRUCTURE

Infrastructure is the heart of an organization. It can make or break any change initiatives. Yet, it is the very thing that seldom changes whatever the circumstances. Quite to the contrary, it is usually strengthened and reinforced in its old form. In fact, it is quite common for organizations that have downsized to attempt to do what they have always done in the way they have always done it with half as many people. Apart from the unnecessary stress this puts on those who remain and the likelihood that many will suffer as a result from stress-related illnesses or leave the organization altogether, this behavior proves that the primary motivation for the reorganization was not a fundamental desire to become value-based, but rather to do something to alleviate short-term difficulties while simultaneously keeping the organization as much like it was before as possible. Unless and until the infrastructure is changed to support the creation and exchange of value, it will eventually revert back to what it was. Firms that restructure because of pressure from their stockholders, or because they think they can obtain competitive advantage through strategic management, or because they believe that more measurement will make them better managers are stating from the beginning that their primary reason for downsizing is *not* to create or exchange value, because none of those things supports that objective. They may support other objectives, but the creation and exchange of value is not the driving force. The creation and exchange of value as the primary objective in principal mutually excludes every other objective. An understanding of this is *the* key to becoming a value-based organization. Chapters 5, 6, and 7 underscored the fact that a traditional hybrid is an organization that wants the benefits of change, but wants to keep on doing things the way they have always done them. If the objectives of the organization are anything other than to maximize the value it creates and to exchange value as often as it can, then that organization is not value-based, nor will it become so.

Organizational Redesign

Although it may seem palpably obvious, it is particularly in this respect that managers fail to recognize that everything within the organization is interconnected, that is, that everything is linked to everything else. This goes beyond the systems school, which asserted that there was a relationship between everything.[5] In practice, interconnectedness means that change in one area affects other areas. Similarly, and perhaps most importantly, the failure to change in one area directly impacts the ability of another area to change. For example, the human resources department may introduce

training to help line managers become better supervisors, while they themselves continue to use the same management styles that they had hoped to "correct" in the line managers. Or, a finance director might fund some away-day development for various employees, but along with the rest of the board, refuse to participate in the program. To become value-based, everything and everyone must change to support the creation and exchange of value. What usually happens, however, is that parts of the organization try to change, while those in control either do everything they can to prevent such changes from occurring or minimize the impact of those changes. Change means all change. No one is exempt. Not the chief executive, not the managers, and not the Human Resources department. What is expected of one is expected of all. It is remarkable that in a society that is allegedly resistant to change, people in general want everything instantly, whether instant garden makeovers or instant rewards. Instant anything is radical change, and it applies to the entire organization and everyone who works in it.

The implications of interconnectedness also extend to change initiatives. Despite the prevalence of advice offered in support of this view, attempting to change one part of the organization without changing another is a recipe for a traditional hybrid, because as the desired changes work their way through the organization, their impact often diminishes and loses momentum. The changes introduced at the beginning are likely to be more radical than the changes implemented at the end. This is particularly true where such changes are spread over a period of years. Managers of traditional hybrids often make incremental changes because they believe fundamentally that the organization is sound and all that is necessary is a little fine-tuning. But, the longer it takes an organization to implement these changes, the less likely that it will change completely. Metaphorically, changing an organization in this manner is similar to raising a large family. Parents tend to be strictest with the first-born. The fourth, fifth or sixth child, however, seems to get away with behavior far beyond anything the first-born ever dared to try.

Therefore, any organization that wants to change itself from whatever it is into one that is value-based must design itself specifically for that purpose. Such change can occur only if it is deliberate. It will never happen accidentally. In addition, the ongoing pursuit of continuous improvement will reinforce the reality that organizational change does not stop at the conclusion of a change initiative. There are four specific elements that must be part of any organizational redesign: 1) internal policies and procedures; 2) jargon; 3) culture; and 4) physical surroundings. Each element must be understood and interpreted in the context of the other three, and all four must be changed simultaneously if changes in any one of them are to be sustained.

Policies and procedures

Perhaps one of the most remarkable characteristics of an organization that is designed to create and exchange value is that it is able to do so most effectively where there is a minimum of formal organization. In a zero-based design that begins with no structure at all, the tendency to organize around function, product, end user or processes is minimized, and the greatest capacity for decentralization is put in place from the beginning. It is important for organizations to become as decentralized as possible since typically they will try to become more centralized over time, not less. The informal structure makes relationships between any parties in the network not only acceptable, but expected. The formation of such relationships are promoted by the firm and supported by its performance management activities. It allows those involved in the transposition of value to define the structure that works best for them, instead of having an artificial one imposed upon them. All who work within a particular organization are considered independent contractors (ICs) who are employed under short- to medium-term contracts. They know who in the contracting organization has the authority and the expertise to help them, but the structure does not restrict their ability to fulfill the terms of the contract. In other words, the structure serves those who create and exchange value, not the other way around. This concept of a design goes beyond the much-lauded organic organization, itself a traditional mutant. Chapter 4 described how organizational boundaries had blurred, and how groups of ICs followed the work rather than the firm. This is in no way contradictory to the concept of organizational design, but, rather than making the design the end,[6] managers must see the design as a means to that end. The test that determines the driving force behind the organization of work is the extent to which it artificially limits the creation and development of relationships. Structures that exhibit such limitations are bound to be driven by something else, such as processes or functions.

Following any restructuring, traditional hybrids seldom change their internal policies and procedures. Instead, they view the organization as a leaner version of the original. The hierarchy, the methods prescribed for how work is done, and the means to accomplish that work frequently remain unchanged. Managers still expect their employees to work within the chain of command, to follow existing rules and regulations and, apart from periodic information technology upgrades, to use the same tools and equipment. Employees are not free to share and acquire information or seek assistance through channels that are easiest or most efficient for them, or to explore and develop new ideas with people outside of their line of authority. Instead, managers are more concerned about the availability of timely information[7] than they are about allowing people to sidestep their

authority and get the information through in a timely manner. Informal structure opens communication channels, allowing knowledge to circulate freely. Restricting its flow, by imposing hierarchical controls, acts as a managerial tourniquet. The longer it is in place, the more the life is squeezed out of the organizational limb.

Jargon

The second element that must change as part of an organizational redesign is jargon. Traditional hybrids are awash with catchphrases and buzzwords because they believe that terminology that sounds right can be an effective substitute for genuine change. The public sector, especially, is notorious for its use of cute program names and clever acronyms. The use of such language, however, only reinforces the organizational and managerial myths that are so common in traditional hybrids. Saying something false to one's self with conviction over a period of time will cause that person eventually to accept it as fact. Similarly, organizations that use terminology such as rightsizing or competitive advantage continue to do so because they believe in these myths. Organizations, however, that are committed to becoming value-based will resist attempts to create new terms and abandon the use of old ones. Programs should be named for what they are, not for what the organizational propagandists would like them to be.

This principle also applies to the use of job titles. In traditional organizations, the words "supervisor" and "manager" described people who oversaw the completion of tasks. Due to changes in the nature of the workforce, these people have become mentors, coaches, and team leaders, who recognize the unique and special contribution that each employee makes. No longer are job titles used primarily to convey authority. As with any other IC, such titles communicate what that person does. For example, in some organizations, personnel or human resources managers have become organizational development managers.

Culture

The third element that must be part of any redesign is organizational culture. A particular difficulty with changing this element is that there is no agreement about how it is defined. Generally, culture is thought of in terms of the collective beliefs and assumptions[8] that a group of people within an organization have assimilated[9] from their workplace. These beliefs and assumptions constitute a shared emotional environment that reflects how people feel about themselves, the people for whom and with whom they work, and about their jobs,[10] and that create both personal and collective expectations about what behaviors they can expect from all with whom they have contact.

The presence of a mature internal political system is evidence that an organization's culture has not been changed to support the new design. Especially where policies and procedures are inflexible, organizational politics indicate that the rules and structures override value-based relationships. A consequence is that cliques and personal favors are used to grease the wheels of the organization, rather than the mutual exchange of value. This leads to "turf wars" in which the protection of political territory becomes most important.[11] Some managers systematically look for ways to discredit or dismiss those who disagree with them. As a result, those who want to advance learn either to avoid confrontation or to become yes-men or women.

The human relations movement, which began with the Hawthorne Experiments (Chapters 5 and 7) and became popular in the 1960s and 1970s failed largely because the culture could not change in a context where the internal policies and procedures,[12] jargon, and physical surroundings remained the same. Trust was then, as it is today, impossible in a culture of fear. Matrix design also failed for similar reasons, in that it attempted to mix an authoritative structure with one that was unstructured in an environment in which everything else remained staunchly traditional. Striving to operate a fluid and flexible value-based structure across traditional hierarchies and traditional organizational boundaries pits one system against the other. Fundamentally, it means there is irreconcilable disagreement within the organization and, as a result, negative value is transposed.

Surroundings

The fourth element that must be included within the redesign of an organization is its physical surroundings, that is, the space within which the work is performed. Changes in this element provide *visual* evidence that managers are serious about changing the other three elements of the infrastructure. For example, a common cafeteria in which everyone from the CEO to the building custodian can eat provides a social environment in which employees from different departments and from different levels of authority can meet. The elimination of reserved parking spaces for all but those who are disabled or visiting sends a message to staff that whoever arrives the earliest will have the greatest opportunity to find a place to park. Reserving parking spaces for senior managers, which, in any case, are frequently left vacant, wastes space and can have a demoralizing affect on the people who are there every day. Why should anyone have to put his or her car on the other side of the parking lot just because he or she is at the bottom of the pecking order? These so-called perks for senior managers make it plain to ordinary employees that whatever the rhetoric about organizational change, it is business as usual. Those who are so important

that they cannot walk an extra couple of hundred feet should have a bed and a microwave in their office.

A few decades ago, much was made of having an open-door policy, which begged the question: why have a door at all? Conference rooms can and usually are used for private meetings. The strongest way to demonstrate that managers are available to employees at all times is to situate them in the midst of those they supervise. Some organizations have eliminated offices altogether. This has been made possible by the installation of wireless local area networks. When senior executives, or anyone else for that matter, come to work, they simply find a hot-desk portal that is vacant, plug in, and get busy. One day they might be sitting next to someone from the IT department; the next, someone from customer service. This approach may not work for every organization, but this kind of open-plan environment makes the point that everyone has work to do and where it is done is less important than doing it.

If it is possible to hot-desk within the organization's premises, then it may also be possible to hot-desk from home. Again, home-working will not work for all organizations or for all jobs, and not everyone will want to do it, but for those who do and where it can be done, it should be included in the design of the organization. This practice reinforces the independent contractor mindset and gives the responsibility for getting the work done to him or her, to choose the hours and the days in which to do the work rather than relying on a clock-punching regime that makes sure everyone shows up at a particular time. Organizations that preach flexibility need to be flexible, and those that ask for trust must be trustworthy.

Another important issue concerns the use of technology. Some organizations acquire and replace technology so frequently that it seems that they do it by remote control. As with everything else discussed thus far, the technology that is used must support the organization's stated goal of creating and exchanging value. If the technology that it has already enables it to do that, it may not be necessary to replace it just because a new version becomes available. It is an expensive myth that only the latest, state-of-the-art equipment will do. To put it another way, the technology should be designed for the organization, not the other way around. For example, it may be possible to create a paperless office, but undesirable because to do so would limit the ability of people to create and/or exchange value. That is the acid test. Managers must also resist the temptation to design around technology that someone else says should be used. It is well worth remembering a principle that was in vogue for the acquisition of computer technology when desktop computers first came into regular use in the 1980s: first decide what the organization wants to do, then buy the software that does it, and then buy the computer that runs that software. The same

principle applies here. Managers must avoid being enticed to acquire technology that someone else thinks they should have, to do something that can be done with technology that is already on hand, and to avoid trying to do anything with technology just because it may be possible.

Many organizations today embark on change programs to increase or maximize their potential or to become more competitive. When a firm makes these things their primary goal, it is creating a battery of excuses for failure when their strategies do not materialize later. Such lofty phrases can mean anything and, consequently, aid in justifying why things do not happen, not in insuring that they do. To reap value-based rewards, organizations must orient their infrastructure to support value-based principles, and manage itself in ways that entirely support its stated desire to create and exchange value. There is no other way.

Organizations that have begun to change often find they drift back to old methods that are consistent with a traditional hybrid. That is why it is so important to establish from the outset that the only objective is the creation and exchange of value, because when it is anything else, it is too easy to cut corners and re-adopt past practices. Organizational change takes effort. By focusing on value creation and exchange, everyone is kept on track. Those readers who have skipped the earlier chapters in this book will be most susceptible to making this error. To redesign the organization so that its infrastructure supports its primary objective – the creation and exchange of value – managers must understand the historical reasons for past organizational design so that they will not be tempted to revert back to it, something that happens all too frequently. To sustain the change, there can be no going back. Managers must be willing to let go of the past and to be vigilant about following up the new behaviors attendant to becoming value-based.

PERFORMANCE MANAGEMENT AND MEASUREMENT

Management and measurement are two sides of the same coin, not micromanagement or excessive measurement, but rather support and reinforcement of the desired behavior. There are two key parts to this: 1) who does the work, and 2) how the behavior of those who do that work needs to be modified to improve their performance.

In recent years, much has been said about the need for organizations to hire the *right* people. The presence of any one of four factors typically has been referred to as *right*: raw talent, entrepreneurial inclinations, personal values, and core competencies. These factors, however, neither singly nor collectively, guarantee that those who are contracted to work for a firm or

on a particular project will create and/or exchange the value the organization seeks. Intelligence tests consist of problems that anyone can solve given enough time, whether a few extra minutes or hours, but these tests are far from precise. A person with an IQ of 150 is not twice as intelligent as a person with an IQ of 75. In fact, we cannot state confidentally that the difference between 100 and 120 is the same as the difference between 115 and 135. Those who score in the top 2% on IQ tests are eligible to join Mensa, an international society of highly intelligent people. Mensans come from all walks of life. Some have risen to the top in industry and politics, while others are serving long prison sentences. Many people, although ineligible for Mensa, nevertheless, have achieved greatness through sheer determination and persistence. Their lack of exceptional intelligence has not made any difference. Intelligence can be an asset, but it does not guarantee success. Moreover, those who are very bright as well as those who are entrepreneurial tend to pursue personal agendas that differ from those around them, and neither group necessarily makes good team players. In fact, groups that consist solely of people with exceptional ability seldom make good teams, as all-star athletic teams have demonstrated. Whether hiring the most talented or those with entrepreneurial predispositions, organizations that consistently seek the brightest people may find themselves in a very expensive bidding war with those of its competitors who are pursuing the same strategy.

Entrepreneurs tend to do their work in unconventional ways because they see problems differently from others. Creative problem-solving or outright circumvention of corporate rules are all part and parcel of how the entrepreneurial mind works. But, such behavior can isolate them from other workers and make them unpopular with their line managers. A significant characteristic of entrepreneurs is that they tend to have more unsuccessful attempts, not because they are less competent, but because they are more likely to try different ways of doing things more often. Thomas Edison is reported to have said that rather than failing, he had simply discovered 10 000 ways in which a light bulb would not work. People with entrepreneurial drives are inherently looking for better ways to do everything. They are not people who just follow orders. Ironically, when organizations are confronted with the entrepreneurs they often say they want, in an interview or in existing employees, they tend not to hire the potential entrepreneur[13] or tell the one who exhibits these inclinations to "go with the flow" or "stop rocking the boat." Over time, such discouragement can amount to a form of constructive dismissal. In addition, obtaining team workers does not occur by asking people on a questionnaire if they are or prefer to be. In a world where being a team player is a fundamental prerequisite, it is unlikely that anyone would admit to being anything else, entrepreneurs included.

In Chapter 4, personal values were described as the beliefs that determined what employees would or would not do. It is still a popular notion that hiring those people whose values are consistent with the values of the organization will ensure that both employees and employers achieve their goals. But, shared values do not mean shared goals. For example, most lawmakers agree that society would be improved if crime was reduced, but these views are shared by politicians across the political spectrum, and as a result the means through which one party believes that crime should be controlled is likely to differ from the means through which another party believes the same objective should be achieved.

Core Commitments

In Chapter 7, core competencies were discussed in conjunction with their use as a basis for bonus payments. These competencies consisted of knowledge, capabilities, attitudes and some behavior. But, like intelligence, these things cannot guarantee that value will be created or exchanged within the organization or the network because to a large extent they indicate only what might happen or could happen, not what will happen. In a value-based organization, the *right* people are those who are willing to make *core commitments*, [14] to work autonomously without a job description and who will embrace personal responsibility for what they do and what they ought to do. People who are willing to work in an environment like this must be afforded the full support of the organization and its managers.

Core commitments are undertakings that the organization and its employees, (that is, the network and its ICs), make to each other about how they will create and exchange value with each other. "Following orders" does not come into it because the commitments are made as a result of ongoing social and professional negotiations. These negotiations are not at all like the bellicose pre-contract discussions that often take place between unions and management, but rather reflect the respect and admiration each has for the other. These consultations are characterized by a deep desire by both parties to improve wherever possible the creation and exchange of value. This goes beyond merely hiring for attitude. Just because people share a positive attitude does not mean that they will make core commitments. Those who are willing to make such commitments, however, can be recognized by their perceptions of the completely decentralized organization, in other words, changes in the infrastructure; by the language they use to describe the now collegial relationships of people who, whatever their apparent position in the organization, in practice work side-by-side creating and exchanging value, rather than pursuing personal political ends; and who are not possessive about private offices, executive rest rooms, or reserved parking spaces.

