TURNOVER AND OTHER ORGANIZATIONAL AILMENTS

A research-backed exploration into the roots of organizational troubles & their cures

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Turnover and other organizational ailments

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Part I

The Big Picture of Organizational Ailments & Their Cures

Chapter 1

Introduction: A Biological Metaphor for Organizational Thought

About 42% of the entire human population is employed. That is 3.3 billion human beings. If we ignore children and the old and only consider those aged 20-60, **66% of working age humanity is employed**. That's an enormous number of humans working across the globe. And presumably, each of these people is attached to an organization. According to a 2022 estimate, there are 213 million companies worldwide. The global average work hours is 33.5 hours/worker/week. Therefore, on average, those 3.3 billion workers spend 40% of their waking hours at organizations.

From the above points, it is clear how important the idea of organizations is to human survival and thriving. More importantly, the enveloping organization primarily determines the individual's day-to-day experiences and quality of life. Hence, **organizational health** is of enormous importance to humanity. This book is a small effort toward collating a filtered collection of insights from the literature to reduce **organizational ailments** and thus increase **organizational health**.

1.1 The organization is like a biological mechanism and is susceptible to various ailments and diseases

As I propounded earlier, **organizational health** is vital for leaders, employees, customers, and the whole of humanity. A *functioning organization* is, by and large, an enabler for human existence. It practically achieves what no single individual can. At the same time, organizations are full of vulnerabilities. Various internal and external processes continuously threaten the organization's survival and thriving.

If we see an organization as an *organism*, then, at an abstract level, it becomes possible to assess the *health* of an organization. If there is too much employee turnover, if the higher performers are leaving, that organization is, in a sense – subject to ailment. The organization is unhealthy if employees are often absent and cause worries within the organization's ranks. If stress and conflicts shoot through the roof, and no person within the organization knows anything of peace, then the organization is definitely in trouble.

I propose that, in organisms and organizations, *health is the natural state, and ailment an anomaly.* What processes are going on within the organization conducive to what is desirable? **What leads to wealth, productivity, and benefits while leading us away from the various ailments?** This is the subject of study in this book.

1.2 Interpreting why an organization is facing troubles is a challenging task due to the complexity and heterogeneity of organizations

It is a common experience, in various fields of daily life, in personal and professional spheres, that merely knowing a person is difficult. To *understand* an organization seems an impossible task! We are forced to *simplify*, and we have to satisfy ourselves with partial representations; we *never* can be sure. Unlike the hard sciences, in human management, very few empirically and universally agreed upon rules can be applied blindly in every situation to garner benefit. The organization as an entity is too dynamic. Literary or mathematical descriptions fail to capture the essence of its many pieces, people, and processes. We are too far from capturing reality. However, does this mean we should sit still in despondency? No. Many scholars, researchers, and practitioners have been eager to understand the mechanics of organizations for centuries.

In China, near 300 BC, you had political scientists such as Han Fei propounding how the philosophy of legalism could solve people's problems for the emperor. Near the same time, In India, Chanakya propounded various bureaucratic models, expounding theories of human behavior and suggesting heuristics hinting at how it all works. In every century, there have been deep thinkers on the subject. With the advent of science, Newton, Pascal, Kuhn, and Einstein, we have one more lens to examine the organization. And various journals have been flooded with new investigations and reports on how organizations work at multiple levels and aspects. The fire of human curiosity about organizations has been ablaze for more than 2000 years.

There is no straightforward answer on what works and what doesn't since the challenge is too many-faceted and of enormous difficulty. However, humans can know more about organizations today than ever. We have more data, more knowledge, and more resources to figure out than before.

1.3 Organizational health and organizational ailments are diametrically opposite ideas

Earlier paragraphs hint at this, but perhaps it is worth restating this idea explicitly:

Organizational health is the opposite of organizational ailments. If an organization is healthy, one shouldn't take that the organization is *successful* as well. When we look at a healthy human being, we are saying this person is doing well and is not suffering from any major diseases. We believe the person has the potential to use this situation to try their best to live a good life and become successful economically and socially. In the same way, organizational ailment reduction is about *enabling* an organization to do well eventually. It is to ensure a good business continues to do well and doesn't suddenly drop into oblivion due to sudden illness.

1.4 Upon keeping ailments within check, the organization gets an opportunity to flourish

Therefore, organizational health is about having the *minimum* necessities to open up the possibilities available. It is about *enablement* rather than *attainment*.

Keeping a check on organizational ailments through healthy practices is the first step toward putting an organization in the fast lane. It is the precursor to future potential, like the athlete training oneself quietly to help compete in a more intense situation.

For an organization, keeping health and maintaining distance from various ailments is critical, just like a human being.

1.5 The book focuses on the basics of avoiding, diagnosing, and treating organizational ailments

This book, *Turnover and other Organizational Ailments* focuses on collating high-quality sources and insights aimed at two goals:

1. Increasing organizational health
2. Avoiding, diagnosing, and treating organizational ailments

An essential aspect of the book is that I try to focus on *basic* things that I am reasonably sure are *correct*. Most of the views in the book come from various reputable researchers who have conducted extensive studies on their preferred topics.

1.6 What constitutes basics: information filters and prioritization methods used in writing this book

The following are the **principles governing the book:**

1. **Pack many insights into one volume:** I don't want to write a single idea book, which you'll read once and then throw away. I wish this book were **used in practice** frequently as the needs arise. For instance, if you suspect that your *employee compensation* system needs a rethink, you'll do well to go through the insights and principles expounded in that chapter to get a quick refresher on the topic.
2. **Prefer longitudinal studies:** Given the complexity of the subject and how problematic the results could be to validate, *longitudinal studies* are taken more seriously than any other. An experiment considering 5 years worth of observation is superior to one considering 5 weeks. We also prefer larger samples with potentially less bias.
3. **Prefer empirical studies:** One of the many problems with management studies is that many principles and theories propounded in management schools are often contradictory and not based on a sound empirical basis. Therefore, in most instances, I have tried to preserve those studies with empirical support. I believe this improves the quality of conclusions we take seriously.
4. **Prefer established scholars on topics:** If there are two competing authors on a subject from which I can draw, I try to prefer the one with the higher consensus in the community, with possibly more citations and a more extended amount of experience.
5. **Easily scannable, straightforward, clear-cut headings; no time-wasting narratives:** As established earlier, I want to provide a useful day-to-day reference for leaders and practitioners. An essential aspect is helping the reader quickly work through a chapter for refreshers. I have tried to make the section headers speak for themselves so that one can look at the table of contents to acquire a panoramic view.

1.7 The book traverses from the generic to specifics; starting with abstract concepts such as culture to specific ailments such as employee turnover

As shown in fig. 1.1, this book has 4 *major* themes. The themes roughly correspond to the parts of the book.

The first part, which is also the current part (Part I), orients the reader towards the theme and purpose of the book.

Whereas in the second part, *Intangible roots of organizational wealth – a philosophical empirical framework* (Part II), I start with a few general ideas that help examine organizations; these are broad viewpoints on organizations that will help you guess where potential problems may lie. The topics covered in this section are culture, intangibles, justice, cooperation & competition.

In the third part, *Key mechanisms determining organizational outcomes* (Part III), I explain various administrative *mechanisms* that make a group of people function together. Most of these mechanisms are *policies*, which, when neglected, can lead to various ailments and painful outcomes. Although some mechanisms, such as organizational politics, work around the organization's defined policies.

The fourth part, *Developmental processes to build up momentum within the organization* (Part IV). I explore human, structural, technological, and other such processes. These are separated from mechanisms because they are more *complex* subjects, and they go deeper into pedagogy, psychology, sociology, and such topics. The chapters contain insights drawn from both theoretical and empirical models/studies.

The fifth part, *Organizational Health indicators to continuously watch out for* (Part V), directly addresses 4 types of potential organizational ailments. It is essential to realize that *turnover in itself need not be an ailment.* Nuances specific to each topic are explained within the chapter, helping the practitioner identify the nature of the situation better, apply diagnostics more accurately and deploy appropriate corrections.

Finally, we summarize insights from the preceding chapters in *Organizational ailments: diagnosis, monitoring and application of cures* (Part VI).

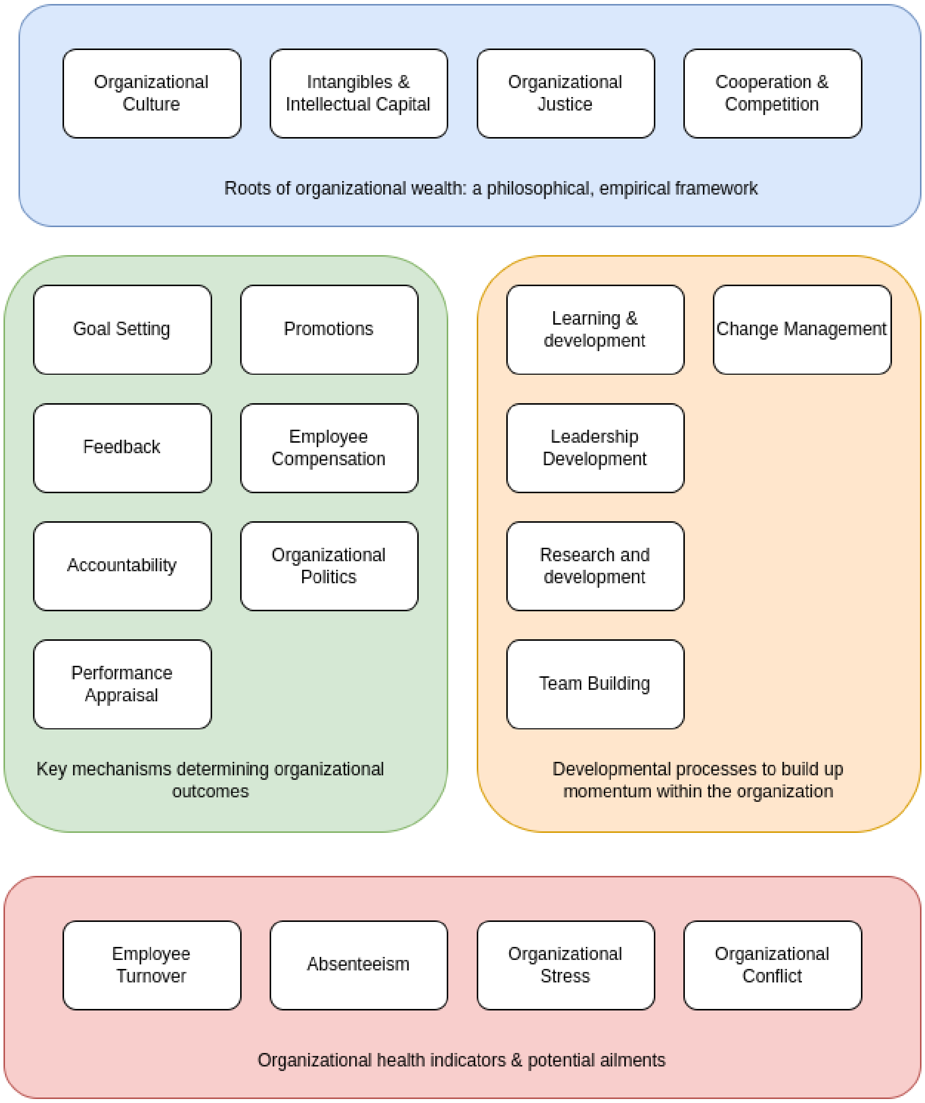

Organizational Culture
Intangibles & Intellectual Capital
Organizational Justice
Cooperation & Competition
Roots of organizational wealth: a philosophical, empirical framework
Goal Setting
Promotions
Feedback
Employee Compensation
Accountability
Organizational Politics
Performance Appraisal
Key mechanisms determining organizational outcomes
Learning & development
Change Management
Leadership Development
Research and development
Team Building
Developmental processes to build up momentum within the organization
Employee Turnover
Absenteeism
Organizational Stress
Organizational Conflict
Organizational health indicators & potential ailments

Figure 1.1: Overview of the organizational ailment diagnosis framework

Part II

Intangible Roots of Organizational Wealth – A Philosophical Empirical Framework

Chapter 2

Evolving Organizational Culture

Culture is a specific type of learning within a sufficiently stable and enduring group of people. The learning of such a group consists of shared knowledge of how to survive and thrive together by solving problems of the external environment and internal group dynamics. In short, culture is knowledge of the means to survive and thrive together in a given environment (Schein 1990).

2.1 Definition of Organizational Culture

Organizational culture refers to shared values, beliefs, assumptions, and ideologies that characterize the organization, generally transmitted through myths or narratives, symbols, and socialization processes. Moreover, *organizational climate* refers to the shared perceptions of and the meanings attached to practices, policies, and procedures in the workplace and the behaviors they observe being supported, expected, and rewarded (DeNisi and Smith 2014)

A strong culture produces consensus on what is important and what metrics indicate organizational performance.

2.2 The root of culture is shared cognition, giving rise to various cultural behaviors & artifacts

Individuals in a sufficiently enduring group tend to realize that a shared cognition has emerged, that the members share similar ways of understanding how to survive and thrive together. The root of shared cognition leads to various other components of culture, such as:

1. Coordinated behaviors
2. Similar emotional responses and aspirations
3. Shared language and style of communication
4. Similar ways of viewing situations
5. Similar attitudes towards problem-solving
6. Shared values in professional and personal spheres

2.3 A large organization can end up with various subcultures

An important thing for leaders is that organizational culture is not necessarily homogenous across its various layers and units. Over time, subgroups tend to get formed, where the process will manage to develop an *equilibrium* while reducing *dissonance*and bringing various assumptions and categories into alignment. The larger the organization's size, scope, and variety, the more subcultures it will come to host.

2.4 A group culture must pass a few tests and possess specific attributes

Culture doesn't form merely through shared cognition. For instance, when a great musician performs on the stage, the entire audience may consider the experience worth remembering. However, such a cognition may not last long enough to be called part of the group's culture. Some attributes elevate shared cognition to the level of culture:

1. It is a pattern of basic assumptions held in common among the group members
2. It was either invented, discovered, or developed by the group
3. The knowledge helps in coping with both external and internal problems
4. The knowledge has stood the test of time (members feel it has proven itself on a sufficient number of occasions)
5. The members feel the knowledge is valid enough
6. The members wish to teach it to new members
7. The members share an opinion that it is the correct way to perceive, think, and feel concerning the problems

2.5 The strength of a culture is a function of various parameters

The strength or internal consistency of a culture is a function of various parameters:

1. Longer the period of its existence, the stronger the culture
2. More intense the learning experiences shared, the stronger the culture
3. Stronger the commitment and clarity of the leaders of the group, the stronger the culture
4. Higher the efficacy of the learning mechanisms, the stronger the culture (say, positive reinforcement, avoidance conditioning, etc.)

2.6 Culture provides an anxiety-reducing mechanism to the group

The higher the strength, consistency, and efficacy of culture, the lower the anxiety levels within the group. The culture develops as a group proceeds to hold common assumptions, working together effectively to face external and internal challenges. In turn, such a culture provides **stability, meaning, and comfort** to the group members. Through shared learning, the environmental and social ambiguities reduce to tolerable levels. An analogy would be that culture is to a group, what defense mechanisms are to an individual. The group can cope primarily due to the strength of its culture.

2.7 Organizational culture manifests as artifacts, values, and assumptions

The organizational culture manifests itself in three fundamental levels:

1. **Observable artifacts:** Entering an organization, one can see and feel various artifacts, such as physical layout, dress code, social conventions, energy and emotions of the people, company records, products, statements of philosophy, and annual reports.
2. **Values:** Interviews, questionnaires, and survey instruments help one study a culture's espoused and documented *values*, norms, ideologies, charters, and philosophies. Open-ended interviews can be helpful, sometimes even more than questionnaires, because there is less pre-judgment.
3. **Basic underlying assumptions:** Through intensive observation, focused questions, and encouraging deep self-reflection, one can decipher the taken-for-granted, underlying, and usually unconscious *assumptions* that determine perceptions, thought processes, feelings, and behavior.

The categorization, as mentioned above, is particularly valuable in understanding why certain mergers and acquisitions fail. While two parties may agree upon explicitly stated values, the underlying basic assumptions may be out of sync, leading to behavioral conflicts. **Deeply held values** are of enormous importance and are usually submerged and out of sight in everyday interactions.

2.8 An example of two opposing styles of culture: debate-based vs. authority-based

In the previous section, we saw how basic underlying assumptions could eventually shape values and observable artifacts. Following is an example profiles of two contrasting cultures:

1. **Debate-based:** *"The founder & leaders believes that the individual is a source of good ideas and that truth is discovered through debate and testing. Each person is supposed to think for oneself and"do the right thing ." And everyone is part of the family, mistakes will be tolerated, and everyone works together."* Such a model works excellently up to a scale; however, once the organization grows beyond a threshold, excess debate slows down decision-making. In addition, the warmth and family feeling will disappear because people cannot know every other member.
2. **Authority-based:** *"The founder & leaders believe scientific research is the source of truth and good ideas. The mission is to make a better world through science and important products. Truth and wisdom reside in those who have more education and experience. The organization's strength is in the expertness of each role occupant." The company is one family as long as the family hierarchy is respected, and 'children' obey the 'parents.' There is sufficient time — quality, accuracy, and truth are more important than speed. Individual autonomy is respected as long as "children" stray not too far from the "parents."* The problem with such a system of assumptions is that expertise need not be the sole value creator. In a changing world, perhaps marketing and manufacturing matter more than R&D skills. And the authority-based system may find it painful to adapt.

2.9 Culture forms around critical incidents & identification with leaders

Through the study of groups, two mechanisms emerged as defining culture:

1. **Norm formation around critical incidents:** Emotionally charged and anxiety-inducing situations have a significant role in culture formation. For example, a member attacks a leader with multiple witnesses, and the overall tension is high. If the leader counterattacks and can silence the opposition and get them to concede, then usually the *authority* of the leader grows. The norm leans towards — *we do not attack the leader in this group.* If the pattern reoccurs, then it becomes a strong norm.

2. **Identification with leaders:** In the initial days of organizations, beliefs, values, and assumptions of dominant figures or "founders" provide a visible and articulated model for the group's structure and functioning. Some practices will work on putting beliefs into practice, and others won't. And the group as a whole learns from shared experience, which in turn creates shared assumptions. Hence, there will be some divergences from the leader's original views. If they are powerful enough, the leaders will continue to shape the group in whichever ways they think is beneficial.

The following are the primary embedding mechanisms:

1. What leaders pay attention to, measure, and control
2. How leaders react to critical incidents and organizational crises
3. Deliberate role modeling and coaching
4. Mechanisms installed for rewards & status distribution
5. Criteria for recruitment, selection, promotion, retirement, and excommunication

The following are the secondary embedding mechanism:

1. Organizational design & structure
2. Systems and procedures
3. Physical space, facades, and buildings
4. Stories, legends, myths, and symbols
5. Formal statements of organizational philosophy, creeds, and charters

As cultures **evolve**, there will be continuous *integration* and *differentiation.*

2.10 Types of cultural adherence and mechanisms to produce them

New members, when introduced to new cultural elements, can respond in three ways:

1. **Custodial orientation:** A total conformity to all norms and complete learning of all assumptions
2. **Creative individualism:** Trainee learns all the central and pivotal assumptions of the culture but rejects all peripheral ones, thus allowing the individual to be creative in how to get things done.
3. **Rebellion:** Total rejection of all assumptions. Either the individuals leave, or they will subvert, sabotage, and ultimately foment revolution.

The following mechanisms work well for creating a **custodial orientation**:

1. Formal: The training methods are set and conveyed through various standardized programs & events. The content is predetermined.
2. Self-reconstructing: The fundamental beliefs of the individual are destroyed and reconstructed to produce adherence

3. Serial: Lots of training, role models, and mentorship provided
4. Sequential: Specifically defined steps and progress milestones in becoming organizationally cultured
5. Variable: Withhold promotions until one is "ready." So to move up the organizational ladder, one has to adhere to the culture
6. Tournament-like: One is removed from the organization if they "fail" in absorbing the culture

The following mechanisms help with creating more **creative individualism**:

1. Informal: Implement relationship and apprenticeship-based training methods, and communicate basic tenets while retaining the individual's freedom to act.
2. Self-enhancing: An emphasis on skill building and capability building to equip the individual to handle many challenges
3. Random: Sink-or-swim methods of orientation, where either the people solve their problems on their own or are sent away
4. Disjunctive: Open-ended challenges, and the recruit can never know what challenge leaders will give next
5. Fixed timetables: As in military bootcamps, the recruits get a fixed timeline to meet their challenges for each stage; either the recruit survives or is to retire
6. Contest-like: Extend status and rewards based on the track record and history

2.11 The leader's role in guiding the evolution of culture and change

Organizations, if they are to survive, must evolve as situations develop. Sometimes evolution involves *unlearning* dysfunctional elements. Unlearning is for groups what therapy is for individuals. Leaders ought to exert effort in overcoming dysfunctional cultural factors. If the leader observes that the organization is heading in the wrong direction, then they can take steps to "correct" the direction:

1. "Unfreeze" the existing situation through communication, and create a belief that change is possible and desirable
2. Articulate a new direction, a new set of assumptions, and provide a new role model
3. Reorganize critical positions to fill with people who have the right attitudes
4. Systematically reward new behaviors while punishing dysfunctional behaviors
5. Create visible scandals to discredit dysfunctional behaviors, highlight why the present system doesn't work, and symbolically destroy artifacts associated with them

6. Create emotionally charged rituals and develop new symbols and artifacts around the new assumptions to be embraced

2.12 Organizational culture is the source of performance and other beneficial factors

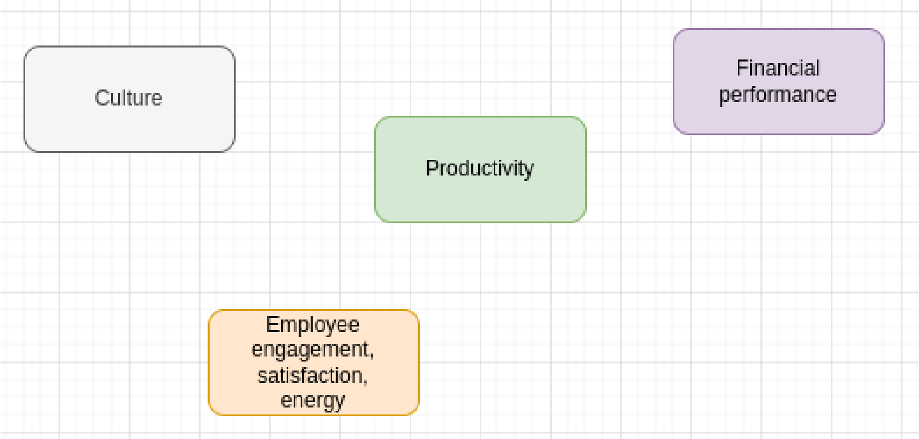


Figure 2.1: What causes what here?

In the Journal of Organizational Behavior, Anthony Boyce et al. published a paper titled *Which comes first, organizational culture or performance?* The paper presents a 6-year-long study of the sales and service departments of 95 automobile dealerships. The definite answer from the paper is: “Organizational culture causes performance and not the other way around” (Boyce et al. 2015). Given this, the leader’s task is to evolve, arrange, or enhance an internal culture, which can be the root of financial performance. We use the word evolve because these changes can take 5-6 years to materialize concrete results, as the paper’s authors warned.

In another paper appearing in the Journal of World Business, titled *Culture, employee work outcomes, and performance: An empirical analysis of Indian firms*, the authors Jossy Matthew et al. studied 1200 members from different teams in the top 2 largest software organizations in India. The finding is that culture, consisting of mission, concern for employees and trust, organizational learning, empowerment, and core values, positively impacts employee work outcomes, such as satisfaction with work, productivity, and quality of work. The study found a statistically significant association between employee satisfaction and productivity (Mathew, Ogbonna, and Harris 2012).

Singapore’s LKY emphasized the importance of culture in the following way:

> “The government can create a setting in which people can live happily

> and succeed and express themselves. Still, finally, it is what people do with their lives that determines economic success or failure. Again, we were fortunate we had this cultural backdrop, the belief in thrift, hard work, filial piety, and loyalty in the extended family, and most of all, the respect for scholarship and learning."

With support from the above two well-received empirical studies & similar sentiments expressed by wise administrators, a transparent causal chain appears for the leader to establish in their organizations practically. Since culture is at the root of financial performance, the leader's primary task is to establish a beneficial culture for the long term. In fig. 2.2, we see how culture is the root influence for obtaining financial performance at the end of the chain.

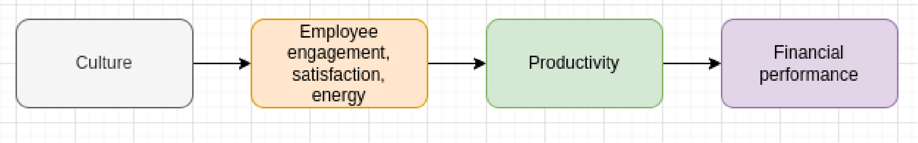


Figure 2.2: Long-term causal chain for financial performance

2.13 The enveloping national culture influences Organizational Culture

Aligning performance appraisal practices with national culture decreases absenteeism and turnover. Therefore, Leaders should also vary HR practices across cultures. Hence, the solution to the problem of improving organizational performance involves using different paths in different nations.

Some potential differentiated HR strategies across different nations:

1. Selection: In certain nations, with citizenry used to standardized testing, a more test-oriented selection may work well. And those with a more informal culture may prefer to be selected based on interviews. The emphasized method must align with the nation's overall culture.
2. Rewards: Some countries are more collectivist rather than individualist. Based on national cultures, people may respond well to rewards at team or individual levels. For example, Americans are way more individualistic than Indian or Chinese.
3. Appraisal: Certain cultures favor the means more than the ends, whereas other cultures are focused more on getting to the ends, regardless of the means taken. Hence, the appraisal system cannot be farther from the enveloping culture if a workable plan is required. While certain cultures value process over results, others value precisely the opposite. One must expect employees to carry their habits into the workplace.

Note that none of the above are mutually exclusive options. For example, it is indeed possible to reward at both team and individual levels. Yet, at the same time, it is preferable to maintain alignment based on the enveloping national culture to get the best results.

Hence, culture influences various variables within the organization. At the same time, we must remember that culture is malleable and evolves through the learnings that happen through its existence and developments in the world.

2.14 Quantifying the impact of culture on society & organizations

Global Leadership and Organizational Behavior Effectiveness (GLOBE) is a large-scale, sophisticated research project aimed at quantifying the relationship between culture and its various impacts on society (House et al. 2004). We can gauge the scope and scale of GLOBE with the following statistics:

1. 170 investigators
2. 62 national cultures
3. 20 book authors
4. 27 hypotheses linking culture to societal functioning & leadership
5. 17,300 managers' data
6. 951 organizations
7. Sophisticated research methods deployed

In the upcoming sections, we will use the GLOBE study to draw conclusions about organizational culture.

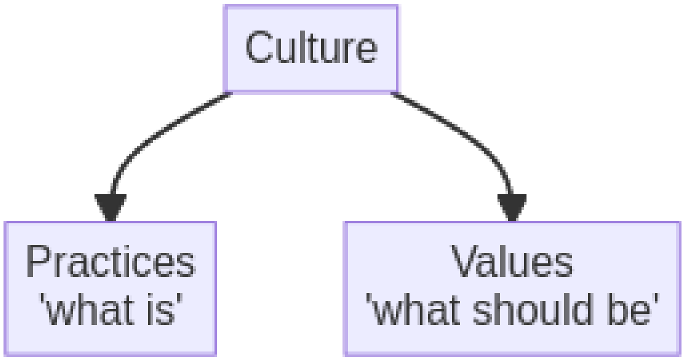
2.15 Culture consists not only of what exists but also of the group's aspiration

The organizational culture, by default, will only reflect the culture of the enveloping nation. If an organization wishes to install specific practices, values, and behaviors, it must work extra hard to overcome the default societal behaviors.

One can see culture from two lenses: practices and values.

Practices are the way things are *actually* done within the population.

Values are judgments about *the way things should be done.*



2.16 9 dimensions of societal culture variation from the GLOBE study

Given any society, the GLOBE study depicts them in terms of 9 dimensions through which leaders can assess various cultural variations. The following listing provides a summary of these dimensions.

1. **Performance Orientation:** Four preconditions predict a performance orientation in a given population. (1) High religious diversity (2) Low concentration of largest religion (3) Nondogmatic culture (4) Creative orientation; In turn, such a diverse culture results in (1) Economic accomplishments and (2) Lower life expectations
2. **Assertiveness:** High assertiveness makes a society more competitive. At the same time, there is a negative impact on psychological health.
3. **Future Orientation:** Future orientation relates to more planning and less spontaneity. People call before they visit, say their visitors. Scientific advancement, commerce, democracy, gender equality, and social health accompany future orientation.
4. **Humane Orientation:** Humane orientation goes with hospitality, empathy, and high life satisfaction.
5. **Institutional Collectivism:** Institutional collectivist cultures have incentive systems to reward groups for group actions. It sees the units as more important than the individuals. It is a type of reward structure in various significant societal institutions.
6. **In-Group Collectivism:** In-group collectivism cultures show pride and loyalty to the organization. It is a form of emotional attachment and identification with the group.
7. **Gender Egalitarianism:** Higher proportion of women earning an income, with access to resources, and correlated with longevity.
8. **Power Distance:** The elite and the common have a large gap. They are related to fewer scientists per unit of gross national product. The rich and

poor divide causes problems such as unemployment, lower social health, and limited human development.

9. **Uncertainty avoidance:** A desire to avoid or reduce uncertainty. It relates to home-grown R&D institutes, modern telecommunications, scientific progress, and governmental support for economic activities.

2.17 6 dimensions of leadership variation

The GLOBE project uses the following types of leadership:

1. **Charismatic/Value-based:** Every culture desires Charismatic/Value-based leadership. It involves visionary, inspirational, self-sacrificing, performance-oriented leaders.
2. **Team Oriented:** Cultures value team-oriented leaders for collaboration, team building, integration, and skilled diplomacy.
3. **Participative:** The leader focuses on involving the highest number of people in decision-making, ensuring more people participate.
4. **Autonomous:** The leader makes most decisions on one's own; most cultures tend to see this sort of decision-making from a neutral stance.
5. **Humane:** This style focuses on humanity, well-being, and adhering to values deemed suitable. Most cultures see this style from a neutral stance as well.
6. **Self-protective:** The self-protective style involves saving face, self-centered, status-conscious leadership, and is generally undesirable across cultures.

2.18 GLOBE study-based leadership prediction from South Asia

The GLOBE study of Southern Asia consists of India, Indonesia, Iran, Malaysia, the Philippines, and Thailand.

Practiced culture in Southern Asia is of the following sort:

> Thus, this cluster is, in general, highly family and group-oriented, humane, male-dominated, and hierarchical. Cultural dimensions such as Performance Orientation, Future Orientation, Uncertainty Avoidance, and Institutional Collectivism receive mid-range ratings. Assertiveness is also in the mid-range but slightly lower than other clusters.

At the same time, practice slightly contrasts the people's values and aspirations:

> In comparing the societal practices and values, as a whole, the societies in this cluster prefer to be more assertive, and future and performance-oriented. They also desire a lower level of power differ-

> entiation, meaning that leaders should distribute power more evenly instead of concentrating at higher societal levels. Moreover, these societies want more significant established norms and bureaucratic practices to avoid uncertainty in future events and also desire a lower level of male domination and gender role differences.

Predicted leader-fit for Southern Asia is as follows:

> Overall, the profile of an outstanding Southern Asia leader would be someone who possesses charismatic, team-oriented, and humane-oriented leadership attributes. Such a leader rates relatively highly on self-protective behaviors and scores lower on participative leadership.

2.18.1 Culture Visualization for Southern Asia

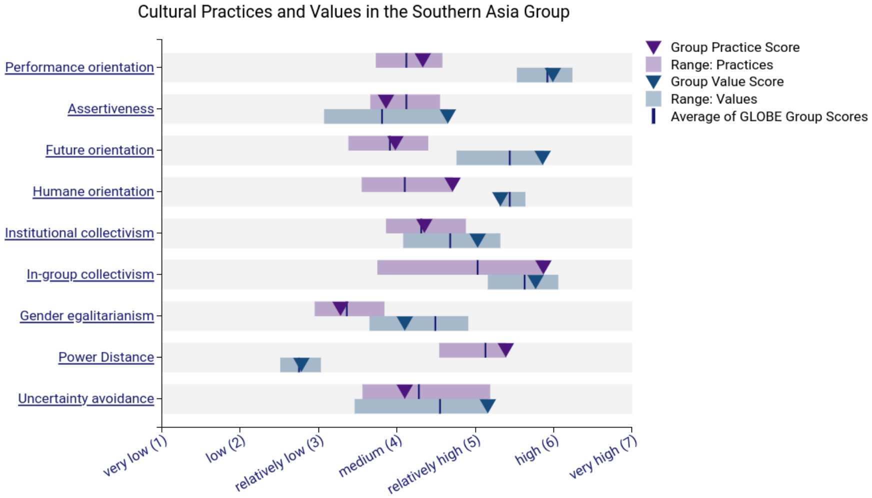


Figure 2.3: Culture Visualization

The box plot in fig. 2.3 demonstrates South Asia's practices and aspirations (or values). For instance, In the assertiveness dimension, people have a high level of aspiration and a desire to be assertive. However, in practice, assertiveness is below average in Southern Asia.

In Performance orientation, we find that aspiration and practice match up to an extent.

Moreover, Southern Asia, in practice, applies a *humane* orientation to the extreme – this is perhaps due to the various spiritual traditions such as Buddhism, Taoism, Confucianism, and Hindu spirituality. Moreover, Southern Asia ranks high for Collectivism and a good deal of power distance (authority figures maintain distance and are respected).

The people of Southern Asia would like to see many uncertainties go away; however, there is less order than desired in practice.

2.18.2 Leadership Visualization for Southern Asia

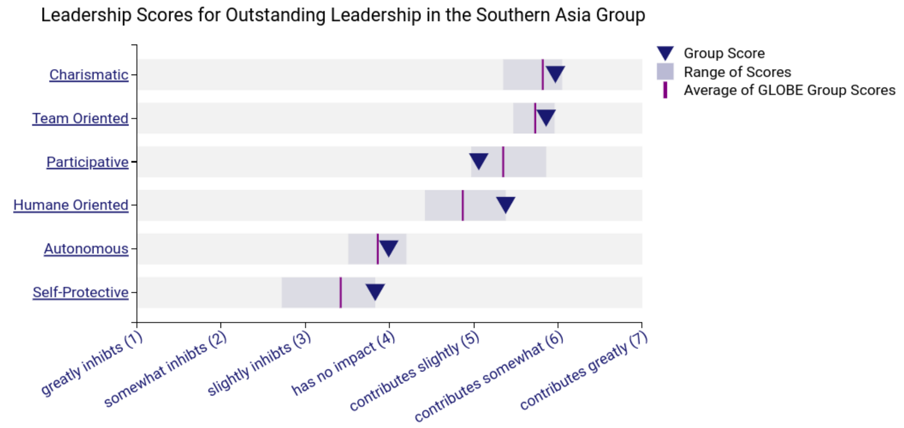


Figure 2.4: Leadership Visualization

The box plot in fig. 2.4 demonstrates that South Asians believe charismatic and team-oriented leadership is essential and preferred. South Asians prefer humane and face-saving behaviors in their leaders. At the same time, given the respect and obedience to authority in this region, people find participative leadership ineffective overall.

Chapter 3

Turn Intangibles into Tangibles

> "Only the organization can provide the basic continuity that knowledge workers need to be effective. Only the organization can convert the specialized knowledge of the knowledge worker into performance."
> – Peter Drucker

Intangibles or *Intellectual capital* can be defined as follows (Bontis 1998):

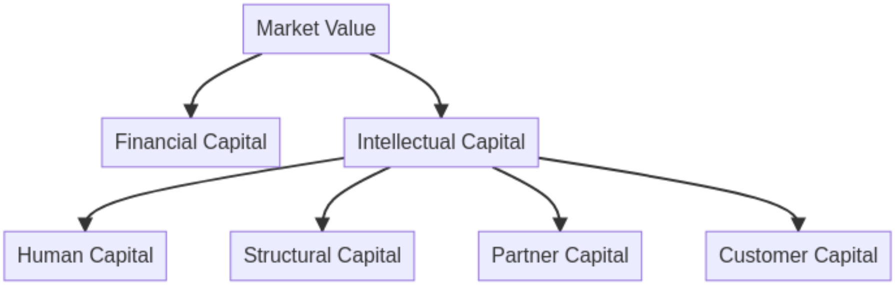
> The intellectual material – knowledge, information, intellectual property, and experience that can be put to use to create wealth.

Although often overlooked, *knowledge creation by businesses* has been identified as one of the chief sources of organizational competitiveness. With the onset of time, the differentiator for economic success has shifted away from labor, capital, land, to knowledge-powered intellectual capital.

An organization accumulates *distinct experience and expertise* over time, enabling wealth creation. That experience and expertise is intellectual capital.

3.1 Market value consists of financial and intellectual capitals

The market value of a modern knowledge-based enterprise consists of two major categories: financial capital and intellectual capital (Daum 2003).



(Market Value Hierarchy)

Of the two capitals, intellectual capital tends to be a vast yet hard-to-characterize component. However, an attempt will be made in this section to explain how intangibles work.

Firstly, Human capital is the accumulated capabilities, skills, knowledge, experience, and wisdom of the people manning the enterprise. It consists of the entire group's basic skills, attitudes, and behaviors. For example, high-level research and development skills can be considered human capital.

Secondly, Structural capital is the accumulated processes, guides, manuals, and internal software that makes the human capital more productive within the organizational context. For instance, an example of structural capital is a technical procedure documented by an experienced employee in the internal knowledge management system. The guide is valuable since knowledge workers tend to change their firms, and the company has to retain the intellectual value for its uses.

Thirdly, Partner capital is the existing cooperation and relations that the organization can summon at any given time to get some job done. For instance, a software company may rely on a frequently used design contractor for its design jobs. They may have developed a mutual understanding of how to get things done efficiently. Such a relationship is valuable because the firm can focus on its core while still performing satisfactorily in non-core areas.

Fourthly, Customer Capital is a potent sort of knowledge & relations — knowing the joys and pains of the final customer and then communicating this knowledge within the organization allows for significant improvements or inventions in the products and services offered by the organization. Any entity controlling this information tends to dominate the entire value chain itself.

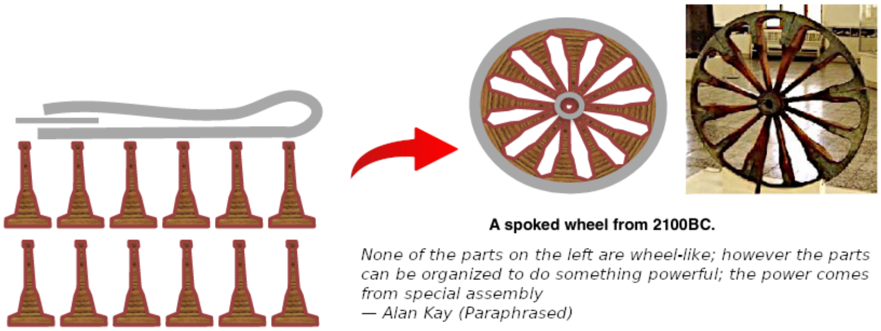
3.2 The values, competence, and relationship model of human capital

According to Swedish company Skandia, human capital has three sub-components: values, competence, and relationship (Daum 2003).

Values deliver meaning to actions. Without values, actions do not provide meaning and hence exhaust the individual. Values regulate the whole life cycle of actions: what one would do, how one would achieve it and how someone would display it, and so on. Moreover, people with similar values can work together more efficiently since their mental models have more shared features. Values come under structural capital.

Competence splits into professional, social, and commercial proficiencies. All activities go within the structural capital, but competence determines whether actions are successful or not. Commercial competence is about collaboration skills and cooperation skills.

Cooperation is about architecture, interaction, and how a group of people arrange themselves. It is a dynamic process that can take the organization upward. Alan Kay nicely demonstrates architecture as in fig. 3.1:



A spoked wheel from 2100BC.

None of the parts on the left are wheel-like; however the parts can be organized to do something powerful; the power comes from special assembly
— Alan Kay (Paraphrased)

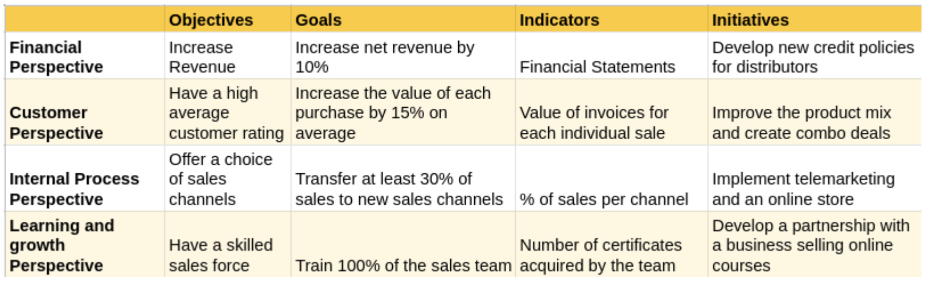
Figure 3.1: Spokes without architecture are of no use; the same goes for individuals and teams

3.3 The Balanced Scorecard framework delivers four perspectives into intangibles

Kaplan et al. of the Harvard Business School came up with the BSC framework (Balanced Score Card), which provides a 4-dimensional view into the intangibles of an organization. An example BSC is shown in fig. 3.2 (Kaplan and Norton 2004):

The scorecard includes financial, customer, process, and learning perspectives; and each dimension elucidates objectives, goals, indicators, and initiatives.

There are two crucial properties of intangible assets that leaders must keep in mind:



	Objectives	Goals	Indicators	Initiatives
Financial Perspective	Increase Revenue	Increase net revenue by 10%	Financial Statements	Develop new credit policies for distributors
Customer Perspective	Have a high average customer rating	Increase the value of each purchase by 15% on average	Value of invoices for each individual sale	Improve the product mix and create combo deals
Internal Process Perspective	Offer a choice of sales channels	Transfer at least 30% of sales to new sales channels	% of sales per channel	Implement telemarketing and an online store
Learning and growth Perspective	Have a skilled sales force	Train 100% of the sales team	Number of certificates acquired by the team	Develop a partnership with a business selling online courses

Figure 3.2: The Balanced Scorecard approach

1. **Value creation is indirect:** Improvement in intangible assets affects the bottom line through a chain of cause and effect relationships. For example, quality management training may lead to improved internal processes, faster delivery of products, increased customer satisfaction, and higher profits.
2. **value is potential:** Employee training doesn't produce a financial result; training is merely an enabler. Ultimately, skilled performance alone can produce financial results.

The subtle but all-important role of the culture was expressed as follows by Singapore's Lee Kuan Yew:

> "Getting the fundamentals right would help, but these societies will not succeed in the same way as East Asia did because certain driving forces will be absent. If you have a culture that doesn't place much Value in learning and scholarship and hard work and thrift and deferment of present enjoyment for future gain, the going will be much slower."

3.4 Intangibles represent 85% of market value in the S&P500

Another statistic of significance was quoted by Accenture's Human Performance Service (Chieflearningofficer.com 2004):

> "At the beginning of the '80s, intangible assets for the S&P 500 amounted to about 38% of total market value, whereas 62% were tangible assets. By the end of the '90s, that had shifted around so only 16% of market value in S&P 500 is based on tangible assets, and 84% is intangible."

In proportion to its importance, the Accenture survey found half of the senior executives believe managing intangible assets is one of the top three management issues companies face.

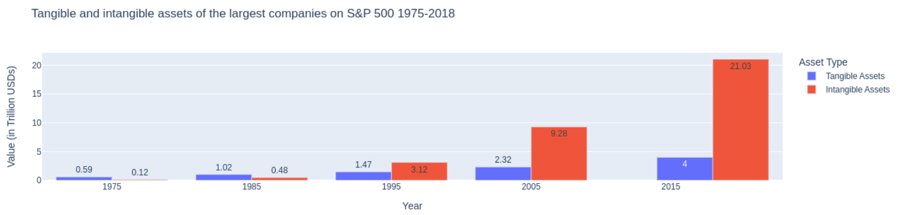


Figure 3.3: Source: Statista, “Value of the tangible and intangible assets of the five biggest companies on the S&P 500 worldwide from 1975 to 2018”

> “The vast majority of chief executives say it’s in their top three issues, trying to get a better handle on understanding intangible assets because they understand that it is a critical driver of share price, and if they understand it better, they can do something about it in terms of maximizing future performance.”

However, the critical struggle with intangibles is the difficulty in measuring them:

> But although executives are aware of the Value of intangible assets, 95 percent said they did not have a robust system with which to measure the performance of their intangible assets. 33 percent had no system in place at all. “People see it as an issue, but they are struggling with how to measure it

3.5 Higher Tobin’s *q* values indicate higher levels of intellectual capital

Nobel prize winner James Tobin developed *Tobin’s q value*, essentially a relationship between a company’s market value and its book value (Bontis 1998). For example, if a company has a stock market value of $100 million and a book value of $25 million, then *Tobin’s q* ratio is *4.00*.

Theoretically, *Tobin’s q* value will eventually converge towards *1.00*; however, it can vary for a long time. As an example, the software industry powers itself primarily through intellectual capital, with *Tobin’s q* as large as 7. In contrast, with their significant capital assets, firms in the steel industry have *Tobin’s q* of nearly 1. The following quote highlights the relation between stock value and book value at Microsoft in the 1990s:

> “Shares in Microsoft, the world’s largest computer software firm, changed hands at an average price of $70 during fiscal 1995, when their so-called book value was just $7. In other words, for every $1 of recorded Value, the market saw $9 in additional Value for which there was no corresponding record in Microsoft’s balance sheet.”

Netscape was mainly valued based on intellectual capital when it went public:

> In August 1995, Netscape went public in one of the most oversubscribed initial public offerings in history. A company with negligible profits ended its first day of trading with a value of $2 billion – a value based entirely on intangible assets

A more interesting example is *Nike*, which in crude terms can be termed a *shoe-maker* but in fact, in its valuation dominated by R&D, design, marketing, and distribution:

> Another popular example of a knowledge-intensive organization that is internationally known for its products is Nike. However, Nike is a shoe-maker that makes no shoes – its work is research and development, design, marketing, and distribution, almost all knowledge-based activities – but still has $334,000 in sales for each employee

Consulting companies such as McKinsey are also classic examples of intellectual capital by selling the analytical knowledge can produce.

> McKinsey generally sells its intellectual capital in teams of five, each led by a senior partner. Remarkably, clients are willing to pay for the transfer of this knowledge at an average annual rate of $500,000 per consultant.

3.6 Viewing intellectual capital as a second-order emergent phenomenon

Understanding how it emerges through smaller elements is a powerful way to think about intellectual capital. See fig. 3.4

At the most basic level, we have individual organizational members. The member possesses the intellect within their mind, and it isn't easy to quantify the mental processes happening within them. The individual receives stimuli from the environment and draws upon professional training and personal experiences to deliver some output.

At the next level of complexity, we have structural capital, where we see organizational routines invoked at a super-individual level, such as teams, departments, etc. These could be how the teams divide their responsibilities, how departments secure their budgets, or how the organization rewards or punishes behaviors. Assessing and quantifying structural capital as a task is entirely possible.

The third level of complexity is customer capital, which is possible only when the lower levels of capital work appropriately. On top of this, the organization builds market relations. Perhaps these relations with customers and partners are complicated to quantify because the processes involved in judgment involve multiple subjective values, people's desires, and so on.

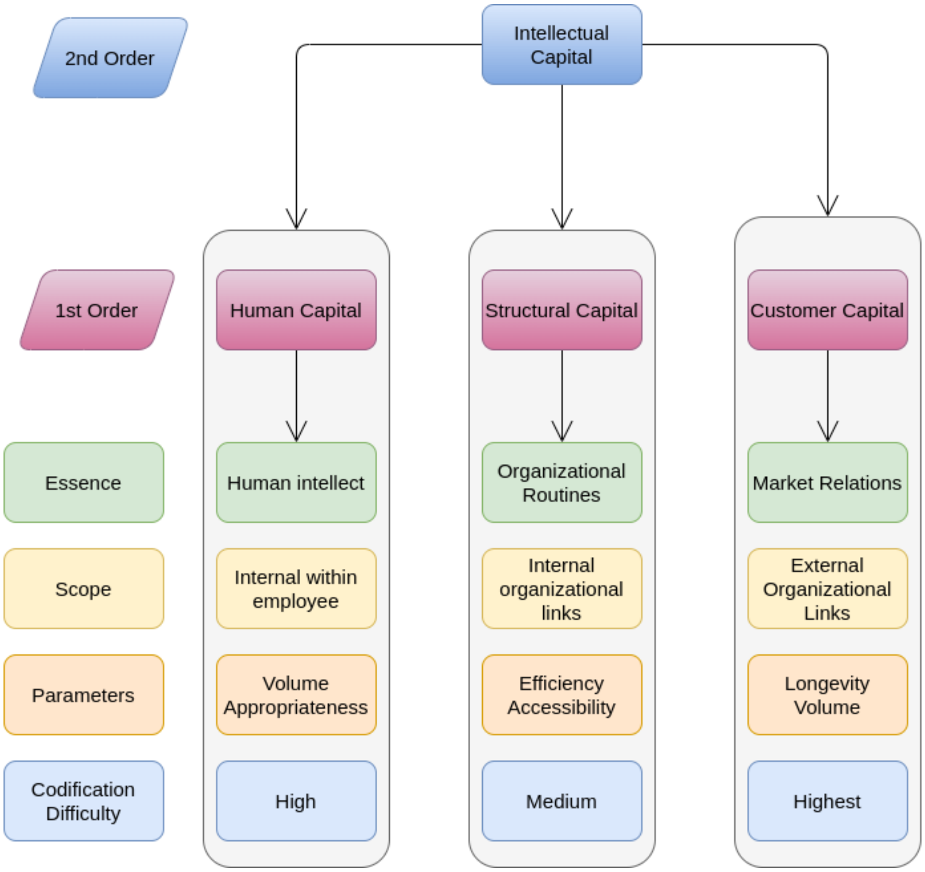

2nd Order
Intellectual Capital
1st Order
Human Capital
Structural Capital
Customer Capital
Essence
Human intellect
Organizational Routines
Market Relations
Scope
Internal within employee
Internal organizational links
External Organizational Links
Parameters
Volume Appropriateness
Efficiency Accessibility
Longevity Volume
Codification Difficulty
High
Medium
Highest

Figure 3.4: Intellectual capital as emergent phenomenon

Overall, all these three can be considered first-order phenomena. At a higher level, we defined intellectual capital to be a *consequence* of the three types of capital mentioned above.

3.7 Composition of human capital and its importance to the organization

Human capital, at the individual level, has been defined to be a combination of four factors:

1. Genetic inheritance of the individual
2. Education attainment of the individual
3. Experience of the individual
4. Attitudes about life and business of the individual

Human capital is vital as a source of innovation and renewal. Following is a sample of activities that can end up having an impact on the fortunes of the business:

- Brainstorming in a research lab
- Throwing out old files or approaches
- Daydreaming at the office
- Re-engineering new processes
- Improving personal skills
- Developing new leads in a sales rep's black book
- Networking with industry participants

In short, any activity the individual carries out can have an outsized effect on the organization's achievements. Hence, the foundational human input is key to organization.

3.8 Structural capital: the organization can get things done without the individual realizing how

In the structural capital view of the organization, we see a set of relationships, all of which are perhaps unknown to no single individual. No one is equipped to grasp the whole in its entirety:

> "the myriads of relationships that enable the organization to function in a coordinated way [but] are reasonably understood by [at most] the participants in the relationship and a few others. . . " This means that "the organization is . . . accomplishing its aims by following rules that are not known as such to most of the participants in the organization."

Hence, the organization is a set of relations, procedures, norms, and climate to make the best out of human intellect, to ensure latent knowledge converts into useful goods and services.

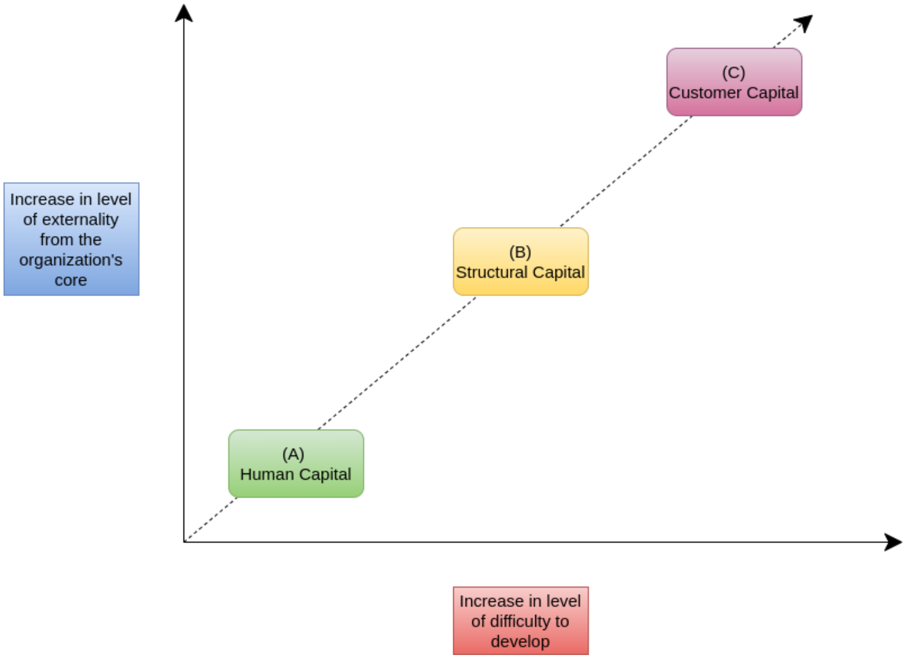

Increase in level of externality from the organization's core
(C) Customer Capital
(B) Structural Capital
(A) Human Capital
Increase in level of difficulty to develop

Figure 3.5: Subdomains of intellectual capital

We see in fig. 3.5, that Structural Capital (B) is at a higher level of abstraction compared to Human capital (A). It is harder to develop than mere individuals and resides beyond any particular individual within the organization. Ultimately, with the help of (A) and (B), customer capital is the most difficult to develop for an organization.

3.9 Customer capital is the most difficult to acquire, which increases in Value with time

Customer capital is the relations with the market and knowledge of the desires of prospects and customers, which is foundational to an organization's success. It is the most difficult to develop and is crucial in turning an organization into a leader rather than a follower.

A key attribute of customer capital is *longevity*. Customer capital becomes more valuable as time passes, and understanding the customer needs to ever more sophisticated levels. These relationships enhance the *market orientation* of the organization, enabling it to compete better and deliver more valuable products and services in the market.

In fig. 3.5, (C) represents customer capital.

3.10 Different types of capital have to work together to produce Value

The practicing leader's job is to ensure a constant interplay among human, structural, and customer capital to produce Value and profit. For instance, an organization may hire the brightest people in the world and put them in a room. Still, it is unlikely that by itself, without structural and customer capital, they'll be able to produce the best results. From the market perspective, gifted individuals on their own are insufficient. Leaders must pair them with the other two types of capital to meet market demands.

Moreover, an organization may have human and structural capital, producing goods and services for a while. However, suppose it cannot create appropriate relations with the external market. In that case, its very existence becomes a question, and it will not be able to sustain itself, let alone thrive.

The multiple forms of capital tend to develop in tandem. For example, individuals must receive opportunities and materials to acquire new skills, procedures, and systems set to apply them. Organizations must fine-tune people's capabilities to meet customer demands.

Unlike physical commodities like land, human capital is highly fragile and can go to waste if not put into use. By connecting individuals to structural and customer capital, their memory remains fresh, and they do not forget what they've learned. Hence, organizations must constantly audit and refresh their human, structural, and customer capitals as a rule.

Continuous learning is key to organizational wealth. The literature on organizational learning identifies three types of learning:

1. **Single loop learning:** Most businesses follow this type of learning. They merely detect and correct problems as soon as possible so that the organization can continue with its regular activities.
2. **Double loop learning:** Involves the detection and correction of problems when they happen as in a single loop learning; but also, there is a constant effort to modify underlying norms, policies, and objectives.
3. **Duetero learning:** Understanding the whole process of learning how to learn is the most advanced type of learning. However, most managers struggled to find ways to *apply* the principle on a large scale. Particular individuals, however, may advance their knowledge and skills to this level and be tremendously impactful contributors to their organizations.t

Chapter 4

Enhance Organizational Justice

4.1 The meaning of Organizational Justice

Businesses are economic institutions, and at one level, as systems, they do depend on the mechanism of quid-pro-quo between employers and employees. Employees give time, energy, and labor, and employers return the money. However, economic institutions are also **human communities**, enveloped in the surrounding **culture** and subject to concerns humans generally care about beyond mere economic factors. One such primary factor is **Organizational Justice**, which essentially is an aggregate of how *fair* the members of an organization perceive the organization is to them in its dealings. It is practical ethics in the context of an economic institution. The survival and thriving of the organization depend to a large extent on the methods and care applied in upholding justice.

Organizational Justice is an active field of research, with thousands of papers, empirical studies, handbooks, simulations, and experiments performed. One can find a bird's eye view of the field in (Greenberg 1990).

4.2 Benefits of promoting & practicing Organizational Justice

When appropriately managed, organizational justice greatly benefits the organization, including employers and employees. A skilled handling of organizational justice can generate greater trust and commitment, improved job performance, helpful citizenship behaviors, improved customer satisfaction, diminished conflict, and reduced turnover intention. (Cropanzano, Bowen, and Gilliland 2007; Greenberg 1990)

4.3 Dangers of ignoring Organizational Justice

Yet, at the same time, ignoring the critical parameters for ensuring organizational justice can cause enormous damage to the organization. Unskilled handling of organizational justice can degrade trust & commitment, reduce job performance, cause sabotaging behaviors, reduce customer satisfaction, and increase conflict and turnover intention. Due to having such a broad & deep impact on organizations, justice is a crucial issue for leaders to address continuously.

4.4 Pragmatic treatment of Organizational Justice

The ancients addressed justice from an absolutist point of view. What is *truly just* from a philosophical sense has been the concern of bygone eras. However, the present interpretation is more pragmatic: we now seek to understand why people see certain events as *just* and the practical consequences of such beliefs.

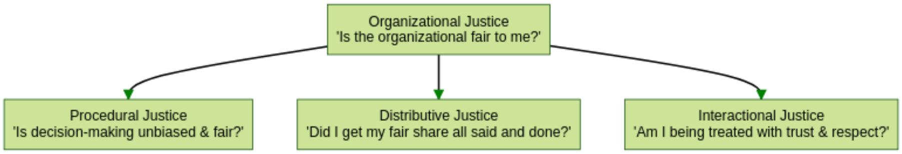
A key idea for leaders is: that it perhaps is impossible to ensure everyone perceives every decision made in the organization as fair. The aim is to increase the perception of justice at an aggregate level and continuously raise the bar regarding organizational justice.

Research suggests that individuals have an inner sense of what is Just and not just at all times. If they cheat on a particular task and become successful due to such actions, they still repent within and report feelings of guilt afterward.

The individual's trust in the system — that it will not subject one to mistreatment is at the core of their valuation of justice. "Treat others the way you'd like to be treated yourself" is the golden rule in ethics. Hence, more than morals, it is a pragmatic concern that perhaps propels people to value justice.

4.5 The three components of Organizational Justice

Justice can be split into three groups as shown below:


Organizational Justice
'Is the organizational fair to me?'
Procedural Justice
'Is decision-making unbiased & fair?'
Distributive Justice
'Did I get my fair share all said and done?'
Interactional Justice
'Am I being treated with trust & respect?'

(Hierarchy of Justice)

1. **Procedural justice:** A Just process is applied consistently to all, free of bias, accurate, representative of relevant stakeholders, correctable, and consistent with ethical norms. Procedural Justice is key to institutional legitimacy and gaining employee trust and support.
2. **Distributive Justice:** Roughly speaking, an equitable configuration ensures that the reward allocation is proportional to the magnitude of contributions made. Those who have delivered more must receive more, **within proportion**. Those who have delivered less must receive less, **within proportion**. Respect & adherence to proportion is the idea here.
3. **Interactional Justice:** At a social level, this type of justice refers to the appropriate and trustful sharing of pertinent information, treating people with courtesy & respect.

Moreover, the above three justice forms interact with each other. Having at least one type of justice promoted and practiced within an organization will provide benefits such as decreased litigations on the organization. Fair treatment helps people see an organization positively or at least in a non-belligerent way.

4.6 Justice is at the root of trust and commitment

All three components of justice positively correlate with trust. For instance, the correlation between just procedure and trust can be as high as 60%.

Moreover, the correlation between perceived justice and commitment is around 37-43%.

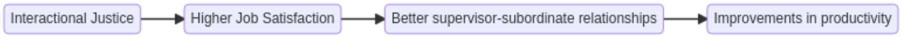
For establishing strong human relationships within the organization, paying attention to justice is necessary.

The societal culture surrounding the organization has an impact on the overall correlations. The indications are that collectivist countries value procedural justice more than distributive or outcome justice up to an extent. (Prof. Nagarajan Ramamoorthy, Patrick C. Flood and Sarah MacCurtain, Amit Gupta and Subodh P. Kulkarni 2012).

Another factor of importance is that during crucial decision-making, such as promotions, people assess fairness based on procedural justice. The focus continues on procedural justice even after a procedure finishes for some time. However, in the longer term, people place importance on their relative outcomes, that is, distributive justice. Hence, longer term, the outcomes impact people's thinking. (Ambrose and Cropanzano 2003)

4.7 Justice correlates with higher job satisfaction & Organizational Citizenship Behavior (OCB)

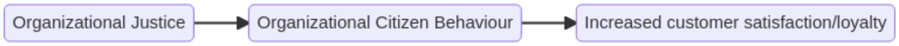
Studies show that investment into better interactional justice can lead to higher job satisfaction, leading to better supervisor-subordinate relationships, which finally deliver productivity improvements. The costs invested in training for better human relations leads to a more cohesive and capable team.


Interactional Justice
Higher Job Satisfaction
Better supervisor-subordinate relationships
Improvements in productivity

Moreover, in a study with control groups, scholars found that treating contract workers with procedural justice resulted in the workers repaying with hard work, going beyond the call of duty (OCB). Whereas those workers who didn't receive such justice merely did the bare minimum.

4.8 Justly treated employees treat customers right

There is sufficient empirical evidence to claim that justly treated employees who exhibit OCB, in turn, treat the customers better, leading to better organization-customer relations. Ultimately, this resulted in higher customer satisfaction and loyalty.


Organizational Justice
Organizational Citizen Behaviour
Increased customer satisfaction/loyalty

4.9 Organizational Justice has a positive impact on well-being

Longitudinal studies confirm a positive correlation between high organizational justice and self-rated health, fewer minor psychiatric disorders, and less sickness absence (Liljegren and Ekberg 2008). Moreover, justice is associated with fewer burnout symptoms. These, in turn, positively impact job satisfaction, productivity, and performance. Therefore, it is critical to ensure organizational justice.

4.10 Organizational Justice is a competitive advantage

A "culture of justice" installed through organizational policies, tools, and leadership involvement can inspire higher employee performance and improved customer satisfaction. Moreover, this is a sort of cultural the differentiator that is hard to copy is a type of sustainable competitive advantage.

4.11 Developing a culture of justice

1. **Hiring procedures:** A candidate may get the job or not; however, perception of justice can be kept high by explaining clearly the selection process and criteria; moreover, courteous, generous, and timely communication will also increase the perception of justice.
2. **Reward systems:** Careless implementation of merit-based pay can destroy organization collaboration and reduce worker loyalty. Employees will tolerate the dissatisfaction with distributive justice if the procedure is fair and the communications and treatment are dignified. Moreover, leaders must communicate bad news, such as pay cut with great interactional justice, as shown in the following example:

   > The key is interpersonal treatment. In one, an executive politely but quickly, in about 15 minutes, announced a 15% pay cut. In the other, an executive spent about an hour and a half speaking, taking questions, and expressing regrets about making an identical pay cut. During a subsequent 10-week period, employee theft was about 80% lower in the second case and employees in that plant were 15 times less likely to resign. No one wanted to have their pay cut. But workers understood why it happened, appreciated the supportive interpersonal treatment, and did not vent their ire on the organization.

3. **Performance appraisals:** The implementations of performance appraisals tend to be troublesome. In reports, managers claim to have appraised, but employees claim to have never received an appraisal or feedback. Political considerations lead to opaque procedures. Cognitive limits of the rater, demerits of specific social contexts, and other factors lead to a biased approach. Instead of treating the appraisal as a test, or an examination, helping employees participate and share what's on their minds resulted in favorable views towards the performance appraisal system.

4.12 Summary

1. Injustice can provoke retaliation, lower performance, and harm morale
2. Justice acts as a buffer against the aforementioned negative consequences, allowing employees to maintain respect and dignity even when things don't go their way
3. Hence, regardless of outcomes, organizations must install and maintain procedural and interactional justice

Chapter 5

The Role of Cooperation and Competition

Cooperation is entities (individuals, teams, organizations) working together to attain a common goal. Competition is attempting to outperform another in a zero-sum situation (Tauer and Harackiewicz 2004).

5.1 Competitive structure delivers speed, and a cooperative structure provides accuracy

The reward structures for a team can either be of a cooperative type or a competitive type. That is, either one can reward a member for outcompeting someone else on the team or helping someone else. Studies suggest that a competitive structure increases **speed**, whereas a cooperative structure increases **accuracy** (Beersma et al. 2003).

5.2 Speed and accuracy are inversely proportional

Studies prove convincingly that speed and accuracy correlate negatively with task performance. That is, increasing speed decreases accuracy and vice versa. Moreover, what is at the root of speed? What is at the heart of accuracy? The sort of processes that deliver either speed or accuracy is distinct. Therefore, the two properties are mutually exclusive. Hence, rewards that try to promote both speed and accuracy will, in general, fail.

5.3 Social loafing: a big problem with team structures

Among the poor performers in a group, "social loafing" or avoiding a fair share of work has been observed by many psychologists and practitioners. Many individuals are opposed to team structures due to the social loafing phenomenon, where the poor performers profit at the expense of the high performers. Moreover, it is more difficult in collaborative structures to address the social loafing phenomenon since there is higher *interdependence.* In competitive structures, the individuals fight for higher achievement and own the results. Hence social loafing is countered at the cost of other dimensions, such as *accuracy.*

There are two ways to interpret social loafing. One way to look at social loafing is to say the individual refuses to put forth an effort. On the other hand, those who advocate Interdependence tend to term social loafing as a lack of knowledge or information in skillfully performing the task.

5.4 Common behaviors under the two reward structures

Cooperatively structured situations tend to produce the following type of results:

1. Perceptions of shared fate
2. Promote supportive behavior; each member looks out for the welfare of the other
3. Insights and knowledge learned are shared and spread

Competitively structured situations produce the following effects:

1. Perceptions of individuality, individual success
2. Members try to hinder each other
3. People keep information proprietary

5.5 The type of the goal may have hints on which structure is appropriate

A critical factor in choosing the proper structure is the type of goal. Information sharing and mutual aid are essential if it requires *interdependence* of tasks. However, when people can perform tasks individually, usually the competitive structure delivers better and faster results than the collaborative structure.

5.6 Speed is influenced by incentives such as money

Financial incentives can speed up processes, especially in a competitive structure. Such motivation elicits effort, more so in the case of competitive structures. Effort in its nature is under the control of the individual up to a large extent. On the other hand, accuracy requires more sophisticated skills and abilities that the individual may not possess, and merely providing the financial incentive seems not to deliver any significant improvement.

5.7 Convergence vs Divergence

Cooperative structures are suitable for “convergent tasks” such as generating feasible ideas. On the other hand, competitive structures work better at “divergent tasks,” such as generating original ideas. It might be that feasibility is related to ensuring accuracy. Hence, a higher number of inputs from different people ensures more faults are removed from the idea to make it more feasible.

5.8 Personality and reward structure

In popular and psychological parlance, extroverts “like people and like working with people,” whereas introverts tend to be “reserved and independent .” Introverts tend to “avoid social stimulation” as well. This dichotomy is more or less a stable characteristic throughout a person’s life.

Cooperative reward structures work to the advantage of extroverts, whereas it works against introverts. In contrast, competitive structures suit introverts’ interpersonal styles better than extroverts.

Another factor of importance is “agreeableness .” Those high in agreeableness are “fundamentally altruistic, sympathetic to others, eager to help and be helped in return .” The disagreeable person tends to be ego-centric, skeptical of others’ intentions, and competitive rather than cooperative.

Accordingly, agreeable persons are at home in collaborative environments and are ill at ease in competitive environments. In contrast, disagreeable persons are more suited to competitive environments and ill-suited to collaborative environments. One nuance is that disagreeable introverts prefer competition to collaboration, but compared to both, they prefer to be left alone — to be neither in competition nor cooperation.

5.9 Interdependence and knowledge flow

The poor performer is most impacted in both reward structures rather than the best performer. For example, the poor performer with the lowest skill and knowledge has more to gain from collaboration than the best performer, who already probably has the requisite expertise. Similarly, compared to the best member, the slowest members have the most to lose when performance information is made public. Hence, reward structure information is more impactful on the poor performers.

5.10 Different phases may require different reward types

In the various phases of a project, such as product development, the need for quality/accuracy and speed varies. For instance, in the initial stages, creating a small niche market for the product is a priority, where attention to detail and quality may matter a lot. Moreover, the lack of rival products in the category may provide some breathing room to go slow and high quality.

However, as both the product and markets mature, speed of production becomes the most critical factor.

So, in phase 1, where quality matters, it may be appropriate to institute a collaborative approach, whereas in phase 2, where speed matters, one may have to form a competitive structure.

5.11 At the macro level: balancing cooperation and competition is key

Many believe that competitive structures drive the market in its entirety and that the market functions best under such conditions (Kenworthy 1996). However, many practical market incentive structures that benefit individual actors (companies, unions, government agencies) do not benefit society, thus failing in the long term. Hence, economies succeed when they provide frameworks that incentivize cooperation at the organizational and individual levels in addition to the competition.

5.12 Appropriate vs. inappropriate competition

As reported in (Tauer and Harackiewicz 2004), appropriate competition meets four conditions:

1. There is not a heavy emphasis on winning
2. Opponents are equally matched, there is a challenge, and each person has a realistic chance of winning
3. Rules of the competition are clear, straightforward, and fair
4. Participants can gauge their progress relative to their opponent

Appropriate competition can deliver similar or slightly better performances than cooperation, whereas inappropriate competition can degrade performance.

5.13 Competition undermines intrinsic motivation

Intrinsic motivation is the desire to participate in an activity for its own sake. It involves a high level of enjoyment of the task and a long-lasting interest in the activity. Such motivation leads people to train and hone their skills more. Hence, higher intrinsic motivation means better performance.

When a participant competes with another participant in an activity, they are less likely to return to the activity, given free choice. Those who avoided competition were more likely to return. That is, competition can bias an individual against an activity. If there is a focus on winning, people usually would rather avoid that activity unless there is an external structure or situation that they deem important & which deserves competition.

5.14 Intergroup competition is more enjoyable than the alternatives

Given an option between pure competition, pure cooperation, or intergroup competition, participants reported the highest level of enjoyment during intergroup competition. The explanation for this phenomenon seems to be that cooperation intensifies when there is an external incentive to perform. Competition at the group level is one such incentive.

Moreover, intergroup competition leads to comparable or higher performance levels than pure competition or cooperation.

5.15 Reward structure determines participant enthusiasm and joy

Cooperation causes participants to approach an activity with more interpersonal enthusiasm, whereas competition leads individuals to value competence more. Moreover, this attitude impacts the overall levels of task enjoyment. Focusing merely on the other person's competence leads to lesser joy than exhibiting higher interpersonal enthusiasm.

5.16 Co-opetition is a pervasive reality

Scholars define the term "co-opete" as: *"competing without having to kill the opposition and cooperating without having to ignore self-interest. The simultane-*

ous execution of both cooperation and competition is possible and perhaps even necessary for organizations. For instance, economist William Baumol noted that IBM had an agreement with every one of its major competitors on every major computer component for years to come (2001)" (Chen 2008)

At its core, balancing cooperation and competition is a **paradox** to be handled by a firm. And in terms of managing paradoxes, the following points may help:

1. Recognize the paradox, and handle it implicitly, rather than debate
2. Manage the competition & cooperation paradox in phases
3. Handle the competition & cooperation paradox in layers of the organization

5.17 Three ways of looking at the competition & cooperation relationship

There are three fundamental ways of looking at the relationship between competition and cooperation, as shown in fig. 5.1:

1. Independent
2. Interrelated
3. Interdependent

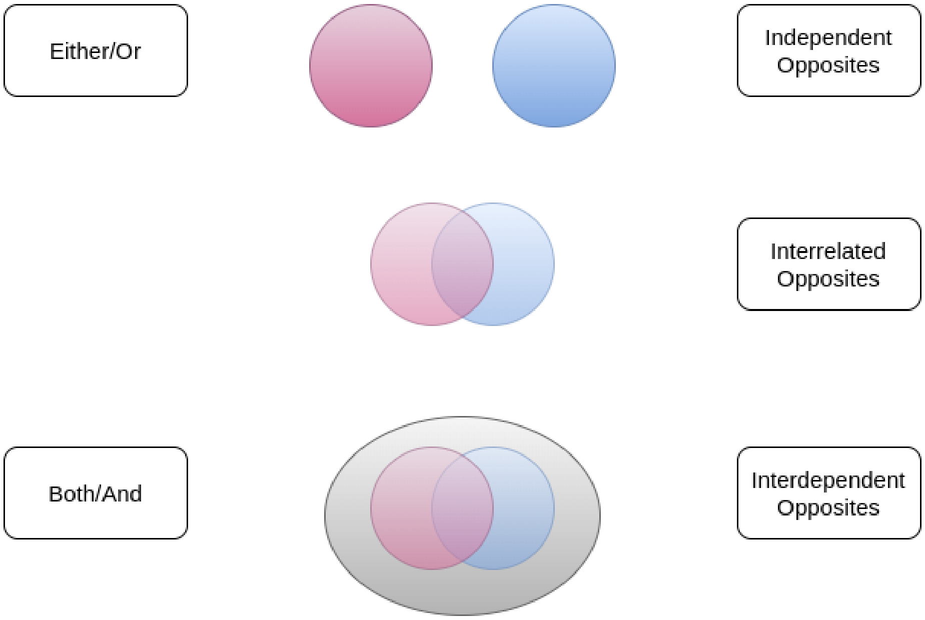


Figure 5.1: Competition-Cooperation relationships

5.17.1 First conception: Independent opposites

A commonly held view is that cooperation and competition are irreconcilable, independent, opposites processes. The underlying assumption is that by increasing competition, one necessarily decreases cooperation and vice versa. In game theoretic terms, this is the *zero-sum game* perspective.

5.17.2 Second conception: Interrelated opposites

Actions or interfirm relationships that combine competitive and cooperative components are called interrelated. An example of such thinking is shared below:

> "For example, General Motors once offered a $1,000 rebate certificate for auto parts with the purchase of a GM car, but the certificate could be redeemed at any competitor's outlet. Should a competitor like Ford consider GM's action a cooperative move—one that could boost Ford's sales—or a competitive move?"

Another example that involves the use of complementary opposites is establishing industry standards. By creating common standards, the firms have to cooperate, but at the same time, this will also lead to higher and more intense competition.

5.17.3 Third conception: Interdependent opposites

This comprehensive conception captures every type of situation of interfirm dynamics – competitive, cooperative, and beyond. Some actions are purely competitive, purely cooperative, and mixed or ambiguous.

5.18 Reward structure influences the method of social comparison

To find out how well we are doing in various metrics such as intelligence, personal appearance, abilities, and virtues, people tend to continuously ask: "How am I doing in this area, compared to others?"

Perhaps unsurprisingly, in competitive situations, people tend to compare themselves to others more often and more intensely due to the inherent qualities of a ranking system.

All sorts of triggers initiate a comparison process — such as explicitly stated ranking, comments from peers or superiors, or merely the sight of another person performing better or worse than oneself.

5.19 Different social comparison styles are used in different situations

Social comparisons can happen in two styles:

1. **Differentiation mindset:** Emphasizing self-distinctiveness, the style **contrasts** one's qualities and capabilities with those of others.
2. **Integration mindset:** The thinking style emphasizes similarities between oneself and others, such that self-perceptions **assimilate** towards others.

Studies indicate that competition typically leads to differentiation and contrast, whereas cooperation leads to integration and assimilation.

5.20 Verbal priming has an impact on the comparison style used

The power of language on the human psyche is well understood. Simply priming communication with words such as *I* and *me* led to differentiating, contrasting comparisons. On the other hand, using words emphasizing unity, such as *we* and *us* triggered assimilating, integrating comparison processes.

The phrasing of comparison can lead to envy, self-doubt, inspiration, and elation.

Moreover, any existing psychological connections with the target person can also influence the comparison style. If one identifies with the other to an extent, then the situation is similar to using *we* and *us*, which triggers assimilation & integration processes.

Part III

Key Mechanisms Determining Organizational Outcomes

Chapter 6

Goal Setting

Many scientists and scholars have remarked on the goal-oriented behaviors of biological and natural processes. For instance, plant stems look for sunlight and thus tend to move towards whichever direction provides plenty of sunlight (see fig. 6.1). The phenomenon is called positive phototropism. In nature and organizations, one sees an abundance of activities that seem to follow a goal-directed path.

The following quote illustrates the power of goals in the organizational context:

> Goals produce performance effect sizes that are second only to money as a motivational tool (Wood & Locke, 1990), and goal setting theory explains how and when these effects occur.

6.1 The goal mechanism works by contrasting the present and the target

Marvin Minsky, one of the originators of the field of Artificial Intelligence (AI), defined a concept called *difference engines* in trying to explain how the human mind works (Minsky 1988).

Minsky's model had the following components:

1. Situation
2. Goal description
3. Actual inputs
4. Ideal inputs
5. Differences
6. Output (to the agents)

Find Minksy's model summarized in fig. 6.2

Figure 6.1: A coconut tree veering towards sunlight due to phototropism

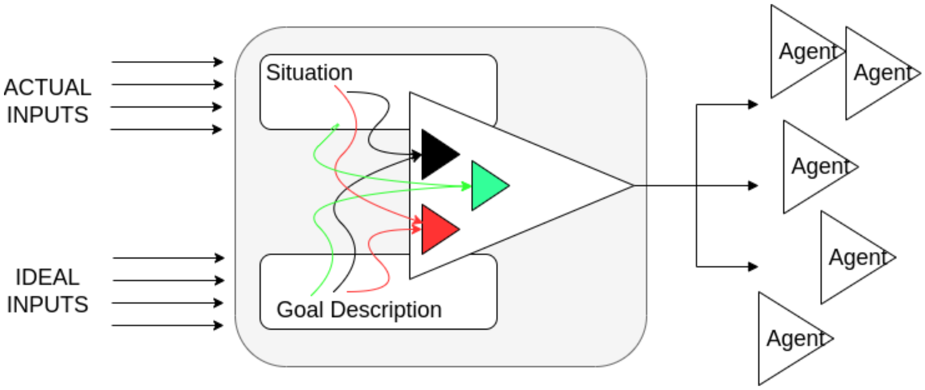


Figure 6.2: Marvin Minsky's difference engine model of the mind

Minsky summarized the mind as a "difference minimization system" that continuously reduces the distance between the goal and the present state of the system:

> "A difference engine must contain a description of a desired situation. It must have subagents that are aroused by various differences between the desired situation and the actual situation. Each subagent must act in a way that tends to diminish the difference that aroused it."

6.2 Locke's goal-setting theory is built atop 400+ empirical studies

The present chapter draws heavily from Edwin A Locke's (Locke and Latham 2013). *It is a theory of motivation explaining why some people do better than others in work-related tasks.* There are two reasons for relying on Locke's work:

(1) The researchers built the theory atop 400+ empirical studies:

> Our 1990 goal setting theory was based on systematic research conducted over a quarter of a century by ourselves and many others. The scholars developed the theory inductively from nearly 400 studies.

(2) The previous work, published in 2013, summarizes further advances & nuances discovered in the field—the theory developed over 38 years.

Hence, unless otherwise noted in this chapter, the core assertions come from Locke's work, and I am enormously indebted to his contributions to my understanding.

6.3 Goal setting mantra: "Specific + Difficult = Good goal"

If there was only one formula one knew about goal setting, it should be this:

Specific + Difficult = Good Goal

With suitable heuristics, a specific goal always elicits better performance than a more vague goal.

A more challenging goal (up to a threshold) always elicits higher effort compared to an easier one (see fig. 6.3).

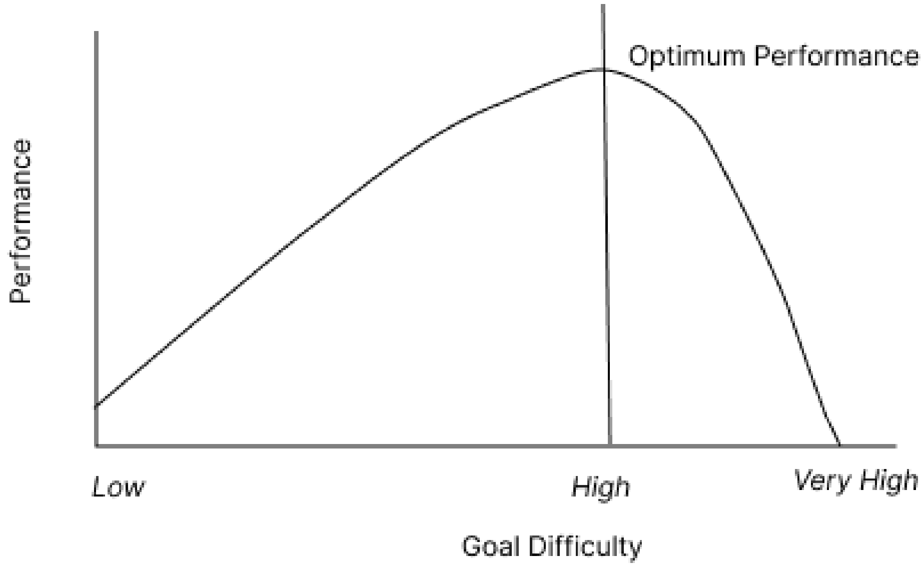


Figure 6.3: Goal difficulty vs performance; optimum performance threshold

6.4 Types of goals and their consequences

Competent goal setting requires careful thinking and should consider the overall organizational context, the department, the team climate, and the individuals pursuing the said goals.

6.4.1 Learning goals elicit knowledge acquisition routines

If people do not have existing knowledge and procedures to perform a task, then such people will find it difficult to perform up to satisfactory standards. For example, someone who doesn't know how to drive cannot be asked to handle a taxi cab in a dense and busy city.

In such cases, the appropriate methodology is to set challenging and specific *learning goals*. These goals have the particular characteristic of eliciting knowledge acquisition routines. Learning goals focus on acquiring multiple methods and means of performing the required task.

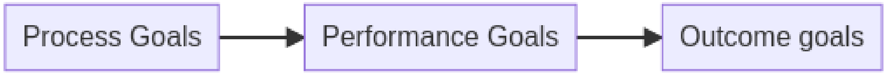
6.4.2 Stretch goals function as an antidote to conservative behavior

In larger organizations, such as General Electric (GE), one observes points in time when the employees get out of sync with the needs of the place and time. For instance, bold innovations and optimizations might be necessary, but the employees may prefer merely maintaining existing systems. Perhaps, the energy and determination put into pursuing goals are less than required.

In such situations, an *antidote* to conservative behavior is *stretch goals* which push people to set impossibly high or difficult goals and take them seriously. Stretch goals force people to search for new methods and ways of doing things, usually termed "out-of-the-box thinking."

6.4.3 Outcome goals vs Process goals

In sports, there is usually a demarcation between outcome goals (winning) and process goals (learning skills for improving performance). People also may add another category of performance goals (doing well by your standards). The process goals are similar to the learning goals mentioned above. These goals are interrelated:



6.4.4 Those setting a combination of proximal and distant goals perform better

Distal goals refer to large visions, abstract directions, or guides for behavior. On the other hand, concrete, specific and limited goals to be executed immediately or soon are known as *proximal goals.*

Evidence suggests that people with proximal goals, in addition to specific and difficult distal purposes, performed better than others. Proximal goals, in particular, deliver more detailed feedback. In contrast, the distal goal is incapable of clear or specific feedback. At the same time, *distal goals* help establish commitment and persistence. One may be performing subpar, but even a hope that one can eventually master task performance *over time* can carry on regardless of negative feedback in the short term. Nietzsche's famous statement exemplifies that idea :

> "He who has a why to live for can bear almost any how."

Hence, leaders are to set a practical long-term distal goal to draw out long-term efforts to build capabilities and, simultaneously, set proximal goals to enhance performance in the present.

6.4.5 On complex tasks — learning goals perform better than performance goals

On complex tasks, heuristics such as *"try your best"* deliver a better result than setting a specific and challenging performance goal.

Performance orientation focuses on ends rather than figuring out the means. In a complex task, figuring out the suitable means is essential, which in turn requires systematic searching for correct task strategies.

Setting specific and challenging learning goals, that is, goals designed to discover effective strategies, produced the best performance compared to *"do your best"* or performance goals.

At a meta-cognitive level, a learning goal activates processes such as searching, planning, monitoring, and evaluating strategies, whereas performance goals activate pre-existing methods.

6.5 Specific and difficult goals produce results through 4 mechanisms

Specific and challenging goals lead to high performance through 4 mechanisms.

6.5.1 Choice/Attention

Choice or attention as a mechanism orients the individual towards goal-relevant activities and away from irrelevant activities. Putting the goal in specific words, directed towards particular means, ensures people pay more attention to the relevant information.

6.5.2 Effort

Effort as a mechanism works through withholding self-satisfaction until high performance and ultimately goal fulfillment. Usually, the individual incites oneself to put forth effort proportional to the goal difficulty.

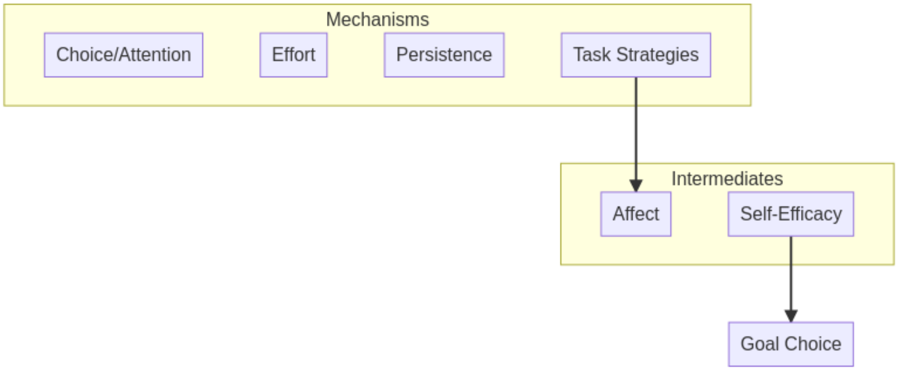
6.5.3 Persistence

High goals elicit people to work longer hours; those with easy goals stop working sooner. Thus, a specific, lofty goal leads to more prolonged efforts and higher outputs.

6.5.4 Task Strategies

The determining factor is neither choice, effort, nor persistence for complex tasks where the individual doesn't know how to reach the goal. One may have all three yet fail. On complex tasks, the relevant knowledge of performing the job is critical. Hence, if relevant knowledge is absent on challenging tasks, then **learning goals** must be set.

Moreover, the mechanisms mentioned above can also affect the individual's overall emotional states and views on self-efficacy. Which in turn impacts the sorts of goals that they set for themselves.



6.6 Achieving goals delivers satisfaction, and its blocking, dissatisfaction

Different individuals value the same goals differently. Individual values and preferences and their relationship to the goal lead to differing appreciations of the goal. However, in general, the greater the success in goal attainment, the individual experiences greater satisfaction. The goal is the value standards on which self-appraisal happens. Therefore, blocking goal attainment leads to dissatisfaction.

6.6.1 Goal setting counters boredom & stimulates interest

Goal setting can make even routine tasks more exciting and stimulating. For instance, when forest loggers pursued high goals and challenges in the forest products industry, their engagement and interest in the job went up.

6.7 One can successfully pursue multiple goals simultaneously

There is evidence to suggest that it is possible to simultaneously initiate behavioral improvements in people on multiple dimensions. For instance, a group of management trainees achieved performance, grievance reduction, and absenteeism reduction through 12 behavior-specific goals.

Although the mechanisms of prioritization of multiple goals in people are not comprehensively understood, evidence suggests improvements in numerous areas simultaneously are possible.

6.7.1 The goal source doesn't matter as long as they're specific and difficult

There are three significant sources of goals:

1. Self-set
2. Participatively set
3. Assigned

All three methods are effective in improving performance. Whatever the goal source, if there is an attachment and determination to attain the goal, the individual will put forth an effort, and the individual can make progress. Moreover, such behavior has a higher chance of success.

Commitment is one of the *moderator variables* in the goal setting theory. The term commitment includes the meaning of *accepting the goal* but also determination and attachment.

Hence, as long as *commitment* to the goal is strong, the source of the goal makes no difference.

6.7.2 Goal setting is more beneficial to those with high ability

1. Ability has an impact on goal choice; higher the ability, bigger the goal
2. Goal setting has a bigger positive impact on people of high ability

6.8 Goal Commitment depends on numerous factors

Commitment to goal depends upon various factors:

1. It is virtually axiomatic that a goal a person is not trying for is not really a goal and, therefore, cannot have much effect on subsequent action.

2. Higher goal commitment leads to higher performance
3. The causes of commitment
   1. Causes that make the goal important for the individual
   2. Causes that make the individual think one can attain the goal
4. Authority: employees assent to authority, if
   1. They understand the request
   2. The request is consistent with organizational & personal interests
   3. Mentally & physically capable of complying
   4. The supervisor being present boosts the productivity
   5. The rationale, if explained, helps with productivity
5. Peer Support
6. Setting **both** team and individual goals increases commitment
7. Competitiveness also, up to an extent, improves performance
8. Making the goal public
9. Writing down the goal
10. Signing the goal
11. Reading the goal to the team/public
12. Incentives
13. For moderately challenging problems, bonus pays are effective
14. For challenging problems, pay for performance or goal progress pay is effective
15. Internal rewards
16. Punishment
17. People will try difficult things to perform at higher levels, as long as failure doesn't beget punishment
18. Instrumentality
19. Expectancy of success and self-efficacy affects goal commitment positively. Self-efficacy, one's judgment of how well one can perform a given task, plays a significant role in keeping people committed to a course of action, overcoming obstacles, and remaining resilient post-failure.
20. Goal intensity, the amount of mental effort that goes into setting a specific high goal, affects commitment positively. More deliberate thoughts lead to better plans, better effort, higher self-efficacy, and finally, goal attainment

6.8.1 Mental contrasting and implementation intentions bolster goal commitment

1. Mental contrasting: envision the goal, find possible impediments, and involve in deliberate planning
2. Develop implementation intentions: promising oneself to do something if a particular situation arises; thinking of "if-then" scenarios

6.9 Self-efficacy is belief in one's capabilities; consists of 4 components

Self-efficacy is an estimation & strength of belief in one's capabilities. People's beliefs in their capabilities regulate four separate processes – cognitive, motivational, affective, and decisional.

6.9.1 Cognitive mode

In the cognitive mode, self-efficacy determines whether people think positively or negatively, whether in self-enhancing or self-debilitating ways.

6.9.2 Motivational mode

The motivational mode determines the kind and difficulty of goals people set for themselves, the effort and energy they put in following through, and their persistence in facing obstacles.

6.9.3 Affective mode

In the affective mode, self-efficacy determines the quality of affect and the extent of vulnerability to stress and depression.

6.9.4 Decisional mode

The decisional mode determines the range of options people consider, the option they choose, and how well they implement them.

6.10 Self-efficacy impacts a wide-ranging concerns within the organization

Self-efficacy impacts a wide variety of organizational concerns:

1. Responses to feedback
2. Responses to assigned goals
3. The choice of self-set goals
4. Goal commitment

5. Quality of task strategies
6. Self-management
7. Learning goals
8. Group goal setting
9. Leadership
10. Goal change
11. Entrepreneurship
12. Education

6.11 Follow-through, resistance, self-belief characterize self-efficacy

The first form of self-regulatory efficacy is getting oneself to do what one already knows how to do. Usually, this form refers to sticking to a schedule one has decided upon, regardless of dissuading conditions. For instance, consider the decision to stick with an exercise regimen. One has to continue performing when under work stress, tiredness, depression, bad weather conditions, or when there are other exciting things to do.

Another form of self-regulatory efficacy, the second type, concerns the power to resist pressure to engage in behaviors that violate one's standards, avoid antisocial activities, and abstain from undesirable behaviors. Hence, while the first form is about doing the desirable actions, the second is about avoiding unwanted activities.

The third and last form of self-regulatory efficacy is related to one's belief in capabilities to mobilize the means and resources to produce the desired achievements. Achievement self-efficacy concerns one's belief in abilities to learn and apply to achieve goals. For instance, in an academic context, this may involve creating personal learning environments, planning and organizing educational activities, gaining an understanding and memory of the learning material, obtaining information and help from teachers and peers, getting the homework done, meeting deadlines, and avoiding distractions or other seemingly exciting things to do.

6.12 Controlling rumination in adverse situations is key

Tough goals involve a series of challenges and failures on the path. People dwell on possible failures and potentially painful consequences as they fail. Thoughts of such sort are called self-focus, which in turn takes off attention from managing the task at hand.

Aversive rumination is not a problem in itself; perceived helplessness (or low self-efficacy) is the source of distress.

Hence, the ability to counter perceived helplessness can alleviate rumination. Resourcefulness or engaging in activities to acquire resources can counter helplessness.

6.13 Those who see intelligence as malleable and trainable develop more

People's conceptions of intelligence impact how they approach their tasks, how persistent they are at pursuing them, and how they develop themselves.

For those who see intelligence as **inherent ability and an unchangeable** factor, any achievement task carries a **threat.** Such people see poor performance, working hard, and seeking help indicate that *one is not smart.* Moreover, such people avoid tasks that may not look good to others when their performance is relatively lower than others. Self-protective strategies of the sort, when prolonged, retards one's skill development.