These people practice what they preach – that we all are in this together. Such people expect of themselves what they expect of others. For them, personal responsibility is a virtue to be grasped. This attitude is in sharp contrast to the traditional organization that supported a blame culture. When anything went wrong, no one would own the error. Conversely, when things went well, the big chiefs would take the credit, deserved or otherwise. Short of saving a life, underlings seldom received the recognition to which they were entitled because their superiors were jealous of their successes. In value-based organizations, people have neither the time nor the interest in grabbing the limelight or diverting the blame. Personal responsibility goes with employability. Those who are unwilling to accept responsibility, whatever the circumstances, are not employable. Discretionary responsibility personalizes the work and promotes greater autonomy. To a certain extent, it answers the question, "What is in it for me?" This is a reasonable question for someone for whom that value is not apparent. Since the value transposition fundamentally concerns the *mutual* exchange of equal value, those who are interested only in transactions are less likely to make the extent of the value they intend to deliver evident to those who expect transpositions.

In a value-based organization, everyone is empowered, responsible, accountable, and motivated. They are expected to use their initiative and to take whatever steps are necessary to fix problems when they see them. Most importantly, the organization gives them the authority to do so. Reprimands are reserved for those who hide behind their job descriptions and assert that it is not their responsibility to notify anyone else about something that is not in their contract. Job descriptions or position descriptions, if they are used, are deliberately vague. This is not so that people can avoid responsibility, but so that the responsibility they want to assume is not limited needlessly. People who are willing to make core commitments should be left to their own devices to find their place in the organization.[15] This is normal practice in many organizations today. People who are good for the organization should be hired, offered all the support they want, and then be allowed to find their own way. Certain public sector jobs might require the use of position descriptions, but even in these situations such jobs could require staff to exercise judgment beyond the duties spelled out in that description. Equally important, however, is the determination by the organization to redesign its infrastructure to give their employees the freedom and encouragement to go beyond those boundaries. No one should be allowed to say, "This is my job" or "That is not your job."

The willingness to embrace personal responsibility bypasses concerns regarding the propensity of most people to choose a solution that is acceptable rather than searching for one that is better.[16] In the value-based organization, it is openly conceded that no one, including the CEO, has all

the answers or the expertise, but that does not stop anyone from looking for better ways to create and exchange value. In other words, unreasonable limitations should not be placed on the ability of employees to make decisions just so the organization can maintain some sort of artificial homeostasis.[17] For example, in the 1980s, Federal Express adopted the policy that they would do whatever was necessary to deliver their consignments on time. Employees who provided extraordinary customer service were featured in full page, four-color magazine advertisements. Some acts of service included hiring a dog-sled team to deliver a package containing software to someone in western Alaska. No doubt, the delivery cost for that item exceeded their profit margin, but it sent a powerful message to both their customers and their staff.

Feedback

It is irresponsible, however, to expect employees to pursue value-based principles while they are being evaluated with traditional methods. The performance appraisal is a traditional tool that has been imported lock, stock and barrel into the value-based organization. This shift appears to have been done without considering its appropriateness or efficacy. Whether an organization chooses to use the formal, traditional approach to evaluation or embraces the more frequent, but informal system of constant feedback will depend on whether the organization is traditional or value-based. Managers cannot have it both ways, but it should come as no surprise that some organizations will continue to deny this fact and instead expect to obtain value-based outcomes while using traditional evaluation methods. The more an organization measures itself, the more such measures are likely to reinforce short-term behavior. To reinforce long-term behavior, organizations must measure *less*. The constant use of performance evaluations subverts organizational strategy by making it tactical. Measurement adds control, the opposite of innovation.

Fundamentally, the effectiveness of performance appraisals relies on the formal manner in which they are conducted at prescribed intervals. In most organizations, the current method is designed to deliver certain results, but these are based on the incorrect assumptions discussed in Chapter 7. If appraisals motivated, if they were the most efficient and effective way to identify training needs, and if money motivated people the way many wished it did, then there would be no reason to change the current appraisal system. But, since appraisals do none of these things, managers, therefore, are depending upon a method that cannot produce the desired results, a frustration they feel acutely. This does not mean, however, that employee evaluations ought to be discontinued. There is a better way.

The nature of the evaluation is determined by the organizational context and the purpose of the evaluation. Having followed the discussions in this book, few would argue that either determinant would be the same in both value-based and traditional organizations, and given the failure of appraisals in general, there is considerable doubt that they are appropriate even in the most traditional firms. But, since this book is about managing value-based organizations, the use of a traditional method for traditional reasons in the new context must be called into question.

Traditional Appraisals

Traditional appraisals emphasize individual performance and often involve comparisons between employees. This approach automatically places people who are often supposed to be part of a team in competition with one another. Employees are usually rated on whether or not they completed various tasks – small jobs that are part of bigger jobs – rather than on the value they exchanged. Traditional appraisals may have one or more people who participate in the evaluation, and the final report may be endorsed by someone higher up the chain of command who may not know the individual personally or even understand the job that he or she does. These appraisals occur at fixed intervals, usually annually or semi-annually. Many organizations use them for disciplinary purposes, which is as effective as threatening a badly-behaved child in the morning with the punishment his or her father or mother will inflict that evening. The employee, like the child, will not know the full extent of the consequences until much later. In organizations, not knowing causes people to fear the worst. Worry decreases productivity. It also inhibits trust. Employees have a right to know when they have done something that is unacceptable as soon as it happens so that they can take steps to correct it, rather than being allowed to continue to behave in that way until appraisal time when it potentially may have more serious ramifications. The time to clear up any misunderstandings is when they occur, not some months afterwards. There is a mistaken notion, too, that appraisals are an effective communication tool, but how can something that is used only once, twice, even three or four times per year be considered effectual? Communication becomes effective by its constant exercise. Few mothers whose children are studying in out-of-state universities would agree that three or four letters in a year was regular communication.

We have seen, too, that pay and bonuses, as well as promotion, are often tied to traditional appraisals. The secretive nature of multi-rater feedback is seen as judgmental and contributes to the perception that it is not the developmental activity that is claimed. Also, the most popular pay reward

plans viz. profit-related pay (PRP), competency-based pay (CBP) and employee-stock-option plans (ESOP) are designed to reward individual behavior. Finally, traditional appraisals are formal. Everything is documented so that underperformers can be tracked and those individuals that are outstanding can be recognized.

Team Evaluation

In a value-based organization, team performance is emphasized. The team determines its own goals in the context of the organization's overall plan and evaluates its own performance against those goals. Evaluation is not based on what this individual or that individual did, but on what the team did. Not on what one person did, but on how that person helped the team to succeed. Even in the most progressive organizations, few people can articulate the individual contribution they make to the organization's goals. Human resources professionals find this difficult, and in a blame culture, people try very hard not to think about it. In a value-based organization, the evaluation method supports the goals of the company, team, and individual, so employees are not compared with one another. Comparing one employee with another is divisive and does not promote unity. Business partners may disagree, but they do not attempt to sabotage one another's efforts, and no evaluation system should give employees a reason to do so. Scrapping formal performance reviews does not mean that reviews are not important, only that they are so important that they must be done constantly. This approach has been used in manufacturing since the Industrial Revolution. No one would ever dream of evaluating the productivity of a machine once or twice per year. Quality control personnel are taking samples all the time. Likewise, managers should encourage, correct, coach, and help their employees in whatever ways are necessary every day. Regular, sometimes daily, feedback is necessary to get lasting change and improved performance. When employees are given the opportunity to fix a problem, the effort to change the behavior is immediate, the emphasis is only on the behavior and the outcome because there is no time for it to become exaggerated in the subsequent months leading up to the appraisal. The team leader and the team members always know what each thinks of the other's performance, so there are no surprises. This minimizes the opportunities to damage self-esteem.

The reward system must be congruent with the organization's goals. In a value-based organization, pay is separated from performance. Everyone is paid a basic salary and everyone receives an equal share of the profits. In non-profit organizations, funds that have been set aside for bonuses can be used instead. One of the problems with PRP, CBP and ESOP is the lack of

transparency. It is difficult for people to understand how what they do each day translates into a bonus or a share in the company. One way to solve this is to allow peers to nominate each other for such awards.[18] Nominations describe how a team member made a significant difference to the success of the team. All such nominations are submitted anonymously. In the public sector, two pots of money could be allocated: one to be divided equally among the team members and the other for team-nominated bonuses. If there are no nominations, the supervisor can combine them into one pot for all to share.

In order for managers and staff alike to understand what working on a team really means, they have to be considered a team in every respect. Everyone shares in the success of the organization if it does well, not just one or two employees. If there is no profit, then there is no profit to share. This approach prevents the most senior managers from being rewarded for failure. If salary increases are in line with inflation and promotions, and profit-sharing is based on profits, then everyone will understand that they are being rewarded for the collective results they produce, and there will be no reason to cap bonuses because they are based on a fixed percentage of the profits.

True teams are teams in everything. People cannot be expected to work together as a team, if they are evaluated or rewarded as individuals. The team should dismiss or discipline those who will not pull their weight. Pay should never be used as a threat against unmotivated or underperforming staff. Since money does not motivate, the threat of its withdrawal will only embitter the employee in question, and instill fear in those around him or her. Discipline and even dismissal are the only appropriate measures for people who will not take full advantage of the assistance of the team and the organization to raise their performance standards.

Since the value-based organization depends on relationships, trust, and communication, all evaluations must remain informal. The goal is to improve performance, not to attribute mistakes to a particular individual. Many organizations want their employees to think and behave like owners of the firm. This does not mean they are to be obnoxious, but rather that they are to be willing to commit themselves to the success of the organization as well as to their own personal success.

The traditional appraisal process is made out to be a clinical, predictable, controlled experience that will produce positive results. However, the formalization of the performance evaluation is a primary reason why appraisals are disagreeable and de-motivating. It makes the process unfriendly and diminishes trust. It causes the rater to focus on a person's weaknesses – what did not work – and instead becomes a missed opportunity for growth and development. In many cases, it requires another layer of bureaucracy just to

manage it. Such experiences contribute negative value to organizations and are responsible in part for reducing the overall value that is exchanged within them and within their networks (see Chapter 4). A number of companies have already abolished formal reviews. There is no good reason to document these evaluations, and it would be impossible to account for every single comment or correction a manager made in any case. Above all, a good working relationship would obviate the unpleasantness and eliminate the need for a formalized evaluation system.

SUMMARY

A traditional hybrid resembles a bungee cord that changes somewhat under pressure, but always reverts back to what it was when that pressure has been removed. Predictably, however, that organizational form responds according to its design – to resist change and to maintain the status quo. The purpose of this chapter was to impress upon managers the reality that value-based principles had to be designed deliberately into the organization, since such changes would not occur by chance. Value-based organizations are designed to create and exchange value. Their infrastructure supports that objective, and the management and measurement of all work performed in it is for the sole purpose of increasing the quality and the quantity of the value that is created and exchanged.

Organizations must take whatever steps are necessary to eliminate activities that are not value-based – by relinquishing those internal controls that inhibit its ability to create and exchange value and through outsourcing and offshoring. Everything in the organization is affected by everything else within it. This means that its policies and procedures, the language it uses, the culture it creates, and the physical environment in which people work, must all support the value-creating and value-exchanging objective.

In addition, it must hire people who are willing to make core commitments to the organization and to all other employees, to work together to create and exchange value and constantly to look for ways to do this better. Similarly, the organization and those within it must provide ongoing feedback on performance rather than rely on traditional evaluation methods.

NOTES

1. We are indebted to Martin Rickman, Commercial Director of Performance Advantage Ltd for the development of this mnemonic.
2. Hoag et al. (2002).
3. Simons (1995).

4. Quinn (1995).
5. Perrow (1973 [1978]).
6. Woodward (1980).
7. Kimberly (1981).
8. Ashforth (1985) and Nahavandi and Malekzadeh (1988).
9. Schein (1987).
10. Hoag et al. (2002).
11. Ohmae (1982).
12. Naisbitt and Aburdene (1985).
13. Kandola and Galpin (2001).
14. Hoag and Klinke (2003).
15. Ackoff (1999).
16. Simon (1976).
17. Perrow (1973 [1978]).
18. Rosenbloom (1995).

9. Implications for managers

In Chapter 4, we said that *value* in a value-based organization is much more than a single belief, or something that shareholders expect to receive, or something that is added later, or an action that makes someone feel valued. Instead, *value* is a unit of worth that suppliers and customers (that is, all organizations and all employees) contribute as their part of a value transposition. The ability of one party to deliver what the other values qualifies the former to engage with the latter in a value exchange. Both parties judge what is of value to them against criteria that are both similar and different. The implications for managers in value-based organizations are centered around identifying what value they can offer to their customers as representatives of their professions as well as their organizations. This chapter looks at the value that is expected when the organization and its managers are the suppliers and the employees are the customers.

DIVERSITY

The importance of managing diversity in organizations is not new. In some cases, laws have been changed to include and protect a variety of beliefs and behaviors. For many, however, managing differences between people has been limited to identifying the lowest common denominator of acceptable organizational behavior; that is, by seeking to be politically correct rather than by improving the exchange of value. In other words, managing diversity has become a euphemism for minimizing disruption instead of maximizing benefit. One implication in the management of diversity is that managers must recognize that a diverse workforce will have many different perspectives on what is of value to them.

Prior to the ubiquitous use of the term *diversity*, employers tended to acknowledge only a few differences between employees – principally, age, education, experience and gender. These four factors played a significant role in determining where someone was most likely to be found in the pecking order of traditional organizations. Although that organizational culture provided for an environment in which the oldest, most experienced men gave the orders and everyone else obeyed them, managers in the

horizontal revolution have had to learn how to cope with a world of work turned upside down, where the oldest, most experienced workers are often the least educated, and where the new managers may have comparatively little experience, and are as likely to be women as men. In addition, cultural, generational, and religious differences have been added to the diversity stew. The workforce has become a melting pot in its own right.

Globalization has given birth to the most diverse workforce in history. Immigration laws have been relaxed in some instances in an attempt to cope with the growing shortage of skilled labor, and offshoring has given workers around the world a virtual presence in organizations outside of their national borders. In the United States, Spanish is used so widely that many companies and some government agencies offer bilingual customer service, and Univision, the largest of the media companies for Hispanics in America, owns 55 television stations and disseminates its Spanish programs through a further 86 affiliate stations and nearly 1900 cable companies.[1] The British Social Services are no different. Basic instructions in several European languages are displayed in their reception areas to enable visitors to obtain the assistance they need. The collapse of the Old Soviet Union has precipitated a steady migration of peoples from East to West, and the continual expansion of the European Union (EU) has opened the doors for its citizens to work in any member nation it chooses from the Atlantic Ocean to the Mediterranean Sea. The explosion of the Internet has also promoted workforce globalization. News events and opinions make the journey from one continent to another in seconds.

Culture

The cultural origins of this global workforce have contributed to its diversity. Nation-states are often perceived to be at the top of the cultural hierarchy, but, in fact, they more usually reflect political decisions rather than ethnic homogeneity. In Europe, for example, from the North Sea to the Mediterranean, and from the Rhine to the Moskva, the national boundaries have been drawn and redrawn numerous times during the past 600 years.[2] Notwithstanding two world wars within the last century, these aberrations have not eradicated the cultures of the Germans or the Dutch, the Flemish or the Italians, or the Poles or the Slavs. The cultures of these people, as it is with all cultures, are characterized by their customs, their languages and dialects, and to a certain extent their laws, and variations in the location of the national boundaries has not changed that.

The culture of a group of people is defined primarily by the social mores that are acceptable to that group. The boundaries of these behaviors are sustained by a variety of additional factors such as language, government, and

geography. The longer these boundaries remain as barriers, the more pronounced the mores of that group become, because it is only by the interaction of groups of people with differing mores that particular behaviors common to one group are modified by or assimilated into another. For example, one influence of 19th-century Britain was to make English a primary language on five continents: Europe, Africa, North America, Australia, and India. Today, more than three-quarters of a billion people in the world speak English.[3] But, while there are similarities among these Englishes, there are also significant differences in vocabulary, grammar, spelling, and pronunciation. Vast distances have prevented these English-speaking groups from routinely interacting. It is only since the proliferation of satellite television, videos, and the Internet, that entire cultures have been exposed sufficiently to this diversity of English speakers so as to begin to homogenize those differences. Even so, it is unlikely that they will disappear altogether.

Although language and geography are powerful forces, they are not the only factors that can limit the characteristics of a culture to a people. National governments can also have a similar effect by enforcing strict border controls as did the Soviet Union on the countries of Eastern Europe.

The characteristics of a particular culture are a product of the collective responses of the members of its society to its environment. Among other things, this environment can be economic, demographic, religious, or political. For example, the population density in Japan is more than ten times that of the United States. It is not surprising, therefore, that Americans to a large extent are more individualistic than the Japanese. By sheer force of geographical expanse relative to the overall population, they have the space to live pretty much as they would like without taking too much notice of those around them, and many of them do. It has been this way since the nation's beginnings. In Japan, however, where there is much less land, society emphasizes the value of the group, a group that is conscious of and cares for those around them.[4] A consequence is that Americans tend to value personal space and individual expression more so than their Japanese counterparts.

Culture provides a context for the people who live and work in it. Whatever they value is reflected in their culture. The Bill of Rights within the United States Constitution provides an excellent illustration. Its first ten articles express the value that the Founding Fathers placed on, among other things, the freedom to worship without interference from the nation's government and the right to keep and bear arms. These rights were of value to them because they had been denied by the ruling British government prior to the War of Independence. Article One, which guarantees the freedom to worship, was intended to prevent any subsequent government

from imposing the equivalent of the Church of England on its citizens. Since the head of that church, the Archbishop, was appointed by the government, that political institution ruled the religious as well as the legal and social affairs of the people. The right to bear arms, Article Two, was intended to preserve the right to acquire and retain the means to defend oneself, an extension of the principal that a nation was entitled to defend itself as well.[5] But, these original contexts have been forgotten, and as a result, all manner of interpretations of these Articles as well as the other eight have emerged since. Nevertheless, the perception of what these rights constitute have value for those with American roots.