In contrast, those who see intelligence as a malleable, trainable entity tend to see tasks as **opportunities.** With such a highly functional mindset, they take on the challenge and develop competencies through hard work rather than self-protection. Instead of performance goals, such people set learning goals and go on to acquire skills and methods.

6.14 A lack of self-efficacy eventually leads to depression

When negative feedback on a goal is delivered, there are three possibilities of reactions recorded in various studies:

Those with high self-efficacy to fulfill the goal continued to strive for it and had no adverse emotional reactions to perceived failure.

The ones who judged themselves inefficacious to realize the goal and abandoned it responded *apathetically.*

Those who continued while beset with self-doubt in their capability reacted *despondently.*

Hence, a lack of self-efficacy leads to *depression.* When one cannot live up to the performance standard of self-worth, depression is possible and likely. In interpersonal relationships and other domains, people who felt their self-efficacy didn't match up to their self-set performance standards fell into depression. If one feels a continuous sense of inefficacy to fulfill what's minimal for self-worth, then such a life is plagued with despondency.

6.15 Rapid accomplishment leads to self-satisfaction

Merely progressing in a valued activity is insufficient to ensure the satisfaction of the individual.

There have been demonstrations showing that the pace of attainment has a **drastic** effect on self-evaluative reactions to one's performance attainments.

When people surpass earlier accomplishments rapidly and raise the bar, they experience self-satisfaction. However, people derive little satisfaction from minor victories and devalue them after making more significant strides.

Those who are depressed are even more reactive to their rate of progress. The depressed strongly prefer accelerating strides and find little satisfaction in modest improvements after more significant attainments.

6.16 Applying utility analysis to estimate the dollar value of goal-setting programs

Do challenging and specific goals impact the bottom line more than the "do your best" directive or having no goals? To answer the question precisely, one can estimate the **dollar value** of goal-setting and **percent increase in output**.

1. Dollar value metric: increases in *revenue* from improved performance (not profit)
2. Percentage increase in output metric: Average percentage increase in output produced

The above metrics result from applying **utility analysis** in industrial/organizational psychology, developed in the 1940s.

6.16.1 The d-value (effect size) as a measure of the standardized increase in performance

> "A key quantity in determining the economic value of an intervention is the standardized increase in job performance that it produces. This is the difference in performance between those who get the intervention (here, goal setting) and those who don't (the control group), divided by the pooled standard deviation (SD) (which is close to the average of the SDs in the two groups). **The value is called the d-value or effect size, and it is the effect of the intervention in SD units.**"

6.16.2 A simplified calculation of dollar value

> “After this method had been applied to various jobs, it became apparent that a lower-bound value for SDy for any given job could be expressed as 40% of the average salary for that job [. . .] This finding allowed a conservative translation of the effect size into dollar value. For example, if the average salary on a given job is \$50,000, then SDy = (.40)(\$50,000) = \$20,000. Then (d)(\$20,000) is the dollar value of the increase in job performance. [. . .] This follows from the fact that d is the performance increase in SD units, and SDy is the dollar value of a one-SD increase in job performance. In the case of goal setting, d = .46, and so this is (.46)(\$20,000) = \$9200/year. [. . .] Thus, we would expect an average increase in output of employees of \$9200/year as a result of the introduction of goal setting.”

6.16.3 A complete formula for dollar value calculation

Locke provides a formula for dollar value calculation as shown in fig. 6.4:

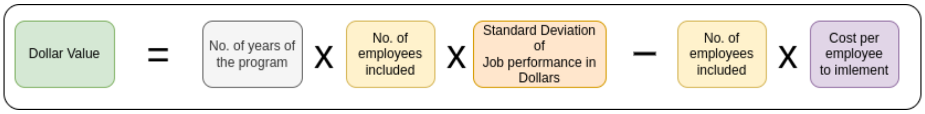

Dollar Value
=
No. of years of the program
X
No. of employees included
X
Standard Deviation of Job performance in Dollars
−
No. of employees included
X
Cost per employee to imlement

Figure 6.4: Dollar value calculation formula

6.16.4 Miscellaneous perspectives related to organizational goal setting

1. Some organizations may not want to increase output (perhaps the market is saturated with a sufficient number of products to meet demand); in that case, the organization can reduce inputs (reallocate people/resources or downsize size) by increasing the productivity of people
2. In presentations, studies indicate that managers rank utility analysis information highly if presented appropriately. Experiences in multiple real-world companies in the steel industry validate positive reception.

Chapter 7

Feedback

Performance feedback informs employees about their work behavior's effectiveness (Gino and Staats 2011).

7.1 Benefits and advantages of feedback

Feedback provides a large number of benefits to the organization using it as reported in multiple studies (Kopelman 1982):

7.1.1 Feedback encourages goal-directed behavior

Feedback, when provided in a timely & helpful manner, can help the receiver stay on track towards the accomplishments of the goal. It can signal to the person either to calibrate the direction or pace of goal attainment.

7.1.2 Incentive to stimulate greater effort

Feedback often can stimulate greater effort in various ways. Feedback can encourage higher goal setting, which leads to higher effort. It can also identify the strengths and weaknesses of the person, invoking intrinsic motivation to do well, leading to higher effort.

7.1.3 Implementation tends to be unobtrusive, requiring less change in existing procedures

Feedback is one of the least obtrusive methods for improving performance. In most interventions, it is people's behavior and influencing it which is of the highest importance. And feedback is a super simple method, requiring very few changes in the habits of the people.

7.1.4 Little investment of time and money required

It also happens that feedback demands little but delivers a lot. The daily investment required to install a feedback cycle is minimal. One can provide helpful feedback in just a matter of minutes. And the systems to implement feedback also tend to be well within reach of any organization. One can even set up internal conventions and avoid any significant investments to put feedback into practice.

7.1.5 Feedback is a way to manage process evolution

Whenever the task is even of relative complexity, goal attainment requires setting learning goals (see sec. 6.4.1). And learning involves trial and error, discovering new methods and processes, or refining existing ones to meet higher standards. Hence, the learner has to sophisticate how they are doing things. Feedback can bring the necessary nuance and inputs to enhance the evolution of mechanisms of goal attainment.

7.1.6 Objective feedback tends to trigger quick changes in behavior

Multiple studies attest that feedback does its work in short periods. One may receive feedback on a day, and others may see behavior changes the next day. Not many methods deliver such quick results and create a sense of progress and evolution. Due to the quickness of results, objective feedback is of great value in enhancing morale.

7.1.7 Leaders can use feedback nearly universally

Many management tools are specific and bound to various domains. However, feedback merely presupposes a feedback author, feedback receiver, and some situations which can be addressed verbally and quantitatively as part of feedback content. That is such a common situation that it successfully applies across various industries and sectors.

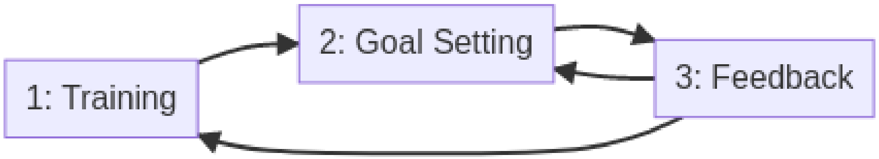
7.1.8 Can be used even by not-for-profits and public agencies, where Leaders cannot use other interventions

Feedback, due to its various properties mentioned above, can be made functional even in not-for-profits and public agencies, where other forms of interventions may be unworkable due to restrictions on money and authority. Leaders can use feedback even in less formal contexts as well.

7.1.9 Feedback enhances the effects of other productivity enhancement techniques.

Feedback as a tool positively impacts other productivity enhancement techniques. For instance, coupling learning goals with feedback can boost performance to a level where learning goal alone is capable of taking a person (Kim and Hamner 1976).

7.2 Training, Goal Setting, and Feedback form a performance-boosting trio



To get the highest productivity boosts, leaders must establish a virtuous cycle of continuous training, goal setting, and feedback (Kopelman 1982).

> Performance improved slightly when employees received training in the form of a slide presentation, verbal explanations, and written rules. It was not until leaders provided feedback and continued training that performance improved significantly.

Training lent a considerable 24% improvement, whereas training and feedback delivered a whopping 41.4% improvement.

7.3 Using training to avoid feedback abuse

The information contained within performance management systems is a double-edged sword. One may use the information to improve productivity or punish the team members through minor fault-finding.

A study reported that there had been instances in which managers would overlook the positives while using negatives to subject the team to excessive fault finding. Training managers to balance the positives and negatives ensures the meetings become a place to learn. Appropriate feedback training can offset this issue. (Pritchard et al. 1988)

7.4 How feedback motivates

7.4.1 Feedback corrects misconceptions

Humans tend to have a distorted perception of their work behaviors. An example from the study:

> “Executives at Emery were convinced that containers were being used about 90 percent of the times they could be used. Measurement of the actual usage—a measurement made by the same managers whose guesses had averaged 90 per cent—showed that the actual usage was 45 percent, or half the estimate.”

Establishing feedback plus a goal-setting program raised the results to 90% compliance.

7.4.2 Feedback creates internal consequences

Performance feedback elicits either positive or negative feelings about themselves and their work; such reflections lead to improvements and satisfaction. The following quote signifies the impact:

> As one clerk put it, ’I used to go home evenings wondering what I had done [. . .] now I look at my feedback report and can see what I have accomplished.”

7.4.3 Feedback may entail social consequences

When the supervisor provides objective performance feedback or publicly posts data, the relevant individual or group will experience social consequences. Such heightened social recognition lead to increased performance.

> The supervisors of forty-three machine operators emphasized positive feedback (praise and favorable recognition) and adopted a constructive, problem-solving stance regarding undesirable behavior. Consequently, lines of communication opened up, trust increased, and interpersonal relations improved.

7.4.4 Feedback creates external consequences

Merely the generation and collection of data signify that leaders find those aspects of work important. Such perception leads to heightened awareness of evaluation consequences. As a result, individuals strive to “look good” to gain whatever rewards might result from managerial approval and avoid “looking bad” and the adverse consequences of managerial disapproval.

> In the case of the draftsman who monitored the time he spent working, the measurement and feedback: intervention led to a 72 percent increase in hours worked. The authors wrote: “The fact

> that the subject's behavior changed so dramatically with the onset of self-monitoring lends plausibility to the interpretation that the behavior changes were the result of perceived aversive consequences for failure to meet acceptable levels of performance."

7.5 How feedback instructs

According to Virgil Rowland's *Evaluating and improving managerial performance*, managers most wanted the following questions answered:

1. What are my real job responsibilities?
2. What standards apply to these areas of responsibility?
3. What level am I performing now

A continuous stream of feedback can create clarity in managers' minds on the real priorities. Hence, objective feedback can help clarify managers' reasons and help them focus on the most important things.

7.6 People instinctively compare their performance standings

The social instinct to compare with others is a ubiquitous form of feedback. In particular, many organizations lack objective criteria for many aspects of performance. In case of this, people will default to using social comparisons to judge their standing, *to fill in the blanks.*

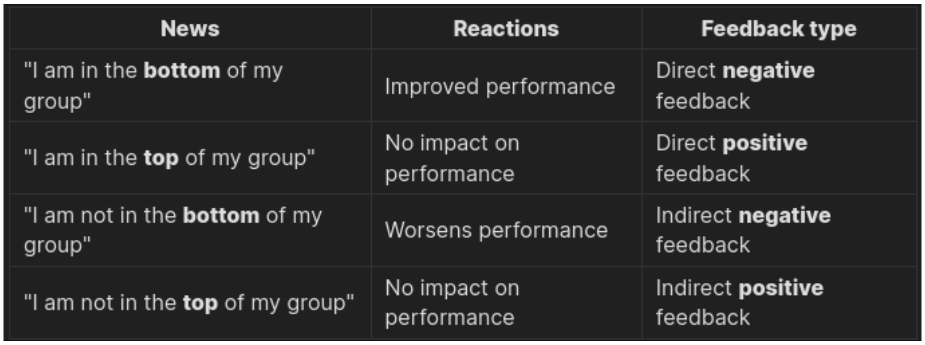
Hence, the rule is, **on the lack of objective criteria to compare themselves, people will resort to social standing as a gauge of their status**.

Thus, social comparison processes are helpful for evaluating oneself accurately by viewing the performance of other employees completing the same tasks and improving one's productivity through direct comparisons with more or less productive workers.

7.7 People have a strong need to "look good" in a group

First, given a choice, people choose to be in an environment where they can shine. In competitive situations, people prefer weaker competitors rather than stronger ones. And once people have attained a particular good standing, they're determined to keep the excellent reputation and reluctant to give it up.

7.8 Framing of feedback and subsequent reactions



News	Reactions	Feedback type
"I am in the **bottom** of my group"	Improved performance	Direct **negative** feedback
"I am in the **top** of my group"	No impact on performance	Direct **positive** feedback
"I am not in the **bottom** of my group"	Worsens performance	Indirect **negative** feedback
"I am not in the **top** of my group"	No impact on performance	Indirect **positive** feedback

Figure 7.1: Reactions to different types of feedback

Empirical studies assert that the way of framing feedback impacts how the recipient processes and responds (Gino and Staats 2011). A simplified summary of the framing and reactions follows in fig. 7.1:

7.9 Factors that drive performance

7.9.1 Negatively framed feedback drives performance

> Overall, our results indicate that **negatively-framed performance feedback may provide a heightened motivation for working harder compared to positively-framed performance feedback.** This finding is consistent with prior research in psychology on the negativity bias, namely the tendency of individuals to pay more attention to and give more weight to negative rather than positive experiences or other types of information

(Gino and Staats 2011)

7.9.2 Upward comparisons drive performance

> Upward comparison produced higher personal goals and increased the subsequent scientific productivity of academic staff members. The results of these studies demonstrate that **upward comparisons do not lower self-evaluations but, instead, increase individuals' belief in their capabilities to perform at high levels.**

(Gino and Staats 2011)

Chapter 8

Accountability

Scholars define accountability as being answerable to some person or group for performing up to a particular rule or standard or behaving in a prescribed manner (Gerald Ferris, n.d.). The definition mentioned above is of the external imposition of standards, whereas one can also have internal standards or accountability.

8.1 Accountability is the link between the individual employee and organizational norms

For an organization to be successful, it has to establish a mechanism to ensure reliable coordination among its members. Organizational norms have to be upheld for this to happen. One tool for implementing organizational norms to the individual levels is accountability.

Through rewards and punishments, accountability regulates human behavior for the benefit of the individual and the larger whole. Failure to account for one's behaviors can lead to censure, punishment, termination from the organization, and legal and financial penalties.

8.2 The two components of accountability

The first component of accountability, **standards**, enables one to know *what is expected* and *what is needed* through established organizational expectations.

The second component of accountability is **rewards and punishments**. The organization rewards for complying with and upholding the standards mentioned above. And for violating norms, one should be punished. Through this dual mechanism, the organization's measures get implemented.

The above two components have two dimensions as well: external and internal.

The external dimension concerns how the organization and its leaders define standards, rewards, and punishments.

The internal dimension is about the individual's desire to comply with external standards, and such a desire impacts how someone behaves within an organization.

8.3 Accountability has a wide-ranging impact

Accountability has an impact on at least the following aspects of an organization:

1. Performance evaluation
2. Effectiveness in influencing behavior
3. Political climate within the organization
4. Complexity of decision strategies
5. Bargaining behavior
6. Risk-taking
7. Ethical behavior

8.4 Staffing as a process requires more accountability

There are two ways to select people to induct into the organization. In the **organizational fit** method, one checks whether the candidates' beliefs, values, and personalities align with that of the organization.

In a second way, **function fit**, the organization takes a purely rational approach. One assesses the candidates' ability and willingness to do the job.

Regardless of the method used, leaders must establish standards and ensure adherence to criteria.

Regardless of the approach used, in the industry, it is rarely the case that recruiters are held accountable for their hires. Unaccountability in hiring leads to the weakened application of criteria and filtering and can compromise the quality of the workforce. Moreover, selection is a critical process since it is an input to all the other processes in the organization. Hence, more accountability is necessary and can be beneficial to the organization. Some possible sources of responsibility are organizational policy, supervisors of both decision-makers and employees, industry standards, professional and certifying organizations, and the legal system.

However, evidence suggests that selection is a complex process and accountability alone is insufficient to ensure appropriate selections; if insisting on accountability alone, such one-dimensional insistence can lead to inaccurate representations by the hiring decision-makers.

8.5 Accountability aids in performance evaluation

Accountability is a link between the definition of performance in the organizational context, and a means to evaluate individual performance in light of the abovementioned description. The performance definition serves as a psychological contract between the individual and the organization. An individual perceives an evaluation as fair with the standards as the yardstick. Organizational justice, in turn, is of massive importance in maintaining the member's commitment and reducing turnover (See Chapter 4).

8.6 Agency theory of accountability: restrain self-interest through monitoring & bonding

The agency theory is a simplified view of the relationship between the owner and employee (or principal and agent). The theory states that in a natural state, the objectives of both the owners and employees tend to be divergent. In particular, one sees the employee eager to act on their self-interest. There is a *perpetual tension* between owner objectives and employee objectives. Lacking constraints, the employee will never align with organizational goals. It is essentially an opportunistic view of the employee. The readers must note that some factors, such as intrinsic motivation, commitment to colleagues/teams, and other personal characteristics, are not considered significant. The theory recommends implementing sufficient tracking and monitoring to ensure compliance with the organization's standards. Moreover, the approach encourages aligning employee attitudes with the organization through *bonding* (say, training, socialization, cultural events). The agency theory fails to present a detailed set of recommendations to help with the organization's function.

8.7 Organizational control theory: a refined form of agency theory

Similar to the agency theory explained in the previous section, organizational control theory (OCT) also acknowledges the self-interest of an individual's divergence of objectives. Moreover, OCT suggests both performance evaluation and *bonding* or *homogeneity of preferences* as methods to deal with the problem of divergent goals.

However, OCT differs from agency theory in the following ways:

1. OCT allows for thresholds of divergence from the defined standards; the analogy is that of a thermostat, which permits fluctuations around the desired temperature. The idea of "acceptable equilibrium" is a refinement of the agency theory.

2. In OCT, the rewards and sanctions are implicit (unstated) as they are inherent in performance evaluation processes. In contrast, agency theory makes rewards explicit (stated).

Given the above description, OCT can be considered a refinement of agency theory.

8.8 Performance monitoring is a pre-requisite for accurate accountability

The most significant behavioral difference between effective and ineffective managers is the monitoring of work performance. Knowledge from observation and sampling allowed for better assessments, more accurate feedback, rewards, and punishments. The subordinates felt accountable to the manager in this way.

Moreover, it has been in several studies that the mere presence of monitoring led to improved behavior since employees attach higher significance to aspects of work that get monitored. The literature calls such as effect, the Hawthorne effect (Sedgwick and Greenwood 2015)

8.9 Ambiguities of accountability

While accountability plus performance monitoring has the bedrock of organizational building, there are many ambiguities, paradoxes, and challenges associated with the process:

1. **Reactance:** Imposing external standards, even if for the welfare of the individuals involved, leads to restricted freedom of action, triggers reluctance, incomplete cooperation, resentment, or even rebellion.
2. **May limit creativity:** If there's excess accountability, people stop using their minds less and following rules more; risk-taking gets reduced and may inhibit the people from putting in more effort due to higher engagement.
3. **Individual values get suppressed:** Workers or professionals who are educated and knowledgeable tend to have their world view which may be in opposition to that of the boss or the organization, which can cause friction.
4. **Subjective values and culture may get eroded:** If *outcome accountability* is highlighted over *process accountability*, then the individuals are forced to account less for the means and focus on the ends. And this may adversely affect cultural values and desired social behaviors.
5. **Accountability to supervisor, coworkers, and self:** An individual gets stuck or confused between prioritizing the three possibilities and inhibits oneself from making creative decisions and acting on them.
6. **Compliance, rather than internalization:**One may prefer learning as a mechanism for the long-term benefit of the organization since it

leads to employees internalizing new values. However, in many cases, the organization functions only through enforcing rules and delivering rewards and punishments.

8.10 Causes of accountability

Three main factors increase feelings of accountability:

1. **Laws, rules, and regulations:** The enveloping environment, state, country, and so on can significantly impact how an organization functions See 2.13. Laws may monitor or regulate expenditure, hiring practices, working conditions, restrain unethical behavior, and so on.
2. **Performance evaluation:** When people realize that leaders and managers will monitor and assess their behavior, and further rewards will depend on the assessment, people feel more accountable. The following characteristics increase accountability:
   1. Frequency of evaluations
   2. Number of evaluators
   3. Formality of evaluations
   4. Strength of linkages between evaluation and its consequences
   5. Openness of result access
3. **Mechanisms of social control:** Monitoring, close supervision, evaluation apprehension, and expectation communication by leaders have a significant impact on accountability

8.11 Prescriptions for generating organizational accountability

For an employee to make correct assessments of their behavior, the following factors are necessary:

1. Set clear standards
2. Set clear and salient priorities
3. Ensure agreement about standards
4. Ensure accurate and timely feedback on how performance compares to the standard

8.12 The individual engages in the attribution process automatically

Individuals tend to engage in an attribution process when they take action automatically. The attribution process means asking *why* this work is being attempted. The attribution theory focuses on the perceived causes an individual has for their behavior and performance.

The justification an individual provides can be under two dimensions:

1. **Locus of causality:** Did the result happen from *internal* or *external* cause?
2. **Stability:** Is the cause *stable* or *unstable*?

One can look at various attributions from the two dimensions as follows:

1. *Ability* is an internal cause; however mostly *stable*, at least in the short term
2. *Effort* is an internal cause; however it is *unstable* because an individual can control this aspect
3. *Task difficulty* is considered an *external* cause and as well a *stable* cause

Moreover, individuals make **controllability** attributions and check whether they feel *responsible* or not.

Causal attribution leads to affect or various emotions as well. So, given a failure, depending on the attribution (internal or external, controllable or non-controllable, changeable or unchangeable), emotions such as anger, gratitude, and pity may arise.

8.13 External imposition of accountability increases responsibility

When accountability is high, due to organizational policy and environment, the attributions will be external — the individuals feel like they have to do it. When there are no specific organizational guidelines about individual behavior, individuals will more likely make internal attributions and behave as they want to.

Overall: the external imposition of accountability increases responsibility, decreases internality, and increases the stability of attributions. Such interpretation, in turn, leads to more consistent and reliable behavior.

8.14 Attributions affect rewards and punishments

When a subordinate performs poorly, the supervisor will usually attribute it to an internal cause (i.e., insufficient effort or ability); the supervisor will tend to hold the subordinate responsible.

On the other hand, the subordinate may practice impression management to change this internal attribution for failure by making excuses. If the excuses are believable, the supervisor may more likely make an external attribution. The external attribution tends to attract less punitive, less harsh punishments.

However, when the supervisor makes internal attributions for poor performance, the result will be a harsher punishment.

On the other hand, when we self-evaluate, we tend to attribute external circumstances and deny responsibility.

In summary, interpretation of accountability is likely to happen automatically. An employee behaving to meet compliance is more reliable than letting the person act for personal reasons.

8.15 Accountability controls ambiguity and its harmful consequences

Accountability acts as a counter force to ambiguity, which can be at the root of influence tactics such as information manipulation. Unchecked acquisition of power leads to biases in performance evaluation of self and others. Accountability fosters a more thoughtful and analytical decision process. Evidence shows that making top-level executives more accountable results in fewer lawsuits and illegal organizational behavior.

Ambiguity facilitates lying and ambiguity is tied to many forms of organizational abuses.

Chapter 9

Performance Appraisals

Liza Daonis defines *performance appraisal* as follows (Daoanis 2012):

> "It is utilized to track individual contribution and performance against organizational goals and identify individual strengths and opportunities for future improvements and assess whether organizational goals are achieved or serve as a basis for the company's future planning and development."

Hence, Performance appraisal is a process to establish a formal estimate of an employee's performance and productivity in the overall organizational context. Historically, performance appraisals tend to be deployed periodically, such as annually or bi-annually.

9.1 Importance of performance appraisals

As we have seen in the Chapter on Intangibles (see Chapter 3), an organization's potential for survival and thriving has become closely linked to its intangible assets, one major piece of it being: **human capital**. Many sophisticated, complex processes exist within the organization, such as technology, finance, and market adaptation. However, from a **replication** and **construction** point of view, human culture and capital are the most difficult to copy. Therefore, a culture of human capital is precious. Only high-performance contributors can accomplish organizational goals with the aid of administrative mechanisms.

9.2 A historically troublesome process

While performance appraisal or evaluation systems have been considered essential for the survival and thriving of an organization, their implementation overall has been full of hurdles (Gerald Ferris, n.d.).

Over 95% of companies report having a formal appraisal system, but most of them express dissatisfaction. All stakeholders, such as the evaluators (raters), the evaluated people (ratees), and administrators, are known to take issues with one aspect or another. In three surveys, 30-55% of *Fortune 500* companies judged their appraisal systems to be merely *slightly effective.*

There's more evidence hinting that companies are confused as to what's the right system and the right way of implementing a performance appraisal strategy.

A fundamental problem with performance appraisal is that organizations conduct formal appraisals (i.e., attaching numbers to people) or personnel comparisons only when an important decision, such as promotion, pay raise, or a termination, necessitates it.

9.3 Benefits of an appropriate performance appraisal system

Regardless of the criticisms, performance appraisals remain a staple of organizational management; the process can have positive implications for organizations (Schraeder 2007)

Firstly, the organization must directly link attributes of performance appraisal to organizational goals.

Following are some benefits of performance appraisals:

1. **Effect on employee commitment & loyalty:** Studies show that the performance appraisal system has a substantial impact on (both negative and positive) employee commitment & dedication. Many employees claim the power of the appraisal system is strongly affecting their motivation to do work.
2. **Facilitate communication:** Performance appraisals reduce employee uncertainty while promoting more effective communication between supervisors and subordinates. Moreover, negative feedback is critical in correcting and improving behaviors.
3. **Reinforce beneficial behavior:** PAs clarify expectations, provide a forum for collaboration, and create greater acceptance of the broader objectives of the organization.
4. **Performance improvement:** Numerous studies have reported positive relationships between human resource management practices, including performance appraisal and organizational performance
5. **Identify training needs:** Employee training and development are crucial for achieving organizational objectives. Appraisal systems serve as an efficient means of helping the organization's leadership identify training needs.
6. **Enhance employee focus:** PAs, when used appropriately, can minimize environmental distractions (colleague behaviors, social issues) and help the

employee focus on skilled performance.

9.4 Continuous vs. Once-In-A-While evaluation

The **Total Quality Management (TQM)** movement emphasizes the following tenet exalting *continuous improvement*:

> Install and make a permanent climate where employees continuously improve their ability to provide on-demand products and services that customers will find of particular value.

TQM also recommends involving employees in decision-making and empowering the employee for continuous improvement.

Given the dissatisfaction with the older Once-In-A-While evaluation methods, companies such as IBM-Rochester, Xerox, Motorola and Cadillac have moved to a continuous evaluation model.

Moreover, investigating major management trends such as Japanese Total Quality Control (JTQC), Total Quality Management (TQM), Lean Thinking, Six Sigma, and Lean Six Sigma — all emphasize the day-by-day check model while simultaneously advocating employee management, deployment, and participation. The evolution of evaluation systems is towards a continuous model (Chiarini 2011).

9.5 Uses of appraisal data

Following is a summary of typical use cases for appraisal data:

1. Improve work performance
2. Work allocation
3. Find growth areas, set goals for employees
4. Communicate expectations
5. Improve employee-job match or fit
6. In training material selection or construction
7. Improve peer & supervisor-subordinate relationships
8. Promotions, demotion, lateral reassignment
9. Recognitions/Rewards
10. Warning of unacceptable performance
11. Layoff or termination

In particular, promotions, demotions, and lateral reassignment may involve a change in the nature of work, and appraisal data alone may not be sufficient to predict satisfactory future performance. In such cases, companies typically have to bolster the data with assessments & structured interviews.

9.6 Causes of rating errors in performance appraisals

Performance ratings are subject to many inaccuracies and biases. Following is a short description of some well-known types.

1. **Lenience:** Surveys have found that Leniency is the most severe problem with appraisals when vital decisions, such as compensation, promotion, or downsizing efforts, hinge on it. Ratings for employees tend to be always on the higher side, regardless of the actual performance of ratees.
2. **Halo effect:** The rater allows one dimension or overall impressions for an employee to influence their evaluation of other dimensions for the same employee. Thus, the employee receives inaccurate appraisals regardless of performance.
3. **Rater affect:** Favoritism, stereotyping, hostility, and extreme ratings without any connection to the performance bias the appraisals. Moreover, sex, race, age, and friendship biases too can crop into the appraisals. Such biased appraisals may even lead to lawsuits.
4. **Primacy and recency effects:** Rater's ratings are heavily influenced either by behaviors or outcomes exhibited by the ratee during the early stages of the review period (primacy) or near the end of the review period (recency).
5. **Perceptual Set:** There is a tendency for raters to see what they expect. For example, if they expect low-level performance, and the ratee performs at a slightly higher level, then there's a tendency to exaggerate the overall improvement.

Moreover, raters may introduce *unintentional* or *intentional* errors in appraisals. The leaders can address the former type of errors up to an extent through training. The latter type, such as a manager protecting one of their team members to save the reputation of the department can only be controlled through a multi-pronged approach involving:

1. Training
2. Observability of process
3. Cross checking
4. Multiple raters

9.7 Move towards multi-rater systems

Given the enormous number of causes of errors possible in the performance appraisal process, bringing more people to weigh into the issue has become a necessity, and many firms are moving in such a direction & most textbooks recommend it. Each employee should receive feedback:

1. More in volume
2. More often

3. From peers (those who have unique knowledge of the employee)
4. From supervisors
5. From clients, customers (those also who have unique knowledge of the employee)
6. From oneself

Getting appraisals from a wide range of sources is called *360° assessment*

9.8 Results focus vs. Process focus vs. Overall evaluation

Earlier appraisal systems emphasized *results* and results alone in terms of appraising the performance. Such strong recommendation to follow results was due to the difficulties and ambiguities with measuring the process and personal attributes and skills of the employee. However, with the rise of JTQC and TQM, dissatisfaction with the earlier systems emerged since practically scholars observed that such a uni-dimensional system isn't helping improve performance.

Hence, neither result nor process alone is sufficient to boost employee and team performance. Modern performance management embraces **both process and results** (that is, what gets done, and how it gets done). Such a holistic view engenders significant development. Performance results from systems, protocols, resources, and human resources.

9.9 Individual focus vs. Team focus

While performance appraisal is about improving the Knowledge, Skills, and Abilities (KSAs) of individual contributors, performance management relates to how to transform at a more aggregate level, such as team, department, and firm level (DeNisi and Smith 2014)

Improving individual performance alone doesn't guarantee a corresponding improvement in team or department or organization level.

Some job functions are simple to assess, say sales. In such a function, the total sum of goods sold equals the sum of goods sold per salesman. In this case, simply enhancing the performance of the individual improves the overall bottom line. However, most work situations are not that simple and involve more factors when it comes to the aggregation of work. Some relevant factors that affect aggregation type:

1. Does the job require collaboration and synchronization?
2. Are the tasks changing, dynamic and uncertain?
3. Are the tasks pooled, sequential, or reciprocal?

An easier way to understand the aggregation issue would be the Moneyball story ("Moneyball: The Art of Winning an Unfair Game: Lewis, Michael:

0352749455567: Books: Amazon.com," n.d.). In baseball, the historical method for building a solid team was to get the strongest players and put them together. However, slowly, the field of baseball statistics (sabermetrics) evolved and, with it, a new understanding. The strength of the individuals alone is insufficient to win games — it matters more how the different players form together. So, if aligned the right way, a team of traditionally "weak" players could outperform a team of "strong" players.

Hence, in most environments, a "bundling of HR practices" is required to make a difference at the organizational level. It is insufficient to install a new PMS system, and hope things will change.

9.9.1 Performance Management

Performance appraisal as an academic field is more than 100 years old, whereas performance management emerging as a subfield is a more recent phenomenon. The definition of performance management is as follows:

> Performance management goes beyond appraisal and is typically defined as encompassing all the activities a firm undertakes to improve an employee's performance, beginning with the evaluation of performance and subsequent feedback to the employee, and continuing through training and administration of rewards (such as pay increases and promotions). Thus, performance management "is a continuing process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization"

Essentially, performance management, through various techniques, tries to link the levels of an organization, from the individual to the team to the different other larger units.

When a group's productivity has to be improved, the number of variables to deal with increases; there could be relational conflicts and other dysfunctions. Moreover, with collaboration, there is room for *social loafing* — when some team members do not put forth as much effort in the group as they would if they were working alone. Social loafing results in team performance being lower than it should be. The team-level analysis brings in new types of inaccuracies as well.

Evidence indicates that, for instance, group goals promote group performance. Through careful individual goal design, the team too can benefit from personal goals. In terms of compensation, a mix of individual and group incentives work better than the alternatives.

Other practices found helpful in teams are:

1. PMS adapting to the different justice norms in teams
2. PMS adapting to the various stages of team development
3. PMS training in terms of self-correction, in providing performance feedback

9.10 Outputs to watch out for with PMS introduction

1. Reducing Turnover
2. Productivity (ex: log of sales per employee)
3. Financial metrics
4. Employee skill upgradation (tests, courses, mentoring.)
5. Structural capital improvement (no. of people included in information sharing sessions)
6. Employee motivation (no. of workers whose appraisal has an impact on compensation)
7. Organizational Citizenship Behavior (Performing things out of goodwill and concern without any organizational incentive)
8. Employee work satisfaction, commitment

9.11 Best practices related to PMS

An extensive study surveying the field of 20 years' worth of literature found three parameters to a great PMS implementation:

1. Appraisals based on objective results or behaviors
2. Appraisals for development
3. Frequent performance appraisal meetings

9.12 Performance systems operate successfully in a conducive environment

> "Even the most sophisticated performance appraisal system, which focuses employees to engage in the "right" behaviors, will have little impact upon firm-level outcomes unless it is accompanied by selection, placement, and training systems which ensure that employees have the capabilities needed to perform those behaviors; reward and compensation systems which ensure that employees are motivated to do what is needed to further corporate goals; and job design systems which allow employees the opportunity to engage in behaviors that impact firm-level outcomes. Thus, PMSs should be defined as all the HR practices employed by an organization to ensure that employees have the means, the motivation, and the opportunity to improve firm-level performance."

9.13 Performance metrics tend to fall into availability bias

Organizations often choose those measures that are readily available. **Financial measures** are the most popular ones, such as sales growth, profitability, earnings per share, and other esoteric ones.

Another kind of measure is **operational measures**, which are broader in nature, such as market share, new product introductions, and product quality. These indicate the internal efficiency of the organization.

Organizational effectiveness refers to a broader conception of organizational success. In addition to financial and operational data, under the umbrella of effectiveness, we take a look at multiple objectives of the organization and multiple stakeholder interests. For instance, organizational effectiveness can include corporate social responsibility, values-based leadership, and sustainability criteria. Similarly, the **"triple-bottom-line"** approach concerns economic prosperity, environmental quality, and social justice.

9.14 Signs of a "strong" HR system

1. Visible to employees
2. Salient to employees
3. Valid (it works, and employees see it work)
4. Associated with legitimate authority
5. Relevant to employees
6. Stated and administered consistently
7. Instrumental to employee goal achievement
8. Agreed upon by HR decision-makers
9. Perceived as fair by employees

9.15 PMS Big Picture

In fig. 9.1, we find the inputs and outputs surrounding a performance management systems. The national culture impacts organizational culture. Organizational strategy helps define the firm performance. All these factors together create the context in which a PMS operates.

PMS consists of practices and properties. Crucial practices that enhance skills, motivation and opportunity, coupled with various beneficial properties help a PMS perform. The beneficial properties are: wide system visibility, correctness, support from authority (leaders), relevance, consistency, fairness.

The PMS translates raw inputs into a climate for performance. The climate defines the sharpness of skill application. Sharp application delivers firm performance.

Finally, performing gives rise to new learnings, enhances the culture, and further sophisticates the next cycle of performance.

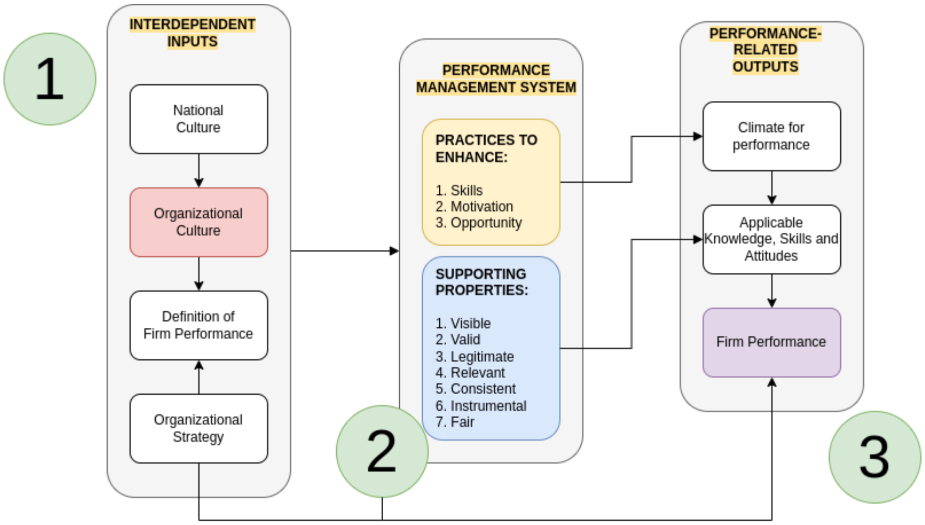

1
INTERDEPENDENT INPUTS
National Culture
Organizational Culture
Definition of Firm Performance
Organizational Strategy
2
PERFORMANCE MANAGEMENT SYSTEM
PRACTICES TO ENHANCE:
1. Skills
2. Motivation
3. Opportunity
SUPPORTING PROPERTIES:
1. Visible
2. Valid
3. Legitimate
4. Relevant
5. Consistent
6. Instrumental
7. Fair
3
PERFORMANCE-RELATED OUTPUTS
Climate for performance
Applicable Knowledge, Skills and Attitudes
Firm Performance

Figure 9.1: Performance Management System and how it relates to Performance

Chapter 10

Promotions

Promotion systems exist to find the organization's next leaders to set organizational direction and managers to operate execution.

The second purpose of Promotion systems is to impact all the organization members' satisfaction, commitment, involvement, and motivation. (Gerald Ferris, n.d.)

10.1 Promotions have intra and inter-organizational impact

Promotions as events are influential. Without a doubt, leaders and employees of the organization pay attention to who gets promoted; people associate promotions with worker ability. In addition, competitors and other industry players may also notice such promotions and will take the organizational elevation of a person for higher capacity. And such promotions automatically increase the possibility of "poaching" employees. (DeVaro and Waldman 2012)

10.2 Promotions have short-term consequences

Failure to get a promotion was further associated with feelings of inequity, a decrease in commitment, and an increase in absenteeism.

But a favorable promotion decision was associated with higher organizational commitment.

These managers may engage in deviant behaviors, such as increasing tardiness, lowered enthusiasm, innovation, picketing, or some form of sabotage. Such overt and covert emotions and behaviors can hurt organizations in the long run. (Souza 2002)

10.3 Promotions have long-term consequences

Employees may take time to process the implications of not getting a promotion. After a while, they may realize that lack of promotion means reduced access to quality health care, reduced social standing with the peer group, and a negative impact on the family. Thus, it is necessary to make promotion decisions with a long-term view in mind. (Ambrose and Cropanzano 2003)

10.4 Major outcomes of promotions

Promotions impact the following aspects, which are of great significance to organizations:

1. Employee satisfaction
2. Intention to stay
3. Desire to strive (putting more effort on the job)

10.5 Types of rewards promotions can deliver to an employee

Two categories mainly:

1. Incentives, financial rewards
2. Titles, associated social prestige, respect

10.6 Excess use of subjective criteria can be dangerous

When improperly set up, promotion systems can damage organizational performance and negatively impact the bottom line. Moreover, subjective methods trigger more grievances, indicating higher dissatisfaction among employees. (G. Allen 1997)

Common types of subjectivity introduced are:

1. Place greater emphasis on the candidate's personality
2. Supervisors select candidates with interests similar to their own
3. Supervisor's partiality towards mentees and social relationships

10.7 Minute aspects that help employees with getting promoted

> "Credentials, experience, track record, skills, work ethic, the ability to function well in teams, and growth potential were cited as the

> minutiae that usually played key roles in promotion decision-making processes in organizations."

(Souza 2002)

10.8 Frequent promotions increases employee satisfaction & commitment

Promotions positively impact the promoted employees, making them more committed to the organization. Hence, creating more titles and slots can be one way of ensuring the satisfaction of promotion. At the same time, the number of slots cannot be equal to the number of people wanting promotions. So, another way to address this is to go for an egalitarian system that designates all retail workers as associates.

10.9 Skilled communication through position descriptions enhances the process

The organization can align behaviors when it specifies position descriptions and sets the behaviors and outcomes necessary to deserve a promotion. Given clear, non-subjective criteria, people may obtain help from various sources, modify their behavior to fit the requirements, and ensure they have a relevant case built up for their promotion.

10.10 Human Resource executives and specialists may not know the odds

Leaders can only unravel career paths through appropriate study, data analysis, and communication. Based on career paths, it is possible to predict chances of promotion. Such analysis may reveal biases (desirable or undesirable) within the organization.(Gerald Ferris, n.d.)

10.11 Types of promotion systems

Following are the common types of promotion systems used across the world (Phelan and Lin 2000):

1. up-or-out systems
2. absolute merit-based systems
3. relative merit-based systems
4. seniority-based systems

10.12 Three types of employee mobility

An overarching model of looking at promotion systems is:

1. Contest model: open opportunity, the organization delays decisions about who will move up as long as possible
2. Sponsored model: the organization decides as early as possible, leading to specialized training & development
3. Hybrid Tournament model:
    1. There are multiple rounds to the top
    2. Those who fail in the first round do not go to the next
    3. Those who fail in the second round do not go onto the third
    4. So on

10.13 Early promotions predict the future ascendence of the employee

Early promotions correlate with future potential for development. There are two probable explanations for this observation (Gerald Ferris, n.d.): 1. Employees who succeed early get exposed to more challenges; they get better trained in dealing with situations 2. Early promotions signaled to the higher management to pay attention early on & influenced future decisions

10.14 Early access to influential mentors, training, and the team helps

Those who start in “powerful” departments or work with “powerful” figures in an organization tend to succeed more than those who do not begin this way. Association with top leaders and managers allows the mentee to access knowledge, decisions support, technology and visibility.

10.15 Politics is a crucial factor in promotions

Studies have shown that promotion decisions are influenced by:

1. Perceptions of similarity
2. Political actions/reasons
3. Fast Track programs (sponsored mobility)
4. Mentoring programs
5. The power of different organizational units
6. Functional area of the candidates

10.16 Business strategy has an impact on the pattern of promotion

Slocum and Cron's model of business strategies

1. Defenders
   1. Protect niche
   2. Stable environment
   3. Careful development of people in critical areas (production/finance)
   4. Extensive on-the-job training
   5. Detailed succession planning
   6. **Hire lower-level position, promote internally**
2. Analyzers
   1. Act like defenders in some markets
   2. Poised to move quickly to seize opportunities
   3. **Hiring at different levels of the organization as required**

10.17 Employee mobility varies by strategy type and their type

Four types of employees:

1. **Stars:** Employees who are doing well and expected to continue to move up in the organization.

2. **Comers:** Have the potential to move up but are currently performing below their potential.

3. **Solid citizens:** Performing well but are unlikely to move any farther

4. **Deadwood:** Performing below standard and have little chance of moving up

5. **Defender firms:**

   1. 15% stars
   2. **66% plateaued**
   3. 19% comers

6. **Analyzer firms:**

   1. 23% stars
   2. 27% plateaued
   3. **50% comers**

Defenders have a more stable population compared to the analyzers. The potential for mobility is higher with analyzers.

10.18 One can study promotions from a high-level organization perspective as well

- **Steady state organizations:**
  - Internally focused
  - Growth due to internally developed products
  - Increased market penetration
  - **Most firms use a hierarchy-based reward system**
    - Performance evaluation is subtle, subjective
    - Also includes quantitative measures
    - Relationships with superiors matters
    - Reward cooperative effort
    - Long-term commitment
    - Promotions mainly for personal development rather than merely business outcome
    - Employees Aim to understand the whole company
    - Long-term commitment
    - Example: Mature capital-intensive operations such as aluminum, pharmaceuticals, machine tools
- **Evolutionary organizations:**
  - Externally focused
  - Actively pursue products/markets through mergers/acquisitions
  - **Most firms use a performance-based reward system**
    - Mostly objective criteria
    - Rewards based on clearly defined expectations
    - Less concern for employee development
    - Relationships and socialization do not matter much
    - Cooperation less emphasized
    - Learning the whole system is not emphasized
    - Promotions can frequently be from the outside, even for top positions
    - Higher autonomy to various units
    - Loyalty and commitment are not emphasized

10.19 A more nuanced model captures promotion patterns more accurately

- **The Club:**
  - Recruit new employees at entry level
  - Careful development of employees
  - Socialization emphasized
  - Fair treatment of employees
  - Loyalty to the organization
  - Assignments/Promotions based on contribution to the group

  - Likely to be defenders
  - Often monopolies, regulated
  - Examples: utilities, airlines, banks, military agencies
- **Academics:**
  - Recruit employees earlier and develop them in-house
  - Differentiate employees based on their contributions
  - Sophisticated development practices: assessments, training, career tracking, sponsorship of high potentials, dual career ladders
  - Examples: IBM, Kodak, Exxon
- **Baseball team:**
  - Try to obtain the best available talent in the labor market
  - Less concern with employee training & development
  - High turnover expected
  - No succession planning
  - Successful employees are highly motivated, mini celebrities
  - Continuously search for new talent, discard those who are no longer useful
  - Examples: broadcasting, advertising, law firms, consulting firms
- **Fortress:**
  - The organization is struggling to survive
  - Organization takes precedence over individual concerns
  - Hiring and firing in reaction to market conditions
  - Example: Hotels, retailing, publishing, textiles

Chapter 11

Employee Compensation

Employee compensation is one of the most critical influences on the quality and effectiveness of human capital. Payment affects the following factors to varying levels (Coyle-Shapiro et al. 2002):

- Quality of the people who apply
- Quality of those hired
- Likelihood of job acceptance
- Motivation of the workforce
- Performance of the workforce
- Quality of those who stay with the company

Employee compensation has powerful incentive & sorting effects.

11.1 Compensation can impact subtle psychological aspects

Bringing up thoughts of money to an individual can cause an increase in feelings of self-reliance and pain tolerance (ex: through a screensaver with a US dollar bill). The compensation system can impact other subtler aspects such as safety, quality, creativity, innovation, and other vital attributes.

11.2 There are myriad ways of distributing the same payroll sum

The problem of *distribution* is fundamental in compensation systems. The organization can distribute the same total sum in various ways, based on how people segregate into groups.