When workers migrate from one culture to another, they take with them at least some of the cultural context within which they used to live. Although many will embrace the new culture of the people where they reside, most will continue to value those things that were important to them in their home country. Specific events within a culture can also make a similar impression on a group of people. Many of those who grew up during the Great Depression, for example, still practice frugality. Some do it compulsively, saving bits of string and paper, "just in case." The culture of the 1930s is as alien to the culture of the 21st century as German culture is to American culture.

Managers must recognize that not only do some workers place value on different things, they may also value things that seem to be the opposite of what others value. For example, in France, those who are highest in the hierarchy carry the most authority, but, in Slovenia, those with the most expertise are recognized as being more senior.[6] Consequently French employees who value organizational authority will seek to position themselves higher in the hierarchy than Slovenian workers. Conversely, Slovenian workers who value organizational authority will seek to obtain it by developing greater proficiency. In the context of the value-based organization, managers must identify what workers value so that both they and the organization can provide it. It is true that employees are not their only customers, but managers and their organizations appear to have less difficulty in delivering value to those outside of the organization than to those who are within it; and given the diversity of what is valued by employees, it is no wonder that employers typically choose the path of least resistance instead of striving to deliver value on all fronts. The status quo – what has worked in the past – seems more attractive than ever.

Although diversity refers to differences in what people value, it is clear that many of them also value the same things. In Chapter 7, we discussed Herzberg's famous study in which he linked job satisfaction with motivation. As a reminder, the five organizational events that motivated employees were accomplishment, credit for that accomplishment, the essence of

the work, responsibility, and promotion. Another way to understand his conclusions would be to say that people are motivated when they participate in a value transposition with their managers and their organization, and when they are repeatedly given opportunities to do so. In a more recent study,[7] 20 characteristics of managers that employees admired were identified, including the ability to lead, get people to work together, empower, have a good working relationship with those they supervise, have a sense of humor, communicate effectively, listen, have a vision, be trustworthy, reliable, flexible, imaginative, and cope well with uncertainty. Managers who offer these things, offer what employees value.

Generations

Diversity in the perception of value is not limited to the culture of origin. Each generation also holds differing views of value. These diverse opinions have been the subject of much debate in the past. The ongoing inability of one generation to understand the other in the 1960s was referred to as the generation gap. It was topical at that time because the Baby Boomers significantly outnumbered the generation of their fathers. To the reigning generation, most of them veterans of World War II, the ever-increasing generation that followed – their children – constantly challenged their authority. The generation gap has not gone away. There is a gap of understanding between every generation. The difference between the 1960s and the 1990s was that the Boomers were driving the agenda at the end of the 20th century. The fact that other generations saw things differently rarely made the news because there were more of them than the generation before or any that followed. An amusing consideration, however, is that the Boomers, who fought so strongly against authority themselves, became the new establishment.

Each generation has people, events, jargon and fads that grip it. This collection of influences creates an identity that is reflected in its attitude about work. In the United States, the Great Depression and World War II made a huge impact on the people who lived through them. For them, having a job – any job – and keeping that job epitomized the essence of value to them. The Baby Boomers who followed were affected by the assassination of John F Kennedy, the Vietnam War, Watergate, stagflation and the oil crisis in the 1970s. All this, within the context of a general prosperity that pervaded American society in their childhood and early careers, gave them the desire to make the world a better place. Part and parcel of improving that world was self-improvement. Not only did creators of personal development books and tapes enjoy unprecedented financial rewards, but Boomers in general believed that they should have a job they liked and in

which they could make a difference; and that if it was unsatisfactory, they should have the freedom to change either the circumstances of the job or the job itself. The horizontal revolution, of course, made both of these aspirations possible.

The generation that followed the Boomers remembered how their parents were thrust out of jobs in the 1980s from companies to which they had devoted most of their working lives. This generation learned that organizations could not be trusted and that employability, indeed survivability, was up to them. It also taught them that all work and no play does indeed make a dull boy or girl. Most people today expect to have fun at work, even if their managers disagree.[8] The fourth generation in the workplace today are the grandchildren of the Boomers. In the United States, this generation is expected to be almost as large as the Boomers. Undoubtedly, their influence will dominate much of the 21st century.

Diversity in the workplace is visible in the many perspectives people have on what to do, how to do it, and where authority should be vested. There are different perceptions also on what commitment and loyalty to work look like. Regardless of the culture or generation, in the West the work ethic appears to have remained unchanged.[9] This is evidenced in part by the number of hours that occupy a typical working week. It is not the ethic that has changed, however, but rather what people value as their attitudes and behaviors regarding work reveal. For the parents of the Baby Boomers, hard labor and long hours epitomized loyalty to their firm. For Baby Boomers, longer hours was a means to make a difference, though disillusionment regarding the impact they actually have made has caused many of them to re-examine this. For the children of the Baby Boomers, work is only a means to an end. Nothing more. This generation is motivated to do whatever it takes to achieve personal goals, but the overriding principle is to perform that work in a way that suits them, including which hours of the day, which days of the week, where, how, and with whom. The goal is to accomplish the work, not fulfill a lot of useless criteria along the way.[10] Undoubtedly, their children will also express themselves in ways that differ from previous generations.

Religion

It has been said that one should avoid discussing religion and politics, even with friends, but, increasingly, religion is becoming an issue with which managers need to grapple. Most nations permit their citizens to practice religion in one form or another, though some have national religions that by law inhibit the practice of any other. In a diverse, globalized workforce, religion and the desire to practice it both on and off the job, are more important than

ever because many of those who in the past have been less verbose about their faith are now demanding that organizations cater for their needs.

For some, religion is embodied in the concept of God. Some believe in a sovereign, omniscient being. Some attribute god-like qualities to various members of the animal kingdom. Some worship people who have died, while others hold to long-established traditions. Whether managers believe in a personal God or not, they must recognize that the opportunities to follow the teachings of a personal religion are of value to employees. For some, having a particular day off during the week – typically Friday, Saturday, or Sunday – for worship is of supreme value. Others need to have a choice of acceptable food in the company's cafeteria that is identified in ways that have meaning for them. Still others may want to adopt a particular form of dress or be able to take breaks to perform other religious duties during the work day. But, managers should not ridicule anyone because of these beliefs. To do so is unprofessional, to say the least, and may be grounds for litigation under the First Amendment in the United States or similar protections elsewhere. More than that, such demeaning behavior withdraws value from the individual and ultimately from the organization.

INDEPENDENT CONTRACTORS

In Chapter 3, we observed that the old psychological contract, which joined workers to organizations by means of implied job security on the part of the employer, has been replaced by a new contract in which the worker agrees to contribute his or her time and expertise in exchange for employability. To suggest that few, if any, will work for the same employer for their entire careers does not cause the alarm that it once did. In fact, to continue to remind people of it is often seen as a mark of naïveté. In practice, all employees are independent contractors. By definition, they are engaged to provide value for a relatively short period of time. In most cases, they are expected to supply the equipment needed to complete the work and are responsible for sourcing their own health care, retirement plan and professional development – obligations that also hold for an increasing number of workers today. The likelihood that a particular contract will be renewed is up to the employee as much as it is to the employer. Neither makes any guarantees to the other, since both employees and employers are disposable. Independent contractors also have the flexibility to take vacations when it suits them. Upon completion of a contract, some may take a few days off; others may go away for longer periods of time. This cycle is often repeated throughout the length of one's career and is consistent with the desire to balance work with life. Students who take a year off to travel or

work before beginning their university studies or between their penultimate and final years are applying this principle. Total quality management does not come into it, but rather total quality life.

Inasmuch as the relationship between the employer and the employee has changed, the role of managers has also changed. No longer are they hired to scrutinize every detail of every job performed by those they supervise; rather their role is to use their expertise and sometimes their authority to remove obstacles that prevent the exchange of mutual value between the organization and the independently contracted employee. To think of it another way, the manager has become a *value-director* who guides value between both parties.

This also demands a new kind of leadership. Leadership is perceived by managers as being of the utmost importance, but most feel they lack the necessary skills. Typically, leadership is said to be exercised when the behavior of one effects a change in the behavior of another that under other circumstances would have remained the same.[11] Their feelings of inadequacy may be due in part to the fact that blind followership can no longer be assumed. In other words, just because someone is given a leadership role does not mean that people will follow him or her. Instead, they follow someone else or act according to what they think is right. Within the value-based context, however, persuasion cannot amount to coercion through which a unit of value is delivered reluctantly. Any disinclination prior to such an exchange degenerates the whole process into a transaction only.

In the value-based organization, the division between leadership and management is indistinct. Although in the past, the roles of leader and manager were performed by different people,[12] clearly this artificial distinction is counterproductive in modern organizations. One person can and often does fulfill both roles. The previous separation of roles also fuelled the myth that leaders must learn to follow in the first instance. In fact, many who are leaders are born that way. They have an instinct for independence and do what they think is right regardless of what someone else in a leadership role might think. Many people will follow someone whose behavior matches their convictions, but this is unrelated to the traditional notions of followership. The acid test as to whether leadership is being exercised is whether the people who are supposed to follow, do so willingly. Those who rely solely on authority are likely to find that they have a very small following indeed. The Armed Forces, many of whose members join principally out of a sense of patriotism are, of course, an exception to this.

Leadership in a value-based organization demands creativity, which may be more of an art than a skill. Creative leaders think laterally and swim continually against the traditional current, the status quo. They pursue constant improvement for everyone and seek to establish a structure that is

relaxed, informal, and value-oriented. One of the primary goals of a creative leader is to enable as many other people as possible to be creative also, since such is necessary to generate innovation. The key to leadership in a value-based organization, therefore, is not to dissect the behavior of leaders to see what they do or what they ought to do, but to show them how they fit into the process of value exchange. Where there is a commitment to create and exchange value, good leadership and management will emerge as natural by-products.

REASONS TO LEAVE

Managers often say that they want to obtain and retain the best people, but every day, many of them behave as if they wanted to achieve the opposite: that is, they repeatedly give those whom they manage reasons to leave. Principally, this is accomplished by failing to include them in value transpositions. In other words, both managers and their organizations fail consistently to give value that is commensurate with the perceived worth their employees believe they have given in return. This is critical to retention since, as a customer, employees are the final arbiters of what constitutes value to them.

Perhaps the most significant finding of the Hawthorne Experiments (Chapters 5 and 7) was that workers were motivated when the management took a genuine interest in them. From the perspective of the staff, managerial interest in their well-being was of value to them. Managers often create expectations that value is about to be delivered whenever they appear to take a similar interest. Whatever the new prospects are, managers have a window of opportunity in which to deliver that value. The Reverse Hawthorne Effect occurs when employees have their hopes raised, and then have them dashed. This happens when managers fail to deliver the value they intimated earlier. For example, consider all the hype that often attends the introduction of an organizational change initiative. In the minds of the employees this may have generated great anticipation that things finally will change for the better, that meaningful change will take place. Often, however, nothing really changes. The organization emerges from the change program as the traditional hybrid that it was when the program began. Herzberg (Chapter 7) alludes to this. He said that tampering with organizational policies, supervision, and otherwise good working relationships demotivated people. Once hopes are raised, failing to act can cause as much or more damage as doing the wrong thing. Some managers practice a kind of expedient management when they act in the absence of absolute principles, that is, they do what works and not what delivers the anticipated value.

This is short-term thinking. If managers have any doubts about the likelihood that they will deliver what they have implicated, they should avoid any behavior that will create such optimism.

If predominating management styles are anything to go by, it is clear that organizations still believe that they only need to provide their employees pay and as few benefits as the law and the unions will permit. In return for this compensation, some managers seem to believe that they are entitled to bully, harass, threaten, or even abuse their employees, if not physically, then certainly emotionally. But, there are less overt ways in which staff are given reasons to leave, through organizational policies and managerial behaviors. These two factors can disrupt the value equilibrium (Chapter 4) and cause employees to adjust their behavior according to their perception of the value that both deliver to them. Specifically, organizations encourage staff to leave through their policies on recruitment, personal relationships and surveillance.

Recruitment

Organizations frequently encourage their employees to leave by the ways in which they recruit new staff. Some believe that they should bring in new talent, that new blood will yield fresh ideas. This practice tells existing employees that if they want to progress they need to leave their current employment to do it. The subtext is that managers will consider only those who have experience elsewhere; that the experience gained in the organization that employs them at present does not count or is inadequate in some way.

Banks treat their customers in a similar manner. They offer the lowest interest rates to those who transfer credit card balances to them, but subject customers with current balances to the higher rate of interest. It is another way of telling people that existing business has less value for them than new business. The problem with this approach, whether it is with banks or organizations in general, is the false assumption that these customers will come back. People lead busy and complicated lives. Why, having taken the trouble to change jobs, would someone then want to return to their old employer? Considering the anxiety associated with moving, which often involves selling the family home and taking the children out of one school and putting them into another, the reasons would have to be very compelling indeed.

Just as banks fail to offer lower interest rates to existing customers, so organizations frequently fail to offer the monetary incentives designed to attract new people to those who already have chosen to remain. The subtext here is that employees who want the incentive payment must leave their

present employment to become eligible for it. In Chapter 4, we suggested that organizations should look for ways to provide value at the earliest opportunity and not wait to deliver it at a later time. That this principle has been misunderstood is demonstrated in part by the practice of recruiting people from outside of the organization without giving those within it every opportunity to fill its vacancies.

Managers must also recognize that the "best" talent, increasingly, is surfacing in unexpected places. Top graduates are as likely as not to be middle-aged or older, but that in no way diminishes the value they can deliver. In fact, since their absentee rates tend to be lower, they can potentially deliver more value than a younger worker. Although age discrimination is illegal in the United States, it nevertheless still occurs every time managers allow themselves to be influenced by the age of an applicant. It is easily done, since most people who have the authority to hire also have in mind an "ideal" candidate. Such ideals usually extend beyond education and experience. Managers should remind themselves that most people do not reach the pinnacle of their life's achievement until *after* their sixtieth birthday. It is ironic, therefore, that workers younger than that are often cast aside as being too old.

Personal Liaisons

The second organizational policy that encourages employees to leave is the prohibition of personal or romantic relationships with other employees. Given that people spend the majority of their waking hours at work, it is more than likely that they will be attracted to someone in their place of employment. Some employees may attempt to carry on clandestine relationships, but these are difficult to conceal for any length of time. More probably, the organization will lose both members, a prospect it can ill afford in a climate of skill shortages. Professional ethics notwithstanding, attempting to regulate the personal lives of workers hearkens back to the 18th and 19th centuries when mill owners levied a whole list of restrictions on those it employed.

Indiscriminate Search and Surveillance

There is a third organizational policy that encourages staff to leave. It is the routine testing of everyone in the organization or department for drug or alcohol abuse, or the blanket surveillance of the web-surfing habits of employees while at work. It is one thing to conduct such investigations on the basis of genuine suspicion; it is quite another to do it to everyone, on the off-chance. Article IV of the Bill of Rights protects citizens of the United States

from illegal searches by insisting that law enforcement agencies have probable cause and, in some cases, prior authorization of the courts. This prevents, for example, random breathalyzing or other so-called “fishing expeditions” of a person or his or her possessions. These laws vest trust in the nation’s citizens, that most will obey its statutes. To make random tests would raise society’s suspicions of itself. Who then could be trusted? Similarly, testing or monitoring everyone in an organization breaches trust. It should not be necessary to use this form of “mystery shopping” to discover the truth. Some managers will argue that the risks attendant to substance abuse are too high to wait for evidence to emerge, but, those who hold this view are misinformed. Only very rarely will such abuse affect the quality of work without first being evidenced by a change in behavior. Such ignorance can be overcome easily through proper training. Managers can learn to recognize symptoms. Athletes have said that they want everyone to be tested presumably so that the press, in particular, will believe that they did not cheat. But, the physique of athletes who dope deliberately will be apparent before any important contest. The disgraced Canadian sprinter, Ben Johnson, is a case in point. Even the sports commentators remarked before he ran his record-breaking 100 meters that he looked much bigger than they had remembered seeing him.

Not only do organizational policies give employees reasons to leave, but so do managerial behaviors, principally, favoritism, ethnocentricity and micro-management.

Favoritism

Managers show favoritism fundamentally when they apply policies or rules unevenly. The perception of many employees is that those at the bottom of the hierarchy are more likely to experience the letter of the law than those nearer the top, and that the degree to which these directives are enforced has more to do with who you are or who you know, than what you do. Managerial behavior of this ilk calls into question the integrity of all managers, regardless of how many are engaged in it. Rank has its privileges, but it also has its responsibilities, and one of those responsibilities is to apply the policies and rules of the organization as strictly to those who have authority as it does to those who do not. The perception, however, is that those who lack the authority to defend themselves in this respect are made to be scapegoats for those who do. These double standards give employees ample reason to leave. Just as managers close ranks when the organization seems to be under threat, so do employees when they feel intimidated by managers. Suspicion breeds more suspicion. An entire organization can grind to a halt as a result.

Age discrimination is not limited to the organizational level. It also occurs at the managerial level. Withholding developmental opportunities from those that are considered too old or even too young is another form of favoritism that encourages employees in those age groups to leave the organization. You can teach an "old dog" new tricks if the "dog" wants to learn. It is also true to say that there are some younger workers who do not want to learn, but ironically their unwillingness is attributed to immaturity rather than to inability. Older workers need to understand how their employability will be improved by affording themselves of any available training and development, but they should not be ostracized from such opportunities because of their age. In a day of skills shortages, retaining older workers should be a top managerial priority. Older people have a lot of valuable experience that should not be squandered. Since they, like everyone else, are independent contractors paid to deliver value, the worth of that value ought to determine their compensation, not their age. This obviates the problem that organizations often face where they feel they ought to pay older workers more than younger ones. Age is irrelevant. Only the value they provide matters.

Ethnocentrism

The second way in which managers give their employees a reason to leave is through their ethnocentric behavior. Ethnocentrism is the widespread belief that the laws or the customs of the home nation are better than those in any other nation. A good example of this can be understood by comparing one aspect of British and American culture. In Britain, motorists are expected to drive on the left side of the road; in the United States, they are expected to drive on the right. Which is the correct side? The answer depends on the culture. It is as unacceptable to drive on the left in the US as it is to drive on the right in the UK, but that does not make one more correct than the other absolutely. Nevertheless, it is startling how many Americans when visiting the United Kingdom ask why the British drive on the *wrong* side of the road. That is ethnocentrism. Those who think that because they drive on the right, everyone else should do so, have forgotten their American history – that Britain established its colonies in North America more than 150 years before the 13 colonies formed the fledgling United States.

When ethnocentric beliefs are put into practice at a managerial level, the result can be that the value that is offered to one, although consistent with the value that is offered to others, nevertheless can be considered of little or no value to the one who is receiving it. This occurs when a manager who believes that the value he or she is offering is in some way superior to the

value that the recipient wants or expects. For example, it may be the practice of a manager to give each of his or her employees a bottle of wine from his or her family's own vineyard for Christmas. To people who drink wine, this would be very special indeed. To those who do not drink wine, it would be of no value, and in some cultures it would be considered an insult. On a more primitive level, this behavior can be observed at some corporate parties, where the office drunk cannot grasp the fact that some people prefer water.

It is an unfortunate fact that many managers in American companies hold similar views towards foreign nationals, including those who work for them in their native countries. Some of these managers have stated in no uncertain terms that it is their duty to teach the rest of the world the *right* way to manage a business. It is true that we can all learn from each other, but, it is nothing less than xenophobic arrogance to suggest that one nation, one company or even one manager has all the answers. Yet, this is precisely the message that managers convey when they act in ignorance or complete disregard of what others value.

Micro-Management

The third managerial behavior that gives employees a reason to leave is micro-management. It is rare to find a micro-manager who is willing to admit that he or she is one. The majority believe that they are just doing their jobs well. The difference between good management and micro-management lies in the degree to which a manager examines the detail of the work performed by those he or she supervises and the motivations that lie behind it. There are three motivations that drive micro-managerial behavior: malice, arrogance, and low self-esteem. These three factors can occur in isolation, but usually they each feed on one another.

Some managers have no interest in engaging in a value transposition with those they supervise. They see others as their personal stepping stones to greater things, pawns in a giant power game. They are possessive about their authority, and they use it wherever they can to manipulate others. They also take a devilish pleasure in meting out discipline to those who are unable or unwilling to respond to their unreasonable demands. Arrogant micro-managers feel that no one is capable of doing a particular job as well as they can, but that their own responsibilities have forced them to delegate that work and that as a result they must settle for the substandard efforts of others. Those to whom the work has been delegated sense this acutely. Insecure micro-managers have considerable doubts about their own abilities, and consequently they doubt the abilities of others. Malicious and arrogant behavior are characteristics of bullies, who themselves are insecure. Rather than helping those they supervise to overcome their weaknesses,

they instead use these deficiencies as a means to strengthen their position in an attempt to make themselves look good to their bosses.

All of these micro-managers use a variety of administrative devices to insure that the work their subordinates perform meets their standards. Typically, they demand the completion of excessive numbers of forms, checklists, and reports. Not only must employees do the work, they must also declare that they have done it and that they have done it in a particular way. This additional workload is a key factor in propelling staff not only out of organizations, but out of their professions altogether. The increasing shortage in school teachers is an apt example. Students are expected to behave like adults or adults in waiting, but teachers and even some principals are treated like children by senior administrators. Teachers teach because they love the profession and care deeply about their students. But, the consistent lack of support in dealing with parents and students plus the ever-increasing administrative workload has gradually drawn them away from what they love. They want to teach, not fill out forms about how and what they teach. Since most of them do not want to be administrators nor do they want the hassle of fighting battles their supervisors are paid to handle, they instead leave the profession altogether.

Micro-management also centralizes authority in the micro-manager. It prevents those whose jobs demand that they make decisions from doing so. It forces subordinate managers to obtain permission to act and consequently delays the accomplishment of work. Many organizations require prospective employees to have completed some form of higher education, itself an expensive undertaking, but after they are hired they are told explicitly or implicitly not to think, but rather to just follow orders. The implication is that the organization does not value higher education, but instead uses it simply as a means to filter candidates from the employment pool. Some managers with little higher education themselves, cast aspersions on those who do, believing that no matter how many university degrees someone possesses, these are no substitute for experience and a little common sense. These attitudes are not lost on those who have earned their degrees.

Micro-managers also persistently waste other people's time and thereby drain the organization's resources. In addition to the inordinate quantity of paperwork that they require, they schedule frequent meetings that are long and tedious. Most of these meetings amount to no more than briefings and are very costly indeed. It is a worthwhile exercise to add up the collective wage cost per hour of those who go to such meetings and to consider deducting the total from the budgets of those who call them. The organization pays those who attend whether they are doing their work or listening to someone drone.

SUMMARY

Globalization and longevity have produced the most diversified workforce in history. Not only are employees distinguishable by their education, experience, and gender, but also by culture, generation and religion. Managing diversity pertains to developing an understanding of what people value.

When organizations dissolved the psychological contract they, in effect, told their staff that employee loyalty was no longer of value to them. This made every worker an independent contractor and changed the role of the manager from a supervisor or facilitator to a value director whose responsibility it now is to insure that both employees and organizations receive the value they expect. That many organizations and managers are uninterested in what their employees value is the primary reason why they find it difficult to retain the employees they want. Through their recruitment policies and interference in the personal lives of their staff, organizations routinely encourage their employees to leave. What keeps them in the employ of an organization is not physical hunger, except perhaps within the shortest possible time, but a limitation on the options open to them to find another opportunity with enough value to make a change worthwhile. It does not mean they will not find it or that they are not looking. Managers encourage their staff to leave through favoritism, ethnocentric behavior, and micro-management. If managers lower the paltry level of value they offer sufficiently, it will make the options that their employees have that much more attractive.

For organizations to retain staff, they need to give them reasons to stay. Fundamentally, organizations must increase the level of value they offer and sincerely engage in the mutual exchange of that value with everyone employed by them. Specifically, they must offer the same job opportunities and incentives to those in the organization as they do to those who are outside of it. They must respect the private lives of the independent contractors who work for them, instead of seeking to regulate them; and they must limit their use of search and surveillance to those individuals whose behavior at work warrants it. Similarly, managers can encourage people to stay by applying organizational policies without respect for person or position, by recognizing that the value they have to offer may not be perceived as value to those to whom it is given, and by acknowledging that the people they employ are more likely to produce work of a high standard if they have the confidence of their managers to do so without having to complete a lot of extra documentation to prove it.

Independent contractors want to exchange value with those who have engaged them. But, if organizations and managers instead repeatedly give them reasons to leave, then they are encouraging them to participate in

value transpositions with their competitors. If they give their employees reasons to stay, then they testify to their own commitment to engage in value transpositions. The question is not whether their people will exchange value, but with whom.

NOTES

1. www.univision.net/corp/en/overview.jsp
2. Duroselle (1990).
3. McCrum et al. (1987).
4. Hofstede (1994).
5. Rushdoony (1978).
6. Globokar (1996).
7. Hoag (2005).
8. Ashworth (2001).
9. See for example Furnham (1990).
10. Zemke et al. (2000).
11. Smith (1991).
12. Urwick (1937).

10. Implications for employees

In Chapter 4, we said that all organizations and their employees are both suppliers and customers, and in Chapter 9, we stressed the need for managers to deliver those things that their customers, that is, their employees, value. This chapter looks at the other side of the coin, where the organization and the manager are the customers, and the employees are the suppliers.

EMPLOYABILITY

The dissolution of the psychological contract absolved organizations of more than employee job security. It also shifted the responsibility for that employability away from organizations. At a stroke, employees became independent contractors, accountable to themselves as much as they ever had been to anyone else. Managers recognized almost immediately these implications. Principally, it was no longer their responsibility to continue to provide work for those they currently employed. Instead, they contracted workers for a fixed period of time, from a few months to perhaps a few years. The employment contract personified a kind of no-fault event in which both parties collaborated and then separated and, at least in theory, had no regrets. Many employees have failed to grasp the implications of this transformation. They expect to have their contracts renewed, as well as everything else attendant to them; that is, they still expect the employer to do all that is necessary to provide them with work, and they expect that same employer to provide the plant and equipment to perform that work. In addition, they expect their employer to pay them for all public holidays, as well as for vacation and sick days, and to provide and administer work-related benefits such as retirement plans and professional development, just as they always have done. The reality, however, is that all that makes employees employable is now up to the employee. The end of job security has spelled the end of traditional employability.

Employability is based solely on value. It does not matter how old an employee is, or how long he or she has worked for the organization. It does not matter how many degrees or certificates he or she has earned. Gender does not matter, nor does religion, nor any other individual characteristic.

The value to be delivered determines who is employed and how much that value is worth. In Chapter 1, we learned that master craftsmen, the skilled labor of the day, were paid according to what they did and that the unskilled were paid for their time. In those days, the unit of time was a day, though by the middle of the 20th century, inflation had reduced the basic unit of work to an hour. The skilled were in the minority; the unskilled in the majority. The horizontal revolution has marked a reversal. Today, the skilled outnumber the unskilled, but still most are paid as if they are unskilled – for their time, not for what they accomplish. As with all independent contractors, the length of time required to complete a job is largely up to the contractors. The customer may suggest a deadline, and early completion bonuses or late completion penalties may be attached to the contract, but once the responsibility for completing the work is passed to the contractor, it is up to him or her. The agreed remuneration does not change, whether the work is finished at the beginning of the term or at the end. Since the value delivered is what matters and not how much time or effort is expended, independent contractors (née employees) must become effective personal managers. They must manage what they do, when they do it, how and where, because their continuing employment depends on it.

MANAGING YOURSELF

Every generation, in some measure, rebels against the authority that is over it. In the case of the Baby Boomers, however, little did they dream that concomitant to their rebellion, they would be given such liberty at work. One day, it seems, there was an immovable authority – an inflexible chain of command; the next day, unrestricted freedom. In Chapter 3, we said that the role of the manager had been decentralized down to the personal level. Such freedom carries heavy responsibilities. For some people, this creates intolerable insecurities. In one organization, where creativity and personal responsibility are revered, employees have left because they had too much autonomy.[1] They had become accustomed to being cared for by someone else, and when that security blanket was removed, they felt too vulnerable to continue. They gladly would have exchanged some measure of freedom for some measure of protection and, in so doing, accepted a greater degree of authority over them. But, they did not know how to manage themselves. They failed to understand that the value they delivered and the manner in which they delivered it were not limited to a job description. In a time planning workshop, one delegate who had grown up in the Soviet Union prior to its collapse, struggled to plan her day, even though she had the opportunity and flexibility to do it. She said she was sure it was something she should

do, but felt she needed to take the worksheets home to think about how to complete them. She had not been brought up under that freedom and even when she realized that she had it, she was unsure of what to do with it. Similarly, there are many independent contractors (ICs) who prefer to believe that they are traditional employees, and consequently, they are unable or unwilling to take personal responsibility for managing themselves.

Self-management implies self-control. Control, one of the activities of the traditional manager found in the acronym POSDCORB (see Chapter 2), has been devolved to the individual. ICs manage themselves in much the same way as traditional managers did with entire organizations. They plan what they will do, and determine how, where, and when. They organize their resources so that their time is used appropriately. Their input regarding staffing, that is, who they know will be able to bring value to its outcome, will be important. They direct themselves to perform what they are most competent to do and leave those things where they lack expertise to others. Directing, however, is not a term of power or authority over others, nor is it a case of doing what is the most fun or has the greatest accolades, while leaving the less glamorous work for someone else. ICs must coordinate their own resources and activities. Reporting means to provide feedback to your colleagues in the project or to the client and to use self-talk as a means of personal accountability. It also means if you are not receiving as much feedback as you would like, it is your responsibility to ask for it. You cannot afford to assume that no news is good news. All of this contributes to what managers and their organizations – the customers of independent contractors – value; and ultimately, what others value drives employability.

Independent contractors must provide their customers – their managers and their organizations – with value for money instead of value for time. Not only are workers today the most highly skilled and highly educated in history, they are also the most expensive. The aggregate remuneration for labor in most organizations is by far the largest expense. For this reason, the need to reduce organizational costs nearly always means a reduction in personnel. When managers lay-off experienced people, it means that the cost of keeping them exceeds the value they can provide. Those who do the work, therefore, must consider how to balance the worth of what they can deliver against attempts by the organization to obtain similar value in another, less expensive way. Time is not money; only value is money.

In Chapter 9, we stressed that managers must take into consideration those things that the diverse workforce values. Similarly, you must consider what managers, who are characterized by this same diversity, also value. Just as contractors may originate from any continent, nation, culture, generation or religion, so do managers. Many contractors value honest dealing in business, as do many managers. Some contractors value autonomy at

work, as do some managers. A growing number of contractors as well as managers value the freedom within their society as well as on the job to submit to the disciplines of their faith or religion. As an IC, whatever considerations you expect from your managers, you must also be willing to afford to those who manage you.[2]

It is not enough, however, to have the capability to deliver value or to be cognizant of what others value. Although it is impossible to be employable without them, by themselves they are ineffective. Your current client may refer new business to you, but ultimately it is your responsibility as an IC to insure that not only your immediate customer knows that you can deliver what he or she values, but also that those in your network also know it.

NETWORKS

In Chapter 3, we said that one imperative of the horizontal revolution was the interminable need for people in general to expand the boundaries that defined the connections they had with others. We said that everyone was on a mission to introduce people into their networks who could contribute the most value and that this implied direct action to simultaneously increase and decrease the size of a person's network by adding those who bring value to it and deleting those who do not. We said that this network had become the transitional organizational structure that transcended the traditional boundaries of organizations and industries, and that consequently, individuals had become the center of their own networks.

Big or Small Worlds?

The so-called "six degrees of separation" has suggested that someone you wanted to contact about the value you could offer was no more than six people away; that is, that someone you know knows a second person who knows a third person who knows a fourth person who knows a fifth person who knows the person you want to contact. The jury is still out as to whether we live in a small world.[3] Globally, there are groups of people for whom such links would be unlikely indeed. Consider, for example, the inaccessibility of the citizens of North Korea, or the lack of computer literacy, not to mention the electricity to power this technology in much of the continent of Africa. Undoubtedly, it would be almost impossible to connect with these people whether the world was big or small, short of traveling there deliberately for a face-to-face meeting. But, within a given industry or discipline, the world could be quite small.[4] Professional and academic conferences are a case in

point. They give the "average" person access to the "great." Exhibitors get some exposure; presenters get even more; and anyone who attends, regardless of his or her level of importance can have a brief audience with the keynote speaker by making a little effort.

Networks are not created, they already exist. Everyone has several personal and professional networks of people who share common interests, such as social clubs, church or charity groups. In many cases, the networks of an individual overlap; that is, some of the people in one network know some of the people in the other networks.[5] Within the aggregate of these categories of networks are an almost infinite number of other networks, infinite because of the overwhelming numbers of different ways all the people a person knows could be combined. For example, if there are 100 people on a mailing list, each of whom can be classified into one of three categories, the number of possible combinations or networks is nearly nine million. If that mailing list is increased to 200 people with five categories, the number of networks increases to over 300 billion! The objective, therefore, is not to identify all of the possible combinations, but to identify the combination to which you can deliver the most value while simultaneously drawing from it an equal amount of value. In other words, you are seeking to identify the boundaries of your *value network*.

Value Network

Your networks may consist of people who are members of your family or close friends. They might include those you have known for years or some you have only just met. They can be people you see regularly, or infrequently, or have not seen for years. The intensity of these relationships can vary, too. Some people have better relationships with those at work than they do with those at home. Frequency of contact appears to have little to do with the strength of relationships, and absence can make the heart grow fonder. It is possible to have infrequent contact with close friends and frequent contact with acquaintances, and for the depth and nature of those two kinds of relationships to remain unchanged. We often choose to develop friendships and to maintain them regardless of how frequently we have contact with those people. In fact, frequency of contact does not define the nature or the degree of the relationships we have with them. It simply does not matter whether the people in your network are friends or acquaintances, nor does the strength of those relationships depend on whether you have frequent or infrequent contact with them. Some acquaintances will become friends while others will remain acquaintances. But, regardless of which category they are in, it is more likely that your friends will contribute to your employability than your acquaintances.

These truths contradict much of the research into social networks, which asserts that employability can be limited by stronger relationships because friends are likely to share similar interests and as a result have access to similar job-related information. The weaker relationships that occur between acquaintances, they argue, do not have these limitations because they instead have a wider range of dissimilar interests and therefore disparate sources of information on job-related opportunities.[6] The division of labor is said to have played an important role in creating an environment in which these weaker relationships could thrive because a lack of fraternization enforced by organizational hierarchy and the chain of command kept the relationships with fellow workers weak. Consequently, work opportunities were more likely to be found through acquaintances than friends.[7]

There is little doubt that these conclusions were true in the context of traditional organizations. The division of labor was reinforced by a rigid hierarchy that limited the cross-feeding of any information, whether job-related or not. But, as we noted in Chapter 3, changes in technology, demography, and the workforce itself – the converging factors of the horizontal revolution – together have altered these artificial constraints. Within the traditional organization, workers had to rely on word of mouth to obtain information regarding job opportunities, but the Worldwide Web now affords access to sources of information that extend far beyond the capacity of the most anemic relationships. Changes in technology have generated more information than anyone could ever know. While close friends may share similar interests, those interests are no longer an obstacle to obtaining job-related information. Changes in demography have had an impact, too. The shortage of skilled labor coupled with the desire by organizations to obtain more talent has meant that managers often ask those they contract already if they know of anyone, employed or not, whom they could approach. Some managers pay finder's fees to employees who are successful in bringing their friends into the organization. Reliance on friendships can also minimize the possibility of hiring someone who is unsuitable. Following the debacle at Barings, some felt the whole experience could have been avoided if someone in the industry had known of Nick Leeson's propensities before he finished secondary school.[8] Changes in the educational achievements of the workforce have also had a significant impact. Social network theory asserts that the education and the use of weak relationships are inversely related; that the more education one has, the more likely that a person will use weak relationships as a source for information regarding job opportunities.[9] The context for this theory was American society in the early 1970s, a time in which that population was divided in two more or less equal halves of those who had completed high school and those who had not. Just over 10% of adults 25 years old and older had at least an undergraduate

degree. Thirty years later the number of high school graduates had risen to nearer 84%,[10] and the number of university graduates was nearly one in three.[11] The events were similar in the United Kingdom,[12] though the percentage of those who have completed higher education to date is only about one in five.[13] These higher levels of education, according to sociologists, should mean that most people rely on weak relationships to identify job opportunities and to obtain job-related information, but, the opposite seems to be true. Far from relying on weak relationships, people are relying more and more on strong ones. But, in the context of the value-based organization, it is not so much the strength of the relationship that matters, but the role that the people in your network play.