- Vary the pay according to:

  - Job category
  - Performance
  - Seniority
  - Skill
  - Competency
- Distinctions in pay can be small or large
- Hierarchical (Top executives take more) vs. Egalitarian (greater parity across various levels)

Variations in the above factors can enormously influence the overall effectiveness of the organizations, regardless of keeping the overall pay constant. The appropriate type of *distribution* is critical.

11.3 Loss aversion: Real or potential loss is felt more severely than an equivalent gain

Humans are generally loss averse and tend to find the idea of actual or potential loss more threatening than an equivalent gain. The following report best illustrates loss aversion.

> Another report suggested that teachers who were given incentives at the beginning of a school year but had to return the incentive money if they did not meet performance goals during the year outperformed teachers who were promised an incentive at the end of the year if they met performance goals

This principle can be used within organizations to increase commitment and compliance.

11.4 With financial incentives, expect both functional and dysfunctional consequences

Once the money is attached to a particular result, people tend to obtain it, deploying both functional and dysfunctional behaviors. An excellent example of this phenomenon is the cheating scandal in the Atlanta school system. To hit student performance scores, teachers, principals, and superintendents focused on improving student performance *scores*rather than student performance. Behavior branched into two types:

1. **Functional behavior:** Trying to enhance student learning
2. **Dysfunctional behavior:** Erasing incorrect answers on the test and filling in the correct answers

For example, in workplaces, excess emphasis on hitting particular targets can lead to *bullying*.

11.5 People are more likely to underreport the importance of pay

In most situations, perhaps due to *socially desirable responding*, people will report that money is not as important as other factors such as well-being and challenging work (Rynes, Gerhart, and Minette 2004). Even many managers, who are used to dealing with people's issues daily, report that money is less important than many other work factors. HR magazines and influential information outlets may also echo the sentiment that pay is unimportant.

Regardless of all such verbal and written reports, measuring productivity and financial results in response to economic interventions strongly suggests that pay tends to be one of the most potent motivators. Hence, when it comes to the topic of pay, and for those designing compensation systems: it is essential not to underestimate the power of pay as a motivating factor, regardless of what people say. What people do indicates that pay is one of the most potent motivators for performance, if not the most.

11.6 Best results emerge from a combination of equitable pay and other factors

Multiple motivators are better than relying merely on the financial aspect. For example, performance-based pay *and* challenging work used in conjunction can be very successful. Firms like Microsoft and General Electric use such an approach, coupled with open book management practices (financial information sharing, company-wide performance-based pay, and high levels of employee involvement in decision making).

11.7 Individual differences affecting pay importance

Different categories of people react to the importance of pay in various ways up to an extent, although in general, compensation is still extremely important to all groups. Following are category-level differences that appear in individuals:

1. Pay is more critical to extroverts than to introverts. Perhaps due to social comparison, money is a status and comparative indicator for social success.
2. High academic achievers strongly prefer performance-based pay.
3. Individuals with a history of social achievements strongly desire higher pay
4. Higher performing employees proportionally desire higher pay. At the same time, low performers prefer a more egalitarian system with fewer pay differences.
5. Men find pay differences more important than women

6. People with a high need for achievement and higher self-efficacy prefer performance-based pay over alternatives

11.8 Situational differences affecting pay importance

Various situations and circumstances can either elevate or demote the importance of money:

1. Pay variations across employers growing higher in a sector increase pay's importance.
2. Low-paying jobs tend to get rejected for being *under market.* However, increases tend to have declining marginal utility once pay is competitive to market standards.
3. Pay cuts can lead to retaliations, in terms of dissatisfaction and sometimes theft
4. Adequate explanations and straightforward communication matter; better communication leads to lower levels of theft on a pay cut, for example.
5. Pay is more important in job choice than in decisions to quit; this is because before joining, the pay can be determined without uncertainty, whereas other factors such as quality and challenges come into play once an individual joins the company
6. Pay fails to motivate people when not linked to individual or firm performance

11.9 Without pay variability, money doesn't produce motivation

If employees in the same job at the same companies receive highly similar pay hikes, despite having differences in performance, then managers may conclude that pay doesn't produce motivation! However, this is an *unskilled use* of pay hikes.

An essential principle of deploying pay is that criteria-based variability generates enhanced motivation. Multiple studies show that people consider jobs with higher pay variation tied to various criteria (ex: performance) as more desirable.

11.10 Higher positions require larger pay differences

It is well-known that money has a declining marginal utility. For a poor individual, $100 may be motivating, but this amount would mean very little for someone earning $100,000 a year.

A formal way to state the principle is: *motivational effect of money is nonlinear across pay levels.* Hence, as the positions of the individuals move up the hierarchy, larger deviations are expected, and non-financial factors such as challenge, responsibility, power, and prestige matter to a more considerable degree.

11.11 Pay level & related changes have contextual implications socially & psychologically

One can define the principle as follows: *People judge the fairness of pay in relative terms.* Individuals expect to get pay & recognition *in proportion* to their skills & contributions. One can determine the appropriate proportion by comparing their close coworkers, workers in other companies, or employees' past work history.

Those who find their pay hikes to be inequitable will tend to take one of the following attitudes:

1. Complain to the supervisor
2. Work harder to get bigger raise next year
3. Work less to bring inputs in line with perceived outcomes
4. Quit in disgust

In particular, pay cuts can lead to a negative impact, especially when the communication from supervisors is absent or lacking.

11.12 Pay affects attraction, retention, and on-the-job performance differently

Pay is significant in attracting high performers, and applicants will take the number seriously since applicants can inspect the factor before taking up the job. Any offers lower than market standards are likely to lead to the rejection of employment from the potential people pool.

Secondly, pay is also essential in retention, especially when socially significant promotions and bonuses come into play. The procedural and distributive justice of how the compensation system works is vital to retention.

However, in many instances, the organization doesn't strictly tie performance to reward. Such disparity causes people not to pay attention to the financial factor when they are on the job. At the same time, studies have shown that a strong tie between performance and pay can boost performance enormously.

11.13 Practical recommendations for designing and dealing with compensation systems

1. Complaints about the payment system require special attention. It is socially undesirable to share these aspects, so it is difficult for employees to voice their opinions on the matter. One must assume that there are likely to be many more people who may share a similar sentiment.
2. Market competitiveness of salary is critical. If the wage is below a certain threshold, many applicants will not even apply, causing a weaker workforce.
3. The best employees tend to want pay-for-performance systems. While culture, challenge, and other factors can affect employee decisions, studies indicate that the most skilled, experienced, and educated employees prefer to pay for performance.
4. Key check: Are average and superior performances rewarded differently? The question above elicits "no" answers in many firms worldwide, although they're called pay-for-performance systems on paper. Non-merit aspects of the system can work against the motivation of high performers. Moreover, profit-sharing mechanisms with larger and more frequent payouts can also motivate people.
5. Executive pay raises must be proportionate to employee raises. If the divide between executive and employee pay raises is significant, people tend to want to move on to other organizations. Unless the executive is genuinely outstanding and producing massive outputs for the organization, employees will grow to resent huge pay raise gaps.

11.14 Debugging compensation systems and continuous improvement

Leaders must continuously monitor employee behaviors and attitudes on three dimensions: attraction, retention, and performance. The following remarks and questions can be a starting point.

1. Is the company's job acceptance rate higher or lower than companies in its area or industry?
2. Are applicants accepting positions with lower or higher starting salaries than one's own company?
3. What *types* of applicants and employees are being lost? Are many *desirable* employees getting lost?
4. Do you have track turnover, categorized by performance (to know how many good performers are leaving)?
5. What HR practices and interventions are functional, and what are their effects?
6. Are surveys deployed to track changes in employee satisfaction? It is important not to change the wording from year to year so that an accurate comparison can be made (small word changes can lead to significant changes

in responses)
7. What, in particular, are the views and opinions of the high performers on the compensation system? The higher performers are essential to the organization; leaders must consider their opinions seriously.
8. In exit interviews, are you recording their new salary? People may not be forthright in their reasons for leaving, so analysts can make a numeric comparison for more accurate results.
9. Do you have regular industry benchmarks on pay levels? Keep the organization's pay scale fresh and relevant through frequent benchmarks to avoid erosion.

11.15 Excess pay variation can lead to ruthless competition and bullying

While the previous sections recommend pay variation to enhance motivation, leaders must also note that workplace bullying can be one of the unintended consequences of such highly competitive systems. In zero-sum, performance-enhancing compensation systems, the higher performers may use bullying to weaken the performance* of their colleagues *while simultaneously increasing their performance (Samnani and Singh 2014). So, instead of cooperating to produce a higher output, the individuals may reduce each other's performance.

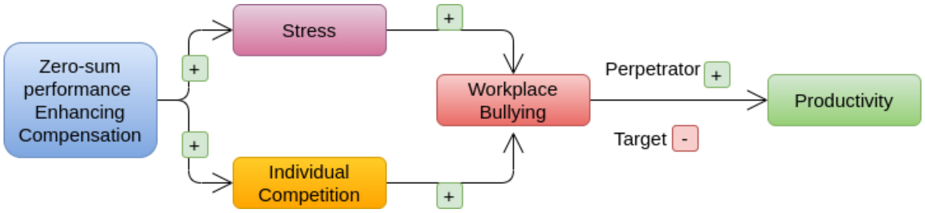


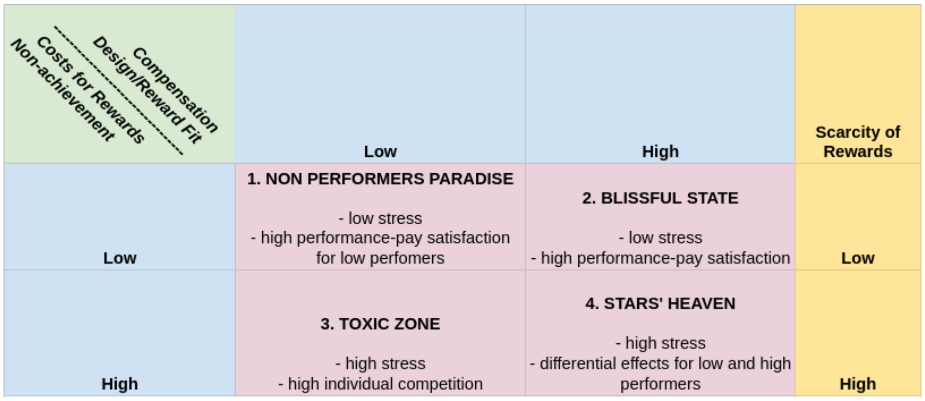
Figure 11.1: Performance-enhancing compensation practices and productivity

Super competitive systems produce stress and bullying, as shown in fig. 11.1.

Managers can avoid the toxic situation by understanding the *typology of compensation consequences* as shown in fig. 11.2.

The three dimensions of compensation consequence typology are::

1. Costs of rewards non-achievement:
    1. What happens if employees fail to achieve goals?
    2. Do they miss a promotion?
    3. Are they socially differentiated?
    4. Are there financial consequences?
2. Compensation design/reward fit: How desirable is this system overall? The fit factor values lower stress, higher productivity, higher performance, and higher satisfaction.



Compensation Design/Reward Fit Costs for Rewards Non-achievement	Low	High	Scarcity of Rewards
Low	**1. NON PERFORMERS PARADISE** - low stress - high performance-pay satisfaction for low perfomers	**2. BLISSFUL STATE** - low stress - high performance-pay satisfaction	Low
High	**3. TOXIC ZONE** - high stress - high individual competition	**4. STARS' HEAVEN** - high stress - differential effects for low and high performers	High

Figure 11.2: Typology of compensation consequences

3. Scarcity of rewards: The more zero-systems work so that one individual's gain means the loss for another. If a system is zero-sum, there is a high scarcity of rewards. For example, with team-level bonus or compensation, the shortage of rewards are low since an improvement benefits everyone on the team

Given the typology, the primary goal is to avoid the *toxic zone*. In the toxic zone, stakes are high, rewards are high, and costs of not achieving are high—such arrangement results in hyper-competition, stress, and possibly bullying. Hence, managers need to moderate the competition through counterbalancing mechanisms that promote collaboration. Team-level bonuses for performance and team recognitions can control ruthless competition that breaks down cooperation while maintaining a high level of motivation.

11.16 How pay extends work hours & its consequences

There are three commonly used types of pay systems (Merriman 2014):

1. Pay based on units of time
2. Pay based on subjective performance standards
3. Pay based on tournament-style competition (only a few winners)

Organizations can use all the above systems to encourage extra hours. However, the three systems influence the employee in psychologically different ways to put in extra hours.

In fig. 11.3, we see that increased hours worked tends to positively affect human capital, whereas, after a threshold, additional working hours lead to less time for human regeneration and overinvestment.

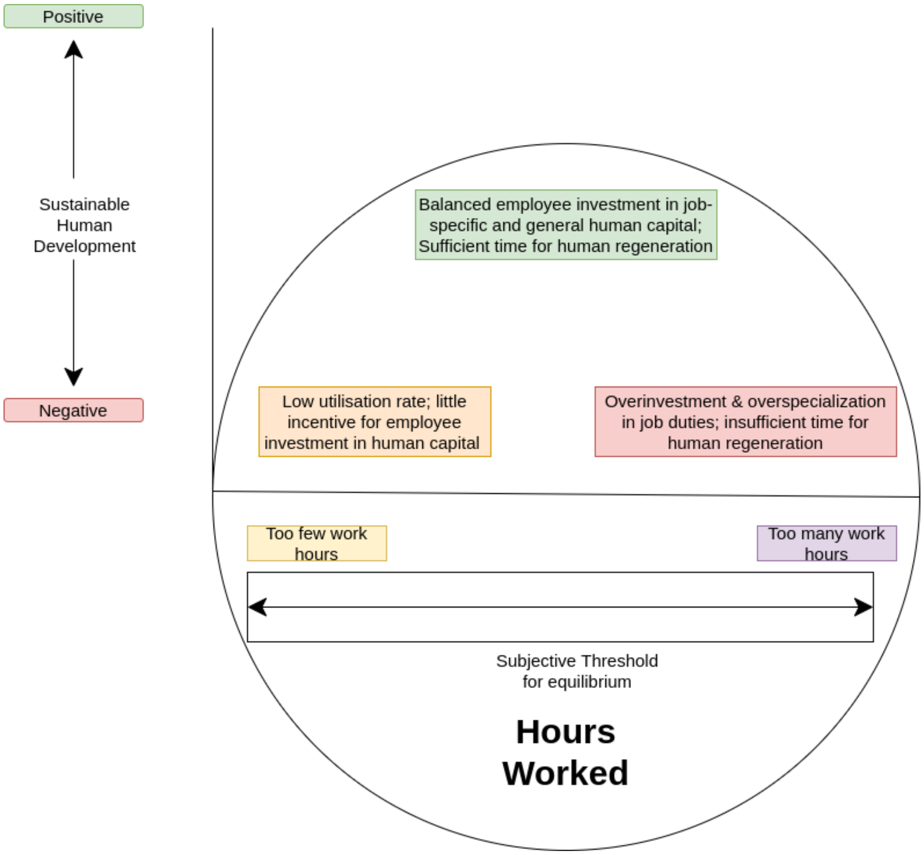

Positive
Sustainable Human Development
Negative
Balanced employee investment in job-specific and general human capital; Sufficient time for human regeneration
Low utilisation rate; little incentive for employee investment in human capital
Overinvestment & overspecialization in job duties; insufficient time for human regeneration
Too few work hours
Too many work hours
Subjective Threshold for equilibrium
Hours Worked

Figure 11.3: Curvilinear relationship between work hours and human capital

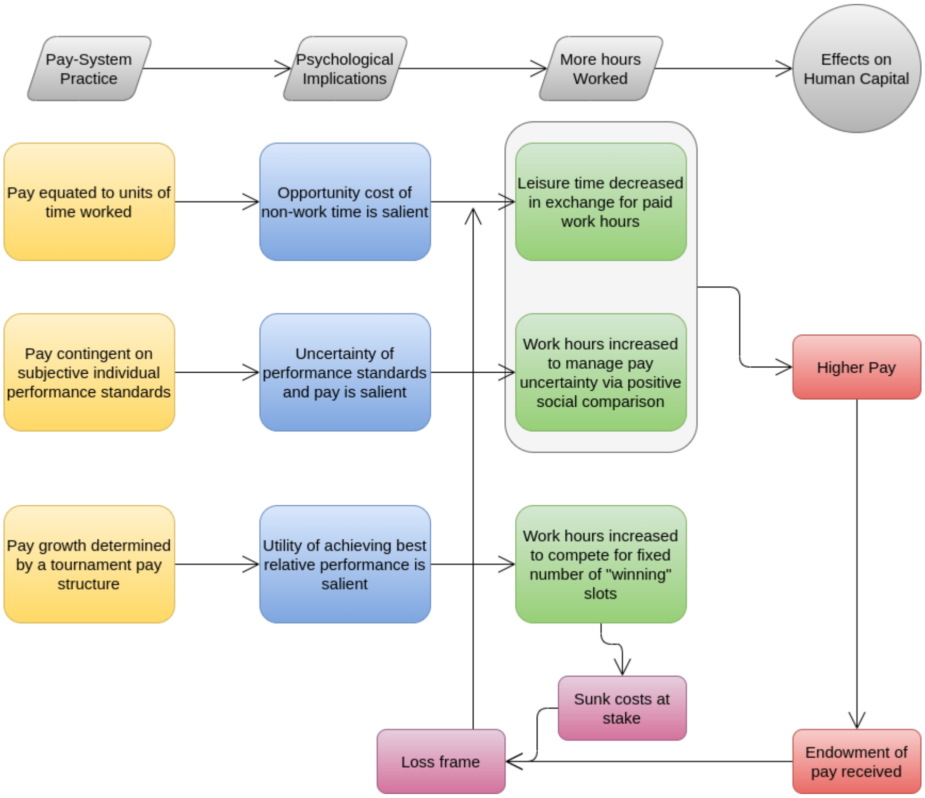

Pay-System Practice
Psychological Implications
More hours Worked
Effects on Human Capital
Pay equated to units of time worked
Opportunity cost of non-work time is salient
Leisure time decreased in exchange for paid work hours
Pay contingent on subjective individual performance standards
Uncertainty of performance standards and pay is salient
Work hours increased to manage pay uncertainty via positive social comparison
Higher Pay
Pay growth determined by a tournament pay structure
Utility of achieving best relative performance is salient
Work hours increased to compete for fixed number of "winning" slots
Sunk costs at stake
Loss frame
Endowment of pay received

Figure 11.4: Psychological role of pay systems in self-imposed work hours.

In fig. 11.4, we see that the different pay systems motivate people differently. When units of time are measured, the employees would not instead give up the additional money that they can earn. Hence, employees put in more hours. If there's a subjective assessment of performance, then people try to stay respectable socially in the ranking list for performance. If there's a tournament structure, people feel the intense competition and fight for higher results in an all-or-nothing manner.

In short, the first two methods get used for higher financial endowments, whereas the third method leads to a "sunk cost" mindset—all these methods, when overused, can lead to the degradation of human capital.

Hence, it is paramount to avoid chronic overwork, so the organization can control employee turnover and maintain long-term employee relations. The solution to this can be setting a ceiling of work hours per week or month, ensuring people take sufficient time off on a half-yearly or yearly basis.

11.17 Pay system impacts both current employees and those who become/remain employees

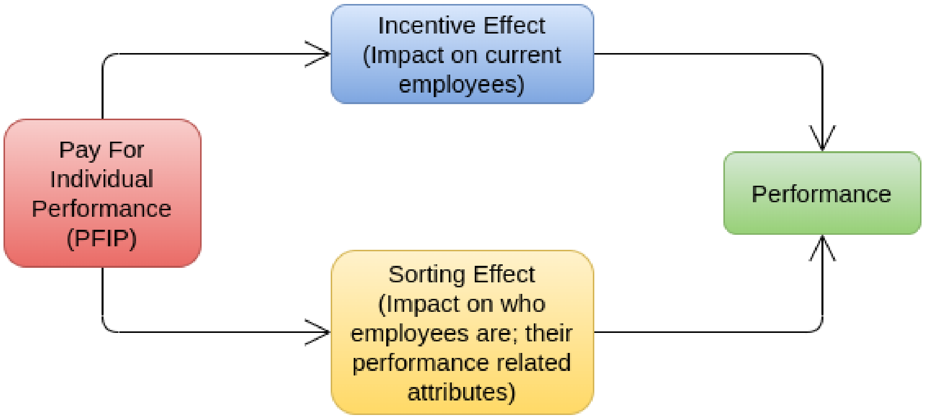

Incentive Effect (Impact on current employees)
Pay For Individual Performance (PFIP)
Performance
Sorting Effect (Impact on who employees are; their performance related attributes)

Figure 11.5: Pay system impacts incentives and sorting

In fig. 11.5, we see that implementing a *pay for individual performance (PFIP)* system leads to two types of effects (Gerhart and Fang 2014).

1. **Incentive effect:** It increases the productivity and output of the current employees
2. **Sorting effect:** It pushes the low performers to leave the firm while encouraging high performers to join

For example, when an automobile glass installation company switched from salaries to individual incentives:

- 44% increase in productivity
- Half of the productivity increase from existing employees
- Another half of productivity increase from low performers quitting and high performers finding the firm's work attractive

11.18 Recommendations for implementing profit-sharing pay systems

Distributing a portion of organizational profits to employees as part of their compensation refers to profit sharing (Coyle-Shapiro et al. 2002). It is a way of aligning the goals of management and employees.

When employees perceive profit sharing favorably, commitment to the organization and trust in management increase; in turn, employees exert more effort, share information, and invest in firm-specific training (which is of low value outside the firm).

Successful profit-sharing pay systems share the following qualities:

1. Employees see profit sharing as an opportunity for individuals to influence the organizational outputs; they agree with and encourage individuals to link performance to overall results in some way
2. Employees see it as a reflection of the organization's *intentions* to treat employees fairly
3. Both the above points lead to higher organizational commitment
4. While performance is important, *reciprocity* is essential for success. That is, some portion of reward, for example, must be linked to *seniority* (years of service). Honoring seniority allows the actions to be perceived as *just* and *fair*.
5. Frequent sharing of profits is better than rare sharing of profits. Higher frequency means lower lags, which heightens trust in management.
6. High level of employee participation in implementation. Ongoing communication to gather support and implementing a voting system to gather views and opinions before implementation predicts higher levels of success.

Chapter 12

Organizational Politics

The scholarly literature is full of competing definitions of Organizational politics. Since they lack absolute consensus, I present a few definitions below for the reader to sample (Buchanan 2008):

> "Acts of influence to enhance or protect the self-interest of individuals or groups."
>
> "Individual or group behavior that is informal, ostensibly parochial, typically divisive, and above all, in the technical sense, illegitimate – sanctioned neither by formal authority, accepted ideology, nor certified expertise."
>
> "The exercise of *tactical influence* which is strategically goal directed, rational, conscious and intended to promote self-interest, either at the expense of or in support of others' interests."

The critical ideas captured above are influence and self-interest concerning individuals or groups.

The above definitions receive criticism as well. For instance, one may ask that by some of the above reports, every human interaction can be considered political.

One can justifiably add another aspect: convincingly disguising goal-directed and self-interested behavior as a selfless act is a characteristic of politics. Therefore, the definition hints at an element of manipulation of situations.

12.1 Frequently used political tactics

The following is an incomplete list of political behaviors observed in organizations:

1. Blaming others
2. Selective information

3. Creating a favorable image
4. Developing support
5. Ingratiation
6. Creating obligations
7. Rewards
8. Coercion and threats
9. Associating with influential individuals
10. Forming powerful coalitions

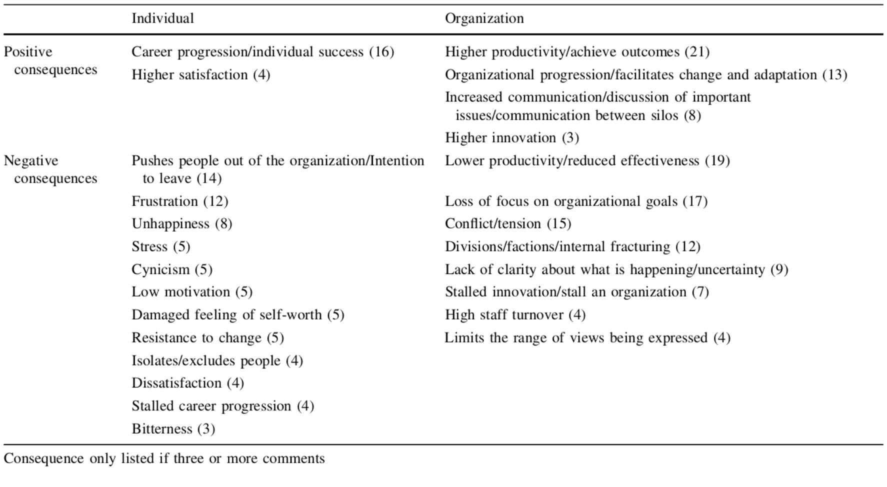
12.2 Politics is seen as a double-edged sword

Most practicing managers consider politics quite commonplace and are expected to be skilled politicians in the workplace. Most managers believe politics can help advance careers and also that it can potentially harm individuals through loss of job or power.

At the same time, there is a split opinion on various aspects. Around 50% of respondents to a survey said the following about politics:

1. Impedes efficiency
2. Management should eliminate politics
3. Impedes goal achievement
4. Results in misuse of resources

Politics is seen as beneficial and harmful in various aspects and is controversial among managers.



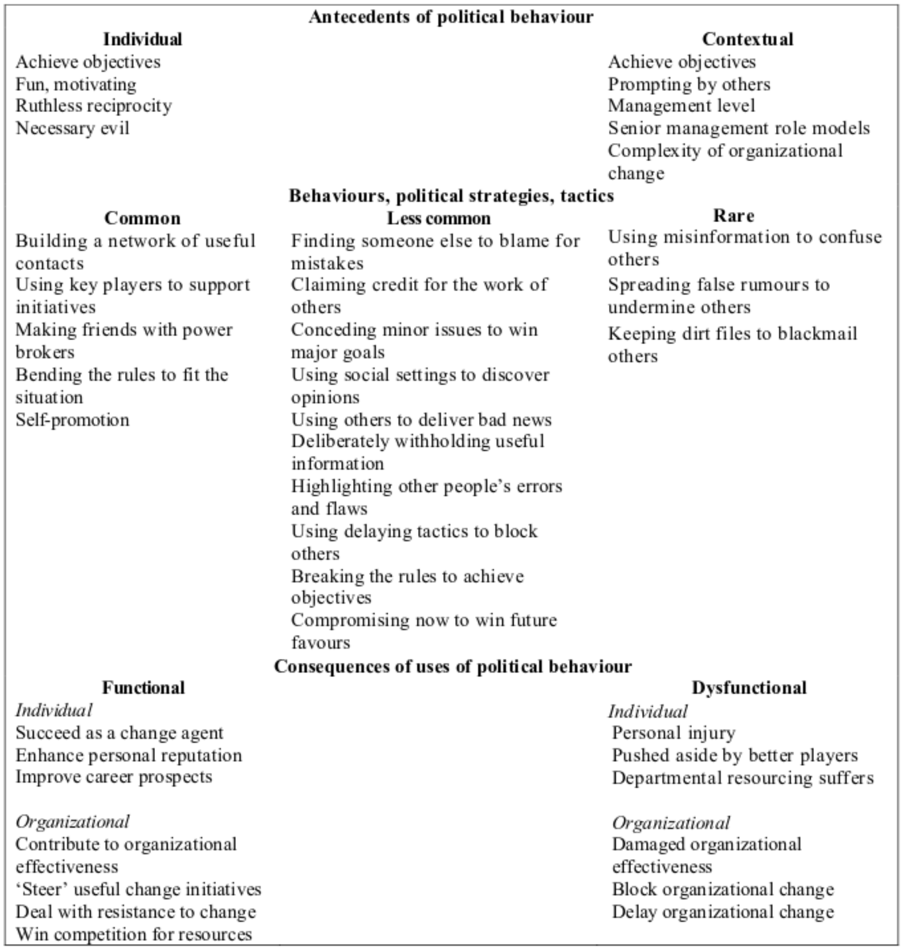
	Individual	Organization
Positive consequences	Career progression/individual success (16)	Higher productivity/achieve outcomes (21)
	Higher satisfaction (4)	Organizational progression/facilitates change and adaptation (13)
		Increased communication/discussion of important issues/communication between silos (8)
		Higher innovation (3)
Negative consequences	Pushes people out of the organization/Intention to leave (14)	Lower productivity/reduced effectiveness (19)
	Frustration (12)	Loss of focus on organizational goals (17)
	Unhappiness (8)	Conflict/tension (15)
	Stress (5)	Divisions/factions/internal fracturing (12)
	Cynicism (5)	Lack of clarity about what is happening/uncertainty (9)
	Low motivation (5)	Stalled innovation/stall an organization (7)
	Damaged feeling of self-worth (5)	High staff turnover (4)
	Resistance to change (5)	Limits the range of views being expressed (4)
	Isolates/excludes people (4)	
	Dissatisfaction (4)	
	Stalled career progression (4)	
	Bitterness (3)	

Consequence only listed if three or more comments

Figure 12.1: Perceived positive and negative consequences of organizational politics at individual and organizational levels

fig. 12.1 summarizes a wide range of positive and negative consequences that are observed (Landells and Albrecht 2017).

12.3 Causes, strategies, and consequences



Antecedents of political behaviour

Individual

Achieve objectives
Fun, motivating
Ruthless reciprocity
Necessary evil

Contextual

Achieve objectives
Prompting by others
Management level
Senior management role models
Complexity of organizational change

Behaviours, political strategies, tactics

Common

Building a network of useful contacts
Using key players to support initiatives
Making friends with power brokers
Bending the rules to fit the situation
Self-promotion

Less common

Finding someone else to blame for mistakes
Claiming credit for the work of others
Conceding minor issues to win major goals
Using social settings to discover opinions
Using others to deliver bad news
Deliberately withholding useful information
Highlighting other people's errors and flaws
Using delaying tactics to block others
Breaking the rules to achieve objectives
Compromising now to win future favours

Rare

Using misinformation to confuse others
Spreading false rumours to undermine others
Keeping dirt files to blackmail others

Consequences of uses of political behaviour

Functional

Individual
Succeed as a change agent
Enhance personal reputation
Improve career prospects

Organizational
Contribute to organizational effectiveness
'Steer' useful change initiatives
Deal with resistance to change
Win competition for resources

Dysfunctional

Individual
Personal injury
Pushed aside by better players
Departmental resourcing suffers

Organizational
Damaged organizational effectiveness
Block organizational change
Delay organizational change

Figure 12.2: Organizational Politics framework

The fig. 12.2 outlines the antecedents, behaviors, and consequences within a politics framework (Buchanan 2008).

12.3.1 Causes or antecedents

In general, employees, managers, and leaders find political behavior a *necessary evil* and there seem to be no ethical barriers to engaging in politics to achieve objectives. Most managers are ready to engage in politics, act ruthlessly, and reciprocate when dealing with others who use political tactics. The implied attitude seems to be: *you stab my back, I'll stab yours.*

12.3.2 Behaviors

The most used and common tactics are building networks, using 'key players,' befriending power brokers, bending the rules, and self-promotion.

In comparison, managers rarely use tactics such as: Using misinformation to confuse, spreading rumors to undermine, and keeping 'dirt files' to blackmail others. People find Interpersonal manipulation and impression management socially more acceptable.

12.3.3 Consequences

Exercising politics can have functional and dysfunctional effects at individual and group levels. Politics can steer or block changes and disrupt or contribute to an organization's or individual's effectiveness. Most managers attribute their reputation, career, and resourcing success to political skills.

12.4 Factors that influence the perception of politics

1. Higher-status employees tend not to associate politics with job dissatisfaction
2. Lower-status employees tend to associate politics with job dissatisfaction
3. Those at lower levels seem to perceive more politics compared to those at a higher level
4. Concentration of power at the top is associated with a higher perception of politics
5. Formalization, reduction of ambiguity is associated with a lower perception of politics

12.5 Most managers engage in politics, regardless of their dislike for it

Most managers see politics as part of their job and responsibility and engage in it even when they dislike the process. Men tend to be more intent on playing politics than women. And only a tiny portion of managers feel that the entire process is satisfying, even when they win the game. A very rare minority (<5%) plays politics for fun.

12.6 Overwhelming majority of managers will/have not hurt others in politics

In studies, ~80% of the managers expressed that they are not prepared to hurt others in the political process and that they have neither in their experience.

Moreover, on the receiving end, most employees favor a manager who is *ruthless* when necessary. The meaning is attached chiefly to taking difficult decisions impersonally (such as shutting down a factory or cutting budgets). People seem to endorse **ruthless reciprocity** along the lines of *you stab my back; I'll stab yours.*

12.7 Political skill is seen as a necessity for change agents

People are sympathetic to political actions in larger organizations with higher complexity and difficulty in implementing decisions. Senior executives are *expected* to play politics by the majority on behalf of the organization's well-being. Most people believe in the power of politics in driving beneficial change initiatives and dealing with resistance to change. At the same time, an overwhelming majority of people see politics to *block* useful and desirable changes on occasion.

12.8 Political skill is central to management performance

Findings suggest that managers who ignore organizational politics damage their reputations, careers, and departments. Those who play politics well improve their career prospects and personal reputations. Moreover, a department with better politicians receives higher levels of resources. Therefore, the managers must perform politically to protect and enhance their department resources.

12.9 Taxonomy of people based on the perception of politics

There are four different styles of political perception across the members of an organization(Landells and Albrecht 2017):

1. **Reactive:** *Politics is destructive and manipulative.* Ex: Views relationship building as "sucking up."
2. **Reluctant:** *Politics is a necessary evil.* Ex: Views relationship building as "pandering."
3. **Strategic:** *Politics is a valuable strategy that helps get things done* Ex: Views relationship building as "building relationships so they can be called

upon in future."

4. **Integrated:** *Politics is central to organizational functioning and decision-making.* Ex: Views relationship building as "working through other people."

Part IV

Developmental processes to build up momentum within the organization

Chapter 13

Learning and Development

Training is the systematic acquisition and development of knowledge, skills, and attitudes necessary to adequately perform a task or job to improve performance in the job environment (Tharenou, Saks, and Moore 2007).

13.1 Training Transfer — Conversion of skills to performance

The literature distinguishes between acquiring knowledge and skill versus performing skills when necessary in the job context. The conversion process from learning to performance is called *training transfer*.

13.2 Training is a significant organizational spend

In 2006 alone, organizations in the united states spent a total of **$55.8 billion** on training. As seen in one of the previous chapters, intangible skills and knowledge of employees have become a thing of paramount importance (Chapter 3). Successful organizations invest more in training and development than other organizations.

13.3 Training invites criticisms from many quarters

Training receives criticism from various quarters for numerous reasons:

1. Training is faddish
2. Training is too expensive

3. Training does not *transfer* to the job
4. Training does not improve the bottom line

Studies report that *“more than 50 percent of line managers believe that shutting down the L&D function would have no impact on employee performance”* (Pollock, Jefferson, and Wick 2015).

Regardless of the above criticisms, organizations usually invest in training for a combination of the following reasons:

1. Performance enhancement
2. Legal compliance
3. Rewarding and retaining employees

13.4 Resource-based view of the firm & training

In a resource-based view of the organization, an organization’s resources can be a competitive advantage if:

1. Valuable
2. Rare
3. Inimitable
4. Organized

In fig. 13.1, we find the roots of *sustainable competitive advantage.*

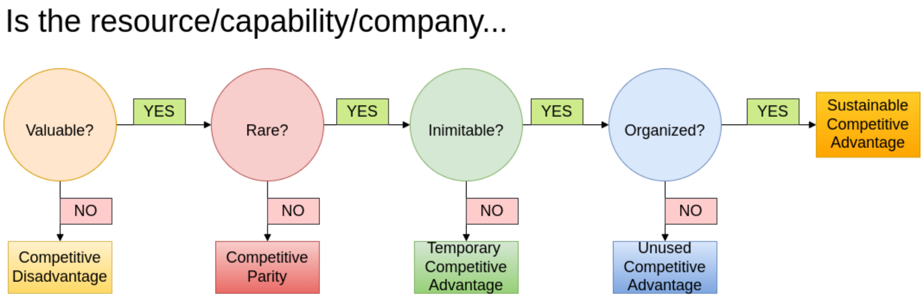

Is the resource/capability/company...
Valuable?
YES
Rare?
YES
Inimitable?
YES
Organized?
YES
Sustainable Competitive Advantage
NO
Competitive Disadvantage
NO
Competitive Parity
NO
Temporary Competitive Advantage
NO
Unused Competitive Advantage

Figure 13.1: Flowchart to determine sustainable competitive advantage

Leaders can turn human resources into a competitive advantage if the employees provide valuable skills, which are rare, not easy to imitate, and finally organized appropriately.

13.5 Cybernetic model of firm training

In the Cybernetic model, we envision three components:

1. Inputs
2. Throughput

3. Outputs

An organization simply takes in a set of inputs, such as employee competencies, transforms them into performance (throughput), and delivers outputs or business outcomes.

13.6 Integrated training model

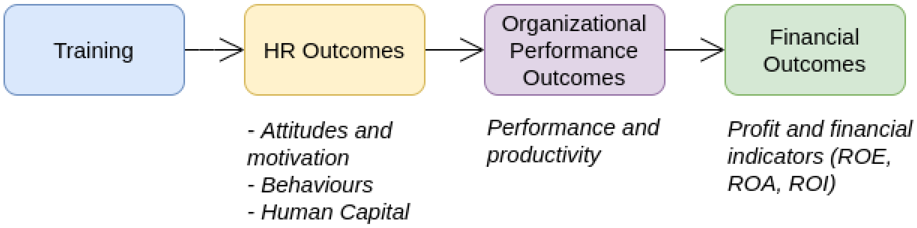

Training
HR Outcomes
Organizational Performance Outcomes
Financial Outcomes
- Attitudes and motivation
- Behaviours
- Human Capital
Performance and productivity
Profit and financial indicators (ROE, ROA, ROI)

Figure 13.2: Theoretical model linking training to organizational-level outcomes

Training directly impacts HR outcomes, such as attitudes, behaviors, and motivation (see fig. 13.2). These, in turn, lead to higher productivity, which delivers financial outcomes.

13.7 Training helps with job satisfaction

In a meta-review, over 13 studies reported a significant positive relationship between training and job satisfaction. It is perhaps due to the enhancement of their competencies, career opportunities, and support gained from management.

13.8 Training is linked to reduced turnover

In most training studies, training relates positively to lower labor turnover and higher retention. In the organizational climate, training was referred to as ‘development’ and ‘opportunities,’ lending a positive impression. Moreover, training is related to higher employee knowledge/skills/competence. Employees express positive perceptions of the organization when the organization invests in training.

13.9 Training has a positive impact on organizational performance

Organizations that train more have a small positive impact on performance. However, the small effect, when calculated with return in savings and dollar returns, suggests that the return to training is substantial.

13.10 Learning to Performing: managing the process end to end

According to the 6D method (Pollock, Jefferson, and Wick 2015), an organization has to take ownership of many phases and processes if its investments into learning deliver financial or non-financial results. The authors' assertion that most corporate training goes to "scrap" due to lack of application and follow-up seems in line with opinions expressed by line managers.

The 6 processes that convert learning into business results are:

1. Define business outcomes
2. Design the complete experience
3. Deliver for application
4. Drive learning transfer
5. Deploy performance support
6. Document the results

13.11 Define business outcomes

The first task is clearly defining what high-value business objectives the new training program can deliver. Including relevant stakeholders and deciding upon the business goals and the criteria for success is extremely important at this stage.

Also, defining the business outcomes is in sharp contrast with learning goals. The leaders need not expose the internal dynamics of a learning program at this stage. Instead of explaining employee capability, the business goals aim at specifying employee performance. The plan must incorporate success metrics after careful thought.

The primacy of economic performance is put forth in the following quote:

> "Management must always, in every decision and action, put economic performance first. It can only justify its existence and its authority by the economic results it produces. There may be great non-economic results: the happiness of the members of the enterprise, the contribution to the welfare or culture of the community, etc. Yet management has failed if it fails to produce economic results.... It has failed if it does not improve, or at least maintain, the wealth-producing capacity of the economic resources entrusted to it."
> – Drucker, 1974

Great CEOs have emphasized the potential of learning new skills and finding new markets:

> Indeed, when Herb Henkel was CEO of Ingersoll Rand, **he required that every business plan include a section on training and development because he felt that any plan worth its salt included new initiatives,** and that the success of any new initiative depended on ensuring that employees had the knowledge and skills needed to execute it

13.12 Design the Complete Experience

One of the most important insights related to *learning* in general and *corporate learning*, in particular is: **Learning is a process, not an event**.

Hence, for training to yield results, a complete track of activities from selection, an invitation to progress, completion and recognition.

Since learning is a process, it is essential to spread out the activities over a period of time and conduct the training and related activities in phases.

13.12.1 Phase 1: Preparation

Select people with the necessary experience and benefit from the program. **Invite** them with a list of clear and compelling benefits outlining the expected change in on-the-job behavior. **Prepare** people mentally through books, quizzes, demonstrations, and questions. Arrange a **meeting with the manager** to discuss the process and expected results. Provide managers with **helpful guidelines** on maximizing the value of the learning.

13.12.2 Phase 2: Guided learning

Preferably **Filter out** people who have not done the preparatory work in the previous stage. **Explain the sequence** of learning to the participants. **Provide relevant** examples, stories, simulations, discussions, and so on to help with the application. **Practice** the desired skills and behaviors for sufficiently long periods. **Evaluate** learning with the end-of-course evaluations.

13.12.3 Phase 3: Transfer and application

Provide **performance support** in the form of job aids (reminders, cheat sheets, crisp checklists). **Meet again with manager** to plan application. **Accountability** can be created through reminders to deliver the relevant results and ensure the transfer to application happens.

13.12.4 Phase 4: Acknowledge

Once participants reach a predetermined **Completion** point, **recognize and reward** special efforts and accomplishments.

13.13 Deliver for application

The test for learning effectiveness is its *applicability* in the corporate environment. The content delivery stage should emphasize this aspect also efficiently to maximize applicability.

The participant, to **apply** a new method or skill, has to answer two relevant questions:

1. **Can I** apply this?
2. **Will I** apply this?

13.13.1 Knowledge application process

There are three steps to knowledge application:

1. Recognize the relevant situation
2. Retrieve information or skill
3. Adapt to the specific situation

The learning methods greatly influence how the learner applies the above three steps, if at all.

13.13.2 Maximizing learning heuristics

Boring instruction is costly, damaging, ineffective, and wasteful (regardless of the medium used, such as live, digital, or print). Hence effort must be first made to understand the best of what we know about how people learn.

The key 7 steps in learning and application are:

1. **Input:** Either external or internal stimulus (ex: visuals or pain) can grab the brain's attention to trigger a learning process
2. **Attention:** The learner "attends" to the input in mind and removes extraneous elements from the focus
3. **Short-term memory:** The new information is temporarily held in short-term memory, and processes try to "make sense" of the information. If they're sufficiently exciting and meaningful, then the information gets encoded
4. **Encoding:** The learner decides on the format for storing new information
5. **Long-term memory:** In the decided format, the encoded information is stored.
6. **Retrieve:** Given the right trigger brain retrieves the encoded information (inclusive of procedural, descriptive, and emotive states)
7. **Apply:** The relevant memories are loaded into working memory, and the learner executes the task

In these steps, **failure in any stage can lead to loss of the entire learning chain.**

13.13.3 Bottleneck #1: Attention

The brain never processes most of the incoming inputs. For example, we get a continuous stream of information from our feet through sensory neurons, but we never get to "know" them unless our feet are cold or the ankle is sprained. The brain ignores most visuals and signals unless the information is exciting or a threat. Attention is the most significant bottleneck.

13.13.4 Gagne's 9 steps of instruction

In (Gagne 1992), Gagne propounded nine steps to enhance instruction. Following is a summary of the methodology:

1. **Gain attention:** A critical step since attention is a crucial bottleneck in learning. One can gain attention by asking a question, sharing a surprising fact, demonstrating, playing some sort of media, taking a quiz, and so on.
2. **Explain the goals:** Adults want to know what they will get out of their learning – they tend to learn best with a goal in mind. Hence, the instructor must remember to explain what the learners will get at the end.
3. **Stimulate recall:** New learning is best founded upon the solidity of past knowledge. Help learners recall essential facts and emotions that may improve learning and retention.
4. **Present new content:** New material should be presented in chunked and manageable parts while ensuring there is no cognitive overload.
5. **Provide learning guidance:** In the steps mentioned above, the learner mainly engages attention and short-term memory. They need help with consolidating their new experiences into long-term memory. Provide examples, mnemonic devices, analogies, mental models, and opportunities for discussions and questions.
6. **Practice/Elicit performance:** Knowing something is relatively easy compared to the correct usage of said piece of knowledge. Hence, practice towards mastery is essential. Start with simple methods and gradually move towards mastery through quizzes, games, role plays, problem-solving, and simulations.
7. **Provide feedback:** Setup rubrics and checklists to assess learner performance. And based on assessments, provide timely and helpful feedback. The feedback should be informational so that the learner can improve performance next time.
8. **Assess performance:** Set up assessments that test both theoretical and practical aspects. Ensure the learner not only *knows* the material, but also can *perform* the relevant skills. Avoid questions that require mere rote memorization.
9. **Enhance retention and transfer:** Provide job aids, templates, tools, and other performance support to ensure learners avail of the benefits of their new knowledge. Moreover, equip managers to support the learners in practicing their new skills daily.

13.13.5 Bottleneck #2: Working memory

Information paid attention to gets loaded up to working memory. The working memory capacity is severely limited, and when incoming information overwhelms this capacity, the brain can no longer process it accurately, leading to *cognitive overload*.

Cognitive overload can lead to reduced comprehension, faulty comprehension, or complete failure to figure out the structure of the incoming information.

Another cause of the overload is multiple streams and types of incoming information. For example, reading slides while simultaneously listening to the presenter, can muddle up the final understanding. Extraneous images added to slides to merely make the image "interesting" will distract from the core content.

13.13.6 Bottleneck #3: Encoding and consolidation

Encoding is putting the information in a meaningful structure. *Consolidation* connects new memories to existing knowledge to help with future retrieval. More elaborate and intricate connections to existing knowledge improve chances of retention.

Visual guides, discussing the topic, and teaching others help with learning. Moreover, **generating** one's connections to remember helps more than merely using instructor-supplied connections.

The trainers must provide sufficient time for people to generate connections to enhance their long-term memory, which will help their performance later.

Another key aspect in helping with recall is trying to mimic the target environment where the learners will perform the job as much as possible. Keeping the study environment similar to the target improves situation recognition and can invoke easier retrieval for the learner.

If the information *makes sense to the learner* and is *meaningful to them*, the information gets moved to long-term memory.

The penultimate step is *the retrieval* of the information when applicable. Every recall is a fresh "construction," so the brain may even fill in the missing pieces when it retrieves the relevant information. Hence, the format of storage has an impact on the quality of retrieval as well.

Factors that improve impact recall:

1. Elaborate connections to existing knowledge
2. Features of the memory search during performance match that of learning
3. The more often a memory is retrieved, the easier it becomes to retrieve it subsequently

13.14 Drive learning transfer

In organizations worldwide, "learning scrap" refers to learning programs in which the learning content was consumed but was not applied to concrete tasks to generate sufficient investment returns. **Knowledge alone is insufficient to deliver new performance.**

Learning transfer is a process to avoid learning scrap. The process involves various mechanisms to ensure that the new learnings of the employee get faithfully applied on the job to produce valuable results.