Tangible and Intangible Value

Broadly, the myriad of people you know in your almost limitless networks consist of those who provide both intangible and tangible value. Some people may offer intangible value that benefits you physically, such as those who advise you on health or fitness. Some may offer mental value through intellectual stimulation, for example, in their capacity as members of professional associations. Ministers, pastors and religious leaders may offer spiritual value. Other people may offer emotional value in the form of love, care, or friendship. Still others may offer more tangible forms of value such as food, clothing, money, or even employment. These same people may also support or contribute directly to your employability. Principally, supporters encourage you, but contributors will seek to play a more active role. To look at it another way, supporters cheer for you, but contributors make you more employable. While those who are contributors may be supporters, supporters may not necessarily be contributors . In other words, those who want to see you achieve your personal and professional goals may be unable or unwilling to increase your employability directly. Therefore, it does not matter whether those in your networks are friends or acquaintances, but whether these people merely support your desire to exchange value or actually contribute to your ability to do so.

Employability results from the combination of two indispensable factors: employment opportunities and professional development. Employment opportunities are the means through which you can exchange value by applying your expertise; professional development is the means through which you can enhance your expertise. The sole criterion for “membership” in your value network is the likelihood that those who are included will contribute both. Likewise, your *value partners* will expect you to contribute this same employability to them as a condition for being members in their value networks.

Employment Opportunities

Employment opportunities can be provided in three ways. The most obvious is that you will offer employment directly to someone in your network. Although this is possible, it is the least likely, yet, it is remarkable how many independent contractors believe that the only thing that is of value to them from anyone else is new business. Because relationships take time to develop, it is unreasonable to expect an instant or even an early return of value from someone you have known for only a short time. One bouquet seldom results in a marriage.

The second way in which you can provide employment opportunities is by using your other social networks as a source for identifying and warming up employment opportunities for those within your value network. The power of your network is its ability to deliver value by referring trustworthy people to one another. These are people who have proven that they can be trusted to deliver value that is equal to what they receive. The primary reason why so few people engage in this form of networking is because enhancing the opportunities of another person may not impact on them directly. Business Network International (BNI) was established, in part, to address this problem. Ivan Misner founded BNI when he invited three other business people, all of whom knew and trusted him, to meet together for the purpose of forming a group to promote networking, through which all parties within the network benefited directly.[14] The concept became so popular that 20 years later nearly 70 000 business people in 3500 local groups meet weekly in a dozen countries. In 2003, this worldwide network generated $1.2 billion in business for those within their value networks.[15]

A warm introduction beats a cold call any day. When you make a cold call, you are introducing yourself directly to the potential customer for the first time. But, if that person has been warmed up by someone who knows him or her, then your initial contact in one respect has been made already and by someone who probably stands a better chance of making a good first impression than you do. When it becomes your turn to make the contact, the potential customer already has favorable thoughts about you. Unsolicited letters have become junk mail, unsolicited e-mails are spam, and unsolicited telephone calls are a nuisance. What may have been considered efficient mass marketing in the past when relatively few people did it has become an overwhelming intrusion into our personal space and time. In a day of limitless choice, networking – developing personal relationships with those you want to know and with whom you want to exchange value – is the only sure way of doing so.

The third way in which you can provide employment opportunities is by faithfully delivering your expertise to your own customers. What matters

most to managers is their continuing ability, together with their organizations, to deliver value to their customers. That is why they want those they contract to be loyal to them. It is also why they want them to minimize absenteeism,[16] and why they want them to value punctuality, timeliness, quality, integrity, responsibility, amicability, respectability and communicability.[17] In Chapter 4, we said that one way in which transactions differed from value transpositions is that transpositions are characterized by an equality of exchange. If Party A exchanges equal value with Party B and both Parties A and B also exchange equal value with Parties C and D respectively, it can be inferred that the value exchanged between all four parties is also equal. This means that when you participate in value transpositions with others, you enable them to deliver value not only back to you, but also to their other customers as well. This creates employment opportunities for them. The reverse is also true. If your customers are unable to get the value they want from you, they will seek it from someone else, because the void created by your unreliability threatens their ability to deliver value to their own customers.

Transpositional Networking

Knowing the criterion for inclusion in your value network is only a first step in defining its boundaries. It is equally important that you know who you want as your value partners. You have to find those, both inside and outside of your network, who want the value you have to offer. The weaknesses of cold calling and mass marketing demand the personal approach afforded through transpositional networking. When most people speak of networking, they mean engaging others in a dialogue (often a monologue) in which they introduce their product or service. Everyone in the room is a potential customer in their view. Most people who "work a room" do so primarily to tell others about the value they have to offer. Their goal is to get more business or at least to make a sufficient number of people aware of what they do so that they can increase the likelihood that they will. This makes the act of networking transactional – seeking to obtain as much value as possible in exchange for as little delivered as necessary. This attitude lies at the heart of what so many people find distasteful about networking – that guilty feeling that the exchange they are trying to facilitate will be unequal in some way for the other person. In fact, networking is an activity in which you attempt to draw those with whom you would like to exchange value into your value network, and it presupposes that you want to engage with them in value transpositions. Transpositional networking depends on a commitment to other people's outcomes – what others value. Transactional networking, by far the most common, is based on what an individual values.

It is the difference between selfless and selfish networking. When two or more people or businesses engage in value transpositions, they share value. Where there is no shared value, there is no further relationship.[18]

Transpositional networking forces you to put yourself in the path of those you would like as your value partners. It also means that you will have to devote your time to developing your relationships with them, since efficient relationships are oxymorons. You may have to cross significant socio-economic barriers to gain access to the people you want to meet. If you want to exchange value with company presidents, then go to the functions that they attend. For example, some Chambers of Commerce have different membership levels. A basic membership may entitle you to attend general events. The top-level membership, however, may be limited to senior executives. If you want to meet them, then you should opt for the higher membership. Although there is generally a higher monetary cost involved, you can be confident that the people you want to meet will be in attendance. Equally, you should be surprised if they attend the more basic events. Be warned, however, against joining leisure clubs as a means to network. Although it is not unusual for business to be done on the golf course, for example, that is not the reason that people join them. They join because they want to avail themselves of the recreation that is offered. It is true that wherever they meet others who share their interests, relationships are likely to develop, but no one wants to be targeted during their leisure time, especially by a gold-digger.

Your mission as a transpositional networker is to attend business events and social gatherings that will enable you to start or renew relationships with those you want in your value network. At such meetings, you want to spend your time learning about what others value. Only when they believe that you understand what is of value to them will they be ready to listen to what you have to offer. You may obtain employability when you first meet them, but that is not the goal. The goal is to tap into their social networks. Simply attending a networking event for the purpose of working a room in the traditional sense cuts off the potential employability available to you through the social networks known to those who are in attendance. In other words, it is not just what you know or who you know, but who *they* know. Business Network International, for example, trains its members to treat such events as opportunities to draw on other people's networks, thus bringing together groups of dissimilar networks. Imagine how insignificant the Internet would be if it only linked together the pages of the people you knew. Tapping into other people's networks is the equivalent of tapping into the rest of the Internet.

Those who regularly contribute value to your network demonstrate by their behavior that they are receiving the value they desire from your

network. On the other hand, those who do not respond to your efforts to exchange value are telling you that they do not believe they can get the value they want from you. At this point, you can either stop trying to exchange value with them or offer more value. Transpositional networking is a collaborative activity that presumes equality and implies cooperation, not competition. Each party seeks to promote the value of the other. When both parties make this commitment, they can share the value they have created. The more you seek to collaborate, the more you are telling people that their value is important to you.

Nurturing Your Network

Your value network has to be kept warm. The time required to do so depends on the individuals concerned. All take and no give will bankrupt you before it bankrupts your network. If you drop out, it will reform itself without you just as if you had never existed. You must constantly update your knowledge of what employability means to your value partners and endeavor to provide it whenever possible. You must communicate with them regularly – often enough that they know you are genuinely interested in them without becoming an annoyance. This you can do by offering something of value whenever you contact them. It demonstrates the respect you have for them and their time. No one wants to hear from someone whose only reason for communicating is to ask for something. You want to be remembered for the right reasons. Sending a Christmas card to someone because they have sent one to you seldom has anything to do with value, especially between businesses, and if you wait to receive one before you send one, it is proof that you are playing a transactional game.

The relationships formed across networks are larger in scope than those formed within an organization. Within those relationships is a firm commitment from all parties to facilitate value transpositions, either by personally participating or by enabling others to participate. Independent contractors are willing to work for a customer if, in their eyes, the value they receive is equal to the value they give. Conversely, the customer will give them their business only if the value they receive is perceived to be equal to the value of their custom. But, just as some managers give ICs (managers of themselves) – their customers – reasons to leave, so too do some ICs give their customers – their managers or organization – reasons to seek out other independent contractors, fundamentally because they do not believe they are receiving the value they should.

Not only do you need to nurture the relationships with your existing value partners, you also need to improve continuously the content of the membership in your value network. That is, you need to replace those who

are not contributing employability or are not contributing it to the standard you expect. Some in your network will prove to be pursuers of transactions rather than transpositions. These people will take value habitually from you and give very little in return. Similarly, make sure that you do not do this to others. Always be on the lookout for ways to give value to those who give value to you. You will not always succeed, but if your value partners know that your efforts are sincere attempts, the relationship is less likely to suffer.

The popular song from Disneyland that says that "it is a small world after all" suggests that the people you want to meet have as much chance of finding you as you have of finding them. This means that a person can also *hear* of your reputation within a few short steps. If you are more interested in receiving value than in exchanging it, your potential partner is likely to hear of it before you ever meet, and that may be one reason why you cannot get through his or her gatekeeper. Our impulsive, instant gratification society – buy now, pay later – is diametrically opposed to the transpositional mindset that depends on strong relationships and reinforces longer-term objectives.

PROFESSIONAL DEVELOPMENT

The second factor in employability is professional development. Most people rely on association get-togethers or workshops for their professional growth, but there are many other ways in which you can enhance another's expertise. For example, you might give someone a book or an article that you think will interest them. You might act as a sounding board for ideas or participate in discussion groups, or you might become a mentor. The key is to offer what your partners need and to be generous rather than parsimonious in providing it. To coin a phrase, "what goes around, comes around." There are some people who give generously, almost selflessly, of their time and wisdom. Such people can substantially increase your employability if, and only if, you are willing to reciprocate.

Everyone needs continuing professional development (CPD). The steady rise in the basic education levels of society in general reinforces this truth. Prior to the World War II, education was principally a means to increase learning. Since then, however, it has become a filter that employers use to weed out less desirable candidates.[19] The value of the learning itself, it seems, has been lost. This fact can be observed in jobs, such as call centers, where the level of education required to get an interview exceeds the level of skill needed to perform the job satisfactorily. The ridiculous qualifications that managers place on applicants are a contributing factor to the high turnover that many organizations experience.

While it is entirely reasonable to expect your value partners to offer professional development opportunities to you, it is your responsibility to determine which of these opportunities will make you more employable. This responsibility was formerly managed by the organization when such programs were deemed to be part of career advancement, which they also managed. As we mentioned earlier in this chapter, there remains a large percentage of workers today who still expect the organization to manage all of this for them. Ironically, the vast majority of their current employers expect them to do this for themselves. Remarkably, there also appears to be a large percentage of the population who are not interested in professional development. This absence of ongoing professional development will create a population of two societies: the enfranchised and the disenfranchised; the highly and progressively skilled and the lower and decreasingly skilled. This gap will become wider and, for some, insurmountable. The relentless pace of advancing technology, the escalating demands of employers for greater skill and the wider opportunities for higher education mean that continuous professional development is a necessity just to stay where you are with respect to your peers. Those who do nothing will not have to wait long to find that their skills are no longer of value. The options are stark: growth or death.

Career Management

Self-managed careers and professional development are all part of self-management. Not only is it your responsibility to find out what other people in your network value and to determine how you can deliver it, you also must find out what education and experience are expected, and take steps to get it. Since it is a fool's paradise to assume that your current contract will be renewed automatically, you must always be thinking about the professional development you need to undertake to secure subsequent contracts. Politicians provide an excellent illustration of a group of people who are always thinking ahead. More than anything else, they want to be re-elected.[20] To a large extent, this explains why the re-election campaigns seem to start so early. Professional development in the context of your employability demands that you think ahead, in some cases by several years since it may take that long to reap the benefits of your efforts. The time required to become an expert in any highly skilled profession is longer than many people realize, and this fact underscores the need to anticipate and prepare for a career change even if that likelihood appears remote. Ten years of full-time work is one accepted minimum for proficiency.[21] The Internal Revenue Service expects start-up small businesses to show a profit within five years in most cases, and this supports the view of some researchers that 10 000 hours

of experience is required to become proficient in a vocation. Such long lead times exemplify the folly of avoiding the implications of continuous professional development. The ongoing horizontal revolution will mask changes in career management. Some will find they have to actively manage each step, others less so. Eventually, it will become the norm. Those who have to do it less at present should not become complacent, rather they should use the time they have to think about what happens next, or where they would like to see their career go.

It is a startling fact that 90% of the jobs that will exist 15 years from now do not exist today.[22] That means that the job you are doing at present may not exist in a decade and a half. It also means that you are likely to be doing something different by that time. The implication for independent contractors is that there is a 15-year cycle during which you must reinvent yourself professionally.[23] In a 45-year career, from about age 20 to 65, this may mean as many as three iterations within a working life. You are no longer a secretary, mechanic, nurse, teacher, or anything else. These job titles merely refer to a recognized collection of activities that you may perform during the life of your current contract. If your contract is renewed, you may perform them for a little longer; if it is not, you will have to obtain another contract elsewhere. It may be similar to the previous contract, or it might be something completely different. The work you perform in the next contract may or may not contain the same activities as the previous one. Since most people are already experiencing frequent job changes, a working life that consists of several careers will become the norm. Instead of 40 years in one company, workers can increasingly expect to work for a half dozen or more organizations before they retire. Some will be contracted to many more.

Since your employability is fundamentally about your ability to exchange value, each of your reinventions needs to enable you to do so more frequently (see Chapter 6). This fact militates against the popular notion that identifying a niche has some magical powers. Although there are a few who will do well by trading from a position of scarcity, the greatest opportunities are available to those who take advantage of the abundance of available choices.[24] Forget niches and forget catering to some small sectors of the market, however wealthy they may be. The scarcity mindset belongs with the relics of old economic theory.[25] You want to create value that you can exchange with everyone, not just a few people.

Reinvention is also an opportunity to escape the clutches of incompetent managers. Whatever the anxieties associated with changing jobs, it is unlikely that you will be able to avoid doing so throughout your entire career. Instead of fighting it, make the most of the opportunity. There is no point in making yourself miserable because you are unable to find a way to stay where you are, and there is no good reason to subject yourself to such

ineptitude when it is in your power to move. If a particular job appeals to you, then contact someone who is already doing it so that you can find out what education and experience will be expected from applicants to merit consideration either with their organization or one like it in the future. Most people love to talk about their work and an opportunity to exchange value with a like-minded person will appeal to them.

Although there are an innumerable number of different avenues through which you can access professional development, it is important to recognize that not all of the accredited or approved opportunities have value for CPD (continuing professional development). A common problem is that professional associations typically endorse their own events as an acceptable source, and some may go so far as to require attendance at them, but, you cannot allow these organizations to determine the development that you need to extend or expand your employability *unless* they are your current customer or you are guaranteed a contract with them at some future date. Your employability is your responsibility, not theirs. Some of these organizations depend on the fees they receive from those who attend their events to subsidize their own operating budget. In that sense, you are the customer – free to shop from whatever supplier meets your needs according to your own criteria. Do not let them bully you into thinking otherwise.

Personal Development Plans

Personal development plans (PDPs) have been popular for some years, and they can be a useful tool for planning the direction of a career and for identifying suitable development opportunities. The operative word, however, is *personal*. Whether your current organization assists you in creating one or not, it is your responsibility to create it, and if that is what you want to do, it is up to you maintain it. Again, where an organization has tasked itself to work with its employees in creating a plan, you must evaluate all development opportunities on the basis of what will make you more employable rather than according to some internal criteria they have set for themselves. In most cases, the value of CPD cannot be assessed as a kind of double-entry bookkeeping exercise. There is more to it than simply putting in so much investment in return for so much employability, but all investments carry an opportunity cost. If you attend one event, it may prevent you from attending another. An effective gauge for deciding between opportunities is the value that you gain from it. It is perhaps surprising that very few people evaluate opportunities in this way. Issues such as the location or the time of year often carry more weight. Neither of these criterion, however, is likely to affect your employability. The key question

is, *how* will this event make me more employable? In the absence of a good answer, it is better to stay home or find a worthy networking event to attend.