Following are some of the mechanisms used to ensure learning transfer happens:

1. **Goals:** Encourage participants to set their stretch goals (or supply the goals for them). Create opportunities for applying their new learnings.
2. **Reminders:** The goal is kept on top of the employee's mind through regular reminders encouraging progress
3. **Accountability:** There are two mechanisms to support accountability: (1) Inform managers and ensure they follow up on employee progress (2) Make goals public (at least up to the team level) so that employee progress becomes visible to the concerned people
4. **New finish line:** Set predetermined end goals, reporting & reflection schedule to ensure there's progress
5. **Feedback:** Participants should receive meaningful feedback from either peers or managers on how they're progressing on their goals
6. **Recognition:** Those who make significant progress or achieve their goals are given recognition and are set as an example to motivate others to achieve their goals.

13.14.1 Results of a learning intervention

The results of a learning intervention are the products of two factors:

1. Can I? (amount learned)
2. Will I? (amount applied or transferred)

`Learning x Transfer = Results`

13.14.2 Relapse is a severe issue with adaption

The power of inertia and the weight of old habits can cause participants to lose momentum at various stages of learning and development. One shouldn't underestimate the enormity of resistance possible to installing a new habit, as reflected in the following statistic:

> A life-threatening illness ought to be the ultimate incentive for change. And yet, **among people who have had coronary bypass surgery, only 10 percent succeeded in changing their lifestyles in ways that would reduce the risk** of a subsequent

> and potentially fatal attack (Deutschman, 2005). Even when the choice is “change or die,” many people cannot change.

The following quote illustrates the intuitive reason behind why relapse happens:

> “Learning is like sledding down a hill on a fresh field of snow. On your first try, you could take any number of paths. But the next time you go down, the sled tends to follow the path you have already established. The more times you slide down, the deeper you wear a particular groove and the harder it is to go a different way. That is very much how the brain works: the more you perform a particular action, the more it becomes automatic and harder to change. That’s essential for survival; we’d be paralyzed if we had to think through every single action all the time. But it does mean that long-established habits—whether how to do a certain task or how to react to another person—take real effort to change.”

Hence, **deliberate practice** for at least 3-4 months daily is necessary to install a new habit or behavior solidly. Follow-through requires strong determination to implement.

There are many, many causes of failure when it comes to transferring, and the following diagram summarizes significant cases:

13.14.3 Managers can make or break the performance phase

Of all the factors, managers have a disproportionate impact on whether training gets applied or not. Setting up post-learning meetings with managers to discuss the right way to implement the learning alone can alone generate significant ROI. Moreover, experience and evidence suggest that managers may even try to *prevent, discourage or remain neutral* towards new learning, which can be harmful to the organization. Hence, the organization should train managers to be *encouraging and require* that new knowledge be applied on the job for transfer to be successful.

13.15 Deploy performance support

Performance support is anything that helps an employee do the right thing at the right time. Examples of performance support are paper-based checklists and electronic performance management systems.

Performance support aims to overcome the **fallibility of human memory** to an extent. Humans can remember the summary of things but are not great at the details. Hence performance support is about filling in the gaps strictly when required.

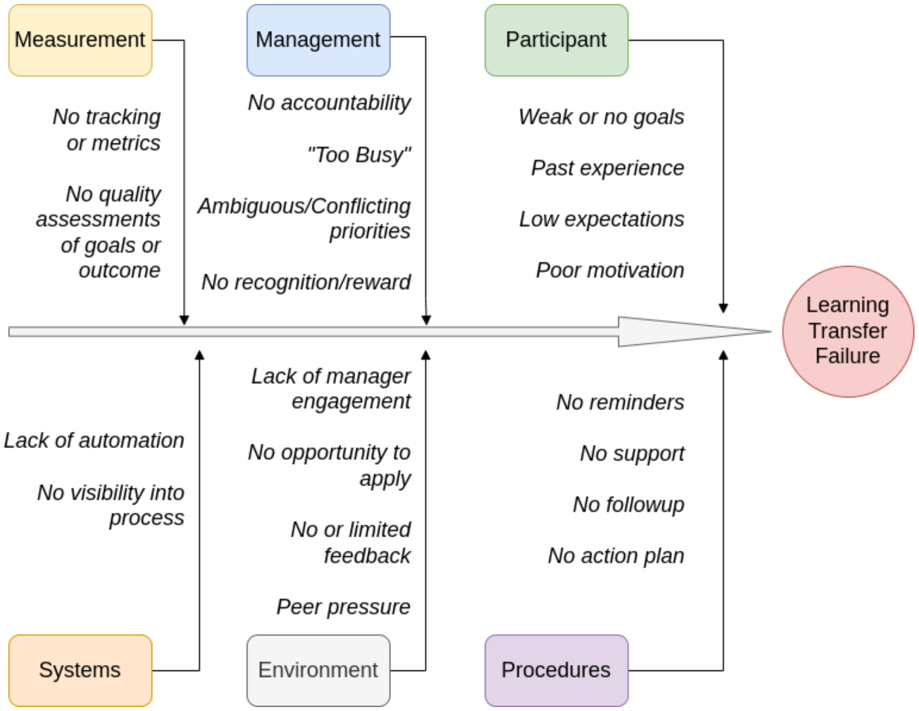

Measurement
No tracking or metrics
No quality assessments of goals or outcome
Management
No accountability
"Too Busy"
Ambiguous/Conflicting priorities
No recognition/reward
Participant
Weak or no goals
Past experience
Low expectations
Poor motivation
Learning Transfer Failure
Lack of automation
No visibility into process
Systems
Lack of manager engagement
No opportunity to apply
No or limited feedback
Peer pressure
Environment
No reminders
No support
No followup
No action plan
Procedures

Figure 13.3: Possible failure factors for learning transfer

Moreover, frequent performance doesn't guarantee that the employee will be successful at the job next time around. For instance, airline pilots have learned this fact the hard way through tragic accidents and mandate the use of checklists.

Lastly, performance support makes it easy for new people to settle into work with less effort and mistakes. Therefore, it is vital for industries with high turnover.

13.15.1 When to use performance support

- Trying to master a new procedure or skill;
- Performing an infrequently used procedure;
- Performing a complex task that includes many steps or factors;
- Procedures change frequently;
- The job is straightforward and there is no time or need for training;
- An error would be very serious or costly.

13.15.2 Types of performance support devices

1. Reminders.
2. Step-by-step guidance
3. Flow charts
4. Decision trees
5. Templates
6. Checklists
7. Videos or illustrations
8. Coaching
9. Information Access
10. Expert help

13.15.3 Characteristics of great performance support

1. **Readily available when and where needed:** The guidance should be effortlessly accessible and usable. For example, instructions attached to a jumper cable are superior to a manual's descriptive page.
2. **Specific:** Provide only hints to remember to do something, not how to do it
3. **Practical & effective:** Trainers should test the device to ensure it works
4. **Clear:** Keep the audience in mind; for example, airports have to make the symbols interpretable for people of various languages
5. **Economical:** Cost less money and take up fewer words/steps
6. **Current:** Either learners or trainers should update the devices with changes in reality
7. **Tailored:** The more tailored a device is to an employee, task & environment, the more effective the result is.

13.16 Document results

In organizations, learning as a method has to compete with other alternative potential investments. And since learning and transfer involve a long chain of causes and effects, it is imperative to collate a reasonable correlation between learning with business outcomes.

The critical task in proving and improving learning & transfer performance is accurately evaluating performance.

13.16.1 Four criteria for learning effectiveness parameters

1. **Relevant:** One must measure the right thing rather than something easy to measure. For instance, as has been seen from multiple studies, learners rate lenient instructors higher than stricter but more effective instructors. Moreover, such *learning* data is not relevant to *business* leaders in a direct manner. Hence, it is crucial to find from the *sponsor* of the learning, or the leaders, what exactly is worth measuring and agreeing on. For instance, leaders may care about customer rating if it is sales training. If it is R&D, maybe they care about new business plans.
2. **Credible:** Increase credibility through adhering to suitable statistical methods, such as reducing sampling bias, having a larger dataset, and reducing ambiguity. Moreover, bringing anecdotal evidence from the organization's reputed and intelligent members can also help.
3. **Compelling:** Persuasion is about simplifying the presentation, empathizing with the target audience, speaking the audience's language, and sticking to sound presentation principles. Having the right balance of data and stories is critical.
4. **Efficient:** Automated data collection in previous stages enables timely and cost-effective data and story delivery. However, if the data collection and stories systems are not well set up, then there might be additional delays in creating those reports. Hence, the designers must give efficiency some thought from the very beginning.

13.16.2 Summary of evaluation process

1. Confirm the outcomes matter
2. Create a project plan
3. Collect and analyze data
4. Report the findings
5. Sell the sizzle
6. Implement improvements

Chapter 14

Leadership Development

Many companies, over their experience, have learned that *leaders who keep learning may be the ultimate source of sustainable competitive advantage.* World-class executives invest personal time and energy in guiding and mentoring future leaders (Fulmer 2000).

14.1 Different types of leadership development challenges can be used

According to (DeRue and Wellman 2009), developmental challenge splits into 5 types of challenges:

1. **Unfamiliar responsibilities:** The individual must handle *novel* responsibilities. Example: a significant change in role/position.
2. **Creating change:** Modify a team, employee, department, or organization's conduct. Ex: manage subordinate performance problems
3. **High levels of responsibility:** Leadership initiatives are critical to the survival and prosperity of the organization. Ex: Secure financing, acquire customer
4. **Working across boundaries:** The individual has to exert influence despite lacking official authority. Ex: Manage fundamental interactions with labor union
5. **Managing diversity:** Lead people from different cultures, gender, and racial or ethnic backgrounds. Ex: Lead a team spread across the globe on multiple continents

In fig. 14.1, we depict various leadership challenges.

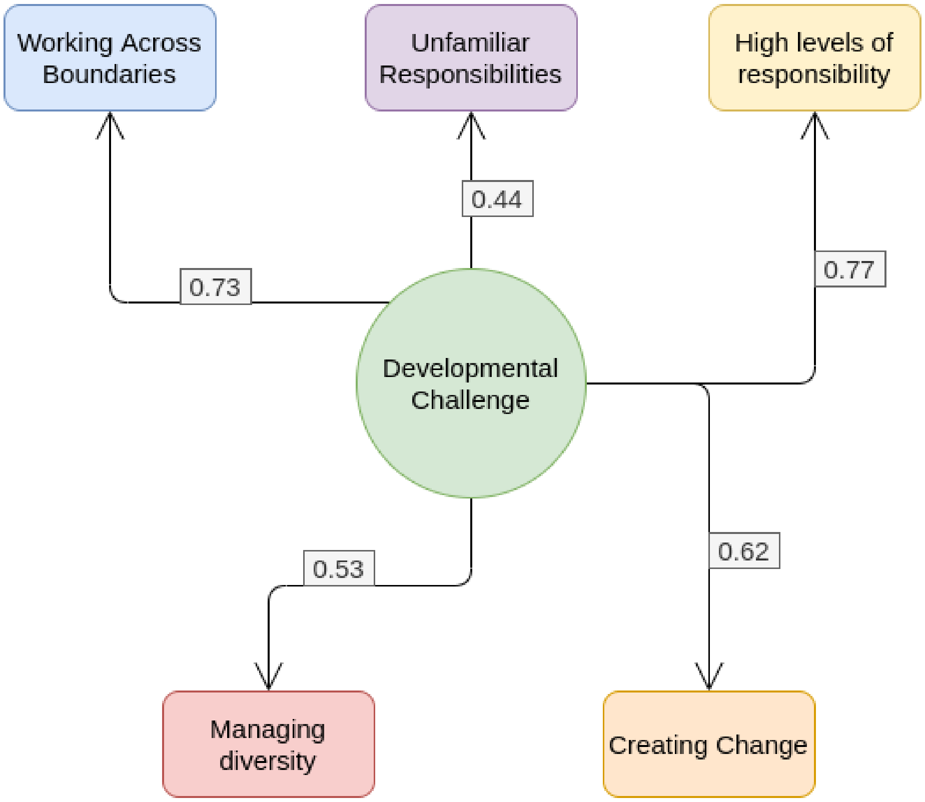

Working Across Boundaries
Unfamiliar Responsibilities
High levels of responsibility
0.44
0.73
0.77
Developmental Challenge
0.53
0.62
Managing diversity
Creating Change

Figure 14.1: Types of leadership challenges

14.2 The development value of work experience provides diminishing returns

The value of work experience diminishes with respect to time. There is indeed an “optimal point” after which one will not see any new increases in skill or capability in a particular skill.

In particular, the skill level plateaued after a point when it came to interpersonal and business skills. The learners’ improvement halted pronouncedly for this category of skills. Whereas cognitive and strategic skills lead to diminishing results, but not as acutely as interpersonal skills.

14.3 Feedback offsets the diminishing returns in challenges

Individuals with access to **continuous feedback are less likely to face diminishing returns on their efforts to improve.** Feedback is seen as improving self-awareness, reducing an individual’s uncertainties regarding performance and success, and helping reduce the stress associated with challenging work experiences. All these factors enable the individuals to focus entirely on the task and learning.

14.4 Learning orientation determines the quality and continuation of learning

Learning orientation decides how one response to challenging experiences. When faced with challenges, those with mastery-oriented response patterns are less susceptible to diminishing returns in learning. Those with performance orientation tend to get diminishing returns on learning.

14.5 What management can do to enhance leadership development

1. Recognizing an optimal level of leadership challenge is essential. If the challenge is too high, the individual and organization will face loss in multiple dimensions. There is a risk involved with providing someone with a challenge. Hence, managers knowledgeable of the individual’s history and capabilities must judge what will truly benefit the individual and organization.
2. Encouraging a solid learning orientation in all communications is paramount. Those with a mastery orientation can withstand the challenge’s shocks and emerge with higher skill levels. In contrast, those working only to perform and show their results to others tend to

become easily obstructed by difficulties. Hence, through courses and daily communications, leaders must be encouraged to learn more effectively. Also important is an assurance that mistakes are not only tolerated but accepted in the learning process and that the individual has the freedom to experiment and gain experience.

3. On failures, the proper attribution is to focus on *effort* rather than *ability*. So if managers can use effort as a reason for failure rather than ability, the upcoming leaders will make higher efforts and are more likely to succeed.
4. Implementing a growth-oriented and learning-oriented feedback system, rather than merely evaluative, is essential. Encouraging learning and appreciating improvement attempts are vital in building such a support system. Higher quantity and quality of feedback enhances the individual's self-awareness, motivation and focus. It also counters against the diminishing returns in learning described earlier in this chapter.

14.6 Leaders developing leaders — a powerful model of development

At a philosophical level, a great leader's task is to revolutionize how people see the world, teach a new vision and establish new behaviors (Cacioppe 1998).

Of the many leadership development methods available, *the personal involvement* of senior leaders has been very effective. In a study, CEOs rated having a manager who acted as a coach contributing to their development as leaders.

It is vital for the senior leaders who act as coaches to articulate a "teachable point of view." The leaders' conduct and the organization must align with said point of view.

CEOs, Chairmen, and other topmost leaders in companies such as PepsiCo, General Electric, and Shell practice the **leaders developing leaders** model. For example, Jack Welch, CEO of GE, has participated in GE Senior Leadership Program for two weeks every year for *15 years* and has not missed a single session.

Organizations that do not have a "leaders developing leaders" policy can benefit enormously by implementing it. Moreover, the individual leaders who participate and those who learn usually report higher satisfaction levels.

14.7 Leadership development vs. Managerial development

The areas of leadership development and managerial development are parallel and do have overlaps. Yet the same time, they are dissimilar in many ways as well (Day 2000).

Leadership and management are different concepts but interrelated. Management development primarily focuses on managerial education and training, where the emphasis is on acquiring *specific types of knowledge,* skills, and abilities that enhance **task performance** in managerial roles. Another critical aspect of management training is the *application of proven solutions to known problems.* Managerial training tends to be tied to formal authority.

In contrast, leadership development is about expanding the collective capacity of the organization's members to perform in leadership roles and processes effectively. Leadership roles may involve formal authority or not, whereas managerial training is almost always related to a formal position. Leadership development tends to deal with the handling of novel situations and unforeseen situations and helping individuals make sense of chaotic, changing circumstances. Hence, leadership training is geared towards preparation to handle challenging, usually unexpected situations.

14.8 Leadership building must be a continuous process

Lester Thurow argued for establishing self-propelled, continuous transformation processes within a business for its long-term survival and thriving; he posits that without the internal thrust for transformation, the company is at risk of becoming obsolete and will get destroyed earlier than later. Lester expresses the idea as follows:

> "Businesses must be willing to destroy the old while it is still successful if they wish to build the new that will be successful. If they don't destroy themselves, others will destroy them."

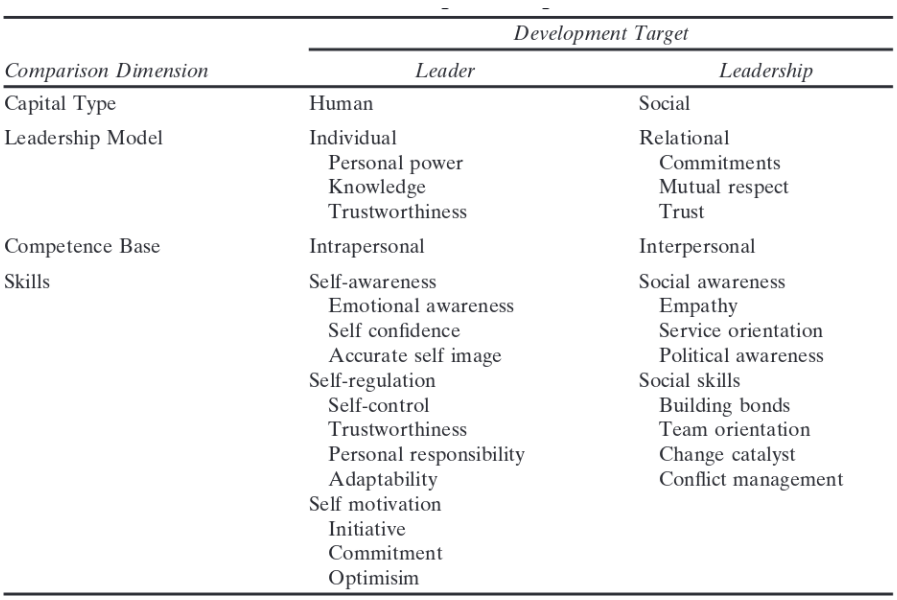
14.9 Leader development vs. Leadership development

A subtle but essential difference is between *leader* and *leadership.* The first difference between the two is the type of capital: leader development is the development of *human capital.* In contrast, leadership development is the development of *social capital.*

Human capital training increases at the **individual level** improve the following aspects of the individual:

1. **Self-awareness:** Train emotional awareness, self-confidence
2. **Self-regulation:** Improve self-control, trustworthiness, adaptability
3. **Self-motivation:** Increase commitment, initiative, optimism

The capabilities mentioned above contribute to an increase in the individual's power.



	Development Target	
Comparison Dimension	*Leader*	*Leadership*
Capital Type	Human	Social
Leadership Model	Individual	Relational
	Personal power	Commitments
	Knowledge	Mutual respect
	Trustworthiness	Trust
Competence Base	Intrapersonal	Interpersonal
Skills	Self-awareness	Social awareness
	Emotional awareness	Empathy
	Self confidence	Service orientation
	Accurate self image	Political awareness
	Self-regulation	Social skills
	Self-control	Building bonds
	Trustworthiness	Team orientation
	Personal responsibility	Change catalyst
	Adaptability	Conflict management
	Self motivation	
	Initiative	
	Commitment	
	Optimisim	

Figure 14.2: Leader development vs leadership developments

We find a summary of the difference between leader and leadership development across multiple dimensions in fig. 14.2

In contrast, *leadership development* enhances the *social capital*. This form of capital establishes networks, cooperation, and resource exchange to create organizational value. Such collaboration and networks presuppose trust, commitment, and mutual obligations.

The culture evolved within an organization, team bonds, team orientation, service orientation, and political norms are components of leadership development.

At a philosophical level, *leader development* helps the individual differentiate, whereas *leadership development* helps the individual contribute to the organization's culture, networks, and other relational aspects.

14.10 Feedback alone is insufficient to develop leadership skills

Popular feedback mechanisms such as 360-degree feedback, multi-source feedback, and similar systems help provide information on self-knowledge. The recipient can learn more about expectations through such communication. However, excess information and conflicting advice may confuse the individual on how to proceed. Moreover, even if they agree with certain pieces of feedback, they may not entirely want to change their habits due to self-defense mechanisms. And even if they want to change and start changing, there is always the possibility of relapse into old behavior. Hence, while the information contained within feedback can be tremendously valuable at an intellectual level to leverage the maximum worth out of the feedback, it is essential to tie in other practices to ensure that behavioral adjustments and changes are happening all the time.

However, one of the critical strengths of feedback is that it involves broad participation and builds up a comprehensive picture of the organization.

14.11 Executive coaching can translate feedback into action

Executive coaching involves practical, goal-focused forms of *one-on-one* learning and behavioral change. Since external consultants to help with coaching tend to be expensive, organizations prefer shorter coaching to longer durations. Executive coaching comes with social stigma — people tend to assume the person had to take up coaching due to low performance. Hence, it is perhaps more helpful to assign coaches at the team level to avoid embarrassment and stigma to any particular individual.

Executive coaching involves stages such as:

1. Setting goals and context.
2. Assessment or diagnosis or present.
3. Developing a change plan.
4. Implementation with continuous progress review.

Executive coaching, when done intensively, can translate learning and feedback into beneficial, tangible results. Moreover, executive coaching can strengthen social networks with broader and deeper ties, enhancing the organization's social capital.

14.12 Mentoring programs ensure that advice flows from seniors to juniors

While executive coaching is goal-oriented, practical, and usually carried out by external entities, mentoring is an entirely internal phenomenon, with senior leaders pairing up with juniors and helping the latter with personalized help in improving skills, perspective and capabilities.

Organizations can encourage informal mentoring, and they can combine it with formal programs as well. The advantage of traditional programs is that they provide more avenues for assessing the value of the relationship. Still, at the same time, the formality, especially at the pairing stage, may create a temporal relationship rather than a long-term one.

However, when overly relied upon, mentorship can create dependency in the protege, and they may not develop critical skills independently.

Scholars and practitioners consider mentorship one of the most potent ways to build future leaders for an organization.

14.13 Encourage networking activities to boost social capital

The larger an organization, the more silos it has regarding sub-organizations, departments, and teams. *Networking* activities can foster broader individual networks by breaking down barriers.

People usually understand the importance of *what* and *how* factors in problem-solving. However, they often overlook a crucial aspect of problem-solving — the *who* factor. Networking is about developing the social capital of the organization.

Studies indicate that some peer relationships can last 20-30 years, whereas a typical mentorship relationship may last 5-6 years. Hence, from a longevity point of view, peer relations can be crucial for the organization. And enabling formal avenues for increasing the connectivity within the organization can be beneficial.

However, one downside to the networking activity is that it tends to be ad-hoc and unstructured. The people who benefit from this activity will be a few skilled at the activity; the benefits will not distribute symmetrically. Hence, it is crucial to help and train members in getting better at networking.

14.14 Job rotation helps enhance perspective and flexibility

An essential component of education is broad exposure and experience. And one of the ways identified to help gain such experience is job rotations (or job assignments), where individuals are engaged in functions, regions, and problems unfamiliar to them as a matter of policy.

Job rotation helps managers and leaders to learn how to build teams, improve strategic thinking, and gain valuable persuasion and influence skills. For example, Coca-Cola sends hundreds of professionals and managers to new countries under its leadership development program in a single year.

However, for such assignments to be successful, the focus must be on *learning* intentions, rather than merely *performance*. If there is an excessive focus on performance, one cannot expect sufficient learning and development.

Jobs with the following characteristics are most beneficial:

1. Stretch assignments involving unfamiliar responsibilities, higher responsibilities
2. Requires bringing about change in people and situations
3. Involves building relationships and commitments

In a particular study, respondents report gaining the following skills due to job rotation:

1. Broaden the perspective on business (46% of executive respondents)
2. Adaptability & flexibility (31%)
3. Leadership skills (19%)

14.15 Action learning counters the "relapse" phenomenon

The relapse phenomenon is the usually painful and frustrating aspect of learning something new that humans tend to go back to old habits over time. This observed tendency can destroy weeks or months of effort to learn something new.

Action learning is a system that emphasizes the continuous application of knowledge under the watch of superiors and colleagues. The focus is on the application of newly acquired knowledge.

A real example of action learning is GE's Work-Out initiative. For each new initiative development, a *champion* was assigned, who had to not only suggest new ideas but also own the execution end to end. The workout sessions decided what to do and who will take responsibility for applying it. Underlying this is a focus on *learning by doing* and trusting colleagues to get it done, regardless of failures eventually. Hence, action learning has a deep learning focus.

The idea of action learning is related to another concept of *psychological safety*. It refers to a shared belief in the team that *it is safe to take interpersonal risks*. Organizations must create a psychologically safe place to try new things and develop leadership capabilities. When psychological safety is high in a team, members are more likely to:

1. Act without fear of embarrassment
2. Not be paralyzed by mistakes
3. Admit mistakes made
4. Ask for help
5. Discuss problems and solutions

Many empirical studies highlight the importance of *psychological safety* in a team's learning capacity.

Chapter 15

Research and Development

A commonly held view among scholars and practitioners is that *innovation* is of enormous importance for organizations to succeed. In *Managing invention and innovation*, we get the following definition of *innovation* (Roberts 2007):

> "Innovation is composed of two parts: (1) the generation of an idea or invention, and (2) the conversion of that invention into a business or other useful application... Using the generally accepted (broad) definition of innovation—all of the stages from the technical invention to final commercialization—the technical contribution does not have a dominant position (3)."

Simplifying the definition, we get:

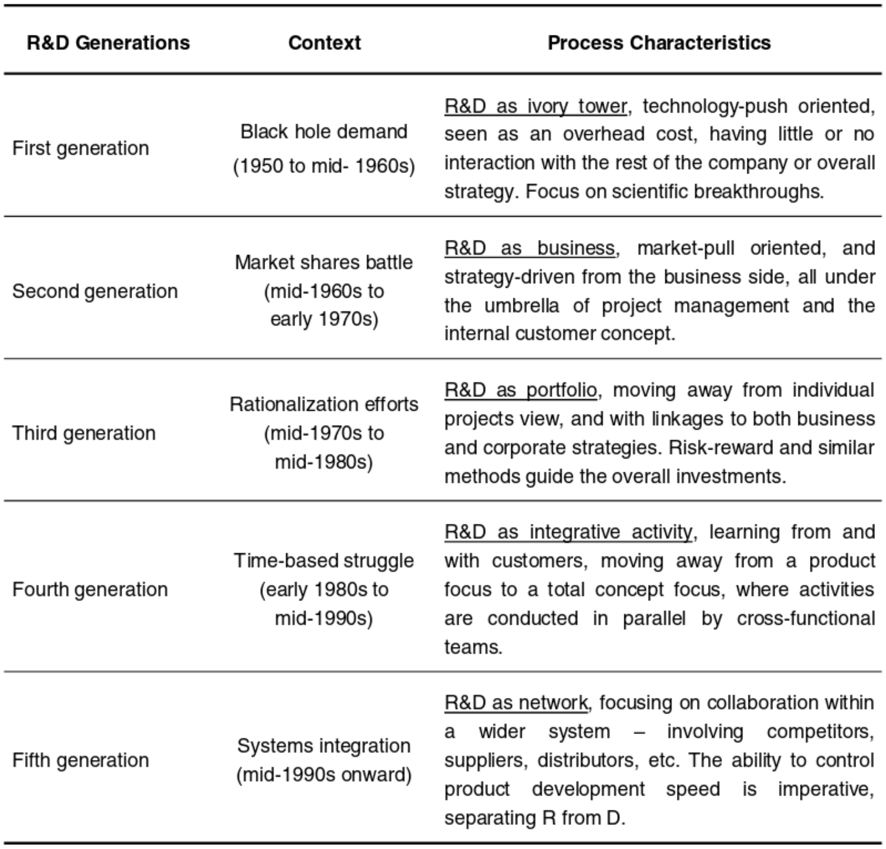
Innovation = Invention + Exploitation

This chapter will mainly delve deeper into the *Invention* aspects. However, both *innovation* and *exploitation* are processes linked to the former, and the rest of the chapter will refer to both concepts.

15.1 The 6 generations of research and development

From the 1950s onwards, one can envision at least 6 generations of research and development (Nobelius 2004).

The first generation (the 1950s to 1960s) was highly optimistic about the power of technology. The generation's leaders saw R&D as an overhead, something to push technology downstream towards the marketplace. The age saw many newly opened markets due to the outcomes of R&D.



R&D Generations	Context	Process Characteristics
First generation	Black hole demand (1950 to mid- 1960s)	R&D as ivory tower, technology-push oriented, seen as an overhead cost, having little or no interaction with the rest of the company or overall strategy. Focus on scientific breakthroughs.
Second generation	Market shares battle (mid-1960s to early 1970s)	R&D as business, market-pull oriented, and strategy-driven from the business side, all under the umbrella of project management and the internal customer concept.
Third generation	Rationalization efforts (mid-1970s to mid-1980s)	R&D as portfolio, moving away from individual projects view, and with linkages to both business and corporate strategies. Risk-reward and similar methods guide the overall investments.
Fourth generation	Time-based struggle (early 1980s to mid-1990s)	R&D as integrative activity, learning from and with customers, moving away from a product focus to a total concept focus, where activities are conducted in parallel by cross-functional teams.
Fifth generation	Systems integration (mid-1990s onward)	R&D as network, focusing on collaboration within a wider system – involving competitors, suppliers, distributors, etc. The ability to control product development speed is imperative, separating R from D.

Figure 15.1: The five generations of R&D

During the second generation (the 1960s to 1970s), as markets matured, competition increased. Firms started placing more emphasis on *marketing* to increase sales volumes. Due to this, there was a focus on short-term demands rather than long-term research. Ideas were mainly collected from the market, with R&D refining and delivering products to meet these needs. Leaders deployed project management to monitor R&D efforts.

In the third generation (the 1970s to 1980s), the focus shifted to cost control and reduction due to economic troubles. As part of the drive, processes tended to get more optimized to generate the highest output for the lowest possible input. Essentially the third generation balanced the first and second generations by removing excesses either towards research or the market.

The fourth generation (the 1980s to 1990s) integrated various activities, removing the excess focus on the product. The integration phase emphasized *speedy* output through parallelization and cross-functioning of teams.

In the fifth generation (the 1990s onwards), firms recognized the need to collaborate since many R&D efforts required enormous financial and otherwise investments. To improve the speed and quality, companies started interacting more with the business environment, collaborators, and in some aspects, competitors. Over time research and development separated due to two reasons. First, the timelines for the two processes are different. Second, research has a larger unpredictable compared to development.

In fig. 15.1, find a summary of the 5 generations of R&D evolution.

15.2 R&D spend predicts patent and product announcement count

A firm's R&D spending is a good predictor of patenting and new product announcements. Thus, internal research capabilities, particularly those with a vital basic research component, are crucial to enabling a firm to generate creative outputs (Artz et al. 2010).

R&D and product announcement: There is a U-shaped relationship between R&D and product announcement count. When the R&D spend is small, there tends to be a high level of developmental activity and related product releases on the lower end of technology. As R&D spending increases, the product releases *reduce* (rather than increase as expected). However, as we increase the R&D spend, eventually it starts yielding results, delivering a high number of product releases. Hence, R&D is effective in frugal and highly invested environments. And a dip in product release has to be expected at average investment levels.

R&D and patents: Higher R&D spending leads to more patents. However, patents correlate negatively with return on assets (ROA) or financial performance. It seems as though the use of patents in organizations is in curtailing the progress of competing firms. For example, their impact can be limited by patenting around the competitor's essential patents. Moreover, companies can use patents of low value as leverage during negotiations. **Hence, while companies introduced patents to help with innovation, it has curtailed innovation.**

15.3 Higher number of product announcements predicts higher profits

Generating a consistent flow of new products into the market is related to higher financial performance. A portofolio of multiple products is more resilient in the market, so it is helpful to a firm with a continuous output stream. The higher resiliency emerges due to the distribution of risk with product failure or product decline.

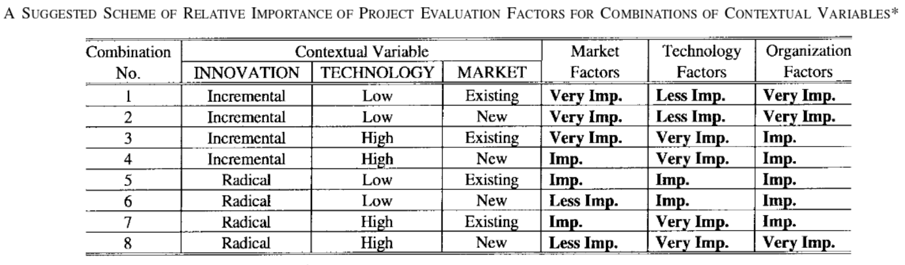
Moreover, many products impact working against the competition by capturing at least a small market share.

15.4 Three groups of contextual factors determine R&D success

Three categories of perspectives help us determine R&D and New Product Development (NPD) project success (Balachandra and Friar 1997):

1. **Nature of innovation:** The level of "newness" in a product innovation can vary widely. We can identify two types of innovations initially. First: **incremental innovation** is a type of innovation where an existing product improves in one or more attributes (such as performance, flexibility, and appearance). Ex: Sony's walkman, where a market already existed. The second type of innovation is **radical innovation**, which introduces a category-defining product in which a market didn't exist before.
2. **Nature of market:** Market uncertainty of an initiative depends on whether a product targets an **existing market** or **new market**. In the earlier case, uncertainty is low, whereas in the latter case, uncertainty is high. In existing markets, a deep market study is possible, whereas in non-existent markets, intuition, experience, and knowledge matter more.
3. **Nature of technology:** In **low tech**, standards and practices already exist to which a product must conform, whereas in **high tech**, the environment can be chaotic and rapidly changing.

Given the above three categories, one can envision 8 configurations of context, which determine which types of factors become more critical to the outcome.

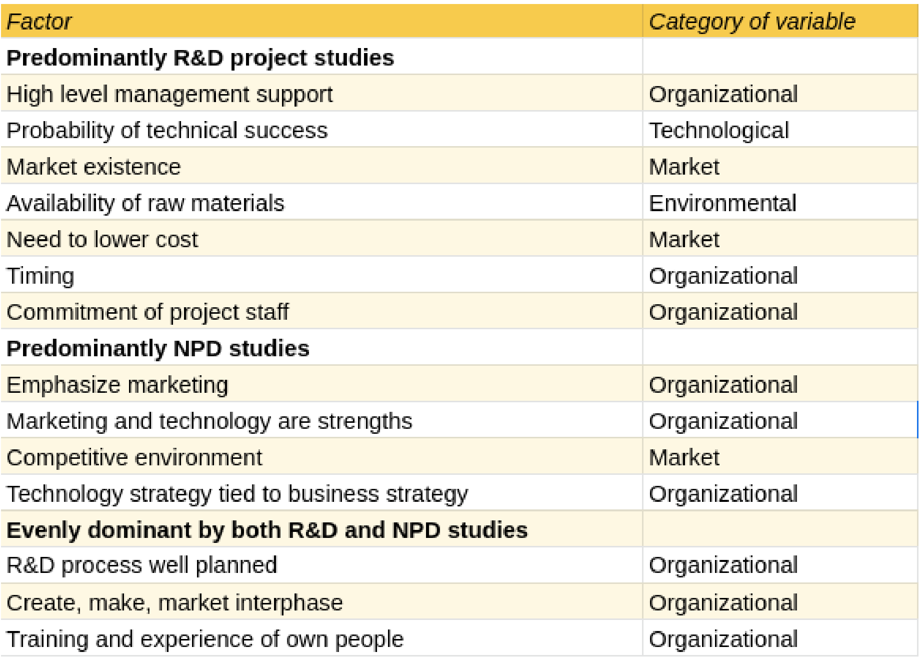


A SUGGESTED SCHEME OF RELATIVE IMPORTANCE OF PROJECT EVALUATION FACTORS FOR COMBINATIONS OF CONTEXTUAL VARIABLES*

Combination No.	Contextual Variable			Market Factors	Technology Factors	Organization Factors
	INNOVATION	TECHNOLOGY	MARKET			
1	Incremental	Low	Existing	**Very Imp.**	**Less Imp.**	**Very Imp.**
2	Incremental	Low	New	**Very Imp.**	**Less Imp.**	**Very Imp.**
3	Incremental	High	Existing	**Very Imp.**	**Very Imp.**	**Imp.**
4	Incremental	High	New	**Imp.**	**Very Imp.**	**Imp.**
5	Radical	Low	Existing	**Imp.**	**Imp.**	**Imp.**
6	Radical	Low	New	**Less Imp.**	**Imp.**	**Imp.**
7	Radical	High	Existing	**Imp.**	**Very Imp.**	**Imp.**
8	Radical	High	New	**Less Imp.**	**Very Imp.**	**Very Imp.**

Figure 15.2: The 8 context configurations and the resultant importance of factors

15.5 14 factors most important factors for success in R&D projects



Factor	*Category of variable*
Predominantly R&D project studies	
High level management support	Organizational
Probability of technical success	Technological
Market existence	Market
Availability of raw materials	Environmental
Need to lower cost	Market
Timing	Organizational
Commitment of project staff	Organizational
Predominantly NPD studies	
Emphasize marketing	Organizational
Marketing and technology are strengths	Organizational
Competitive environment	Market
Technology strategy tied to business strategy	Organizational
Evenly dominant by both R&D and NPD studies	
R&D process well planned	Organizational
Create, make, market interphase	Organizational
Training and experience of own people	Organizational

Figure 15.3: 14 most important factors for R&D success & their categories

After identifying the appropriate context and the relative importance of the various factor categories according to fig. 15.2, the information in fig. 15.3 recommends the most important practices and factors necessary to make projects successful.

One thing to come out of factor analysis is that the most important factors are within the organizational sphere, under its control. In R&D studies, **43%** of the elements come under the **organizational category,** enabling a large amount of control over improvements.

15.6 R&D project leaders should possess many team management skills

Empirical studies indicate that R&D project success depends significantly on the R&D project leaders heading those projects (Elkins and Keller 2003). They have to be able to play at least four *roles*:

1. Communicator
2. Climate-setter
3. Planner
4. Interfacer

15.7 Leader skill level and recommended leadership style

Leaders with lower technical skills have better-performing teams when the team members receive higher levels of freedom to explore and execute ideas. However, when they actively engage in discussions and constructive criticism, the group performs better for those who are subject matter experts.

15.8 Leader and team longevity generally bolsters performance

As a rule, more extended team composition and leadership tenures correlate with higher performance. The reason seems to be that higher investments in technical skills related to the problem at hand, context built around information, and strategic planning skills improve with time.

15.9 Leadership is crucial in helping disadvantaged members

Isolated groups/members and less experienced teammates require good leadership to flourish. Supportiveness, task emphasis, technological skill, and participation from the leader seem to have the highest beneficial impact on the disadvantaged members of the group.

15.10 Bold project champions can help R&D projects succeed

An R&D project, if it has to be eventually successful, must work across a large gamut of people:

1. Access to external experts & expertise
2. Higher-level management
3. Marketing
4. Manufacturing
5. Operating divisions
6. Relations with customers
7. Suppliers

Risk-taking and innovative champions can get all the stakeholders mentioned above onboard with a new R&D project and make it successful. Their influence must flow in all directions, within the team and outside of it. Hence, leaders exhibiting *boundary-spanning* behavior are vital for an R&D project.

15.11 The climate of the organization can help or hurt R&D

The internal environment and its climate have a significant impact on R&D work. Hence, creating a culture conducive to R&D work is essential. The following processes and factors can help bring about such a climate:

1. Cultivating a community or family feeling among members
2. Encouraging socialization, trust, and caring
3. Setup systems for good information flow
4. Focus on learning rather than merely performing
5. Recognize/Reward individuals
6. Focus on teamwork
7. Providing employee autonomy
8. Providing sufficient resources to do the work
9. Using work challenge & expertise to motivate rather than authority
10. Growth-related leadership with responsibility and empowerment for each group member

15.12 Transformational leadership boosts R&D quality and other beneficial aspects

Transformational leaders tend to encourage the following:

1. **Intellectual stimulation:** Help followers see problems from new perspectives

2. **Individualized consideration:** Provide continuous motivation and support
3. **Inspirational motivation:** Communicate a larger vision
4. **Charisma:** Engender emotion and identification

The above is in contrast with *transactional leaders* who tend to depend on rewards and punishment and rule enforcement.

Longitudinal studies indicate that transformational leadership improves R&D quality, reduces the time to result, and enhances the effective and appropriate use of financial resources.

In the earlier stages of projects, transformational leadership is critical when idea generation and creating a vision are needed. Charismatic and decisive leadership, with high levels of intellectual stimulation, gets an R&D project going in the beginning stages.

15.13 High-quality leader-member interaction leads to higher performance

Leader-member relations (LMX) focus on the social exchange process as part of the leader-member relationship. The quality of the interaction between the leader and subordinates has an impact on a wide-ranging number of factors:

1. Overall satisfaction
2. Performance
3. Commitment
4. Role conflict
5. Role clarity
6. Member competence
7. Turnover intentions

In the R&D context, the following behaviors promote high-quality LMX:

1. Provide subordinates with challenging tasks
2. Support subordinate risk-taking
3. Secure task-related resources
4. Provide recognition
5. Advocate for the team with superiors
6. Facilitate employee creativity and innovation

15.14 Top-level strategic decisions can impact R&D success

Top-level management focus on finance-oriented acquisitions and divestitures is associated with a negative impact on internal innovation. In contrast, top management support for R&D can positively impact innovation. In concrete terms, top management support can boost payback period, domestic market share, relative profits, and meeting sales & profit objectives. Moreover, perceived management support is related to higher contributions, investments, and business advocacy. Lack of top management support usually leads to R&D effort termination.

15.15 The 6 stages of technological innovation

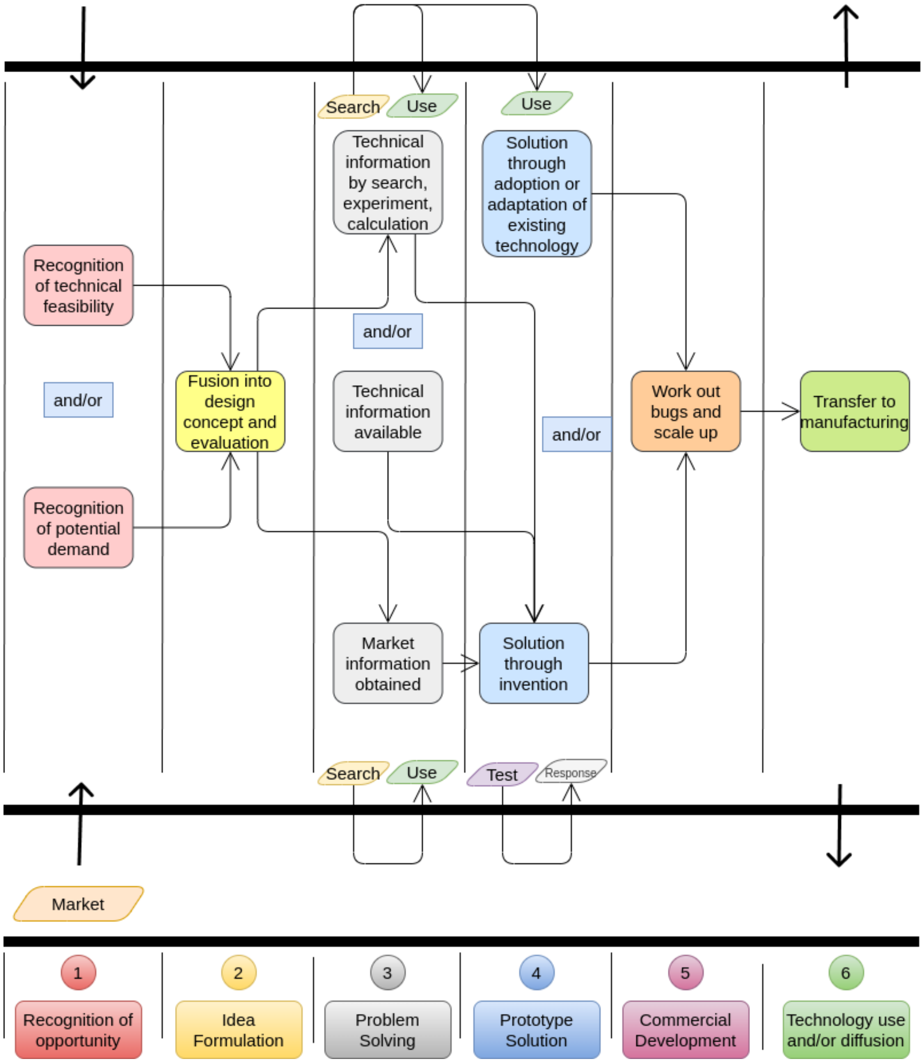

Search
Use
Use
Technical information by search, experiment, calculation
Solution through adoption or adaptation of existing technology
Recognition of technical feasibility
and/or
Fusion into design concept and evaluation
and/or
Technical information available
and/or
Work out bugs and scale up
Transfer to manufacturing
Recognition of potential demand
Market information obtained
Solution through invention
Search
Use
Test
Response
Market
1
Recognition of opportunity
2
Idea Formulation
3
Problem Solving
4
Prototype Solution
5
Commercial Development
6
Technology use and/or diffusion

Figure 15.4: 6 Steps in technological innovation

Managing invention and innovation outlines 6 steps of technological innovation as follows (also shown in fig. 15.4)(Roberts 2007)

1. Recognition of opportunity
2. Idea formulation
3. Problem-solving
4. Prototype solution
5. Commercial development
6. Technology utilization and diffusion

The innovation process involves numerous phases, answering different questions and performing activities with varied characteristics.

15.16 Recognition of opportunity vs. Commercial development: divergent activities in the process

The present section highlights the need to manage different phases of the innovation process differently.

Good managerial practice during step 1 — Recognition of opportunity frequently involves:

- Loose control ("letting many flowers bloom")
- Pursuing parallel and diverse approaches
- Fostering conflict or at least contentiousness
- Stimulating a variety of inputs
- Access to small amounts of funds to R&D managers (ex: Texas Instrument's "$25,000 money")
- Minimal evaluative procedures

In contrast, step 5 — commercial development, for example, requires a different set of managerial practices:

- In-depth specifications
- Convert prototype to manufacturing
- Coordinate multi-disciplinary engineers
- Keep within schedule and budget
- Prepare for large volumes, scaling
- Cut costs in the production process
- Tight control of processes
- Elimination of duplication
- Strong criteria for financial use
- Single-minded adherence to a plan

Hence, for an innovation to occur, an organization must be able to adapt these almost opposing types of leadership and management during different phases of the process.