It is worth noting that while development opportunities may arise where there are also opportunities to network, and vice versa, the one should never be assumed in the presence of the other. You should choose appropriate events for networking and appropriate events for professional development. On those rare occasions when you are able to do both simultaneously, consider yourself very fortunate indeed, but do not expect it. Development events can be very expensive, and both the supplier and the customer will be keen to exchange as much value as possible. Usually there is an insufficient amount of time to digest the material presented without attempting to network as well. Continuous professional development is continuous. It depends on a life-long pursuit to improve knowledge by reading and studying, learning by applying that acquired knowledge, and creating innovative ways to develop further.

SUMMARY

This chapter and the one before it considered the interdependence between the supplier and the customer. Chapter 9 looked at this relationship in those circumstances when the organization was the supplier and the employee or independent contractor was the customer. Chapter 10 looked at this connection in the obverse.

Since the dissolution of the psychological contract, all employees have become independent contractors (ICs) – responsible for obtaining their own work, providing in many cases their own tools and equipment and sometimes their work space, and personally managing their own benefits, as well as their professional development. In a nutshell, they have become accountable to themselves for their own employability. As ICs, they have to manage themselves to the same extent as they would have been managed by someone else in a traditional organization.

Transpositional networking is the means through which ICs are most likely to obtain the value they seek from their value network. In order to receive this value, they must also deliver it in kind to their value partners. The most likely source from which independent contractors can obtain employability for their value network is through their social networks.

Everyone needs CPD. Even graduate school does not mark the end of a lifetime of learning. Although many opportunities will come from your value network, you must make wise choices about which events to attend. The arbitrating criterion is your employability. Since you will need to reinvent the value you have to offer about every 15 years, and because it will

take most of that time to become an expert in your new role, ongoing development is a necessity.

NOTES

1. Personal communication.
2. See Chapter 9 for a fuller discussion.
3. Kleinfeld (2000).
4. Watts and Strogatz (1998).
5. Watts and Strogatz (1998).
6. Morrison (2002).
7. Granovetter (1983).
8. Golzen (2001).
9. Ericksen and Yancey (1980).
10. Gordon (2000).
11. Krolik (2004).
12. Clarke (2004).
13. Clarke (2003).
14. Misner (2004).
15. www.bni.com
16. Cooper (1998).
17. Southwestern Pennsylvania Connection, now Catalyst Connection. Pittsburgh, PA.
18. White (2002).
19. Health, Education, and Welfare (HEW) (1972).
20. John Riggs, Collegiate Professor of Public Administration, University of Maryland.
21. Ericsson (2004).
22. www.academic.org/work.html.
23. Weiss (2003).
24. Kelly (1999).
25. Pfizer (1994).

11. Implications for human resources managers

Those who work in what is commonly referred to as human resources have the most difficult job in organizations today, if only because they bear the responsibility for creating and exchanging value in more dimensions than anyone else. Notwithstanding their usual roles as change agents, in which they have had to smooth ruffled feathers between employees and managers, or as training managers, through which they have had to supply workshops and courses to increase all manner of employee skills, they are regularly called upon to justify their very existence to senior decision makers.

Suppose your boss took you aside one day and said, "We are conducting a salary review, and we have decided that as independent contractors, you and those in your human resources (HR) department should be paid according to the value you contribute to this organization." How would you respond? If the activities in your department were carved up and devolved to the line managers, would the value of the HR activities you provide decrease as a result? The fact that many organizations[1] have done just that suggests that for the most part it would not.

There are many who work in HR today who prefer not to think about what they do in terms of the value they deliver. They believe that what they do for their organization has value, but few are able or willing to quantify it. This is because they still see themselves as employees of the organization. They have not understood that they, too, are independent contractors. Consequently, they interpret much of what they have done and what they think they should do within the traditional context. That is, they behave as if nothing has changed and ignore the fact that much of their traditional work can now be done just as effectively and for lower cost by other independent contractors outside of a formal HR department.

The responsibilities of a traditional HR department have included recruitment, career management, retirement and other benefits, employment legislation, the management of sick leave and vacation days, health and safety, employee relations, collective bargaining, discipline and dismissal, training, and advice for those working in multinationals in foreign countries to name a few. The common denominator in all of these activities is that the skills required to do them are no longer limited

to those who work in HR. Since it is mostly administration, anyone can do them.

Historically, HR departments have been staffed by administrators who just happened to work there and who may or may not have had job-related qualifications or experience. But, administration is part of the work that everyone does, and that makes it unnecessary to concentrate it into a single department. It is also the primary reason why many organizations have been able to devolve traditional HR responsibilities to line managers so easily: 90% of what traditional HR does is administrative. Instead of staffing a department with administrators, the administrative burden has been shared out among managers and independent contractors alike. Recruitment, some employment law (with the help of an external lawyer), health and safety issues, discipline and dismissal, the identification of training deficiencies and the need for expatriate advice, all can be and should be handled at the line manager or the team level, because they are nearest to the issues and are the best informed for making key decisions regarding them. Independent contractors, therefore, can be engaged more effectively on an as needed basis by them rather than by those working in an HR department. The remaining issues – career management, the management of sick leave and vacation days, retirement and other benefits, fall within the responsibility of independent contractors. Collective bargaining is a moot point since it is also the responsibility of independent contractors to negotiate their own contracts.

OUTSOURCING HR?

In recent years, there has been considerable debate about whether or to what extent HR should be outsourced. At one end of the outsourcing debate, there are those who believe that HR should be retained within the organization, albeit in a modified role. Principally, that new role concerns strategy, an activity that many believe will save an organization as much or more than it will cost.[2] Strategy concerns the larger fashions, events, and challenges that organizations face within the global marketplace and the respective strengths, weaknesses, and opportunities, as well as the threats. These issues tend to be indeterminate, unregimented and in need of considerable clarification.[3] Herein lies the problem. Strategic HR has almost as many definitions as strategy itself (Chapter 6). Succession planning, recruitment and retention, performance management, organizational and executive development, employer branding, managing talent, the implications of technology, and issues surrounding global HR, have all gained popularity as challenges contained within a strategic approach to traditional human

resources. But, are these activities really that different from those that preceded them? Is strategic HR dissimilar from traditional HR? Succession planning has replaced the natural course of promotions that would have occurred within the old hierarchies. Organizations are as concerned now about recruitment and retention of talented people as at anytime previously, and employer branding is just another way of saying so. Managing performance is simply a more modern phrase for appraisals, reviews, Six Sigma, TQM, time-motion evaluations, or any other form of output measurement, and far from being a recent activity for HR, organizational development was popular in the mid-20th century. Executive development is akin to leadership training and, by implication, all training for that matter. The implications of technology refer to computers instead of typewriters or adding machines, and global HR is just an international application of all of the above and a bit more. In truth, strategic HR is merely old HR dressed up in contemporary jargon.

Although many in HR seem determined to hold onto their traditional role, when asked to identify business reasons for outsourcing these various activities, few actually have had difficulty in doing so.[4] Care must be taken so that line managers do not feel that HR or anyone else in the organization is dumping its unwanted administration on them,[5] but the organization cannot afford to retain unnecessary costs, an expense that is obviated by the act of outsourcing itself.[6] Therefore, it makes absolute sense to outsource non-core business to independent contractors or other organizations within your value network, since by doing so the capabilities of your organization are extended and managers obtain greater flexibility as a result. Those in HR, as well as the organizations that contract them, should recognize that the issue of whether or not to outsource HR has been overtaken by events. Since everyone with a contract that has a beginning and an ending date is an IC, it does not matter whether the organization has chosen deliberately to outsource HR. In effect, HR in all organizations is being outsourced already.

NEW PERSONA

The need for a comprehensive change in the role of HR is reflected in many organizations already. In one quarter of large firms in the United States, the senior HR person has no human resources experience; rather his or her background is in accounting and finance, law or some other discipline.[7] This means that key decisions with regard to people are being made by those whose primary focus is from only one side of the value equation. In other words, HR is being scrutinized in terms of the value it provides

directly to the business without considering what value the organization itself must provide to its value partners.

What is HR's new role? It is not a hybrid of the old one with a bit of something extra, though many believe it is. It is not that of a change agent, who stays busy by helping traditional organizations become hybrids, or by helping hybrids become other hybrids, an equally popular notion. Traditional organizations and old-styled human resources departments have had years of practice perpetuating these exercises and are quite capable of continuing to do so without help. The new role as a manager of value partnerships (MVP) has implications that extend far beyond simply creating a capacity for change in the organization since change, by its nature, is continuous. MVPs, however, can help organizations to make any sense of what has already taken place.

The old job title reflected the old role. Human resource manager is inappropriate in the value-based context since people are not resources, neither are they managers of human capital, a similar euphemism. Instead, they are both value directors and value partners. They are value directors when they direct the passage of value from the organization to its independent contractors, and they are value partners when they exchange value with the independent contractors by providing them with employability. They can give both employment contracts and professional development to the latter, through their value networks, while creating an environment that encourages them to be loyal to the former. This they can do and, to survive, they must do. The question is not, how we can have business as usual given the revolution at work? But rather, what does this upheaval means for us, and how should organizations and independent contractors behave in order to not only survive, but also to benefit?

Human resources managers and their departments are already perceived as MVPs, and really there is no other role for them. This is because the responsibility for implementing change programs, from major restructurings to minor trainings, have been within their domain for years. In other words, both organizations and independent contractors *expect* to find those who work in HR doing them. If MVPs fail to perform as value directors, they will be outsourced as the needless cost that they are. They can fulfill this new role by showing organizations and their managers how to work with independent contractors. The primary business of MVPs is to help organizations understand how the relationship between them and their former employees – now independent contractors – has changed, and to help those same independent contractors understand how their relationship to organizations has changed. Unless, and until, both parties understand the implications, their behavior towards the other will remain unchanged. Similarly, if they fail to demonstrate that they are value partners to the independent

contractors engaged by the organization, they will be ignored and, even worse, be mistrusted as part of the old organization they have allegedly left behind. They can fulfill their new role by providing employability to these independent contractors and by teaching those same people how independent contractors behave. This is particularly appropriate since most of them are still trying to reconcile their employee propensities with the new independent contractor culture.

The contradictions that many MVPs feel in their new role are evidenced by the conflicting views of their counterparts. Some believe that the purpose of organizational design is to help ICs understand how they fit in,[8] instead of as a means of creating an environment in which value is more likely to be created and exchanged. The idea of "fitting in" is part and parcel of the widespread belief that there is an optimum number of people whose expertise will collectively increase productivity[9] and hearkens back to the mechanized age when scientific management ruled. Others believe the pendulum has swung to the other extreme. Instead of expecting ICs to serve the organization, the traditional view, some now believe that the organization is there to serve the ICs they contract.[10] Within the value-based context, it is not one or the other. The essence of value transpositions is that organizations and ICs are there to serve each other. Anything less than that is transactional.

VALUE DIRECTORS

Fundamentally, the difference between managers in general as value directors and MVPs as value directors is one of scope. Managers, in the *general* sense of the word, are concerned with micro issues, specifically, their personal behavior with respect to their knowledge of the organization. MVPs, on the other hand, are concerned with macro issues, specifically organizational behavior. Since creating and exchanging value comprise the most important organizational objective in value-based organizations (Chapter 8), MVPs have a duty of care at the macro level to help identify and change corporate behaviors that impede the passage of value between the organization and those it contracts and to prevent recidivism. The means through which they do this is by helping organizations to understand how they see themselves in relation to those they independently contract, and how they see independent contractors in relation to themselves. These perceptions will ultimately drive their behavior and help them to understand how and why ICs see them as they do, and why ICs behave toward organizations in the way that they do. The knowledge MVPs have of the internal workings of the organization as well as how they manage their own

value partnerships enables them to guide the exchange of value between the organization (whether it is the supplier or the customer) and ICs (whether they are suppliers or customers).

Just as MVPs are expected to be involved in organizational change because it is something they did in their former role as HR managers, so the more *general* managers (Chapter 9), by virtue of their former role within a traditional hierarchy are also expected to initiate that exchange of value. The difference, however, is that these more general managers are expected to commit themselves to *transpositional* rather than to transactional exchanges of value (Chapter 4). This is another way of saying that these managers have a direct influence on the nature of that exchange through their personal behavior. It is how they deal with the ICs they supervise on a day-to-day basis that determines to a large extent whether or not value is transposed between these two parties, and in that sense they guide value from one to the other.

Transpositions should not be confused with transformations, which seek to take advantage of the motives of others.[11] Whatever unspoken aspirations there may be regarding the fulfillment of another's "higher needs," such exchanges cannot be transpositional because the relationships are not value-based. As far as ICs are concerned, the managers are the organization. Consequently, managerial knowledge of the implications of a diverse workforce, its demographical, cultural, generational, and religious differences, and the behavior of the managers themselves in accordance with that knowledge has a direct impact on the passage of that value, that is, whether or not it occurs. MVPs, on the other hand, as value directors, are interested in organizational behavior rather than their own personal behavior. Although managers create an organization's policies and infrastructure, it is the organization as a whole that can impede the passage of value to and from ICs. For example, a traditional chain of command can delay or stop information (which has value) from reaching the appropriate person.

Organizational Behaviors

Traditional organizations and their near relative, traditional hybrids, typically see themselves as employers rather than contractors, and as bosses instead of as value partners. They freely admit that they offer no one a job for life and that those who work for them are responsible for obtaining most of the benefits and professional development formerly provided by the organization, yet they do not acknowledge that those they contract are outsourced labor. These mixed messages confuse and frustrate ICs. On the one hand, organizations expect them to behave as ICs (for example, no job for life, think innovatively, make provision for health insurance, pensions, training and development), but, on the other, they expect people to behave

like employees (for example, absolute submission to authority and loyalty to the firm). They persist in their belief that their role as employers has not changed. We have demonstrated throughout this book, however, that everything has changed, and it is the job of MVPs to teach other managers – from the most senior to the most junior – how to resolve this paradox.

Although organizations recognized immediately that the dissolution of the psychological contract shifted considerable responsibility onto those they contracted, they failed to recognize that simultaneously an equal or greater amount of authority shifted away from them as well. Organizations forfeited that authority when they gave up that responsibility. The result has been that the traditional policies, attitudes, and infrastructures to which they have clung have become the principle obstacle to the creation and exchange of value between them and the ICs. The goal, therefore, of MVPs is to inculcate the value-based ethic into the organizations to which they are contracted. The extent to which organizations have committed themselves to value-based principles will be evidenced by the degree to which they let go of traditional behavior and embrace this new reality – that implicitly they are both contractors and value partners.

Organizational Change

Most organizations believe strongly that they engage their customers in value transpositions. Few would admit that they attempted, on a regular basis, to obtain as much value as possible for as little in return as they could. Consequently, they are loath to admit to the need to change their behavior. In their view, they are innocent of obstructing value exchange and therefore there is little, if any, need to change the way in which they behave. Those who accept that deliberate change is required believe that any initiatives will be quick and painless, and will solve everything. However, as Machiavelli (1515) so aptly expressed it:

> There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain it its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.

Even he recognized that the initiators of change would be unpopular.

Whether organizations embark deliberately on change programs or not, the essence of being value-based must pervade everything they do. There must be an ongoing commitment to the value transposition between the organization and the ICs. Contrary to the views held by traditional managers, value-based principles cannot be suspended temporarily while

managers rearrange the organization to their liking, and then reinstated at their convenience. This approach is common in traditional hybrids and will induce resistance from most of those who are affected by it. In fact, suspending value-based principles probably accounts for much of the "grieving" that occurs during significant periods of organizational change. It is more beneficial to manage according to value-based principles than to manage the damage caused by making so-called "hard decisions." Managing those who are perceived as "survivors" of change[12] is an exercise in picking up the pieces following a disastrous management exercise. One of the problems created by suspending value-based principles is that people learn that if it has happened once, it can happen again. It calls into question the organization's commitment to transpositions. Organizations cannot expect to be believed if by their behavior they say, "For the time being, we will engage you on a transactional basis, but after the dust settles, we'll go back to our commitment to transpositions." Once the bond of trust has been lost, it is almost impossible to regain it. Uncertainty regarding whether organizations intend to retain value-based principles or not throughout any concentrated efforts to change itself will result in transactional behavior from all parties. Their concerns will revert from, "How can I give the most value" to "How can I cover my back." Organizational culture is dynamic.[13] Either it is increasingly reinforcing value-based behavior or it is increasingly reinforcing traditional behavior. That means that without a deliberate commitment to value-based principles, a VBO is in constant danger of becoming a traditional hybrid. Equally, it means that traditional hybrids can become value-based by committing to value-based principles.

Many managers work under the mistaken belief that they just need to get change under control,[14] that it is an entity that they need to subdue. This is borne out in their behavior when they introduce change initiatives. This, too, is the wrong focus. It presupposes that change has a beginning and an end. But, change can never be mastered, because change, changes. Best practice and benchmarking deny it, but constant improvement underscores it. Managers who attempt to master change micro-manage their work and everyone else's by doing more of what they have done in the past.[15] The success of any attempts to change organizational behavior is evidenced by the extent to which the creation and exchange of value has increased. Traditional organizations and traditional hybrids exhibit a lot of activity associated with change, but the result is always a modified version of what existed beforehand.

Resistance to change must be seen in terms of the expectations of those who seem to be causing the obstructions; that from their perspective, value will be lost, and value exchanges will become transactional. MVPs can help all parties to understand the nature of transpositions, not by seeking to

excuse the behavior of one towards the other as a small misunderstanding in which one side is exonerated and the other condemned, but by helping each to see the change in the perception of the value the other thinks he or she is receiving. This is another way of saying that MVPs will help them each to walk a mile in the other's moccasins. It is one thing to actually walk that mile; it is quite another to do it vicariously. Resistance to change should be understood as a reluctance to give the same quantity of value in exchange for what it perceived to be less value that is, to engage in transactions in which the resistor comes up short.

This double standard in organizational thinking – expecting transpositional value in exchange for transactional value – causes ICs to question the need to change their own behavior. This should come as no surprise since no one – not ICs, not organizations, not even traditional employees – will change their behavior if they do not see a good reason to do so. Moreover, ICs consider organizations as a threat to their employability when the latter, having engaged in transpositions previously, not only switch to transactional behavior, but expect the former to do so as well. [16] Organizations typically perceive those who refuse to change their behavior as resistors of change. Some would go so far as to say that where there are conflicts between ICs and the organization, in every case, or at least as often as possible, the former should capitulate.[17] In fact, it is the ICs that organizations believe are the greatest obstacles to change.[18] This is ironic since ICs learn what behavior is acceptable through social interaction with other ICs[19] who have learned it from the behavior of those who manage the organization. [20] In other words, the managers create the culture, and that environment provides the context for what is considered acceptable behavior.

Organizational Culture

This is just as true in the public sector as it is in the private sector. ICs in the public sector learn that it is okay to play political games in the organization from their managers, who see it everyday among their elected taskmasters. In the private sector, if the CEO is basically dishonest in his or her job, then that dishonesty will probably spread through the organization. This can happen in at least two ways. First, ICs may behave dishonestly because they perceive that the boss is dishonest and believe that they have his or her tacit approval to do likewise. Second – and this is the most subtle – the company may gain a reputation for dishonesty in the corporate world. In the end, it may not be the CEO who is seen as dishonest, but the company itself. The company will have been attributed with a human personality trait that, in and of itself, it is incapable of doing. Therefore, MVPs, in particular, are well-placed to help managers understand that it is the view of their collective

behaviors by ICs that determines the perception of the organization, and it is the MVPs who are responsible for leading the development of policies on business ethics and for taking action against suppliers who violate those policies.[21] In other words, as a condition of obtaining a contract with a given firm, ICs agree to behave according to the ethical policies of the organization that contracts them. But, senior executives must adhere to these policies as well, not least because of the legal ramifications attendant to a double standard in business practice.

ICs have learned that other kinds of behavior are also acceptable. They have learned that organizations place a higher value on their time than on their skill. This is evidenced by the long-working-hour culture that predominates. If their skill was most valued, organizations would place a premium on getting the work done, rather than on how much time was spent doing it. Consequently, they load ICs with twice the work and expect it to be completed in half the time.[22] This form of organizational behavior is known to lower job satisfaction and demotivate workers.[23] Since organizations do not value ICs as customers, ICs do not value organizations as customers.

Managing presence or absence is not the issue either. Many see absenteeism as a manifestation of shirking and not related to anything else in the organization, and thus do not understand the connection between management and absenteeism. Some organizations go to extraordinary lengths to check up on people who take time off for illness, including follow-up interviews. Others use time clocks or similar mechanisms. Absenteeism can be a problem, but seldom does it occur in isolation from other causes, such as poor management relationships and lack of respect for ICs. We have mentioned this earlier: why do some people call in sick at every opportunity while others will not stay home until they have infected the entire organization? Those ICs who do skive off or do not show up have yet to grasp the new responsibility that comes with the IC culture. But, organizations must learn to question why people are absent, not beat them up when they are.

Organizational Policies

Organizations further demotivate ICs by repackaging organizational policies and governance, supervision, salaries and bonuses, good working relationships and working conditions through the use of so-called high performance indicators (HPIs), which for the most part are nothing more than examples of what ICs expect wherever they work.[24] Organizations have become increasingly aware of a link between such indicators and their financial performance. Although HPIs do account for some of the difference

in market or shareholder value in organizations,[25] there are plenty of organizations that do not use them that nevertheless are profitable.[26] In spite of this, many others have undertaken to identify which behaviors are associated with performance.[27] This scorecard approach, of course, is entirely consistent with traditional behavior, but is the opposite of being value-based. The problem with focusing on HPIs instead of value transpositions is that it causes organizations to look for a behavior prescription that when implemented will produce the specific behaviors that will increase value. For example, attempts may be made to improve recruiting practices while still retaining people who underperform, or 360° feedback may be introduced to improve communication, while the hierarchy is left as it was.[28] Studies have shown repeatedly that cherry-picking among HPIs is counterproductive. No single practice can be shown to influence performance positively, but all such practices taken together can be shown to have an indirect influence.[29] It appears that the whole is greater than the sum of its parts; that is, the more HPIs are implemented, the more the value of the organization seems to increase. But, even when organizations implement all of the known HPIs, the vast majority of the increase in performance is attributable to something else. One explanation may be that when organizations stop fiddling with the hygienic factors, demotivation is reduced, more ICs fulfill or renew their contracts, and recruitment costs are diminished.[30] As a result organizations retain more of the value that they had. It is the difference between sinking and floating, but it is not flying. Interfering with hygiene factors demotivates. Undoing that damage does not motivate; it only restores motivation back to where it once was. HPIs should be called *higher*-performance indicators, because tinkering with them reduces motivation. This explains why the job insecurity of the horizontal revolution does not account for lower job satisfaction.

Flexible benefits, in which ICs can choose those privileges that will fit their particular circumstances[31] can increase motivation indirectly by contributing to their employability. Benefits that alleviate conflicts between personal circumstances and job responsibilities are likely to increase motivation and enhance organizational value. For example, more money is not the same thing as on-site child care. More money may enable child care to be acquired, but ICs still have the hassle of dropping off their children and then picking them up again according to pre-arranged times. On-site child care obviates all of that. By not having to worry about making other arrangements, ICs can concentrate on the job at hand and work the extra hours, if need be, that will enable them to achieve to a greater extent. Prudential[32] and Computer Associates[33] are two companies that have recognized this. Profit-sharing also gives people direct rewards for their efforts, which is a form of recognition for achievement, a motivating factor (Chapter 7). However, none of the

usual ways that organizations reward those it contracts are a substitute for the monetary awards they have come to expect. It is no use for an organization to imply that monetary bonuses will be paid for exemplary work and then later to say that they do not have the money. Nor can "make nice" kinds of things be applied as a panacea in the context of a couldn't-care-less attitude that is in evidence the rest of the year. Motivating factors support the value transposition that increases performance, and this is the root cause of the increase in organizational market value.

Employer Branding

Many organizations are concerned about branding themselves as desirable employers because they want their workforce to be loyal to them, rather than to a competitor. This aspiration is entirely consistent with traditional thinking since it seeks to maintain stability in the workforce. But, given the revolutionary change in the world of work, this is the wrong goal.[34] It is attempting to turn back the clock to a time when employees had few, if any, opportunities to change jobs. Not only that, but this goal causes organizations to engage in behavior that, for the most part, impedes their ability to exchange value, rather than enhancing it. We have already seen the damage caused to worker motivation by constantly manipulating hygiene factors. Consider Microsoft. Despite all the criticism it receives from just about everyone with a computer, 13 000 people sent unsolicited résumés to the company between 2003 and 2004, more than 10% of its international workforce, of which it hired only 14.[35] By this definition alone, it must be one of the best examples of an organization that has succeeded at employer branding. But, the quantity of applicants proves nothing, and so being the employer of choice is not a value-based goal. It is not about managing talent, but managing value creation and exchange. Both the talented and the less talented will be attracted to organizations that have as much concern about delivering value to them as they do about delivering value to the organization. Obtaining or holding onto the people you want depends upon whether you offer employability or not. Failing to provide employability gives ICs the best reason there is to leave. Organizations would be served far better if their goals were to attract and hire people whose ethics and attitude supported value creation and exchange and who committed themselves to the same.

Recruitment

There is a flaw, too, in the logic of many organizations with regard to their own attitudes towards recruiting. They believe that hiring young foreign

workers at any cost (scouting + hiring + settling them in another country) is preferable to hiring older, indigenous workers. With people changing jobs every few years, what does it matter whether they are in their 20s and 30s or their 50s and 60s? It is possible that a case was sustainable for this form of organizational behavior when people were hired straight out of school or university and remained with a firm for 40 years and then retired. But, work is not like that anymore, so why persist in behavior that suggests that it is? The "ideal" candidate for most organizations is younger than 50, and often much younger than that. The desire to create a workforce that mirrors the population does not appear to include age. The value that organizations place on those it contracts is inversely proportional to the age of a given person. That is, the younger that person is, the more value the organization perceives that that person can deliver. The oldest employees are considered old dogs who are resistant to change, and who are slow and often sick. Retirement cannot come soon enough as far as many organizations are concerned.

In the past, retirement at age 65 was required, not because people were old (although average life spans were shorter than they are today), but because room had to be made in the organization for younger workers coming in at the bottom of the hierarchy.[36] Boomers, however, are not just going to lie down and die because of some arbitrary age at which firms or governments have decided that people should stop working. Not only are people able to do much more than their forbears who were of a similar age,[37] but many simply cannot afford to retire at the traditional age; neither can their governments afford to pay them benefits that are sufficient for them to live on. The new circumstances surrounding the world of work demand that organizations give up their cherished attitude that they are employers hiring employees, and that as such their employees have no claim over their destiny. This attitude seriously impedes the exchange of value between them and ICs because it breaches trust.[38] All ICs, younger or older, expect organizations to demonstrate some flexibility in allowing them to work hours that fit in with the demands of their lifestyles, and this challenge to their organizational authority is not going to go away. Some 70% of the Baby Boomers in the US do not plan to retire, ever.[39] Already, some companies have begun to realize just how valuable older workers can be. The number of people over age 50 working for Borders was 16% in 2005, up from 6% in the previous year. This company has learned that older workers are less likely to leave their jobs than younger workers. In fact, the number of workers over 50 who left was 10% of the number of those workers under age 30. Considering that more than 30% of workers in America will be 50 years old or older by 2010, it is sheer folly to ignore them as a source of the loyal labor that organizations seem so keen to acquire.[40] Yet, the number of complaints for age

discrimination filed with the Equal Employment Opportunity Commission rose by nearly a quarter between 1999 and 2001.[41] This problem is not limited to the US. In the UK, age discrimination is rife and, in 2005 it was still legal.[42] In the past, it was suggested that if opportunities were not created for the young in organizations by pensioning off the older workers, the younger ones would not become employees of the firm or stay for long if they did.[43] Irrespective of retirement ages, many young workers today are unwilling to sign up with just any firm regardless, so the case for a mandatory retirement age no longer holds. There simply is no good reason to force qualified people to stop working if they want to continue, and given the ongoing shortage of skilled labor, it is about the dumbest thing organizations can do.

ICs – The Organization's Partners

Organizations prevent ICs from delivering value to them by failing to respect their time and expertise. This is manifested through traditional behaviors such as poor communication or by insisting that time-consuming protocols are followed that restrict all attempts to communicate ideas contrary to established channels of authority. This behavior often forces ICs to compete against one another and prevents knowledge from being shared across the organization. In fact, many traditional organizations and traditional hybrids still punish instead of reward those who attempt to share value-creating knowledge with their colleagues. This behavior makes fellow ICs enemies instead of partners. In a similar vein, value creation and exchange is diminished quite inadvertently by the suppression of discussion within the organization attendant to the diversity of ICs. Formerly, the word *tolerance* meant the capacity to recognize differences. In recent years, it has come to mean that all differences, however preposterous, are acceptable[44] and validates every variation in irresponsible behavior imaginable, both for organizations and ICs. Far from protecting workers from bullying and unfair treatment, for example, it legalizes those behaviors. This subtle change has the potential to disrupt legitimate discourse within the organization by causing managers to forbid controversial discussions, an outcome that can only stifle creativity and reinforce the status quo.

Many organizations further impede the creation and exchange of value by wasting time and resources. They do this by insisting that ICs complete unnecessary forms and other paperwork, make needless telephone calls and attend non-essential meetings. Some require ICs to invest in or use one form of technology when another works equally well. Best practice and benchmarking prevent improvements by implying that the "best" is already being done. Policies, such as so-called incentives, also impede value exchange by

discouraging ICs from renewing their contracts with the organization. No incentive can take the place of exchanging value, yet so many organizations believe that by offering such things, it gives them a license to be as disrespectful of ICs as they choose to be.

MVPs must help organizations to avoid selective amnesia and not to gloss over the impact of events they would rather forget or that did not work.[45] Those who hold organizational power decide how to interpret organizational history, but there is a tendency to remember acceptable lies while forgetting unpalatable truth. Organizations have a way of pretending that something unpleasant never happened or that it was not as bad as everyone seemed to think. When organizations re-write their history, trust bleeds away.

At the very least, the independent contractor culture is still in its infancy. Many of those who work and the organizations that contract them believe that people are simply employed as permanent workers under some kind of flexible contract, rather than as the independent contractors that they really are.[46] Organizations, managers, and even some academics[47] need to be reminded that paradigmatic change appears suddenly, even though much bubbling below the surface has been going on for some time. Just because some organizations have experienced much less of the horizontal revolution and the need for value-based principles than others does not mean that no revolution has taken place. It is worth remembering that although the Industrial Revolution was completed in the United States by 1920, it was not until after World War II that many homes had electricity or indoor plumbing. The absence of apparent evidence does not mean it is not there, only that it has not yet been discovered, understood, or fully embraced. There is no doubt that when traditional organizations or traditional hybrids reform into different versions of traditional hybrids that little has actually changed, but that is not because there has been no revolution in the organization and management of work in general, but because the organization has chosen not to change its essence. That such changes appear to be slow in coming does not make them any less sure of doing so.

But the job of MVPs does not end there. MVPs can exchange more value in their capacity as value directors by being value partners to the ICs contracted by the organization.

VALUE PARTNERS

MVPs are value partners to the ICs themselves. Few people who are *employed* in organizations, however, see themselves as independently contracted. Most still believe that they are just employees. The work culture

feels different, but as far as they are concerned this has made little or no difference to the relationship they have with their *employer*. The growing sense that this is not the case fills them with anxiety. For some, panic has been overtaken only slightly by trying to learn to live with this new realization, but most have no idea how to make themselves more employable. It is in this respect that MVPs can be invaluable to ICs. They can help ICs to think of themselves as autonomous and independent and to change their expectations in that respect, that is, to behave as the outsourced labor that they are, to enjoy all of the attendant rewards, and to accept all of the responsibilities.

Work–Life Balance

One of the first things that ICs need to consider is how to balance their work with their lifestyle. Within traditional thinking, employees negotiated their work patterns and time off with their employers. Within the value-based context, however, that balance has to be managed by the ICs themselves. For the majority of people, the lifestyle that they want requires them to spend more of their time at work than they would like, especially among those who manage people.[48] Microsoft is a case in point. Their online citizenship guidance for those seeking work states that it is not the responsibility of the organization to create work–life balance for those it contracts, only that they are willing to provide a number of programs to help them to obtain it.[49] ICs who want a high standard of living will have to be able to deliver a lot of value quickly and quite possibly under considerable pressure from their contractors. Those who do not want the pressure may have to settle for a lower living standard or figure out how to deliver a lot of value without subjecting themselves to that pressure. This is not easy, and no one should be duped into thinking it is when they observe others who do it in what appears to be an apparently effortless manner. In fact, many ICs have recognized this and for that reason have opted for a lower living standard already. For example, a 1998 survey at British Telecommunications revealed that 38% of senior managers (both men and women) had refused promotions because it would damage their home lives.[50]

Employability Revisited

In Chapter 10, we learned that employability consists of employment opportunities and professional development. Employment opportunities are the means through which value can be exchanged by applying your expertise; professional development is the means through which you enhance your expertise. We introduced the idea of a value network, which

consists of those people and organizations that support and/or contribute value to your value network, and we said that networking for the purpose of exchanging equal value with others was based on the value transposition. We call the act of engaging in that form of networking *transpositional networking* (TBN). MVPs, in their capacity as value partners, can use transpositional networking in two ways. First, they can use it as a means to recruit new ICs for their host organization. Managers expect MVPs to identify those ICs whose skills the organization needs and to advise them on what is necessary to retain them. Second, they can help ICs to take advantage of employment opportunities and to develop themselves.

Transpositional networking is not something that the majority of people do very well. As we discovered in the last chapter, most people see networking as a means to tell others what they do rather than as opportunities to learn what other people do and what their needs are. Traditional networking inhibits the networking efforts of most people. MVPs can help ICs to understand the principles of TBN, such as how to identify the members of their value network and how to present the value they have to offer in a way that will make them attractive to other contractors. There are two principle ways in which ICs can present the value they have to offer. The first is through their résumés. There is a belief among managers that the practice of falsifying work histories is widespread among job applicants. MVPs must impress upon ICs that such behavior is inconsistent with the value transposition. It is pretending to have offered more value than you have. The implications are huge: if you cannot be trusted to report your work history honestly, how can you be trusted to be a value partner? The two are mutually exclusive. The means in a value-based context are as important as the ends. The second way in which ICs present the value they have to offer is with their business cards. Business cards are not just for people who run businesses. Whether you think you are an independent contractor or not is irrelevant. Business cards are an opportunity to give people something by which to remember you. It will make a much more favorable impression when they get ready to contact you to have a business card than a scrap of paper with a telephone number scribbled on it. All business cards should be informative and professionally produced. You should keep a box with you at all times since they are physical reminders of the value you offer.

Not all contracts end without being renewed because the ICs performed below a particular standard. In the new world of work, where no one's job is guaranteed, some contracts end when the work has been completed. For those organizations that may want to contract again those ICs who have worked for them, the MVPs' value networks can be a ready source of candidates. In addition, as MVPs become aware of employment opportunities elsewhere, they can advise these same ICs accordingly. In this way MVPs act

as value partners to both their host organization and to the ICs that contract them. They can help ICs to understand how their relationship to organizations has changed and how their behavior must also change as a result.

Professional Development Revisited

The second part of employability is professional development, and this is the area that most people think of when HR is mentioned. Traditional organizations have a reputation for believing that only some of those they contract are worth developing, typically, executives and fast trackers. In fact, succession planning is geared around developing the next talented person to fill what is usually a senior role. Value-based development grooms people for employability, not for a job. Since no one can be guaranteed a job, not least a particular job, why groom for it?