15.17 Commercial development time takes as long as several earlier stages

In a usual innovation process, stage 5 — commercial development takes way more time than the preceding ones. Scholars estimate that this single phase may take up as much time as the sum of preceding stages. Moreover, stage 5 requires way more financial inputs and several people involved. Hence, commercial development must function as a particularly distinct stage from the previous steps.

15.18 Iteration based on feedback is essential for innovation to succeed

While fig. 15.4 doesn't make it explicit, the entire process usually involves feedback cycles. For example, stage 3 might suggest new ideas for consideration (stage 1). Stage 6 may create new requirements for problem-solving (stage 3). Hence, not only a back and forth between the phases is inevitable and expected, but it also encourages higher quality and more impactful innovations.

15.19 Drucker's 7 sources of innovation opportunity

Peter Drucker identified the following 7 sources of innovative opportunities (Drucker 1985). While these have not been empirically or systematically verified, Drucker is a greatly respected, experienced management thinker. The sources are:

1. The Unexpected
2. The incongruity
3. Process need
4. Changes in industry or market structure
5. Demographics
6. Changes in perception, mood, and meaning
7. New knowledge, both scientific and nonscientific

15.20 R&D and marketing productivity depends on them being partners

Multiple research studies repeatedly showed that 60 to 80 percent of successful technical innovations seem to be initiated by activities responsive to "market pull." However, an essential thing to note here is that such success is usually a result of cooperative and collaborative relations between R&D and marketing.

Subordinating research and engineering to marketing and sales-oriented "product managers" or financially tight budget control to force market criteria on R&D can have an adverse effects, such as:

1. Short-term, quick-fix orientation
2. Erosion of technical capability
3. Gradual destruction of product/process competitiveness

Hence, it is critical to establish partnerships among equals involving R&D and marketing.

15.20.1 Competitive product profiling can help R&D with technology planning

An excellent technique for helping R&D teams from the market perspective is through *competitive product profiling*. In this method, one compares an organization's product line to its key competitors in terms of eight technology-based measures:

1. Functional performance
2. Acquisition cost
3. Ease of use
4. Operating cost
5. Reliability
6. Serviceability
7. System compatibility
8. Availability

Such a multi-dimensional input can help the R&D teams accurately assess the market state and which dimensions can provide improvement opportunities.

15.21 Purely technical advancements have generated enormous successes as well

Many research directors and R&D leaders question the very value of market research and tend to be advocates of "technology push" (in contrast to "market pull"). Technology push is undertaking projects to advance the state-of-the-art without a view towards commercial exploitation. For example, the following influential products have come through "technology push":

1. Neoprene
2. Nylon
3. Polyethylene
4. Silicones

5. Penicillin
6. Teflon
7. Transistors
8. Xerography
9. Polaroid land camera

Moreover, there have been cases where market research pointed in one entirely counterproductive direction. For example, many early market research reports found no market prospects for computers, instant photography, or the dry copier.

Hence, from an impact perspective, technology push can have enormous effects on society.

Another technical push is not *invention* per se but the effective exploitation of existing advanced technologies. Merely adaptive, more advanced technology, perhaps with smaller incremental modifications, can be considered a significant source of innovation. In various countries, the percentage of adaption-powered innovations can range from 22-47%, which is an important source.

15.22 Three mechanisms to increase transfer from R&D to market innovation

Studies indicate that there tends to be a high degree of dissatisfaction with the extent and effectiveness of transfer from R&D to the downstream market. Three approaches prove helpful in increasing the downstream transfer of R&D:

1. **Procedural methods:** Join planning even before an R&D program launches, establish joint staffing of projects, and common appraisal after project completion. All of these methods ensure avoiding finger-pointing if there is a failure.
2. **Human bridges:** Moving people upstream (say marketing to R&D) for information sharing & learning at the very beginning of a project has a significant impact. Such movement initiates the transfer process even before a project begins and provides a clear signal to those involved that the project will generate impact. Moreover, the leaders can move R&D professionals downstream once the project is on, in the reverse direction, trickling down expertise, problem-solving skills, and risk reduction.
3. **Organizational techniques:** “Integrators” and “Integration departments” can be appointed to tie together the various parties involved; these people or departments act as coordinators and carriers of information in both directions.

Chapter 16

Team Building

Team building is a group process intervention for improving interpersonal relations and social interactions concerned with achieving results, meeting goals, and accomplishing tasks (Klein et al. 2009). Of all organizational interventions, those that focus on team development tend to have one of the most significant effects on measures of financial performance.

16.1 The notion of a team

While all teams are groups, not all groups can be considered teams (Tannenbaum, Beard, and Salas 1992). A team is a distinct set of two or more people who interact energetically, depend on each other, and continuously adapt toward a shared and valued mission. Each member takes up specific roles or functions to perform. A bunch of people waiting at a bus stop wouldn't get quality as a team. Moreover, it must have properties such as task interdependency, need for coordination, and shared process structures.

Teams are not static entities and evolve over time. The team composition can change, the skills and attitudes of the members will change, and roles and norms will vary over time. Change is inevitable and expected in teams.

Underlying the notion of teams are humanistic philosophies of management, which propound that change is likely to result in favorable consequences with the team's active involvement by people closest to the problem, rather than an external imposition of change.

16.2 Team effectiveness model

In fig. 16.1, we see a consolidated team effectiveness model, which can answer the question: *Why do some teams perform well and others poorly?* It is an *input,*

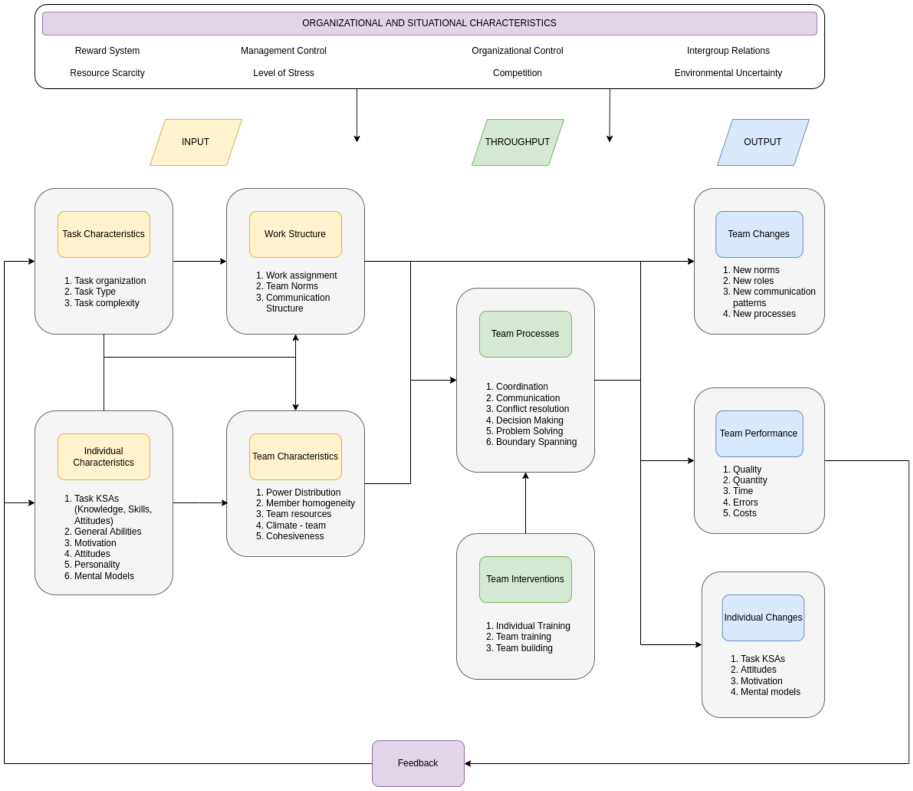

ORGANIZATIONAL AND SITUATIONAL CHARACTERISTICS
Reward System
Management Control
Organizational Control
Intergroup Relations
Resource Scarcity
Level of Stress
Competition
Environmental Uncertainty
INPUT
THROUGHPUT
OUTPUT
Task Characteristics
1. Task organization
2. Task Type
3. Task complexity
Work Structure
1. Work assignment
2. Team Norms
3. Communication Structure
Team Changes
1. New norms
2. New roles
3. New communication patterns
4. New processes
Team Processes
1. Coordination
2. Communication
3. Conflict resolution
4. Decision Making
5. Problem Solving
6. Boundary Spanning
Individual Characteristics
1. Task KSAs (Knowledge, Skills, Attitudes)
2. General Abilities
3. Motivation
4. Attitudes
5. Personality
6. Mental Models
Team Characteristics
1. Power Distribution
2. Member homogeneity
3. Team resources
4. Climate - team
5. Cohesiveness
Team Performance
1. Quality
2. Quantity
3. Time
4. Errors
5. Costs
Team Interventions
1. Individual Training
2. Team training
3. Team building
Individual Changes
1. Task KSAs
2. Attitudes
3. Motivation
4. Mental models
Feedback

Figure 16.1: Team effectiveness model

throughput, and output model.

- **Inputs:** Task characteristics, work structure, individual characteristics, team characteristics
- **Throughput:** Team processes, team interventions, feedback
- **Output:** Team changes, team performance, personal changes

Given this larger picture, we must understand that *team building* is one of the many interventions and modifiers deployed to enhance team performance.

16.3 The four components of team building

The definition of team building has evolved into four components over time. Following is a summary of these.

1. **Goal setting:** Activities in the goal setting category involve setting objectives and deciding upon mechanisms to achieve them. The nature of the goals could either be individual or team level. The team members tend to work together to contribute to the goals and how best to achieve them. These activities increase the member's *motivation* to help the team reach the goals set together. Involving in goal setting allows for an assessment of *resources* required and an adjustment in individual characteristics necessary to achieve the goal (psychological preparation).
2. **Interpersonal relations:** These activities build skills that improve overall teamwork. Particular skills may include learning to be mutually supportive, enhancing communication, and sharing feelings. The outcome of these efforts is the development of trust and confidence in each other. The underlying principle is that teams with fewer interpersonal conflicts function more effectively than teams with a greater number of interpersonal conflicts. These usually require a facilitator or experienced individual to develop trust and open communication between team members. As the team members become more cohesive over time, the unit functions together with more homogenous characteristics.
3. **Role clarification:** For a team to function smoothly with minimum waste of effort, increasing communication among team members regarding their roles as part of the whole is essential. By doing this, members understand their responsibilities and those of others in making the entire team successful. Role clarification defines a team as a set of overlapping roles. The roles define the expected behaviors of each member. In contrast, role ambiguity negatively affects individuals, teams, and organizations. Hence, by negotiating, defining, and adjusting team member roles, a team has a higher probability of success.
4. **Problem solving:** Identifying major task-related problem areas is vital in setting the priorities for the team. The team members are involved in prioritization and action planning to identify immediate problems, evaluate options, and decide the path forward. By engaging in group problem-

solving activities, members further develop interpersonal relations, clarify team roles, and work on getting the results that matter from a larger perspective. Moreover, working together to solve problems leads to better critical-thinking skills.

16.4 Overall summary of benefits of team building activities

1. Process and affective outcomes are most improved by team-building interventions
2. The goal setting and role clarification components have the most considerable effect on positive outcomes
3. Large teams tend to benefit more from team building compared to smaller teams
4. Team building is highly effective in bringing about positive affective changes in the members

16.5 Teamwork consists of flexible and adaptive behaviors, cognitions, and attitudes

Teamwork consists of interrelated behaviors and actions that occur while performing a task (Salas, Burke, and Cannon-Bowers 2000). For instance, the members can adapt and adjust the timing of action to meet the demands of other team members, resulting in coordinated, synchronized, collective action.

A core set of competencies that help teams work effectively, although their relative importance is subject to the type to which a particular group belongs.

For example, in a surgery or sports team, where the tasks are demanding and require a high skill level, the members must have accurate knowledge about one another (preferences, task-related competence, strengths, weaknesses, team-mate characteristics). Such knowledge helps a member guess what member can expect the other to do realistically and adjust one's behavior accordingly.

In contrast, consider an aircrew, where turnover is high, yet at the same time, the members must work as a team. In this case, the members must possess task-related knowledge and a clear understanding of role expectations. As members come and go, the quality of task performance remains more or less the same.

16.6 Monitoring each others' behavior, followed by feedback, is necessary

In teams, it is common to find instances of *social loafing*, where an individual refuses to contribute their fair share of the effort in fulfilling the team's responsibilities. And social loafing can be highly damaging to team performance.

Hence, performance monitoring is essential in teams to catch member mistakes before the situation becomes irreversible and counters social loafing continuously. Performance monitoring provides accountability.

Lack of mutual monitoring may lead to breakdowns in teamwork and accidents. Usually, the outcome of performance monitoring is *feedback* to the individuals deemed to need it. Communicating feedback with *situational awareness* ensures that the teams do not break down and continue to function effectively. However, suppose the situational awareness component of feedback is lacking – for example pushing a team member regardless of their difficulties in coping with a specific responsibility. In that case, it can lead to absenteeism, turnover, or other undesired effects.

One way to improve *situational awareness* is to promote collective awareness by joint review of various situations. Meeting together and discussing issues together creates a better working atmosphere.

The following are characteristics of open and helpful feedback:

1. Timely
2. Focused on task, not the individual
3. Specific, so that members can make improvements
4. Should not neglect important situational factors (fairness of assessment)

16.7 Backing up each other during operations bolsters the team

Back-up behavior is at the root of a team delivering more than the sum of outputs of its members. Such behavior requires that members be familiar with the responsibilities of others, their strengths and weaknesses, identify when they need help, and provide such compensatory behavior.

Backing up is a crucial skill in terms of team adaptiveness. An increase in complexity leads to a higher chance of individual overload. Surmounting such challenges requires complementary behaviors from various team members.

16.8 Clear and concise communication is a fundamental requirement for teams

Communication within teams is defined as follows:

> The process by which information is clearly and accurately exchanged between two or more team members in the prescribed manner and with proper terminology; the ability to clarify or acknowledge the receipt of the information

First, in teams, there are multiple sources of information and numerous recipients; if we count neighboring units, the number goes even larger. Hence, the importance and difficulty of managing communications grow exponentially more significant as we add more people to the mix.

Studies indicate that **mismanaged communication is perhaps the second most frequently cited cause of accidents or team failures.**

Effective teams use a *closed-loop communication* format involving the following sequence of actions:

1. Sender initiates the message
2. Receiver accepts the message and provides acknowledgment of message reception
3. Sender double checks to ensure message received as intended

In a dynamic and complex environment, such disciplined communication is paramount. Including a built-in check to *ensure*, that the right person has received the right message is key to correct coordination.

16.9 The essence of teamwork is the coordination of collective interdependent action

Many aviation accidents emerge from failures in crew coordination. In contrast, good coordination limits the damage caused by equipment malfunctions. There have been examples of damaged aircraft that landed safely due to coordinated teamwork.

The acid test of team coordination usually happens in high-stress situations. Hence, teams must prepare for such cases, perhaps even simulate them. If a team is well-coordinated, a highly developed form of coordination called *implicit coordination* gets activated. In implicit coordination, drawing up a detailed action plan or responsibility agreement is unnecessary. The members are able to allocate resources and tasks with minimal communication, leading to efficient, coordinated action.

For implicit coordination to emerge, the team members must share common knowledge structures regarding equipment, task, team, and interaction requirements. When deployed with similar knowledge structures, the members can synchronize actions. Perhaps the *orchestra* analogy is appropriate here, in which a team of musicians can execute a piece of music consisting of many musical processes.

While synchronization is essential, other factors, such as effective task organization, prioritization, and interaction, also matter. Optimizing team-member interaction is referred to as interpersonal relations. Following are some valuable components of *interpersonal relations*:

1. Conflict resolution
2. Interpersonal cooperation
3. Assertiveness
4. Morale building

16.10 Skilled leadership is a prerequisite for team direction, planning, coordination

At the team level, critical leadership skills involve structuring the task, mission analysis, and motivating others—the task and mission combined to provide a sense of direction for the team. The direction involves not only goals but also *why* it is essential. Leadership involves future focus as well. For instance, a leader may use time of lower workloads to create knowledge, tools, and structure to deal with future needs and stressors. Creating shared understanding is paramount to team coordination, as seen earlier. In many cases, the role of the leader is to be a *coach* for the team's development.

Another critical task of the leader is to enable team-level decision-making in a complex environment. In a field setting, the situation involves many variables and issues. It is typical for the human being's cognitive capacity to get burdened and overloaded due to the magnitude of their problems. Cognitive overlead leads to recognition-based decision-making in individuals rather than analytical decision-making. That is, humans tend to follow their habitual patterns of responses to situations. A leader's task is to help the team come to *better*, *higher-quality* decisions by facilitating suitable discussions, asking difficult questions, and building commitment to solving the problem correctly and efficiently.

16.11 Determining the need for team building

The following factors indicate that more efforts at team building are required (Fapohunda 2013):

1. Negative reactions to the manager
2. Decreased productivity
3. Apathy and lack of involvement
4. Complaints about quality of service
5. Lack of initiation, imagination, and innovation
6. Routine actions are taken to solve complex problems
7. Conflicts or hostility among staff members
8. Ineffective staff meetings
9. Low participation
10. Minimally effective decisions
11. Decisions misunderstood or not carried through properly
12. Confusion about assignments, missed signals
13. Unclear relationships

14. Complaints of discrimination and favoritism

16.12 The five stages of team building

Tuckman proposed a 5-stage process of team building:

1. **Forming:** A group of people comes together to accomplish a shared purpose
2. **Storming:** Disagreements about the mission, vision, and approaches emerge; team members get to know each other. The stage may involve strained relationships and conflicts.
3. **Norming:** Consciously or unconsciously, the team has formed working relationships that enable the progress of the team's objectives
4. **Performing:** Establish team processes in alignment with team objectives, higher productivity, and cohesiveness leading to the successful functioning of the unit
5. **Transforming:** Team performs at a high level, and the members believe it is the most successful team they have experienced or the ending stage where the team has completed its mission or purpose.

Although the above stages tend to occur in the order mentioned above, it is not necessarily in the same order.

16.13 Training vs. Team building

There are many possible organizational development initiatives for changing an organization. Training and team building are related yet distinct processes for transforming an organization.

16.13.1 Team training

Training is a systematic effort to develop job-related knowledge, skills, and attitudes (K, S, A's). The leaders should determine the specific knowledge, skills, and attitudes that need developing. Moreover, they must establish learning objectives before the start of training and then deliver the content with an emphasis on application. Finally, deploy performance support along with documentation of results.

16.13.2 Team building

In contrast, team building is more of a "process intervention." A process intervention is a set of activities aimed at helping individuals and groups examine and act upon their behaviors and relationships. While leaders can establish a generic framework for team-building intervention upfront, they can only determine the content of the intervention through continuing discussions among team members.

Hence, team training and team building focus on similar concerns, such as communication, decision-making, and coordination, but they approach the problems differently.

16.14 Correct diagnosis is critical to successful team building

Whether a particular team-building approach works or not is dependent upon various inter-team and intra-team factors. Hence, it is imperative to assess the nature and specifics of the team's problem early.

For example, a one-dimensional intervention such as role clarification will mostly likely affect team-level role ambiguity and is less likely to affect global measures such as team performance by a large margin. The value of one such intervention can also vary depending upon the state of the team. For example, a team with a high level of conflict can benefit from an interpersonal team-building approach.

For the practitioner, it is vital to recognize the necessary interventions, such as role clarification, interpersonal enhancement, goal-setting, and problem-solving, and then combine them appropriately to enhance overall performance.

However, in some cases, team building may be inappropriate for resolving an issue. Examples:

1. Poor performance due to skill deficiency in team members (correct solution: training)
2. Low motivation and morale (correct solution: tweak reward system)
3. Resource or task problems (correct solution: job redesign)

16.15 Team building is a long-drawn, long-term process

Team building activities as a process tend not to yield *immediate* results. Even a lag of 3-6 months may not be sufficient time for the changes to deliver positive results, as evidenced in the following observation:

> Buller and Bell (1986) reported changes in team members' behaviors *3 to 6 months* after a team building intervention, but the teams showed no improvements in productivity. However, when Buller (1988) examined data from the same groups *15 months* after the intervention, he found productivity improvements and profitability per shift. **It is possible that three to six months was too short a period for improved team relations and processes to result in enhanced performance, but that fifteen-month was sufficient**

Many factors may play in the overall lag between change and result, such as degree of interdependence, task complexity, performance feedback, and other factors.

16.16 Team building processes require constant follow-up to sustain long-term

As with individual habits, where *relapse* to old ways is a common problem, the benefits of team building are prone to *regression* or *fade-out* as well. *Immediately* after the team-building activity, it is common to see improvements in behavior. However, in a 2-3 month gap, it may so happen that the team falls back into old habits, and the improvements made are lost. Studies show that teams that set up a regular one-on-one with the team leader to follow up on implementing the new habit were more successful in retaining the beneficial behaviors. Studies have verified the power of recurring follow-ups for up to 3 years. Hence, team building is an *ongoing process* rather than a one-time activity.

16.17 Six rules for effective team building

(Fapohunda 2013) lists 6 rules for effective team building:

1. The number of members within a group should be small enough
2. Members should possess complementary skills
3. The team should have a significant purpose
4. The team should have specific goals
5. The members should, over time, establish a straightforward approach to teamwork
6. The members must feel a mutual accountability

16.18 The five dynamics of team functioning

Post assembling a team, the following *dynamics* are fundamental to its success:

1. **Team membership:** Successful teams consist of experienced individuals who possess problem-solving ability, are open to addressing the issue, and are action-oriented.
2. **Team relationship:** The team members have to work together, and a fundamental component is *continuous feedback*. The members must know where they stand, how they perform, and how to do better.
3. **Team problem solving:** While any individual may solve problems, more significant issues require appropriate coordination in the problem-solving process — brainstorming, mutual collaboration, helpful presentations, and writing reports together.

4. **Team leadership:** A competent leader is focused on the goal, ensures a collaborative climate, builds the confidence of team members, sets priorities, demonstrates sufficient know-how, and manages performance through feedback.
5. **Organizational environment:** The climate, culture, and reward systems must be conducive to teamwork. For instance, if all the bonuses in the company heavily emphasize individual achievement alone, there'll be much competition at the personal level, rendering a higher level unit such as a team not to function as effectively as possible.

16.19 A classification of teams and why it matters to identify team type

In (Salas, Burke, and Cannon-Bowers 2000), we find mention 6 types of work teams:

1. Production
2. Service
3. Management
4. Project
5. Action/Performing
6. Parallel teams

In each type of team, one can consider 4 more additional dimensions which are of importance:

1. Level of authority within the organization
2. Time till the team is disbanded
3. Degree of specialization, independence, and autonomy in relation to other units
4. Degree of interdependence within the team as well as outside

For example, management teams have a high level of authority, almost a permanent lifespan, increased external linkages, and moderate specialization. Similarly, we can list the characteristics of production, service, and other types of teams.

Such a classification helps identify what knowledge, skills, and attitudes benefit a team. For example, while cohesiveness is generally beneficial to team performance in project teams, cohesion is not always a predictor of performance in service teams. Such nuance affects how groups should work in this context.

Chapter 17

Organizational Change & Change Management

Both scholars and practitioners agree that the pace of change has never been greater than in the current business environment. Moreover, another point beyond argument is that change, triggered through internal or external factors, comes in all shapes, forms, and sizes (By 2005). Hence, as the business environment becomes more complex within shorter time frames, keeping up with the need to change is challenging for organizations.

From *a management* perspective, **change is a process of guidance and adjustment aimed at achieving the goals of change**. *Change management* is a word capturing businesses' anticipating and taking advantage of their surroundings (Boonstra 2008).

A more formal definition of *organizational change* is as follows (Pardo del Val and Martínez Fuentes 2003):

> Organizational change is an empirical observation in an organizational entity of variations in shape, quality, or state over time, after the deliberate introduction of new ways of thinking, acting, and operating. The general aim of organizational change is an adaptation to the environment or a performance improvement.

17.1 Why study organizational change – basic facts and statistics

- More than 70% of change programs in organizations either stall prematurely or fail to achieve the intended results
- In the USA, most business process redesigns end up in failure

- Goals tend to be missed, policies unimplemented, customers not fulfilled, and employees & management tend to end up confused and dejected
- Development of new strategies fails in about 75% of the cases
- In the UK, change programs such as total quality management (TQM), business process redesign, and empowerment tend to be unsuccessful
- In the Netherlands, more than 70 percent of change programs lead to poor results

17.2 Insufficient participation during policymaking leads to implementation failure

Scholars note that one of the major reasons for policy not getting implemented is a lack of support for the implementation. When leaders do not pay sufficient attention to execution mechanics, policies do not get adequate implementation support. At the same time, insufficient employee investments in the policymaking process lead to implementation failure.

Usually, people blame the content of the policy for policy failure — that it is poorly developed, gives too little direction, or is infeasible.

However, more than the *content* of the policy, one can go back a bit further and blame the *process of policymaking* itself. Many policymaking procedures are defective:

1. Objective data is rarely available or not appropriately used
2. Assessment of problems conducted in an informal, subjective way
3. The standards and values of various stakeholders are not explicitly stated and brought into policy considerations
4. Change occurs in the problem definition itself over time due to dependency issues or changing *opinions*

Hence, a more sophisticated *policymaking process* should meet the following two criteria:

1. Produce policy content
2. Generate *support* for the said content

The criteria mentioned above require higher levels of participation and buy-in, and if possible, consensus on a topic before policy formulation and an attempt at implementation.

17.3 Entrenched habits – task specialization and hierarchical control work against change

An organization, if it has enjoyed even a modicum of success, has evolved its task specializations and some level of hierarchical control in most cases.

These organizational principles have been of great value in a particular business environment.

However, when organizations find a need for change, these previously successful principles impede the successful adaptation of the new tenets. Experienced yet entrenched people within the firm look at processes from exclusively functional perspectives, leading to disagreements on the changes and how to proceed. Secondly, the command and control method works better for routine tasks, but there is usually failure when attempting novel changes through insufficient buy-in.

Overcoming the inertia of organizational habits requires thorough business process redesign, involving experts, and cultivating appropriate leadership qualities of management.

17.4 An organization's existing power networks prefer to self-preserve

Many organizational process changes threaten the existing structure of power relationships, agencies, and networks, that'd instead maintain themselves as they are, rather than change. Different interest groups focus on preserving their interests, goals, and positions. Many see change as a threat to the organization's stability since the institutionalization of power resides in existing procedures, rules, relations, and ideologies.

Given the above nature of power networks, some scholars suggest *forcing* changes through influential leaders and managers. However, in practice, large-scale transformations, when attempted through force, tend to backfire and invite opposition. Moreover, changes are maintained *merely* through force (rather than supported by it); the moment the force weakens, there's a higher possibility of *relapse* into old habits. Hence, in balance, power can be one of the supporting factors for successful change, but not the *only* factor.

17.5 The existing culture can counteract new ways of doing things

Cultures tend to influence the individual's point of view within the organization and limit the range of choices they can make. Existing ideas, shared values, and perspectives of reality form the basis of organizations. Social structures, built upon rules, habits, institutions, consultation styles, language, communication, use of symbols, and definitions of reality groups, are a starting point for mutual interaction. Managers contribute to keeping the culture intact. And they may find their present behavior as desired and in conformity with the culture. Any new way of doing things may become threatening to them psychologically.

The solution to cultural resistance tends to be in broad cultural programs and training programs for managers. Providing training helps managers assimilate new standards and values, which modifies their perspective of reality. Once the perspectives shift, new behavior becomes possible.

17.6 Fear of the unknown need for stability impedes change

At the individual psychological level, individuals typically seek certainty and stability. There tends to be an innate fear of the unknown, a lack of confidence in other people, and an individual need for safety and stability. Work process changes can lead to loss of identity, decreased work satisfaction, and uncertainty about whether the individual can fulfill a new responsibility. With wheels of change in motion, groups get formed, and disagreements emerge, causing a slowdown in change.

At the individual level, the following interventions can help with change:

1. Reduce uncertainty through teaching
2. Provide good communication about change
3. Involve people in the change

Groups must attempt the following recommended interventions:

1. Enable disagreement reducing negotiations
2. Manage conflict
3. Counsel on how to work as a team

17.7 Planned change – a widely used paradigm of change management

The top management initiates, guides, and controls the change process in planned change. The management teams rely heavily on experts to provide theoretical and practical help with implementation. Steering groups and project teams execute the plan. The approach is solution-oriented and heavily formalized.

In planning systems, the arguments for change involve purely economic and technical aspects. Usually, the plan will have an explicitly defined end goal with metrics and strict standards. The output, transformation process, and necessary knowledge bases tend to be determined beforehand.

In planned methods, members avoid large-scale participation and depend on expert arguments. Organizations deploy powerful, forced, and expert strategies to bring about change.

Following are some examples of planned change:

1. Business process redesign
2. Management by objectives
3. Total quality management
4. Lean production
5. ISO certification
6. Team-based organizations
7. Time-based competition
8. Benchmarking
9. Balanced scorecard

The *planned approach* is used in the majority of businesses. However, it is usually successful only in *first-order changes.* These changes add value to existing operations through primarily technical structural changes. The consultant or leaders apply their knowledge and experience in a goal-oriented way to get the results.

However, when the problem is complex, involving the need for cooperation of most members, with many social aspects, the planned approach tends to fail. These complex problems require *second-order change*, a change in culture, which in turn leads toward the actual goal.

17.8 Organizational development as an application of social and behavioral science

Organizational development is the systematic application of behavioral science principles and practices to increase individual and organizational effectiveness. Both top management and consultants play a *support* role in this change process.

Research Center for Group Dynamics in the USA pioneered research on group dynamics & its application through group training programs. The organization developed interventions for interpersonal, group, and intergroup Organizational development as an application of social and behavioral science

Organizational development is the systematic application of behavioral science principles and practices to increase individual and organizational effectiveness. Both top management and consultants play a *support* role in this change process.

Research Center for Group Dynamics in the USA pioneered research on group dynamics & its application through group training programs. The organization developed interventions at the interpersonal, group, and intergroup levels in areas such as:

- Team building
- Conflict handling
- Leadership
- Survey feedback.

Concretely, one of the case studies mentioned the following attitudinal changes implemented through the development approach:

- Helping managers understand the higher standards for products and services expected by customers
- Managerial responsibility to be supportive and to act as change agents
- Bringing shift in management style through support and training
- Ensuring participation of all members in the change process
- Providing open communication to exchange ideas and information
- Openly consulting for solutions and alternatives
- Cooperating in the development of solutions
- Providing feedback on efforts and achievements to further learning

The essential characteristic of the development approach is a *gradual* change with *continuous monitoring* of the situation by experts and management to make adjustments. The methods used or deployed can change based on the real-time turns taken by the organization. The developmental approach can be effective in incremental or larger-scale contextual changes.

17.9 Kotter's eight-step model focuses on the change from a strategic perspective

Kotter's model results from over 100 organizations of various sizes and industries. Kotter learned that most change initiatives fail, and his contribution was the model designed to *avoid significant errors* in different *phases* of change. The following are the critical steps in Kotter's model (Mento, Jones, and Dirndorfer 2002):

1. **Establish a sense of urgency:** People usually need some sort of powerful impetus to initiate change. One of the most effective ways to do this is to create a sense of urgency. Kotter provides two methods to do this. First, examine the market, and learn about the competitive realities. People have an innate desire to be as well as or better than others, and the competitive spirit is an excellent place to start. Second, identifying and discussing crises, potential crises, and significant opportunities can also trigger an impetus for change.
2. **Form a powerful guiding coalition:** To initiate, guide, and take the change process to conclusion, individuals must be fully responsible. For this, the leaders must persuade a task force or a group of change agents to take the task. Moreover, it is preferable to have experienced and influential individuals backing up the change process. Consultants and firm leaders can lend the necessary momentum to change. Another aspect of importance is that these knowledgeable and effective people should establish mutual protocols and respect to work in a productive, team-oriented way. If there are excess individual goals and focus, the change effort fails.
3. **Creating a vision:** A strong motivator for enduring strenuous efforts is

knowing *why* something is essential. Hence, a picture has to be crafted with a meaningful *why*. Moreover, it is crucial for people to feel that change is within reach, given sufficient efforts, and that there is a reward at the end of the journey. That is, the question *of how* requires a realistic answer. The guiding coalition is ready to initiate change with such a strong vision.

4. **Communicating the vision:** Leaders can communicate the vision through various means and methods. Events, incentives, demonstrations, written works, discussions, and debates, can all be used to stimulate interest and participation in the vision. With higher levels of involvement and more intense participation, the people will be more committed to executing the vision.
5. **Empowering others to act on the vision:** Change comes with a risk of losing the status quo, along with a need for stability and fear of the unknown at the psychological level. Leaders must empower people with sufficient authority plus a safety net guarantee for mistakes in pursuing change. If people feel they'll be penalized for trying, participation will be on the lower end. Secondly, leaders must identify and eliminate existing obstacles to change. Present ways of doing things, technologies, organizational structures, and processes can come in the course of change. As much as possible, current systems must weaken so that the organization can enact change with less friction.
6. **Planning for and creating short-term wins:** The initial steps of the change execution are of the highest importance. If people meet with losses initially, the whole effort can falter. Hence, the first few steps must be *explicitly planned* for people to obtain small wins. Moreover, these small wins must be associated with rewards for attempting to make improvements. These rewards will also encourage those unconvinced in the earlier steps to join in the change process. At the same time, the initial stages must deliver *visible, concrete* changes in a short period. Visible and concrete changes can inspire people to try harder to obtain more rapid change.
7. **Consolidating improvements – producing more change:** This step is primarily an extension of the previous step. The guiding coalition must constantly monitor the state in the change process and keep the momentum going. Including more participants, rewarding those who make attempts, communicating encouragements consistently, and other supportive actions help accelerate the speed of execution.
8. **Institutionalizing new approaches:** As with individual habits, there is always a possibility of *relapse*, falling back into old habits. At an organizational level, the organization must take measures to *maintain* the gains made; otherwise, there is a risk of returning to old and comfortable ways of doing things. Hence, it is vital to building up internal resources to keep communicating why the newly acquired change is essential, why it should be maintained, and pumping in resources to ensure the change retains for the long haul. Moreover, more people should be included as leaders to ensure the changes live for a more extended period into the future.

17.10 Jick's tactical guidance for organizational change management

Jick's model emphasizes the art and science of implementation equally and advocates that the contents and nature of the change and the sensitivity and skill with which it is implemented matter over the long term. The following are Jick's 10 steps for implementing change:

1. Analyze the organization and its need for change
2. Create a shared vision and common direction
3. Separate from the past
4. Create a sense of urgency
5. Support a decisive leader role
6. Line up political sponsorship
7. Craft an implementation plan
8. Develop enabling structures
9. Communicate, involve people, and be honest
10. Reinforce and institutionalize the change

17.11 GE's change acceleration process captures unfreezing, movement, and refreezing components of change

Although the GE change process involves seven distinct practical steps, the theoretical framework is from Lewin. The underlying model assumes that the organization is in a particular state of *institutionalization*. The present state is considered almost a frozen step. The leader's task is *to unfreeze* this, follow up with subtasks to make changes, and finally *freeze* the changes through organizational mechanisms.

Following are the seven steps of the GE change process:

1. **Leader behavior:** In contrast to previous models, GE's model starts with the leader's behavior. The leader should own, champion, personally demonstrate, and commit resources to the change required. The leader has to change in some ways before the organization can follow.
2. **Creating a shared need:** After setting personal examples and ensuring others become aware of it, the leader communicates why such new behavior benefits the organization, the employees, and their collective future.
3. **Shaping a vision:** Once there is a consensus that there is a need for change, leaders must offer a potential solution. The solution should be communicated in a graphic before/after style, so people can envision how the change will affect their lives.
4. **Mobilizing commitment:** The leaders must encourage discussions and debates to understand the interests of diverse stakeholders, identify key

constituents, and form a coalition of supporters.

5. **Making change last:** Change management has two parts. The first is to take concrete steps to initiate a change. The second part is to develop long-term plans and systems to ensure the change lasts and that there is no relapse into old habits.
6. **Monitoring progress:** New metrics are created and installed into various organization workflows. There is a continuous assessment of progress, with intermediate celebrations for meeting milestones and benchmarks.
7. **Changing systems and structures:** Any new change in the system will usually affect multiple components and functions of the organization. The change may affect staffing, training, appraisal, communications, reward systems, roles, and reporting relationships. Any of the components above may also require changes to ensure the change made sustains for the long term.

17.12 A classification of types of resistance to the change process

Resistance is a phenomenon that affects the change process, delaying or slowing down its beginning, obstructing or hindering its implementation, and increasing its costs. Otherwise, resistance tries to keep the status quo equal to inertia, as the persistence to avoid change (Pardo del Val and Martínez Fuentes 2003).

17.12.1 Sources of resistance in the formulation stage

Change starts with the perception of its need, and there can be barriers through *distorted perception, interpretation, and vague strategic priorities*:

- **Myopia:** Inability of the company to look into the future with clarity
- **Denial:** Refusal to accept any information that is not expected or desired
- **Perpetuation of ideas:** Tendency to go along with the present thoughts although the situation has changed
- **Implicit assumptions:** Avoiding topics due to their unpleasant nature leads to a distorted picture of reality
- **Communication barriers:** Lack of free flow of information between individuals due to organizational structure or its history
- **Organizational silence:** Individuals who do not express their real thoughts, meaning groups make decisions without all the necessary information

Another set of resistance sources is due to low motivation:

- Direct costs of change
- **Cannibalization costs:** Change that helps a product succeed, but causes losses in other areas

- **Cross subsidy comforts:** The organization is presently in a comfortable state, there is no urgency, hence no real motivation to change
- **Past failures:** Memories of failure leads to a pessimistic view of future
- **Misalignment:** Employees and management are not in sync, generally employees value change less than management

Another set of resistance is due to a lack of creative responses to challenges:

- fast and complex environment change, overwhelming the capability
- reactive mindset, resignation, tendency to believe obstacles are inevitable
- inadequate strategic vision or lack of clear commitment from top management

17.12.2 Sources of resistance to the implementation change

Political and cultural deadlocks to change:

- Conflict between the organization's present value and proposed change values
- Resistance from particular departments that feel the change will threaten their benefits or position
- Disagreements that seem not to get resolved despite discussions
- Deep-rooted values and emotional loyalty
- Forgetting to account for social dimensions of the change fully

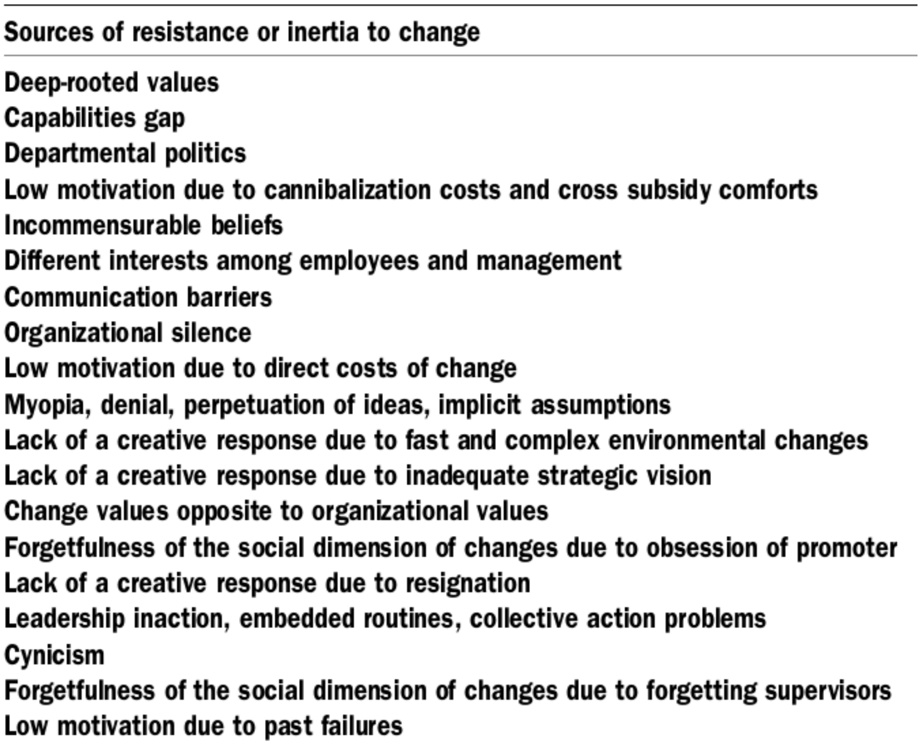
A few more miscellaneous implementation change resistance sources are:

- leadership in action, where the leaders are afraid of uncertainty or changing the status quo
- embedded routines
- coordination problems (who will move first? Who is responsible? how to deal with free-riders)
- capability gap, lacking necessary skills
- cynicism

17.13 Resistance sources, ordered by their magnitude of force

We see in fig. 17.1, that the top three sources of resistance are the following, in the presented order:

1. **Deep-rooted values:** Practitioners find that people's deeply held values are difficult to change based on situational demands. Years of habitual thought patterns support deeply-held values, and hence it is difficult to work against them to get the necessary change.
2. **Capabilities gap:** Many situations stay the way they are due to a lack of skills or capabilities necessary to make the change. Training people



Sources of resistance or inertia to change
Deep-rooted values
Capabilities gap
Departmental politics
Low motivation due to cannibalization costs and cross subsidy comforts
Incommensurable beliefs
Different interests among employees and management
Communication barriers
Organizational silence
Low motivation due to direct costs of change
Myopia, denial, perpetuation of ideas, implicit assumptions
Lack of a creative response due to fast and complex environmental changes
Lack of a creative response due to inadequate strategic vision
Change values opposite to organizational values
Forgetfulness of the social dimension of changes due to obsession of promoter
Lack of a creative response due to resignation
Leadership inaction, embedded routines, collective action problems
Cynicism
Forgetfulness of the social dimension of changes due to forgetting supervisors
Low motivation due to past failures

Figure 17.1: Resistances sources, most severe to less severe

and helping them create new performance habits is key to overcoming this inertia.

3. **Departmental politics:** Organizations, due to their complexities, necessarily split into departments, invoking competition and attempting to acquire as much autonomy as possible (and then defending it). The result is politics, slowing down the speed of progress.

17.14 Bigger the change, the higher the expected level of resistance

In almost every single case, resistance to strategic change is higher than resistance to evolutionary change. More radical the proposed transformation, the more influential the resistance. In terms of strategic change alone, the types of resistance that have the highest impact are as follows:

1. **Lack of creative response due to resignation:** When faced with the possibility of a significant change, most people resign even before they begin. People tend to give up and resist most sources of transformational changes.
2. **Deep-rooted values:** In general, and specifically to strategic change, people still pay enormous attention to their deeply rooted values. Any change proposal that violates deeply held values will evoke a strong response leading to difficulties in implementing the change.
3. **Different interests among employees and management:** While employees are usually comfortable with evolutionary change, making minor improvements and strategic changes will evoke an entirely different level of response in employees. While managers want significant change, employees usually prefer incremental safe bets. While managers want to change fast, employees would instead take it slow. Hence, strategic changes can evoke interpersonal conflict among management and employees.

Given this finding, leaders need to chunk a significant change into manageable pieces with clear milestones, that do not evoke strong opposition.

17.15 Leaders must use resistance to change for debugging communication & solution approach

Classical management theory and practitioners tend to view resistance to organizational change as something undesirable & to be opposed and overcome (Waddell and Sohal 1998). Many early scholars and practitioners believed leaders must tackle management and worker resistance to change head-on with force and mechanisms. However, leaders can sophisticate their view of resistance. They can *use* resistance to improve implementation.

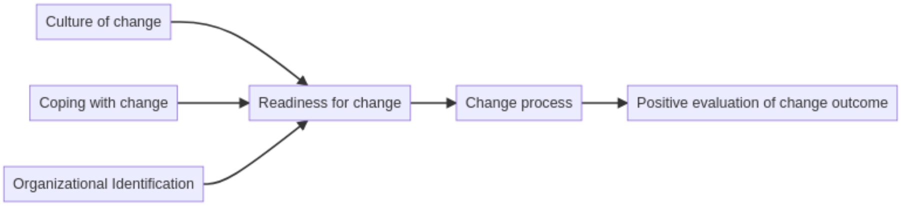
First, the leads must reject the implicit *assumption* that *all resistance is counterproductive.* Resistance offers many benefits to the change agents:

1. Resistance indicates that people do not *clearly* see the benefits of change. There remains uncertainty in people's minds, causing them to avoid change.
2. Resistance is a natural property of various systems including organizations and the human body towards change. A proportion of stability is vital for the survival of systems.
3. Resistance in itself is not the fundamental problem. Resistance tends to be a *symptom* of underlying issues in the change process mechanisms. Resistance is a *warning signal* that something is not exactly going well with the change process.
4. Resistance can fuel energy into the change process, search for alternative methods of achieving the goal, and reject poorly thought-out plans.

Hence, given the above benefits and ways of looking at resistance, one can come up with the following prescriptions for *using* resistance rather than *fighting* it:

1. Investigate what exactly is the source of uncertainty in the minds of people. If the underlying change plan is fundamental uncertainty, then modify the program to reduce uncertainty. Such adaptiveness increases the chance of success.
2. If the plan is well thought-out and appropriate, and there is still resistance, try to identify how the leaders can communicate the program more clearly. The key to successful change communication is to reduce uncertainty in people's minds.

17.16 Organizational identification is conducive to the change process



Organizational identification is the bond between the self and one's group membership. Individuals tend to want to derive self-esteem from social groups, as a source of self-enhancement.

The GE model mentioned the *unfreezing* phase of the change process. Unfreezing is about making a break from existing norms and structures, and preparing for the change process. One can experss the same idea using the phrase *readiness* *for change.* There are two factors in readiness for change:

1. There is a need for change
2. The group believes change is possible (efficacy)

Readiness to change implies that the organizational members want to support the change process and help it succeed.

Higher levels of organizational identification lead to more energetic adaptation of the change process by the employees. Moreover, building up a culture of change*, where the members believe that — "*we expect change and welcome it"*. Such a culture provides a powerful boost for increasing readiness for change. If keeping the situation stable is the focus at the cultural level, then any attempts to change will falter. The third factor is a* coping with change*, which essentially refers to the population's belief in its ability to change.

The three factors mentioned above lead to higher levels of readiness to change, which in turn creates *conducive factors* for organizational change.

Establishing a culture of change is a long-term effort, and cannot be hoped to be achieved in short time frames. Secondly, the self-belief to change can be improved through investments in creating a supportive environment for organization members.

At the same time, readers must note a nuance. If the change goes against the organization's character, the employees with strong organizational identification will fiercely resist the change. Too many changes in too little a time elicit danger in members losing their sense of identity and allegiance to the organization. Hence, maintaining a *sense of continuity* through the change process is also necessary.

By ensuring the factors mentioned above, there will be adequate information and participation in the change initiatives, which predict higher possibilities of success.

17.17 Basic differences between evolutionary and revolutionary change

At a very high level, we can categorize changes into two significant categories (Pardo del Val and Martínez Fuentes 2003):

Evolutionary changes are small changes that alter certain minor aspects looking for an improvement in the present situation but keeping the general working framework of the organization.

Revolutionary changes or strategic or transformational or second-order changes are radical changes, where the organization changes its essential framework, generally looking for a new competitive advantage and affecting the basic capabilities of the organization.

Part V

Organizational Health Indicators to Continuously Watch Out for

Chapter 18

Employee Turnover

The standard definition of employee turnover is as follows (Ongori 2007):

> Employee turnover is the rotation of workers around the labor market; between firms, jobs, and occupations; and between the states of employment and unemployment

However, from a practitioner manager's point of view, turnover includes integrating a new employee instead of the one who has also left.

Employee turnover is a serious issue for organizations of all sizes and configurations.

18.1 Employee turnover formula

One can calculate employee turnover for 3 months or a year, as shown in fig. 18.1.

$$\text{Employee Turnover during period} = \frac{\text{Employees who have left}}{\text{Average number of employees}}$$

Figure 18.1: Employee turnover formula

18.2 Organizational commitment predicts voluntary resignation

One longitudinal study found that organizational commitment is a better predictor of whether some employees will stay or leave than job satisfaction. Hence, organizational commitment better predicts voluntary resignation (Hom, Katerberg, and Hulin 1979). Moreover, in most studies, the correlations between job satisfaction and turnover tend to be weak, rarely exceeding .40.

Overall, organizational commitment has been significantly and consistently related to turnover. The concept of commitment overlaps with job satisfaction, and it is possible to see job satisfaction as a precondition to commitment (Bluedorn 1982).

18.3 Fishbein's model of social behavior

Fishbein's theory says that a person's behavior (B), is a function of the intention to perform that behavior, *BI*. The behavior intention, *BI*, consists of two components:

1. Attitude towards performing the behavior ($Aact$): The individual may have an affinity, repulsion, or neutral disposition towards their jobs. The value can be negative or positive.
2. Subjective norm regarding the behavior (SN): This factor represents the social pressure, primarily from powerful and influential people within the group, to hold a particular belief or to perform certain activities in specific ways.

Mathematically, we can describe the relationship as:

$$B = f(BI)$$

$$BI = w_1 A_{act} + w_2 SN + e$$

In multiple studies, Fishbein's model has accurately predicted turnover.

18.4 Porter's definition of organizational commitment

Porter considers organizational commitment to be a function of three factors:

1. **Belief:** a strong belief in and acceptance of the organization's goals and values
2. **Effort:** a willingness to exert considerable effort on behalf of the organization
3. **Belonging:** a solid desire to maintain organizational membership

18.5 The unified model of turnover

Bluedorn (Bluedorn 1982) defined a unified turnover model and empirically figured out its path analysis. See fig. 18.2 for a result summary.

As seen in fig. 18.2, three factors have impacts on intent to leave which are:

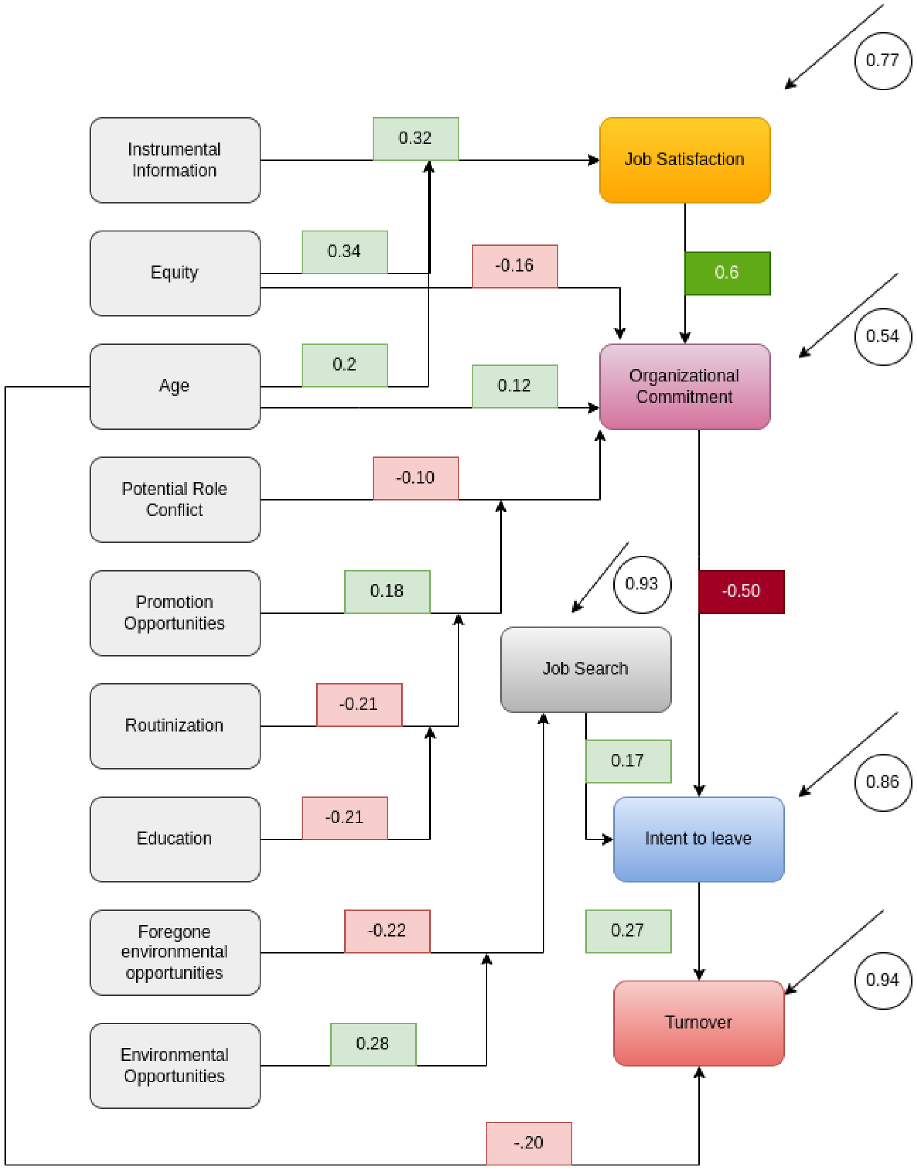

0.77
Instrumental Information
0.32
Job Satisfaction
Equity
0.34
-0.16
0.6
0.54
Age
0.2
0.12
Organizational Commitment
Potential Role Conflict
-0.10
Promotion Opportunities
0.18
0.93
-0.50
Job Search
Routinization
-0.21
0.17
0.86
Education
-0.21
Intent to leave
Foregone environmental opportunities
-0.22
0.27
0.94
Turnover
Environmental Opportunities
0.28
-.20

Figure 18.2: Unified model of turnover — path analysis

1. Job search
2. Organizational commitment
3. Job satisfaction

Factors such as age and equity influence job satisfaction and organizational commitment. Moreover, job satisfaction strongly correlates with organizational commitment (0.60). And organizational commitment is strongly negatively correlated with intent to leave and turnover.

18.6 Price's causal model of turnover determinants

From (Price 2001), we find another comprehensive model of turnover determinants. Price used his sociology background, and he captured workplace causes (ex: pay), labor market causes (ex: job opportunity), community drivers (ex: kinship responsibility), and occupational drivers (ex: professionalism). Price's model is more focused on the environment, which leads to quitting, rather than a focus on the individual's psychological state. Find a depiction of Price's causal model in fig. 18.3.

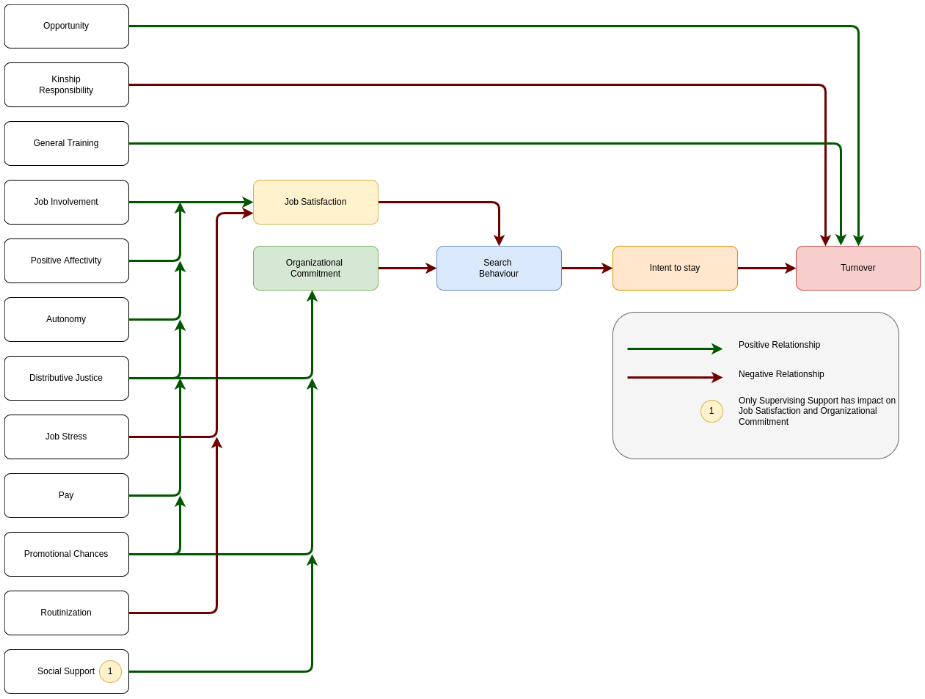

Opportunity
Kinship Responsibility
General Training
Job Involvement
Positive Affectivity
Autonomy
Distributive Justice
Job Stress
Pay
Promotional Chances
Routinization
Social Support
1
Job Satisfaction
Organizational Commitment
Search Behaviour
Intent to stay
Turnover
Positive Relationship
Negative Relationship
1
Only Supervising Support has impact on Job Satisfaction and Organizational Commitment

Figure 18.3: Causal model of turnover

18.7 The most significant loss due to turnover is in invisible intangibles

In modern knowledge-based industries, employees hold within themselves knowledge and skills that make or break projects. Often the knowledge and skills tend to be tacit rather than explicit, or it is perhaps fluency in performing specific complex jobs. If managers do not think of attrition seriously, analyze why people leave, and remedy the issues, the organization will suffer (Ongori 2007).

18.8 Many job-related factors can lead employees to quit

The following is a non-exhaustive list of reasons for employees to quit:

1. Experience with job-related stress
2. Lack of commitment in the organization
3. Job dissatisfaction
4. Sense of powerlessness
5. Distrust in leaders' ability
6. Perceived insufficient compensation
7. Role ambiguity, not knowing expectations
8. Insufficient training, know-how
9. Ambiguous performance evaluation methods

18.9 Voluntary vs involuntary turnover

While the previous section listed causes of turnover that management can partially control, some situations cause involuntary turnovers, such as care for children and aged relatives. Managers can address involuntary turnover up to an extent by allowing staff to come back to work after a break.

18.10 Organizational factors that cause turnover

Following is a simplified list of causes of turnover due to organizational factors:

1. Unpredictable, unstable environments
2. Organizational inefficiency
3. Excess quantitative approach to managing
4. Cost-oriented approach to employee benefits
5. Opaque environments where employees have no visibility/participation in decisions
6. Poor personnel policies
7. Poor recruitment policies
8. Poor grievance procedures

9. Poor managerial practices
10. Unfair promotion procedures

18.11 Costs of organizational turnover

Overall, replacing a voluntary turnover involves spending **90% to 200% of the annual salary**.

Mismanagement of employee turnover engenders many costs to the organization:

1. Direct costs
    1. Replacement
    2. Recruitment and selection
    3. Temporary staff
    4. Management time
2. Indirect costs
    1. Morale
    2. Pressure on remaining staff
    3. Costs of learning
    4. Product/service quality
    5. Organizational memory
    6. Social capital loss

18.12 Practices for reducing employee turnover

Various policy mistakes could be at the source of employee turnover:

1. Recruitment
2. Selection
3. Induction
4. Training
5. Job design
6. Wage payment

It is crucial to pinpoint the faulty policies precisely before attempting to address the problem. For instance, modifying recruitment policy when the wages are non-competitive will not yield results.

The following aspects correlate with reduced turnover:

1. Engaged, interested employees
2. Well-designed job roles
3. Appropriate, meaningful use of employee time
4. Support is given to employees
5. Commitment is shown to employees
6. Collaborative quality of groups helps
7. Sharing of information

8. Standard operating procedures to simplify work
9. Establishing accountability
10. Good hiring practices

18.13 Job involvement is a crucial aspect of retention

Job involvement means the extent of an employee's psychological involvement with the job. If employees understand the importance and the goodness of work, employees will not quit.

Task variety for employees indicates a willingness to stay as well.

Moreover, ownership of the task is an essential source of motivation from its beginning to the end.

Autonomy, or the freedom and power to do things one's way, is essential in retention.

Job feedback from supervisors and peers in a timely, helpful way increases the desire to stay.

Managers must delegate more decisions to increase job involvement, and **managers must take more coaching roles** in helping people do better.

18.14 Kinship is an influential factor, along with job, organization, and economy-related factors

In the initial days, economists and psychologists didn't pay much attention to the social and familial structures and how it interacts with what happens in the organization (Price 2001).

Kinship responsibility is obligations towards relatives. in us, for instance, the parent and child relationship dominates other associations and is an essential obligation for children. Therefore, **kinship obligations reduce turnover.**

One explanation for kinship reducing turnover is that familial obligations are most easily fulfilled by remaining with the current employer, and because of this, the employee doesn't quit.

Employers can recognize the kinship obligations of the employee by setting up child-care facilities and paid maternal leave. Such helpful practices related to kinship reduce turnover.

18.15 Evidence-based strategies for reducing turnover

Allen lists the following strategies for **reducing turnover** (D. G. Allen, Bryant, and Vardaman 2010):

18.15.1 Recruitment

1. Provide a realistic job preview (RJP)
2. Hire through employee referrals

18.15.2 Selection

1. Use weighted application blanks to predict those who are likely to quit
2. Assess organizational fit

18.15.3 Socialization

1. Set experienced people as role models, mentors, or trainers
2. Provide positive feedback as newcomers adapt
3. Conduct orientation activities that newcomers experience together
4. Provide information about stages of socialization

18.15.4 Training and development

1. Offer training and development opportunities
2. Job-specific training can help with job involvement

18.15.5 Compensation & rewards

1. Lead the market in some types of rewards (based on hr strategy)
2. Tailor rewards for individual preferences & needs
3. Promote justice and fairness in pay
4. Link rewards to retention explicitly

18.15.6 Supervision

1. Train supervisors and managers to develop effective relations
2. Evaluate supervisors for retention
3. Identify & remove abusive superiors

18.15.7 Engagement

1. Design jobs to increase meaningfulness, autonomy, variety, and coworker support
2. Hire internally as much as possible

3. Consider competency-based and pay-for-performance systems
4. Provide challenging goals
5. Provide positive feedback and recognition for all types of feedback

18.16 Weighted application blanks and their modern counter-parts can control turnover

Weighted Application Blanks (WAB) is an application form, answers to which can predict job tenure (Kaak et al. 1998).

See in fig. 18.4 an example of a WAB:

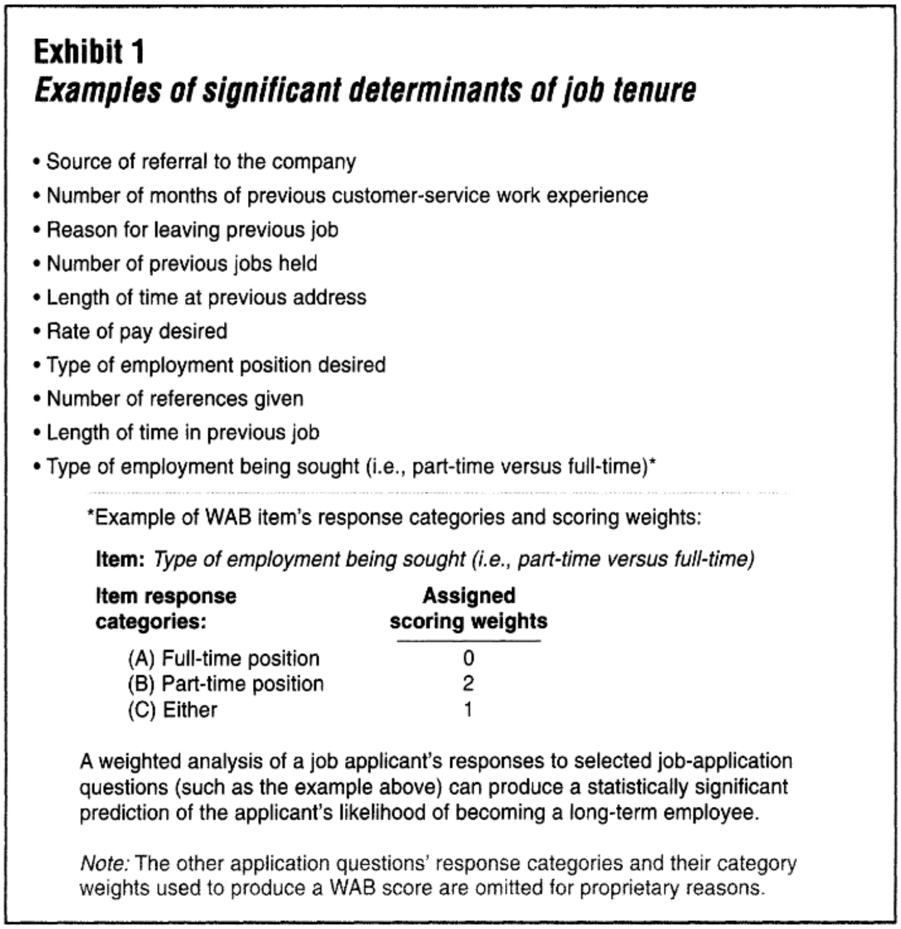


Exhibit 1

Examples of significant determinants of job tenure

- Source of referral to the company
- Number of months of previous customer-service work experience
- Reason for leaving previous job
- Number of previous jobs held
- Length of time at previous address
- Rate of pay desired
- Type of employment position desired
- Number of references given
- Length of time in previous job
- Type of employment being sought (i.e., part-time versus full-time)*

*Example of WAB item's response categories and scoring weights:

Item: *Type of employment being sought (i.e., part-time versus full-time)*

Item response categories:	Assigned scoring weights
(A) Full-time position	0
(B) Part-time position	2
(C) Either	1

A weighted analysis of a job applicant's responses to selected job-application questions (such as the example above) can produce a statistically significant prediction of the applicant's likelihood of becoming a long-term employee.

Note: The other application questions' response categories and their category weights used to produce a WAB score are omitted for proprietary reasons.

Figure 18.4: Examples of significant determinants of job tenure

Once applicants fill up the form capturing the attributes mentioned above, a graph can be drawn with cutoff points to predict who may not have a sufficiently long tenure in the organization (see fig. 18.5):

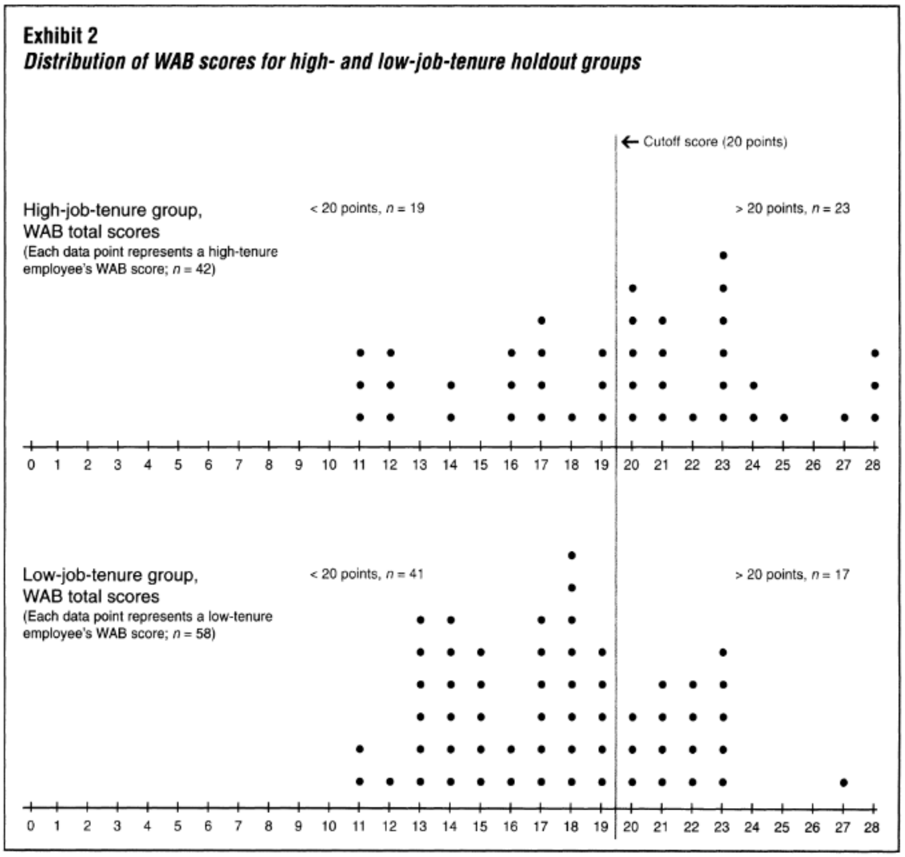


Figure 18.5: Distribution of WAB scores for high and low job tenure holdout groups

With the ascendence of machine learning and ai, the approach can be sophisticated further for higher quality predictions (Sprockets 2022). The case study explains how Scholars studied McDonald's employees in the context of 55 characteristics, which allowed them to assess incoming candidates. Through the additional ai based filtering, McDonald's 3-month employee retention went up by 43%.

18.17 A combination of realistic job previews plus orientation can reduce turnover

Multiple studies have validated that realistic job previews boost retention among employees. Moreover, many studies have confirmed that orienting newcomers to the organization helps increase retention.

18.18 The withdrawal process: shocks cause more turnovers than dissatisfaction

Allen provides the following diagram identifying the critical drivers for the “withdrawal process” for an employee as shown in fig. 18.6:

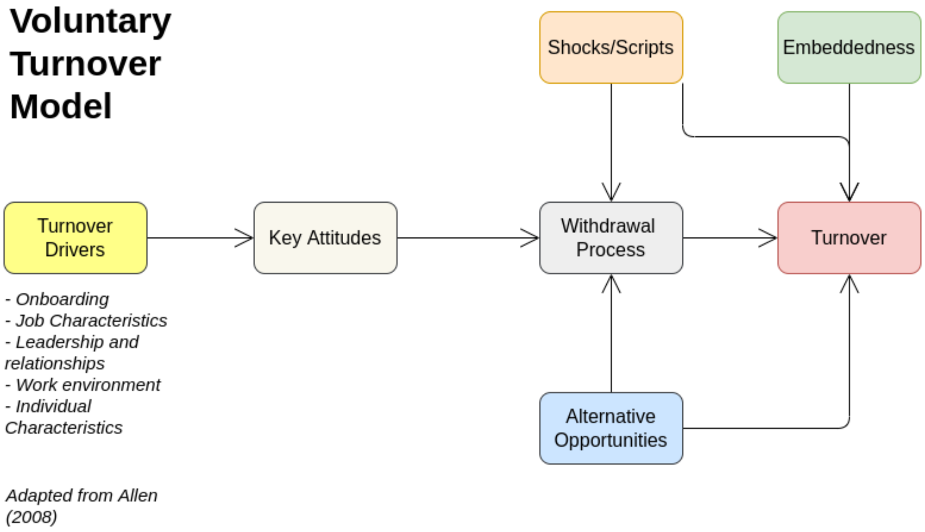

Voluntary Turnover Model
Shocks/Scripts
Embeddedness
Turnover Drivers
Key Attitudes
Withdrawal Process
Turnover
- Onboarding
- Job Characteristics
- Leadership and relationships
- Work environment
- Individual Characteristics
Alternative Opportunities
Adapted from Allen (2008)

Figure 18.6: Voluntary turnover model

Dissatisfied members may show signs of withdrawal, such as avoiding work or reducing organizational contributions.

At the individual level, **shocks** or jarring events prompt thoughts of leaving and driving turnover.

Researchers have categorized types of shocks:

1. **Preexisting plan (script):** a plan already exists, and once the event hits, the employee activates the plan/script, and then turnover happens. (ex: woman quits once she becomes pregnant [the shock], because of preexisting plans to raise a child full-time)

2. **Negative job shocks:** some violation of employee values, goals, or goals prompts them to leave.
3. **Unsolicited job offers:** This event induces the employee to compare their present to the possibility and to think about leaving.

The insights mentioned above are from the **unfolding model of turnover**. There is evidence stating that **shocks drive more turnovers than dissatisfaction**

18.19 Embedding forces buffer against shocks

This stream of research finds out why people stay rather than leave. There are two categories of factors that help with retention:

1. On-the-job factors
    1. Job fit
    2. Links
    3. Sacrifices
2. Off-the-job factors
    1. Community fit
    2. Links
    3. Sacrifices

India is a stark example, where "family embeddedness" comprising family pride in the family member's employment in a company, the benefits the family derives from the company (ex: health insurance), and family ties to company personnel are seen (Hom et al. 2017). Similar embeddedness has been seen in America as well.

18.20 Curvilinear relationship between performance and turnover

At the high ends of the performance spectrum, turnover elevates because of the alternatives available to high performers. Among middle performers, turnover is low. Finally, the low performers lose their position within the organization as time passes by (Morrow et al. 1999).

Hence, in the curvilinear model, low performers get "pushed" out of the organization. High performers tend to be "pulled" out of the organization through better offers.

Chapter 19

Absenteeism

Absenteeism is a ubiquitous and pervasive problem for organizations, where employees are absent at work for various reasons causing substantial financial and productivity losses to the organization.

19.1 Managers tend to deal with absenteeism through simple rules of thumb

The subject of absenteeism, the causes of it, and its remedies may not be evident to the managers of teams. They will tend to have abstract rules and heuristics, which, while interesting, may not be sufficient to curtail absenteeism effectively. One such rule of thumb, for example, is: "when it is too harder to stay off the job than it is to come to work, employees will have regular attendance" (Mowday, Porter, and Steers 2013)

19.2 Some isolated facts about absenteeism

1. Females, in general, have higher absence rates than men
2. Absenteeism is far more severe in major cities than in smaller towns and rural areas
3. Absenteeism among females tend to decrease during their careers; whereas absenteeism among males tends to increase
4. Cigarette smokers experience 45% more days lost due to illness and injury than nonsmokers
5. In Belgium, where there is little absenteeism, the law requires a bar to be in every factory serving wine, beer, and brandy.

19.3 The cost of absenteeism

The problem of absenteeism is serious from the organizational perspective. In many industries, daily absence rates approach 15-20% daily.

> The Centers for Disease Control and Prevention (CDC) (2015) reports that productivity losses linked to absenteeism cost employers **$225.8 billion annually** in the United States or $1,685 per employee.

— (BizMerlin 2018)

19.4 Absenteeism leads to undesired organizational outcomes

Absenteeism leads to undesired organizational outcomes:

1. Diminished employee job performance
2. Significant financial burden
3. Overstaffing to compensate for absentees
4. Disruption of workflow

19.5 Employee attendance model (Steers and Rhodes)

In fig. 19.1, we see the Steers and Rhodes model of employee attendance. The model is based on 100 studies and incorporates voluntary and involuntary absenteeism.

According to the model, two variables influence what an employee does:

1. Motivation to attend
2. Ability to attend

The particular factors in the model are explored later in this chapter.

19.6 Reasons for absenteeism

Absence can be due to various reasons:

1. Health
2. Disaffection
3. Hostility
4. Self-interest
5. Norms

The causes are attributional, emerging from the beliefs of the people involved

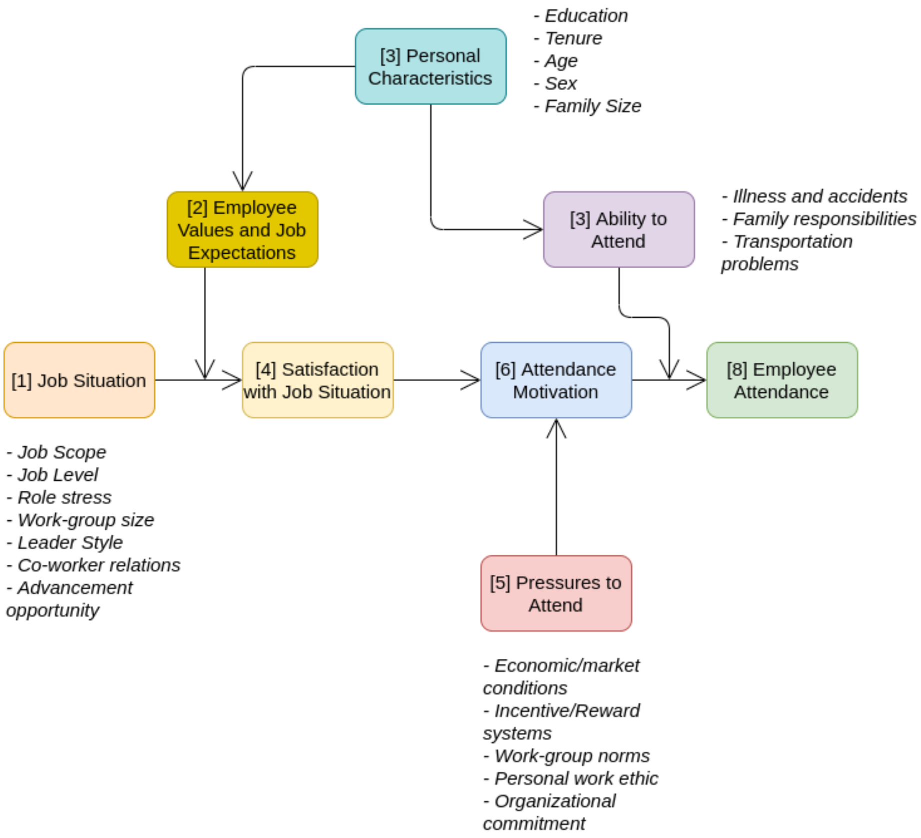
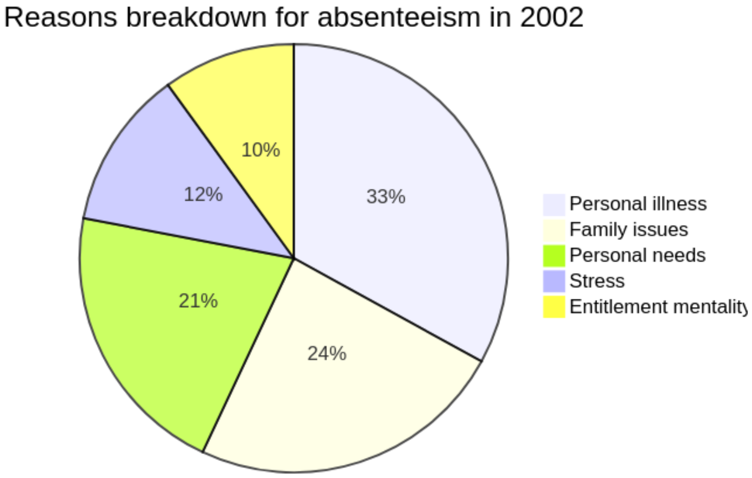

[3] Personal Characteristics
- Education
- Tenure
- Age
- Sex
- Family Size
[2] Employee Values and Job Expectations
[3] Ability to Attend
- Illness and accidents
- Family responsibilities
- Transportation problems
[1] Job Situation
[4] Satisfaction with Job Situation
[6] Attendance Motivation
[8] Employee Attendance
- Job Scope
- Job Level
- Role stress
- Work-group size
- Leader Style
- Co-worker relations
- Advancement opportunity
[5] Pressures to Attend
- Economic/market conditions
- Incentive/Reward systems
- Work-group norms
- Personal work ethic
- Organizational commitment

Figure 19.1: Major influences on employee attendance according to Steers & Rhodes model

19.6.1 Absenteeism reasons breakdown



According to (Kocakulah et al. 2016), organizations have 5 primary reasons for absenteeism.

19.7 Relationship between absenteeism and turnover

First of all, absenteeism is different from turnover in many respects:

1. **Costs to employee:** For the employee, the costs of absenteeism are much less severe compared to turnover
2. **Easier decision:** Absenteeism tends to be a spontaneous and effortless decision, compared to turnover, which tends to be a planned and more complicated decision
3. **Substitute to turnover:** When an employee has no other alternatives to a job, then they will use absenteeism as a substitute for turnover

Despite the differences, studies indicate a positive relationship between absenteeism and voluntary turnover (Morrow et al. 1999). Absenteeism, as measured by sick leave, relates positively to turnover. One perspective on absenteeism is to view it as **early withdrawal precursor** of the decision to leave.

19.8 Measuring Absenteeism

There are many measurements related to absenteeism:

1. **Severity:** For a given period, total aggregate days of absence
2. **Frequency:** For a given period, the number of absent days

3. **Attitudinal absence:** frequency of *1 day* absences
4. **Medicinal absence:** frequency of absences of *3 days* or longer
5. **Lateness:** The frequency of showing up late may indicate withdrawal as well

19.9 Groups vulnerable to absenteeism

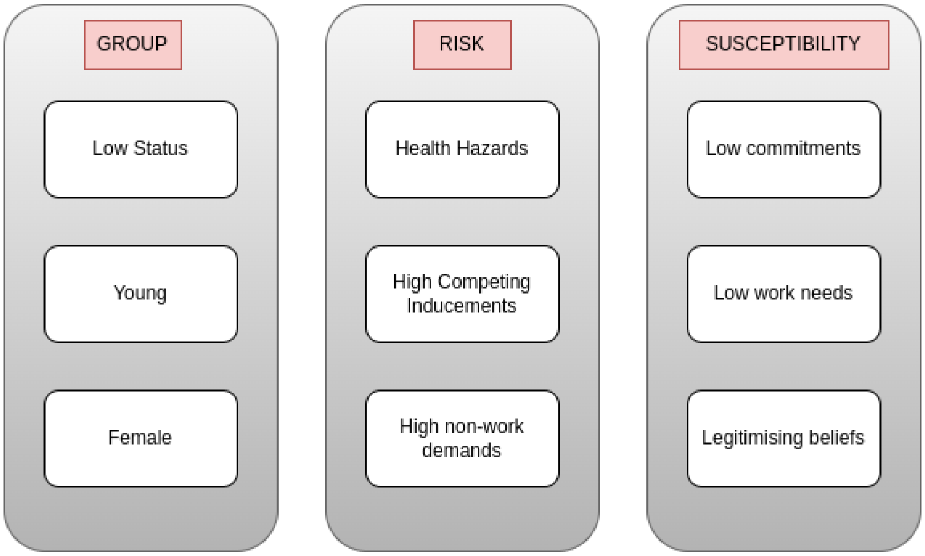

GROUP
Low Status
Young
Female
RISK
Health Hazards
High Competing Inducements
High non-work demands
SUSCEPTIBILITY
Low commitments
Low work needs
Legitimising beliefs

Figure 19.2: Some absence prone groups

In fig. 19.2, we see three major categories of individuals who are more likely to exhibit absenteeism:

1. Low status, young and female employees are more likely to display absenteeism
2. Those with health issues, external inducements, and external responsibilities are likely to be absent more
3. Those who have a lower commitment and work needs, as well as those with legitimizing beliefs for absence, will tend to be more absent

19.10 Motivation to attend = Job Affect + Pressures to attend

Of the two components influential in successfully attending, motivation to attend is a major one. There are two categories of sources that influence motivation to attend:

1. Emotional responses to a job situation

2. Internal and external pressures to attend

19.10.1 Responses to Job situation

1. **Job scope:** Increased identification with the task, autonomy, task variety, level of responsibility, sense of achievement, and job challenges are associated with higher attendance levels.
2. **Job Level:** Those who hold higher level jobs in the organizational hierarchy are less likely to be absent than those with lower-level positions.
3. **Role stress:** Role conflict, job-related tension, and anxiety are related to higher levels of absenteeism.
4. **Work-group size:** Larger organizations have slightly higher absenteeism, and larger work-groups tend to have higher absenteeism. Scholars believe higher absenteeism arises due to lower cohesion in larger groups.
5. **Leader style:** Leader style doesn't directly affect job situation but impacts job satisfaction, which in turn impacts job situation. More participative & considerate behavior can increase job satisfaction.
6. **Coworker relations:** Quality of coworker relations impacts job satisfaction, affecting attendance.
7. **Advancement opportunities:** Advancement opportunities don't directly impact absenteeism but satisfaction, which in turn impacts motivation.

In summary, **employee absenteeism is more impacted by their job content instead job context**.

19.11 Employee values influence their assessment of Job situation

The employee's background dramatically impacts how they see a particular job. For a highly educated individual, a greater salary is expected as a matter of course, whereas for a less educated individual modest salaries may satisfy. Older individuals might expect prestige based on seniority.

Hence, to ensure value and job situation match, weighted application blank (WAB) and realistic job previews can be used (see Chapter 9 on Turnover for more details).

19.12 Pressures to attend reduce absenteeism

There are at least five categories of pressures that reduce absenteeism:

1. **Economic and market conditions:** Increased unemployment levels lead to lowered absenteeism. Moreover, when the employer starts laying off people, absenteeism falls to a really low point. However, on receiving notice of one's layoff, the individual is more likely to increase their absenteeism.

2. **Incentive/Reward system:** Increased wage rate and employee ownership relate to lowered absenteeism. Moreover, increased flexibility in work hours reduces absenteeism.
3. **Work-group norms:** Highly cohesive work groups emphasizing attendance for the sake of overall good increase attendance rates.
4. **Personal work ethic:** Individuals who consider work necessary as part of their belief system tend to attend more than those who do not consider their work meaningful.
5. **Organizational commitment:** Even if the employee doesn't enjoy the particular work if they believe in the organization's purpose and objectives, that is, if they commit to the organizational goal, the attendance rate goes up.

19.13 Ability to attend

One may have a strong motivation to attend, but factors could impede this from happening. Such absences are of the type **involuntary absence**.

19.13.1 Illness and accidents

The primary cause of absence is an illness, poor health, or injury. With age, the instances of illness increase. Alcohol and drug abuse problems also get categorized under the illness and accidents category.

19.13.2 Family responsibilities

Familial circumstances can force a person to be absent, regardless of their motivation to attend. Their characteristics, such as sex, age, and family size, impact the extent of absenteeism. In general, women as a group are more absent than men. However, with the onset of age, with women, the absenteeism decreases, perhaps because the parent is less responsible for the child.

19.13.3 Transportation problems

Increased difficulty reaching the workplace, either due to weather or traffic conditions, can increase absenteeism.

19.14 Disciplinary action policies can curb absenteeism up to an extent

Depending on how severe the absenteeism issue is to an organization, it can take various disciplinary actions to improve the situation (Kocakulah et al. 2016):

1. Set up a mechanism to question the employee after a leave. They can clearly explain why they were absent. Use the interaction to identify

whether there is any issue that requires addressing.
2. Demand evidence of sickness in the form of a doctor's recommendation/approval to take leave. If the proof is insufficient grounds for leave or evidence is lacking, reduce wage or deduct days from personal days. This method can decrease absenteeism by up to 30%.

19.15 Employee assistance programs (EAP) can control absenteeism

A significant source of absenteeism is not what happens within the organization's context but somewhat outside. Hence, companies make arrangements to help employees deal with issues outside their work.

Studies show that EAP can:

1. Reduce confrontations
2. Reduce accidents
3. Reduce compensation cases due to stress
4. Reduce unplanned days off

Employees generally give positive feedback about EAPs, which makes them feel that employers care about their health and wellness.

Usually, external agencies with the necessary skills handle EAPs.

The following traits of successful EAPs are worth noting:

1. Include short-term counseling for mental health, alcohol & substance abuse issues
2. Continuously encourage employees to make use of available benefits
3. Employee workshops on stress management, smoking cessation, and nutrition.
4. Management consultations, supervisory training
5. Referrals for life/work issues
6. Legal and financial services

19.16 The organization can manage absenteeism through a positive company culture

The organization can halt the commencement of chronic absenteeism through a positive and welcoming environment that improves job satisfaction and reduces stress.

1. **Anonymous surveys:** Management can use anonymous surveys to find out the true opinions of their employees to design solutions. Providing gifts or other incentives to complete the survey can improve response rates.

2. **Company parties:** Company parties can improve bonding between members and generate a higher sense of belonging
3. **Open conversations:** Leaders can create forums where challenging and open questions are asked in public to increase belonging
4. **Tuition reimbursements:** Supporting the employee in their learning journey can spark engagement with work
5. **Health club membership, wellness programs:** Being part of keeping the employee fit and healthy help
6. **Events and policies around food:** Allowing employees to bring food to work, share with others, offering events offering continental breakfasts and such perks add value

19.17 Childcare support and flexible scheduling pay dividends

A babysitter calling in sick can force employees with children to take leave. A company decided to set up a corporate-sponsored daycare to manage such days for the employee. The management estimated that 395 employees would register and a savings of 1400 days. However, in reality, a whopping 800 employees registered, and the firm saved 2500 days. The intervention boosted the productivity and financial performance of the organization by a large margin. Keeping employees happy helps them to focus on work diligently.

Another possible solution to the childcare problem is to allow employees to work from home when necessary. Work-from-home options, when needed, improve employee productivity, job satisfaction, and quality of life. And through that, employers benefit as well, through higher productivity.

19.18 Set the incentives right for reducing absenteeism

Employees should receive cash for the sick and personal days they do not take. Such a policy ensures that employees are rewarded for attending and are encouraged to attend.

If the above is not possible, then there are slightly less practical but still workable incentive systems possible. For instance, a company set up a drawing every three months for $500 with one condition: the employee must have perfect attendance to participate. Many variations of such schemes are possible. For instance, rewarding employees with a company party/picnic improves attendance.

Chapter 20

Organizational Stress

The transactional stress model defines stress in the following way (Schmitt, Highhouse, and Weiner 2013):

> A relationship between the person and the environment that is appraised by the person as taxing or exceeding his or her resources and endangering his or her well-being.

20.1 Why Organizational stress is an important concern – basic facts

- Between 2007 and 2010, about 70% of surveyed Americans found "work" to be *one of the significant causes of stress*
- In 2009, 40% of American adults reported feeling tense and stressed out during a typical workday
- Health care costs are 46% higher for workers who experience a high level of stress
- Higher stress levels in employees lead to higher absenteeism
- Work stress accounts for **0.5% to 3% of GDP** in European countries
- In the long run, stress leads to disabilities and higher mortality rates
    - Ex: Employees experiencing higher stress expose themselves to 2.2 times increased risk of cardiovascular mortality

Given the above facts, organizational stress is vital to employees and employers.

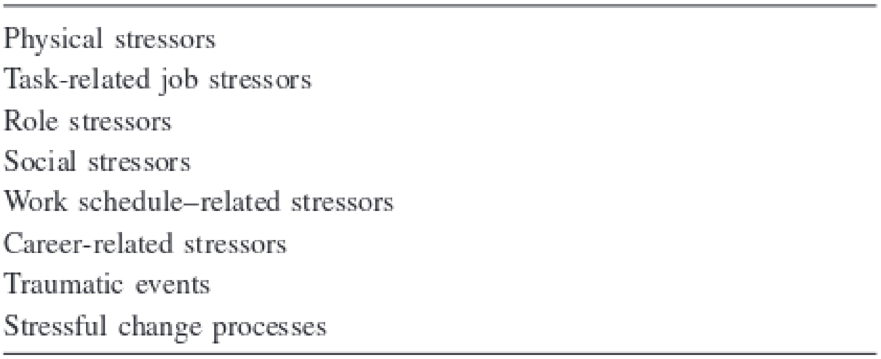
20.2 Ways of recognizing and interpreting stress

One can recognize stress, understand and interpret it from at least 4 lenses:

1. **Stimulus model:** The focus is on events external to the individual, emerging from their environment. External stimuli include time pressure, interpersonal conflict at work, or accidents. One drawback of the model is that not all individuals respond to the same stressor in identical ways. However, a subset of stressors evokes *similar* responses in almost all individuals.
2. **Reaction model:** In this model, rather than focusing on externalities, the focus is entirely on the *reactions* of the individual. The model doesn't take into account either situation or environment, but merely the individual's physiological responses plus the coping mechanisms deployed by the individual.
3. **Transactional model:** The model depicts stress as a transaction or interplay between the individual and the environment, including the individual's perceptions, expectations, interpretations, and coping responses. The transactional model covers more aspects than alternative theories, but it isn't easy to test empirically.
4. **Discrepancy model:** Stress is an incongruence between an individual's desires and what the environment provides.

As is evident from the above models, the meaning of stress is broad and includes various processes and objects. To clearly differentiate, we use two terms: *stressors* (external) and *stress reactions* (internal).

20.3 External stressors in organizational life



Physical stressors
Task-related job stressors
Role stressors
Social stressors
Work schedule–related stressors
Career-related stressors
Traumatic events
Stressful change processes

Figure 20.1: Stressors in organizational life

In fig. 20.1, we see the major categories of stressors from the environment on the individual. Details on each type follow.

1. **Physical stressors:** Aversive physical working conditions, such as noise, heat, dirt, vibrations, and chemical and toxic substances. Poor ergonomic conditions and safety hazards at the workplace.

2. **Task-related stressors:** Time pressure, work overload, high complexity of work, monotonous work, recurring interruptions, and situational constraints compromise work performance.
3. **Role stressors:** Role overload — too much work to do, or the job is too complicated; role conflicts — too much work to do, or the job is too compllack of clarity on what are one's responsibilities & what is not; facing illegitimate tasks.
4. **Social stressors:** Poor social interactions with direct supervisors, coworkers, and others. Interpersonal conflicts at work, (sexual) harassment, mobbing or bullying, and other workplace aggression. Dealing with difficult customers can also be considered a social stressor.
5. **Work schedule-related stressors:** Inflexible and uncomfortable work-time arrangements, especially night and shift work.
6. **Career-related stressors:** Job insecurity, underemployment, and poor career opportunities.
7. **Traumatic stressors:** Single events such as exposure to disasters, major accidents, or hazardous activities. Soldiers, police, and firefighters are more prone to such vulnerabilities.
8. **Organizational change:** Mergers, downsizing, and implementation of new technologies tend to go along with job insecurity, overtime, and social conflicts.