Everyone, including MVPs, need development, and the need for it does not stop when they become managers of people either.[51] Furthermore, all such development is continuous. The need for it never stops no matter how many seminars you attend or how many degrees you earn. ICs need guidance to determine which of the myriad of development opportunities on offer will make them able to deliver more value. This can present a serious challenge to those engaged in traditional HR because the traditional approach to development is transactional.

All professional development is either transactional or transpositional. Traditional development supports transactions, but value-based development supports transpositions. Transactional development is designed to solve a short-term or ongoing problem. But the content of the material and the way in which it is delivered, although marketed effectively enough to allure the most hopeful, usually does not respect either the time or the intelligence of those who attend and ultimately fails to change long-term behavior because the organizational infrastructures have not been changed to support it.[52] Surprisingly, some organizations may even penalize it.

It must be understood that training and development are two separate concepts. Training refers to the act of imparting a skill that can be repeated on demand. Training is important even in value-based organizations, but training is not synonymous with development. Development sounds more acceptable than training, but it refers to a process in which the ability to reason and discern matures. In other words, training enables people to think inside the box, but development enables people to be both innovative and productive *without* a box. Some organizations attempt to link their version of professional development of each of its ICs directly to their own business plans.[53] This is taking strategy too far. As we saw in Chapter 6, intricately planned strategies encounter the law of diminishing returns and

seldom work in any case. Such linkages have led managers to use development reviews as appraisals, not solely to improve the employability of ICs, as they are intended, but as a means of evaluating the success of an organization's business plan.

Traditional development is characterized by its attempts to fix things quickly, an idea that by its nature is transactional. There are a lot of books on the business shelves today that purport to solve the biggest organizational problems in a few short, easy steps. At a national conference several years ago, one company handed out packets of seeds as a metaphor for how to help people grow. The guidance suggested that a good environment, support during the early stages of growth, nourishment and stimulation was all that was required. Unfortunately, there was no information on the packets to indicate what kind of seeds were inside. For seeds to benefit from the tender-loving cultivation advised, they must be planted at an appropriate depth in a soil that is compatible with its growing habits at a time of year when they will get the sunlight and moisture they will need to grow. Any one of these factors could prevent germination. For example, seeds that grow well in soil with high alkalinity will die in conditions of acidity; peonies will not flower if planted too deeply. Some seeds need warm soil before they will germinate. With no indication on the packet as to what conditions the seeds needed, the likelihood that they would produce anything was diminished. All of this reminds us of the traditional approach to training and development. Adopt a cute and catchy method, pump up the troops, and throw some money at it. It will not work for everyone, but some of it is bound to be beneficial. Then we can congratulate ourselves for taking an interest in people. Small wonder that most people are demoralized by yet another ill-conceived initiative.

Just-in-time or just-keeping-up?

Just-in-time training is also an attempt to fix things quickly. It has gained in popularity because so many people live in hope that they will be able to leave something this important to the very last minute and still acquire it at the precise time it is required. But, this too is an exercise in futility given the length of time required to become proficient (Chapter 10). More appropriately, ongoing development could be referred to as *just-keeping-up*. There is no suggestion that we can somehow dovetail some special capability at the precise moment that it is needed. A similar idea that has been suggested is creating a huge repository of solutions that can be accessed through the organization's intranet. But not only is no database big enough to contain all the knowledge that might be needed, everyone who has ever had to look for some information using online help will testify to the fact that if you do not know what you need or how to ask for it correctly, you will be unable

to find it regardless. A transpositional approach is to encourage the development of value networks so that the expertise is readily available from people we trust.[54]

Off-the-shelf

It is worth repeating that there are no quick fixes, just as there are no get rich quick schemes. This does not stop people from looking for them, however, and neither ICs or HR personnel are the exception. This is borne out by the success of the off-the-shelf training industry. Most of these products do not deliver the value they claim to deliver and, because they offer no money-back guarantee, they forfeit the opportunity to participate in value transpositions. The development that is most likely to give the value it promises is tailor-made for the purpose and the audience. Tailor-made does not mean off-the-shelf. All such material must be updated constantly, to reflect the latest research so that it remains relevant for the individual, for the company and the industry. Tailored training and development, which delivers what you want, is always cheaper than generic off-the shelf materials from which you may obtain only some benefit. You want the entire experience to be beneficial, not just some of it. To sell off-the-shelf materials at a profit, they have to be written in a way that will make them appropriate to a wide audience in the context of a range of possible scenarios. It is rare for a product to be everything to everyone and do it very well.

Workshops and seminars

Workshops and seminars are also used to provide what is hoped will be quick and economical fixes. Many people who are *sent* to workshops or seminars do not know why they are going, do not feel the need to go, receive no opportunities to share what they've learned when they get back, and are not supported when they try to put it into practice. Yet, this approach is one of the most popular among traditional HR departments. These departments have a reputation for automatically signing up people for a course, seminar or workshop often for no more reason than a line manager asked them to do so. Questions regarding the desired change in behavior seldom arise. At the other extreme, a privileged few were sent to expensive venues in the name of training or even development.[55] Some organizations have become wise to these excursions and have started imposing a certain amount of accountability on those who sanction them.

Outward bound

There is another type of so-called development that can be as inappropriate as those discussed thus far. Outward bound is the no-frills antidote to swanky hotels, but it can be just as expensive. Since few people are required

to ford streams, paddle in rubber rafts, or drive tanks for a living, these excursions with nature seldom produce the desired effect. Any group of people that enjoy activities of this kind will experience bonding, camaraderie, and a team spirit while engaging in the demands of an outward bound event. However, those people who do not like to get wet and muddy, for example, will experience significant emotional stress if they are expected to participate enthusiastically in such activities. The real danger for them is that their unwillingness will be interpreted by the organization or their peers as a lack of team commitment, an assumption that may well be very far from the truth. Value-based development always enhances the ability of participants to deliver value. It behooves all who are committed to value-based principles to identify specifically the new behaviors that are desired and obtain development that is tailored to that end.

In-house

Many organizations have attempted to solve their development challenges by providing it in-house. In-house development is often a false economy. It presupposes that the overall cost will be less because all of the expenditure will go to people already under full-time contracts to the organization. The success of in-house developers depends on whether they are perceived as associated with the organization or the profession. Notwithstanding the truism that a prophet is not welcome in his or her hometown, if in-house developers are associated with the organization, they may not be trusted, particularly if the organization has exhibited transactional behavior in the past. Development that pertains to interpersonal skills or management challenges, in particular, requires a degree of frankness that few will provide to an in-house developer. Although the in-house developer may lack the competence to deal in such matters, in all probability the failure of the development activity will be due to the lack of trust the attendee associates with the developer by virtue of the organization that has employed him or her – attributed guilt rather than actual guilt. Under such circumstances, it is the fear of the attendee that something he or she reveals during the activity will somehow find its way back to his or her line manager or someone more senior, and it is an unfortunate reality that many either have experienced this personally or have known someone who gave an honest opinion of the organization during an in-house activity only to discover later that everyone in the company had learned about it through the proverbial grapevine.

Evaluation

Evaluation should be considered in two ways. In pre-development, the question is, will I get the value I want? And in post-development, did I get

the value I wanted? The value contained within any development must be considered before it is undertaken. Such estimates are not perfect, but you have to satisfy yourself, and maybe others, that the resources necessary to obtain the development will be justified by the benefits of receiving it. Although most people agree that this is a sensible approach, it is remarkable how few of them actually apply it. As we have already mentioned, it is quite common for traditional HR departments to send people to workshops and seminars without knowing how behavior needs to change. If they are asked what people will be expected to do differently as a result of attending this development event, the typical answer is, "I don't know." Sending people for development because you got a request to do so is as dangerous as signing a blank check. If the person attending the workshop changes his or her behavior, the person who requested it will take the credit. If the person attending the course doesn't change his or her behavior, you will get the blame. "You sent him to the wrong one."

Most people, it seems, pay lip service to evaluation in post-development. The Kirkpatrick model,[56] the gold standard of training and development evaluation, specifies four progressive levels through which the benefits of such activities can be measured. They are reaction, learning, behavior, and results. Because of the complexity involved in the last three, the first level is the most common. "Happy sheets" ask attendees about non-essentials such as the quality of the coffee and restrooms, whether they liked the facilitator, and generally whether they had fun. Remarkably, the answers to these trival questions often drive subsequent decisions for future development. Another consideration in using evaluations of this type is that fear of reprisal often leads to less than honest feedback because there is a real or perceived risk by those who complete them that their comments could be traced back to them.

Sometimes, facilitators will attempt to check for understanding by incorporating some kind of test within the development sessions, but, our all-inclusive society makes it unacceptable for anyone to fail, and so everyone passes. Rarely are changes in behavior evaluated subsequent to any development sessions, and even more unusual are the results obtained measured against the results that were desired. This is because neither the behaviors nor the results were clearly identified in the pre-development phase. The problem stems from the fact that measuring behavior quantitatively may require a working knowledge of statistical methods, something that few in HR have the skill to do. The pat response is, "It cannot be measured, so I will not try." Admittedly, evaluating behaviors may have to be done over the longer term in order to measure changes. But, what is particularly interesting is that those who are most vehement in claiming that such behaviors cannot be quantified themselves lack the necessary quantitative skills.

The problem is not so much that it cannot be done, but that so few people know how to do it. Equally, few senior managers have the skills to understand the resources that are necessary to apply sufficient rigor to the evaluation process in order to obtain meaningful results. Most seem to believe that if they invest this much in people, this will be the bottom line return because that is precisely the reasoning they use for every other function within their organizations. It is due in large measure to their ignorance that happy sheets have come to be used so much to determine the value of development that is funded by the organization. Notwithstanding these limitations, individual behavior is attributable to many things, and isolating which one causes which behavior can be more of a fluke than a science because everything is interrelated. Nevertheless, if you or those you use fail to deliberately design and implement development programs for the expressed purpose of changing behavior and improving results, you are telling your employees that as long as they had a good day out and learned something, they won't have to change anything when they come back to work. You abdicate your responsibilities as MVPs when you just send someone to a workshop and evaluate the effectiveness of it by asking them if they had fun or if they learned anything, and it is your behavior that devalues what you do and causes the senior managers to question the value that you provide as ICs. Whatever opportunities are made available to the ICs contracted by organizations, MVPs must be able to demonstrate how they will enable those who attend to deliver more value to their current organization; and ICs must be given guidance on how to evaluate such opportunities.

Some argue that they consider the value they expect by reviewing the sheets from previous sessions.[57] This approach may provide marginal benefit for subsequent sessions, but it is still based on the subjective opinions of those who attended, not on what or to what extent behavior changed or whether that behavior was connected in any way to the results that were desired. Exit interviews, therefore, help those who follow. From a value perspective, it means you might be paying so that someone else will benefit, a transactional approach. Training and development companies have become so adept at marketing their services that no one seems to be questioning them on this.

Consultants

All ICs, whether they work in the most senior or the most junior positions need help in understanding how their respective roles and relationships have changed. It is more than helping people to think differently; it is showing them how to behave accordingly, instead of just thinking differently, but

behaving as before. Since few organizations understand these changes, knowledgeable consultants who are not regular contractors to the organization may be needed to increase this awareness and understanding. These changes are so dramatic, as to make it necessary for such specialized assistance. Organizations, however, must proceed with caution. Many established consultants do not know what has changed *and* why. They do not understand the historical roots of management practice nor its significance. Their so-called "solutions" are based on relatively short-term circumstances that have been considered outside of the context of organizational history (Chapters 1–4). Nevertheless, this ignorance will not prevent them from attempting to jump on the bandwagon of those who are knowledgeable. Perhaps this can be better expressed by saying that if you use the consultants you have always used, then any recommendations they have made and which you implement may contribute to an organization's decision to outsource all that you do. Those who are cynical of consultants might argue that nearly all fall into only two categories. The first category goes in at the CEO level and rearranges the organization without considering those who work in it. The second category are classified broadly as *trainers*, who go in at the HR level, but are ignorant of the organization's objectives and are unable to quantify the extent to which their interventions have enabled organizations to achieve those objectives. The fact remains that if the consultants you contract really understood these differences and their significance, they would have explained them to you already. The evidence presented in this book, however, suggests that they do not.

The evaluation of value is not limited to the content of the development. It also includes the basis on which remunerative value is given in return for it. Since the Industrial Revolution, people have been paid principally for their time, by the hour or by the day, and that is still true. There are also large numbers of people who are salaried, who are paid a flat rate regardless of the number of hours they work and who, in view of that, would be shocked to discover just how much they actually earn for each of those hours. Consultants typically charge by the day, though there are exceptions. Where the results are quantifiable, some negotiate for a percentage of what they save the organization as a result of providing their services. Some quote for the entire contract, and then devote whatever time is necessary to fulfill its terms.[58] Whenever you pay consultants according to the time required to complete a contract, you are reinforcing their conviction that their time is of greater value than their expertise. You are interested only in the value to you of the product or service they deliver, not how long it takes them to deliver it. This flies in the face of standard practice, but it is worth remembering that most consultants are unaware of the historical significance of payment for time. It was introduced to compensate *unskilled*

workers. How ridiculous this sounds when we imagine being invoiced for a new car or a new house on the basis of how many hours it took to build it. As MVPs, you should pay for what you want, not for what you get. Do you want time or expertise? Set out the terms of what you want from the beginning and negotiate a price on that basis. In this way, you are coming much closer to receiving value that is commensurate to the value you are delivering. In a value-based organization, you are concerned only that people you pay deliver value, so insist that you are charged on that basis. This will put off a lot of consultants and trainers who have never really thought about it. Although you do want them to finish the job as quickly as possible, you do not want to pay them for the extra time it takes or for the unforeseen problems that surface along the way. You only want to pay them for the value that they deliver. You should also insist on some kind of guarantee. Just as you would not expect to pay for damaged merchandise, you should not be paying consultants who fail to deliver the value stated in their contract.

Feedback

Feedback on personal performance is a form of development. Its purpose is to change behavior. The purpose of changing behavior is to increase the value that is created and exchanged subsequent to the behavior change and increase employability. The responsibility for obtaining feedback is on those who want to develop themselves further as a result. One widely used means of this kind of evaluation is known as 360° feedback. Unfortunately, organizations have hijacked this concept and have incorporated it into their appraisal systems. This bypasses its real value. Pundits of 360° feedback argue that the proper use of it demands anonymity, but, how can value be exchanged with someone you do not know? Feedback should be personal as part of a value transposition with the person who is giving it. There is no need to be coy about the content of the value to be exchanged. Anonymity becomes necessary only because organizational interference with the transposition of value clouds objectivity and invites reprisals, neither of which are good for anyone. There may be a place for using consultants to structure feedback sessions until people begin to feel more comfortable about the process. The scheduling of these sessions should be left to the people involved. The organization should encourage ICs to provide feedback when fellow ICs ask them and to ask fellow ICs to provide feedback on their own personal performance. But, organizations must resist the temptation to use this evaluation method as a means to get ICs to report on the performance of others to them. The value that passes in a transposition is for the two parties engaged in it, not for some other third party.

SUMMARY

Those who work in what has been referred to as human resources have the most challenging job in organizations. The horizontal revolution has relinquished them of their traditional responsibilities. Employees have become independent contractors (ICs), all of whom now bear the responsibility for managing their careers as well as their benefits. Line managers have taken the rest. In the value-based context, traditional HR is unemployable. The new role for the HR department is as managers of value partnerships, or MVPs, and with it comes two new responsibilities. As value directors, they help to identify and change organizational behaviors that impede the passage of value between them and the ICs they engage. As value partners, they provide employability to ICs by helping them to become transpositional networkers and by guiding them in the assessment of the value offered from the wide variety of developmental materials and methods that are available.

NOTES

1. Pickard (2000).
2. Vernon (2001).
3. Thomas and McDaniel (1990).
4. This exercise was conducted in a number of HR workshops by Bruce Hoag.
5. Martin Reddington quoted in Mendoza (2001).
6. Vernon (2001).
7. Abbey (2002).
8. Aziz (2003).
9. Carrington (2004).
10. Carrington (2003).
11. Burns (1978).
12. Thornhill et al. (1996).
13. Daymon (2000).
14. Kanter (1995).
15. Beer et al. (1995).
16. Hinkle (1965).
17. Huzzard and Östergren (2002).
18. Hoag et al. (2002).
19. Hofstede et al. (1990) and Morrison (2002).
20. Hoag (2002).
21. Persaud (2002).
22. Smethurst (2000).
23. Green and Tsitsianis (2004).
24. See Chapter 7 for a fuller discussion of hygienic and non-hygienic factors.
25. Ross and Dicker (2000).
26. Patterson et al. (1998).
27. Guile and Fonda (1998) and Paul and Anantharaman (2003).
28. Ross and Dicker (2000).
29. Patterson et al. (1998); Ross and Dicker (2000) and Paul and Anantharaman (2003).
30. Huselid (1995).

31. Hunter (2002).
32. Keeble (2005).
33. Merriden (2003).
34. Finn (2001).
35. Bunting (2004).
36. Drucker (1969).
37. Jacoby (2002).
38. Merriden (2002).
39. Slon (2003).
40. Freudenheim (2005).
41. Duka and Nicholson (2002).
42. Prosser (2005).
43. Drucker (1969).
44. McDowell and Hostetler (1998).
45. Nissley and Casey (2002).
46. Guest (2004).
47. Hales (2002).
48. Worrall and Cooper (2001).
49. http://www.microsoft.com/mscorp/citizenship/diversity/inside/worklife.asp
50. Cooper (2000).
51. Smethurst (2000) and Worrall and Cooper (2001).
52. Beer et al. (1995).
53. Gratton et al. (1999).
54. Stewart (1998).
55. Robinson and Robinson (1989).
56. Kirkpatrick (1998).
57. Waring (2001).
58. Weiss (1998).

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