20.4 Internal reactions in organizational life

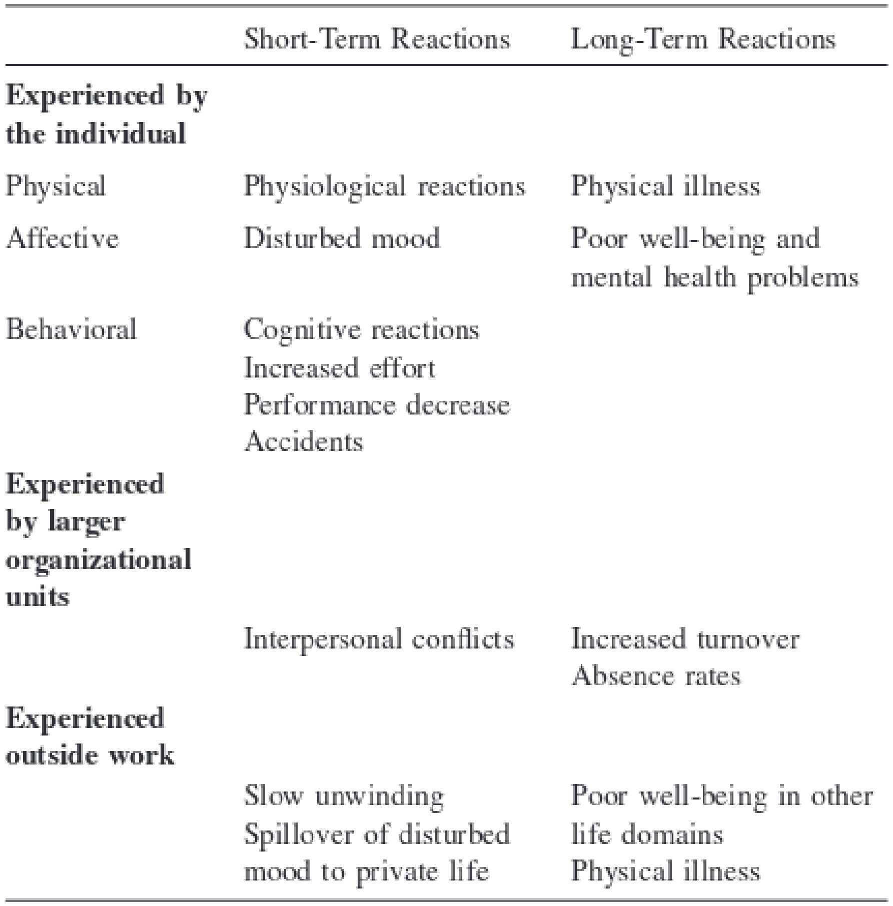
One can examine stress reactions from the following dimensions:

1. Time
    1. Short-term reaction
    2. Long-term reaction
2. Scale
    1. Individual
    2. Team, department, or organization level

We see a summary of the reactions in fig. 20.2.

At the *individual* level, stress affects *the cardiovascular system*, and they may show higher blood pressure than individuals who are not stressed. Also, higher stress is associated with increased cholesterol levels and other metabolic and hemostatic risk factors for cardiovascular disease. Stress affects the excretion of hormones such as catecholamines and corticosteroids (e.g., cortisol). The chronic invocation of such job-related stress can lead to illness, including coronary heart disease. Stress is detrimental to an individual's immune system and is associated with an increased risk of illnesses.

Moreover, stress influences cognitive appraisals and emotions towards dealing with higher stress levels. One can expect a higher level of negative affective states, leading to deterioration in mental health. Longitudinal studies relate



	Short-Term Reactions	Long-Term Reactions
Experienced by the individual		
Physical	Physiological reactions	Physical illness
Affective	Disturbed mood	Poor well-being and mental health problems
Behavioral	Cognitive reactions Increased effort Performance decrease Accidents	
Experienced by larger organizational units		
	Interpersonal conflicts	Increased turnover Absence rates
Experienced outside work		
	Slow unwinding Spillover of disturbed mood to private life	Poor well-being in other life domains Physical illness

Figure 20.2: Summary of stress reactions

chronic stress to depressive symptoms, psychosomatic complaints, and other distress symptoms. One can also expect burnout, associated with emotional exhaustion, depersonalization (cynicism), and reduced personal accomplishment.

Stress has an effect at the behavioral level as well. Attention becomes narrowed, and working memory capacity & performance accuracy gets reduced. Stressors usually prompt people to give additional effort.

Employees experiencing various stressors, such as role stressors, hindrance stressors, sabotage, interpersonal aggression, and hostility, tend to be less committed to the organization and show higher turnover intentions and actual turnover.

Moods experienced at work tend to spill over into personal life and family. Those with high adrenaline excretion at work will find it difficult to relax during leisure due to its excretion rate remaining at the same level. Especially those who are stressed will find it challenging to engage in effortful leisure activities such as sports and exercise. Stress is related to impaired marital relationships and a poor quality of parent-child relationships.

20.5 Resources can help withstand and offset the adverse effects of stress

An individual can withstand and overcome stress with the accumulation of resources. Resources can be defined as follows:

> Objects, conditions, personal characteristics, and energies that are either themselves valued for survival, directly or indirectly, or that serve as a means of achieving these ends

When it comes to organizational stress, resources refer to:

- **Job control (conditions within work situation):** This factor determines how one can influence one's activities within the work context. When job demands are high, and job control is low, employees are more likely to experience poor mental health and impaired well-being. Strong empirical support shows that high-demand jobs and low job control lead to lower well-being scores and more illnesses.
- **Personal resources (Individual characteristics that help with the situation):** Coping styles and capabilities, core self-evaluations, and resources gained from the recovery process constitute personal resources. Higher levels of personal resources and capabilities buffer against stress.
- **Social support and workgroup support:** Various sorts of psychological and material support can be provided through others to an individual. Numerous empirical studies attest to the power of social support to counter stress's adverse effects. Moreover, social support is negatively related to all three burnout indicators (emotional exhaustion, depersonalization, and reduced personal accomplishment).

- **Group cohesion:** Team climate, group cohesion, and group autonomy are associated with team members' well-being. Workgroup factors such as psychological safety and collective efficacy buffer against the harmful effects of stressors. Moreover, *emotional contagion*, the transfer of an individual's mood to others in the team, is a real phenomenon. Hence, a stressful reaction in a person can spread to others. On the other hand, the positive moods of others can serve as a resource when some of the team members are confronting a stressor.

20.6 Problem-focused coping style works better than emotion-focused coping

The definition of coping is as follows:

> "Constantly changing cognitive and behavioral efforts to manage specific external and internal demands that are appraised as taxing or exceeding the resources of the person."

Scholars identify two types of coping styles:

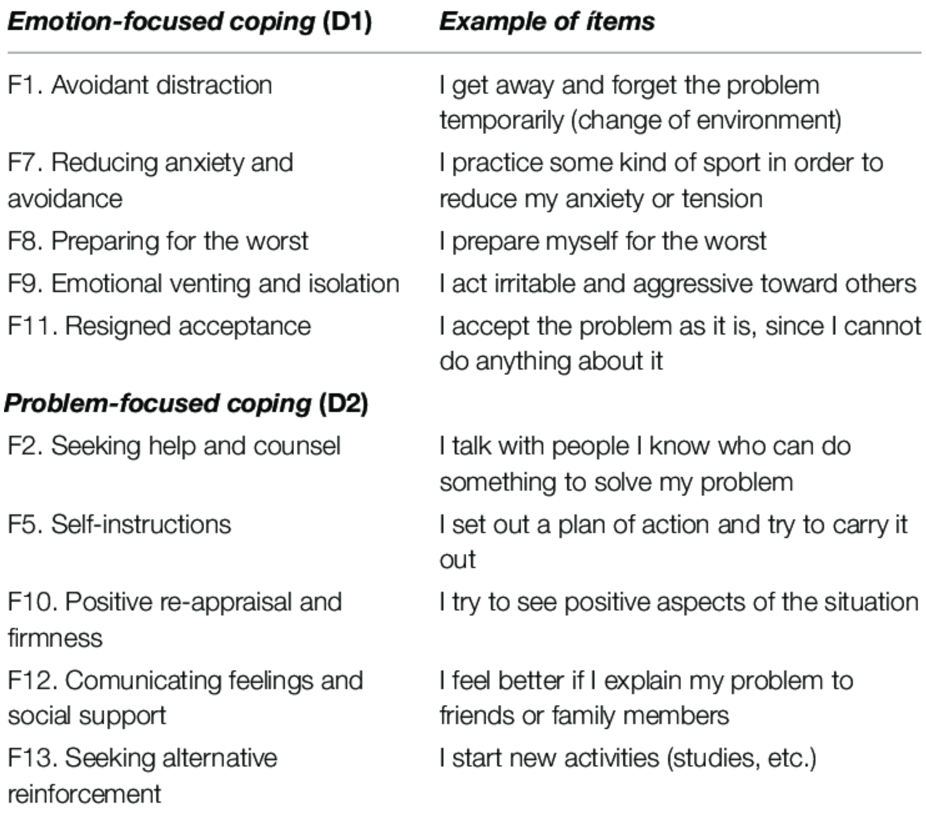
1. **Problem-focused:** This style focuses on changing the stressor, aspects of the environment, or one's behavior to deal with stress. Problem-focused coping correlates positively with mental health and well-being. However, if one is in a low-control situation, then problem-focused coping may not help as much.
2. **Emotion-focused:** These are direct attempts to manage cognitions or emotions. Emotion-focused & avoidance coping are usually associated with poor well-being.

In fig. 20.3, we see examples of the two approaches to dealing with stressors (Fuente et al. 2020).

20.7 Stress in organizations and its impact on performance

In an organizational context, there are two significant categories of behaviors that are beneficial:

1. **Task performance:** Completing tasks towards fulfilling organizational goals; usually related to the core technical and organizational processes happening in the organization
2. **Organizational Citizenship Behavior (OCB):** Actions that support the broad organizational objectives, contributions to building beneficial social and psychological environments



***Emotion-focused coping* (D1)**	***Example of items***
F1. Avoidant distraction	I get away and forget the problem temporarily (change of environment)
F7. Reducing anxiety and avoidance	I practice some kind of sport in order to reduce my anxiety or tension
F8. Preparing for the worst	I prepare myself for the worst
F9. Emotional venting and isolation	I act irritable and aggressive toward others
F11. Resigned acceptance	I accept the problem as it is, since I cannot do anything about it
***Problem-focused coping* (D2)**	
F2. Seeking help and counsel	I talk with people I know who can do something to solve my problem
F5. Self-instructions	I set out a plan of action and try to carry it out
F10. Positive re-appraisal and firmness	I try to see positive aspects of the situation
F12. Comunicating feelings and social support	I feel better if I explain my problem to friends or family members
F13. Seeking alternative reinforcement	I start new activities (studies, etc.)

Figure 20.3: Examples of the two coping styles

Stressors negatively impact the above two beneficial types of behaviors in two ways:

1. **Direct impact:** Say a computer breaks down; this will not only produce apprehensions in the individual who is supposed to use it to get a job done but also make it near *impossible* to get the job done.
2. **Indirect impact:** Say the individual finds oneself burdened with a personal illness or other issues, then their alertness or motivation dwindles, which in turn negatively impacts performance

In terms of mechanism, stress leads to the following harmful effects on human behavior:

1. Narrowed attention
2. Reduced working memory capacity
3. Forced to tradeoff between speed and accuracy (the job is done slower or at a lower quality level)
4. Worsening selection of decision-making strategies
5. Lowered detail in mental simulations

However, it is crucial to recognize that not all sorts of stress are harmful. *Challenge stressors* such as time limitations or quality benchmarks can help the individual perform at higher levels, or in the least, not harm them significantly. *Hindrance stressors* on the other hand, are associated with lower objective performance and supervisory ratings.

Moreover, role conflict stress leads to lowered OCB, essential to sustaining a beneficial organizational environment.

20.8 Stress is associated with Counterproductive Work Behavior (CWB)

Following is a list of counterproductive work behavior (CWB) types:

- Aggression
- Hostile Behavior
- Theft
- Sabotage
- Other destructive behavior

At the roots of CWB, we find two *stressors* primarily – interpersonal conflict and situational constraints. Both these stressors give raise to *negative emotions*, which in turn lead to CWB.

In particular, interpersonal conflict tends to CWB targeted towards specific individuals; situational constraints evoke CWB towards the organization at large.

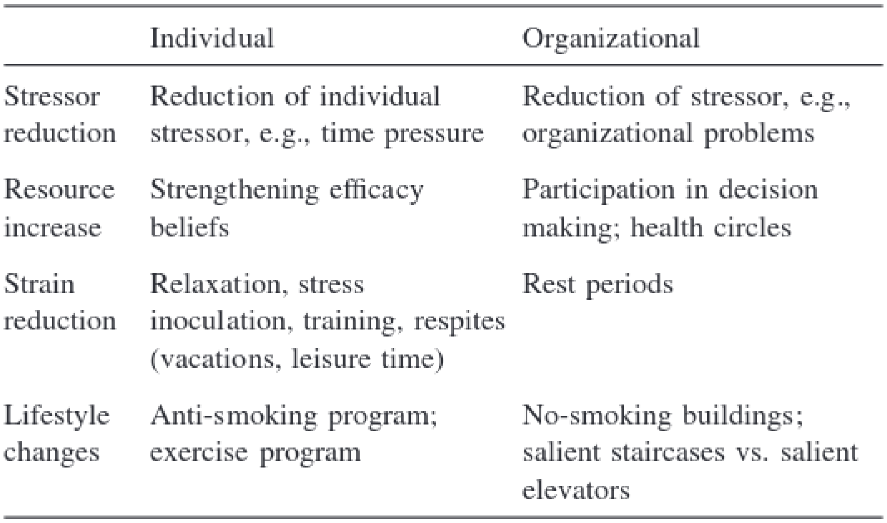
20.9 Higher stress leads to lowered organizational commitment

Individuals perceiving more stressful work situations report low organizational commitment. In particular, when an organization presents lots of hindrance stressors, the individual is more likely to reduce commitment. Challenge stressors do not necessarily reduce commitment and, in some cases, increase commitment.

Moreover, many longitudinal studies highlight that increased job demands and stressful events at work are associated with longer spells of absence (more than 3 days). Perceived job insecurity and downsizing are related to higher absence rates as well.

Multiple studies consistently report that job stressors are related to both *turnover intentions* and *turnover behavior*. In particular, actual turnover couples with hindrance stressors (and not necessarily challenge stressors).

20.10 Four types of helpful stress interventions



	Individual	Organizational
Stressor reduction	Reduction of individual stressor, e.g., time pressure	Reduction of stressor, e.g., organizational problems
Resource increase	Strengthening efficacy beliefs	Participation in decision making; health circles
Strain reduction	Relaxation, stress inoculation, training, respites (vacations, leisure time)	Rest periods
Lifestyle changes	Anti-smoking program; exercise program	No-smoking buildings; salient staircases vs. salient elevators

Figure 20.4: Overview of stress interventions

In fig. 20.4, we list an overview of stress intervention methods. Organizations can *combine* multiple methods and deploy an integrated approach to stress reduction.

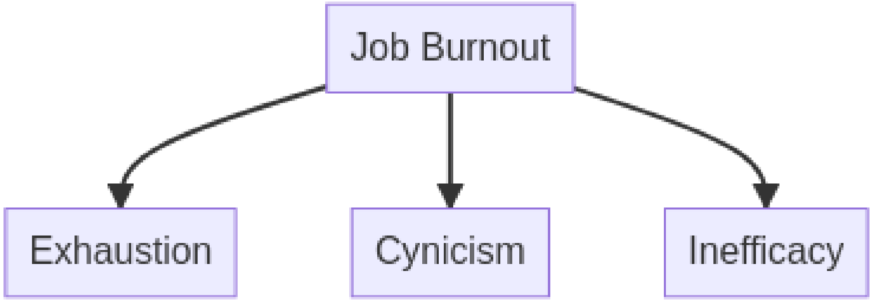
What follows is a description of each method:

1. **Stressor reduction:** The organization and individual working together can reduce stress for the individual. The inputs of the individual can

be considered seriously by the organization to ensure the right level of challenge and removal of hindrances. Moreover, given the constraints, the worker can exercise as much control over the job. At the organizational level, management can provide a suitable environment with less noise, schedules in line with circadian rhythm, reduced interruptions, reduced working hours, provided technical assistance, and so on.

2. **Resource increase:** Coping skills, efficacy beliefs, and individual competencies can develop at the personal level through stress intervention programs. Competence is an essential resource in handling and reducing stress. Excellent performers use efficient rather than inefficient action strategies and accrue lower strain levels. Moreover, improving person-environment fit can make life easier for individuals. At the organizational level, increasing the **autonomy** of employees has improved mental health. Plus, **employee participation** in decision-making decreased emotional stress, absence frequency, and turnover intention. Moreover, creating organizational events and structures to improve **social support** helps as well.
3. **Strain reduction:** Training individuals to relax and manage stress through various techniques helps reduce stress levels. Muscle relaxation, meditation, biofeedback, and cognitive-behavioral strategies are some examples of methods. Those with higher job control and organizational status tend to have higher success rates with strain reduction interventions. Setting policies to provide rest periods can be effective at the organizational level. Performance is higher when employees anticipate rest periods. Interspersing rest periods with work relates to smaller effects of stress. 5% of work time is a suitable allocation for rest. Moreover, individuals should be *encouraged* to take the rest time. Otherwise, people may skip taking the necessary rest.
4. **Lifestyle changes:** Improving diet, reducing alcohol and tobacco consumption, encouraging physical exercise, and other beneficial interventions control stress. Men practicing seven specific habits together have lower mortality rates (sleep 7-8 hours, eat breakfast almost every day, never eat between meals, have a near height-adjusted weight, no smoking, no alcohol, and have regular physical exercise). Physical activity improves emotions, mood, and physiological indicators. At the organizational level, building designs can encourage taking stairs, walking, and being in a calm state.

20.11 Job Burnout consists of exhaustion, cynicism, and detachment



Job burnout is a psychological syndrome in response to chronic interpersonal stressors on the job (Maslach, Schaufeli, and Leiter 2001). Burnout consists of the following three dimensions:

1. **Overwhelming exhaustion:** Refers to the feelings of being overextended and *depleted* of one's emotional and physical resources.
2. **Cynicism & detachment towards the job:** A negative, callous, or excessively detached response to various aspects of the job.
3. **Lack of accomplishment:** Reduced efficacy or accomplishment refers to a feeling of incompetence and a lack of achievement and productivity at work.

20.12 Three external factors related to job burnout

Burnout is an individual response specific to the work context. The following context variables have a significant impact on burnout:

1. **Job characteristics:** Burnout is a response to overload and time pressure, particularly concerning *exhaustion*. Both role conflict and role ambiguity are moderately related to burnout. Lack of social support is one of the most significant contributors to burnout; lack of supervisor support is particularly damaging. Lack of feedback and autonomy both increase the chances of burnout.
2. **Occupational characteristics:** Different occupational sectors tend to have differentiated profiles for burnout.
   1. **Law enforcement (police & guards):** High levels of cynicism, inefficacy; low levels of exhaustion
   2. **Teaching:** Highest level of exhaustion; average cynicism and inefficacy

   3. **Medicine:** Lower level of exhaustion and cynicism; slightly higher levels of inefficacy
   4. **Social services:** Cynicism is average to high depending on the country
   5. **Mental health workers:** High to very high exhaustion and cynicism
3. **Organizational characteristics:** Hierarchies, operating rules, resources, space distribution, and other organizational context factors influence burnout. For example, mergers and downsizing relate to burnout events. Violation of psychological contract, organizational justice (See Chapter 4, and fairness can also engender high burnout.

20.13 Personality characteristics associated with a higher level of burnout

There are at least seven types of personality characteristics that lead to higher levels of burnout:

1. **Low level of "hardiness":**: Hardiness of an individual is defined as a summation of involvement in daily activities, having a sense of control over events, and possessing an openness to challenge. Individuals lacking the above attributes tend to be more exposed to burnout.
2. **External locus of control:** Individuals who habitually attribute events and achievements to powerful others or chance are said to have an external locus of control. In contrast, an internal locus of control, in which the individual habitually attributes results to one's ability and effort. Those with an external locus of control will tend to feel helpless and more prone to burnout.
3. **Avoidant coping:** Passive, defensive coping is associated with higher levels of burnout, whereas active, confrontational coping is associated with lower levels of burnout.
4. **Poor self-esteem:** Those with a lower sense of self-esteem tend to be associated with higher levels of burnout.
5. **Neuroticism:** In the big-5 model of personality, neuroticism consists of traits anxiety, hostility, depression, self-consciousness, and vulnerability. Individuals possessing neuroticism attributes at higher levels experience higher levels of burnout.
6. **Type-A behavior:** The Type-A personality engages in competition, time-pressured lifestyle, hostility, and excessive need for control. This type of behavior is related to higher levels of burnout.
7. **Feeling disposition:** In Jungian analysis typology, personalities with a feeling disposition, and a tendency to emotional coping, will experience higher levels of burnout.

20.14 Person-Job fit model of the burnout process

The person-job fit model defines 6 life & work areas in which a person's personality may match or mismatch to various degrees. Higher mismatches predict more significant levels of burnout.

1. **Workload:** Overload occurs when the amount of work demanded from a person exhausts energy and doesn't allow for sufficient recovery. Overload may accelerate due to a person taking up an incompatible type of work, where a person picks up a line of work in which they have no inclination. An example is a caretaker job involving displaying emotions inconsistent with a person's actual emotional state. The workload is related to the exhaustion aspect of burnout.
2. **Control:** Mismatches in control indicate a person's dissatisfaction with the amount of autonomy accorded to the individual to carry out their job or work to the satisfaction of the individual. Essentially, the person feels their responsibility exceeds their authority. It is distressing for people to work a job where they want to succeed but feel incapable of delivering on the mandate.
3. **Reward:** Lack of financial or social recognition can generate mismatches in what the individuals need but do not get from the environment. Lack of reward is related chiefly to inefficacy.
4. **Community:** People thrive in a community and function best when they share praise, comfort, happiness, and humor with people they like and respect. A lack of a supportive social environment can create isolation, conflict, and hostility, leading to a mismatch and detachment from their work.
5. **Fairness:** Justice is an essential need for people in all their dealings with the workplace. People expect to be accorded respect and fair treatment and will sense a mismatch in what they desire and get when there is cheating in competitions, evaluations, promotions, ignoring grievances, and such things. Unfairness leads to both exhaustion and cynicism.
6. **Values:** People will feel substantial mismatches when the value sets at work and their code of conduct are not aligned. For example, a salesman has to be less than absolutely honest in some circumstances. Still, if they hold absolute honesty as a critical personal value, they'll find it challenging to do the job. Or an engineer may value quality output, whereas the management may value speed of delivery more. In these cases, value conflicts can lead to burnout.

20.15 Engagement is the positive antithesis of burnout

Both empirical and theoretical reasoning indicate that engagement is a positive antithesis or opposite of burnout.

Engagement can be defined as a persistent, positive affective-motivational state of fulfillment in employees characterized by vigor, dedication, and absorption.

- **Vigor:** Refers to high levels of energy and resilience, the willingness to invest effort in one's job, the ability to not be easily fatigued, and persistence in facing difficulties. The statement, "I feel strong and vigorous in my job," can be used to assess this factor.
- **Dedication:** Strong involvement in one's work, accompanied by enthusiasm and significance, and a sense of pride and inspiration. The statement, "I'm enthusiastic about my job," can be used to assess this factor.
- **Absorption:** A pleasant state of immersion in one's work, characterized by time passing quickly and being unable to detach oneself from the job. "I feel happy when I'm engrossed in my work" can be used to assess this factor.

Chapter 21

Organizational Conflict

At an overarching level, a conflict between individuals and groups can be seen as a *process* consisting of five *distinct* phases (Pondy 1967):

1. In the first stage, one finds submerged or hidden conflicts in the **latent state**. Issues at the root could be: Scarcity of resources, or policy differences. In summary, the first stage is about the organizational conditions.
2. One **perceives conflict** explicitly in the second stage. Various signs and happenings make an impression on the cognitive apparatus of the individual.
3. With the onset of cognitive awareness, one feels **conflict in the affective apparatus** next. Stress, tensions, anxiety and hostility characterise the third stage.
4. Personally feeling the conflict leads to **manifest conflict** at the behavior level in the fourth stage. One may engage in passive resistance, or overt aggression.
5. The result of the previous 4 stages is a new condition for the context. Some of the participants find themselves to have "won" whereas others have "lost". The new conditions eventually stirs up the next conflict.

21.1 A decision leads to commitment; conflict, to disorder

A more intuitive way to understand conflict is by contrasting it with *a decision.*

A decision is a process that creates gradual commitment to a course of action, whereas a conflict episode is a gradual escalation to a state of disorder. The choice is the climax of a decision, open war or aggression results from a conflict episode.

21.2 Pondy's model of organizational conflict

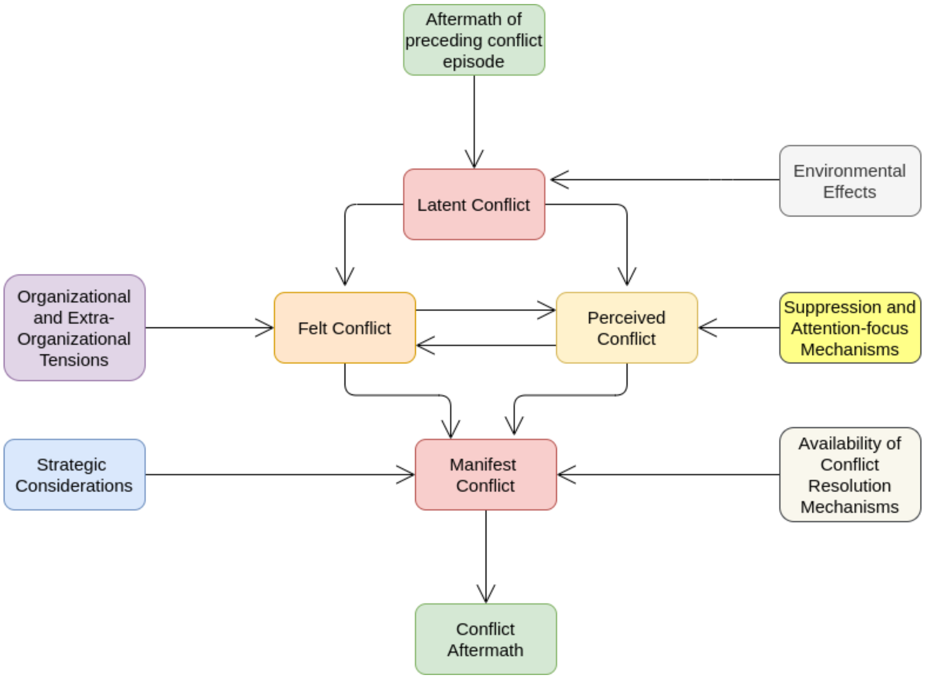
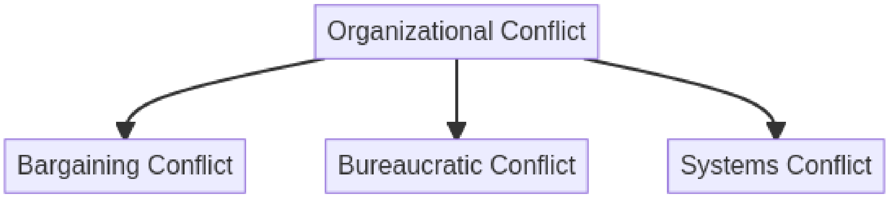

Aftermath of preceding conflict episode
Environmental Effects
Latent Conflict
Organizational and Extra-Organizational Tensions
Felt Conflict
Perceived Conflict
Suppression and Attention-focus Mechanisms
Strategic Considerations
Manifest Conflict
Availability of Conflict Resolution Mechanisms
Conflict Aftermath

Figure 21.1: Pondy's organizational conflict model

In fig. 21.1, we see a 3 stage recurring conflict model, originally from Pondy. The assumption is that the present organizational state results from the aftermath of a conflict. One should expect another conflict to play out soon enough. Consequently, peace will sustain for a while, only to engender conflict again. The model finds organizational conflict as an inevitable phenomenon.

21.3 Three types of organizational conflicts


Organizational Conflict
Bargaining Conflict
Bureaucratic Conflict
Systems Conflict

1. **Bargaining conflicts and models:** Multiple interest groups compete to obtain the highest resources for themselves. These conflicts emerge when aggregated demands of participants for resources exceed the resources

available to the organization. Example processes: labor management, budgeting, staff-line conflicts
2. **Bureaucratic controls and models:** Conflicts along the vertical dimension of the hierarchy, such as superior-subordinate conflict. Generally, problems emerge from institutional attempts to control behavior and organizational reactions to such an attempt at control. These issues arise from the need for *the autonomy* of individuals and groups.
3. **Systems conflict and models:** Generally, lateral conflict, or conflicts among parties in a functional relationship. The related model deals with problems of coordination. These conflicts arise when those supposed to collaborate cannot come up with a consensus on how to get things done.

21.4 Blockers to the perception of conflict

Two mechanisms may block the clear view into existing conflicts:

1. **Suppression mechanism:** At the individual level, humans tend to ignore threats and conflicts perceived as mild. Individuals will ignore many latent threats due to limited processing capabilities. Moreover, the individual may *only respond to events or situations that violate personal values* than what is essential for the organization.
2. **Attention-focus mechanism:** Organizations tend to be riddled with conflicts and may lack the resources to address most of them. So usually, the tendency is to tackle straightforward and urgent issues. Special units/teams typically must be set up to address long-standing problems successfully.

21.5 Conflicts become more prominent and more dangerous as they are felt & taken personally

Most minor issues will not generate an affective response in the individual; until then, the conflict doesn't become dysfunctional. *When individuals, due to anxiety or anger, start personally reacting to the perceived conflict, the possibility of manifesting the conflict comes about.*

However, this stage is also suitable for applying conciliatory measures, such as allowing people space & time away from the situation or letting them vent out their mental state in various forums.

21.6 Persistent blocking behavior indicates manifest conflict

An individual or group may block another individual or group but may not be aware of it. We do not consider that a conflict. However, if the affected individual or group makes the originator aware of such blocking, and the actual behavior persists, then we consider such behavior causing conflict.

Leaders can avoid such manifestation of conflict through many administrative devices, such as collective bargaining forums, labor-management disputes, budgeting systems, and advisor-led mediation sessions.

Moreover, clear job descriptions, specific powers and responsibilities, and isolation among conflicting groups can also reduce conflict.

21.7 Conflicts come in sequences and are not isolated

One has to expect a sequence of conflicts rather than expect that with the resolution or suppression of one, the next one will not emerge.

An excellent solution to a conflict can engender cooperation for a while. *However, there will always be one more conflict.*

And if the solution has not been appropriate, and the organization merely suppressed the problem, then the latent conditions for the conflict may aggravate later and explode into a more severe form until the organization resolves the underlying issues.

Hence, the conflict aftermath of a particular conflict becomes the starting condition for the next conflict.

21.8 Basic definitions of team conflict, its types, and cohesion

The broad definition of team conflict is as follows (Tekleab, Quigley, and Tesluk 2009):

> a process in which one party perceives that its interests are being opposed or negatively affected by another party

There are two components of team conflict:

1. **Task conflict:** Disagreements among group members about the content of the tasks, including differences in viewpoints, ideas, and opinions, what to pursue, and how to pursue.

2. **Relationship conflict:** Interpersonal incompatibility among members typically includes tension, animosity, and annoyance among members within a group.
3. **Process-based conflict:** Disagreements about *how* the group should conduct some task and who is responsible for what.

In contrast, **team cohesion** is broadly defined as the complete set of forces keeping the group members together. Cohesion means the tendency for a group to stick together and remain united in pursuing its instrumental objectives.

21.9 Teams tend to go through a midpoint transition or conflict

Conflict and cohesion are closely related in teams. According to the punctuated equilibrium model, one can expect midpoint conflicts, and successful management of these "storming" stages **leads to greater cohesion at later stages**. Other models also echo the same insight: only through conflicts can a team achieve more solid and mature cohesiveness ("The Dynamic Nature of Conflict: A Longitudinal Study of Intragroup Conflict and Group Performance | Academy of Management Journal," n.d.).

21.10 Task conflict can be beneficial, but relationship conflict is generally harmful

Task conflicts, and arguments on appropriate approaches and ideas as part of the initial stages, can benefit the group long-terms. However, relationship conflict in the beginning stages seems to affect the team's cohesiveness over time. Teams may become dysfunctional if interpersonal issues get neglected in the earlier stages.

Moreover, *conflict management strategies* help curb relationship conflicts; however, such methods may also impede genuine and necessary task conflicts.

21.11 Task conflict can spiral into relationship conflict & disintegration

Although task conflict can be harmless or beneficial at some points, it can devolve into a relationship conflict if it persists with increasing intensity. Relationship conflicts and personal animosity lead to the team's disintegration.

21.12 Implicit handling of task conflicts tends to be successful

Studies report that most task conflicts, especially on their first emergence, do not require an explicit and logical debate in the initial stages. Teams that use a "time off" period whenever such disagreements erupt tend to perform better. The time off period facilitates reflection, and this reflection reveals many times that perhaps the issue isn't as important as the members thought it was in the heat of the moment. People learn to drop the problems and move on many occasions.

21.13 Two indicators of team cohesion and effectiveness

The following two factors together give us the team cohesion or team effectiveness indicator:

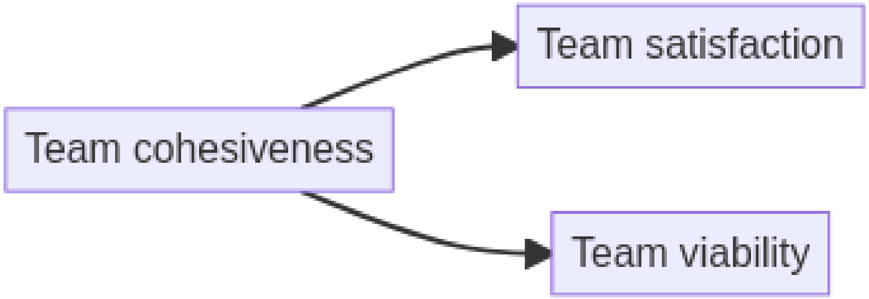
1. **Satisfaction:** Degree to which members like working with each other till now
2. **Viability:** Degree to which members wish to work together in the future

21.14 Conflict management can control relationship conflicts

Teams with superior conflict management abilities effectively neutralize relationship conflicts, increasing cohesiveness. The ability relates to being more direct and open in acknowledging and actively addressing interpersonal disagreements. By openly discussing relationship conflicts, teams become capable of focusing on the tasks they need to get done. At the same time, it is essential to note that the purpose of such discussion is to "cool off" rather than "heat up" the situation; hence, the quality of conduct of the members definitely matters in making the process successful.

21.15 Cohesion boosts the self-image of the team performance & satisfaction

The more cohesive team sees themselves in a more positive light and believes in their ability to perform. Moreover, higher levels of cohesion increase satisfaction with working in a group. And much more elevated levels of joy lead to a desire to work together for the long-term, leading to team viability.



21.16 Types of individual conflict management styles

Individuals tend to develop particular ways of dealing with conflict over their lifetime. One can change the pattern of behavior a few times over time, but the character is relatively stable (Kuhn and Poole 2000).

Following is a list of best replicated and well-understood conflict management styles:

1. **Avoidance:** Minimizes addressing the conflict explicitly, ignoring it, or quickly shifting the conversation to a different issue. The approach is both *unassertive* and *uncooperative*.
2. **Distributive:** These approaches end with one side "winning" or one side conceding to the other. The sort of tactics used in this type of conflict handling are:
   1. Directive communication about the issue
   2. Persistent argument for one's position
   3. An attempt to take control of the interaction
3. **Integrative:** Parties employ cooperative behaviors to pursue mutually beneficial (or at least acceptable) solutions. The approach involves pragmatic give and take and doesn't insist on one-sided idealistic demands.

21.17 Groups develop conflict management styles over time

One apparent input into the conflict style of a group is the composition of its members' conflict styles. However, other factors influence a group's conflict management style. The particular skills of the group, its history in dealing with older issues, and present conditions also dictate what sort of conflict management the group will deploy.

To find the conflict management style of a group, one should observe the group rather than directly asking the members. Rather Members can be pretty biased and inaccurate when self-representing.

At least one longitudinal study indicates that teams rarely change their way of conflicting management for the better (towards integrative style). Instead, there is a higher possibility that the situation may devolve into a lower level, such as distributive and avoidance approaches.

21.18 Functional conflict management leads to reasonable rules, roles, and norms

Teams with the integrating style of conflict management tend to address dissatisfactions and issues in an ongoing manner continually. And as problems get addressed, new rules, role clarifications, and "ways of doing things" develop, which adds to a team's healthy functioning. For example, in a group, an issue was observed of people interrupting one another during speaking. The highly effective teams could discuss and debate the case for more extended periods and develop policies to address the issue permanently.

21.19 Higher task complexity requires more sophisticated conflict management

The higher the task complexity a team needs to deal with, the more interaction, communication, and good teamwork the team needs. Hence, studies indicate the need for more sophisticated conflict management and a deeper integrated approach. If the task complexity is low, the other more inferior techniques, such as distributive or even avoidance, can be "functional enough" to accomplish team tasks.

If a team is tasked with complex problems and cannot deal with conflicts at the integrated level, chances are high that the team will fail in achieving its purpose.

21.20 Conflict has an impact on the perceptions of creativity

As various industries move towards intangibles, knowledge work expands at an accelerating pace (See Chapter 3), and creativity becomes a critical factor in building competitive advantages (Kurtzberg and Mueller 2005). Creativity has a social aspect as well, where the quality of interaction matters.

One can examine creativity along with three dimensions:

1. Type of conflict (task, relationship, process)
2. Time (on the day of conflict, the next day of conflict)

3. Scope (rating oneself, rating one's team)

For task conflict, on the day of conflict, the individual seems not to feel any additional boost in one's creativity. However, the following day, once the emotions or mood caused by the conflict fades off, the individual rates oneself higher in creativity. At the same time, task conflict on both days will merely decrease the team rating on creativity.

For process conflict, in all other dimensions, whether in terms of time or scope, the correlation is negative – process conflict decreases the perception of creativity.

As for relationship conflict, there is no connection between this factor and perceived creativity.

In summary, task conflict can improve individual perceptions of creativity, whereas process conflict can negatively impact perceived creativity.

Part VI

Organizational Ailments: Diagnosis, Monitoring, and Application of Cures

Chapter 22

Conclusion

In the previous chapters, we explored 20 major concepts, mechanisms, processes, and ailments of importance related to organizations. The current chapter reflects on application of the concepts and future directions. In addition, I supply summaries of all the preceding chapters in the present chapter.

22.1 Relentless monitoring, application, and feedback crucial to success

Knowing something is a good start, but **using** it to improve organizations is another matter altogether (See Chapter 13). One way to apply the insights is to engage in a developmental loop:

1. Continuously monitor situations
2. Recall or retrieve relevant insights
3. Apply interventions
4. Note results; goto (1) with additional knowledge

22.2 Continuous reorganization is an expression of organizational intelligence

Organizational relevance is closely related to its capacity to adapt to the larger environment (See Chapter 17). A helpful principle for leaders, especially those who find it a struggle to change situations, is to implement **continuous reorganization** as a governing principle. An analogy would be of trying to keep a room clean over time. Keeping things the same way within the room, we find that the dust settles in. Greater the inertia, the thicker the dust. Merely moving things around daily will expose dust and lead to a minor cleanup. Similarly, organizations can benefit from micro changes in their processes and mechanisms at multiple levels continuously. Developing a culture of *continuous reorganization* can deliver incredible value to the organization.

22.3 Organizational studies have a long way to go in their evolutionary path

In the introduction, I mentioned that organizational thought is thousands of years old. *Yet*, it is also new since it deals with an enormously complex subject, and very few of the dictums are non-contradictory and certain. Presently, deep integration of scholarship, research, experimentation, practice, and reflection is required to improve the conditions of human organizations. Moreover, investments into moving management thought towards definite statements based on empirical support, with delineated context for application, can increase the field's utility in practice.

22.4 Leveraging more technological support to intensify transformation can help

In the organizational space, many technologies remain yet to be developed. The human being is a user of tools. The better tools one equips oneself with, the higher one's potential. Hence, developing more powerful tools that expand the scope, precision, and quality of one's thoughts is crucial to expanding human potential. Moreover, tools that work to uplift groups of people have great significance. The invention of the ethernet and, subsequently internet enabled massive changes to the very structure of human societies of the world; one has to wonder: **what can technology do to transform the organizations of the world?** The ideal is to wish for ever more powerful tools for thought and relentless application to yield more beneficial results.

22.5 Summaries of chapters

22.5.1 The invisible, abstract concepts that animate organizations

1. **Culture:** Culture is the root of organizations, and financial results are the fruits. Culture is at the shared source of deeply held beliefs, values, artifacts, economic and other results; founder and leader conduct has an outsized impact on the organization's cultural evolution.
2. **Intangibles:** Through appropriate architecture, one converts a bunch of disorganized spokes into a handy wheel. The value of the wheel is in its *invisible organizational structure*. Similarly, the real value in modern organizations resides in invisible intangibles such as human, structural and customer capital.

3. **Justice:** A practically just system enables a satisfactory existence for most organizational members. Moreover, the just system makes existence at least tolerable to the minority of individuals with grievances (through interactional and procedural justice). Justice heavily influences job satisfaction, commitment, and turnover intentions. An organization must strive to practice justice in its interactions, procedures, and outcomes.
4. **Cooperation and competition:** In psychology, one differentiates intrinsic and extrinsic motivation. The former emerges from within the sphere of the individual's interests, the latter from the environment and other external influences. Similarly, team, department, and organization structures simultaneously emphasize cooperation and competition to varying degrees. A higher emphasis on competition taps a human's extrinsic motivation to perform better than peers, whereas cooperation taps a human's intrinsic motivation to excel at what one's interests lie. Organization structures must generate the two motivations in the right proportions, nurture them, and deploy them to achieve organizational goals.

22.5.2 Mechanisms and techniques that determine organizational outcomes

1. **Goal setting:** Setting goals helps us extract more effort from ourselves, teams and organizations. Goals are an antidote against inaction and unconcern. Like money, goals motivate a human being to try vigorously. Novices to a task or subject must set *learning goals*, where the goal is to discover the routines for performing a task efficiently. Experts must set *performance goals* aimed at sharpening the techniques they already know. Regardless, two properties together make for great purposes: they must be *difficult* and *specific*.
2. **Feedback:** Continuous adaptation is crucial to succeeding in any organizational environment. An inexpensive, universally usable, and powerful mechanism is *continuous feedback*. Feedback must flow in all directions, peer to peer, subordinate to superior, and superior to subordinate. A constant flow of feedback with properties such as objectivity, helpfulness, and constructive intent keeps all organization members on their toes, delivering an excellent overall performance.
3. **Accountability:** The human being in the nascent state possesses a limited view — the well-being of oneself and only oneself. Functional organizations require human beings who identify with a larger scope, say the team, department, organization, community, society, and humanity. Accountability as a mechanism within an organization helps the subordinate develop the larger view; the subordinate is answerable to the superior and must consider needs from the larger perspective and follow through on one's words. Secondly, humans need structure and stability and respite from ambiguity to function at their peaks. Accountability sets up clear standards and goals for behavior.
4. **Performance appraisals:** One can consider performance appraisals as

a particular type of feedback with properties such as: (1) Less frequent (annual, bi-annual) (2) More formal (3) Often organizationally more consequential (4) Mainly from superior to subordinate. Appraisal systems powerfully impact employee commitment, dedication, and focus. The process also clearly specifies individual strengths and weaknesses, influencing many other functions of the organization such as hiring, training programs, and promotions.

5. **Promotions:** The promotions process produces two significant outputs for the organization: (1) identifying the next leaders and managers and (2) Enhancing members' satisfaction, commitment, involvement, and motivation. Promotions have a long-term impact on the psychological states of individuals. An organization should strive to set promotions to enhance the commitment of those promoted while motivating higher striving from those who did not get promoted. Therefore, the organization must try to avoid people disengaging with the organization due to missed promotions.
6. **Compensation:** Employee compensation determines the quality and effectiveness of human capital within an organization through its influence on hiring and retention. A crucial aspect of retaining the best performers is to pay for performance. That is, distribute the compensation budget in such a way that the better performers get paid better. At the same time, excess pay variations can produce unbridled competition and bullying. 1. **Politics:** Politics as a mechanism is informal compared to previously mentioned mechanisms. It is an individual enhancing personal or group interests through highly goal-directed behavior disguised as selfless acts. Managers and leaders must practice politics to get things done within the organization, regardless of their affinity or aversion to the process. It can influence almost all functions within the organization.

22.5.3 Developmental processes to boost organizational potential

1. **Learning and development:** An organization must always strive to build sustainable competitive advantages. Such advantages are valuable, rare, and difficult to imitate, and leaders can organize them to capture value. In modern organizations, trained employees committed to the organization's culture can be a source of sustainable competitive advantage. Leaders must look for training opportunities in every new initiative. Moreover, training efforts should focus more on *learning transfer* and application to job roles rather than merely on acquiring information.
2. **Leadership development:** Another source of sustainable competitive advantage is committed, focused, and determined leadership. Leadership development works best through: Diverse experiences, challenges, mentoring, beneficial organizational networks, and continuous learning orientation.
3. **Research and development:** An innovation results from an invention followed by exploitation. Every decade or so, paradigms of research and

development shift ever so subtly; hence organizations must stay alert in understanding the evolving situation to avoid getting outpaced. Thankfully, most factors critical to making an R&D project successful are within the organization. Success depends on the correct assessment of context (technology, market, and innovation curve), focusing on appropriate processes and factors. Different phases of R&D require contrasting leadership skills and execution methods. Moreover, a successful transition from the lab to the market involves the coordination of many people and intricate processes.

4. **Team building:** Converting a group of people into a *team* is the source of higher productivity and performance. Interventions in goal setting, interpersonal relations, role clarification, and problem-solving play critical roles in successful team building. The leaders must balance accountability and trust, monitoring and freedom, independence and coordination.
5. **Change management:** The organization's survival depends upon its successful adaptation to the larger environment. Evidence suggests that most change initiatives fail. Deeply held values, lack of capabilities, and dysfunctional politics lie at the root of most failures. However, change is possible through a structured and focused approach. Multiple factors such as leader behavior, acceptance of the need for change, vision, commitment, avoiding relapse, and continuous monitoring weigh heavily in determining the outcome of the change process.

22.5.4 Common, potential organizational ailments requiring constant monitoring, diagnosis, and application of remedies

1. **Turnover:** The rotation of workers around the labor market and the organization's responses to the situation characterizes the turnover process. Turnover can be enormously costly for the host companies, especially when the performers leave with various intangibles and special skills. Estimates say replacing a voluntary turnover involves 90% to 200% of the individual's annual salary. Organizational commitment & kinship links strongly predict voluntary turnover. Leaders must address the problem comprehensively in every aspect of the organization, such as selection, socialization, culture, training, feedback, promotions, and appraisals. Mistakes in any of the varied aspects of the organization can eventually cause harmful turnovers.
2. **Absenteeism:** Absenteeism costs about $225 billion annually in the US alone and is a pernicious problem. The most significant reasons for absenteeism are personal illness and family issues. Hence, organizations can create health-related amenities, psychological counseling, well-being services, childcare assistance, and maternity allowances. Moreover, progressive policies to sensitively deliver disciplinary action, fix incentives and provide sufficient time off help reduce absenteeism.
3. **Stress:** Work takes spots near the top of the list as a source of stress in

various countries, contributing to considerable industry losses. Dysfunctional stress within organizations benefits neither the employee nor the employer. Providing the right amount of autonomy, personal resources, social support, and group cohesion go a long way in curbing stress. In addition, encouraging *problem-focused coping* rather than *emotion-focused coping* improves employee resources in addressing stress. The leaders must counter job burnout of exhaustion, cynicism, and inefficiency through a combination of workload control, rewards, community, fair treatment, and conducive organizational values.

4. **Conflict:** A decision is a process toward *order*, whereas conflict is a process toward *disorder*. Conflict is unavoidable up to an extent, and there exists functional conflict. One can envision the whole of an organization going through a sequence of conflicts for its survival. Relationship conflicts are the most dangerous and dysfunctional of task, relationship, and process conflicts. Nurturing a culture with sophisticated conflict management resources is crucial to organizational health. Consistent application of sound conflict management creates functional norms within the culture.

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