Managing people

INTRO COPY REQUIRED.

Intro Introduction to managing people

This unit looks at businesses from the point of view of those who have to manage people. It considers, in particular, the roles and responsibilities of business managers and leaders. These two key groups both manage other people, but their roles are different to some extent.

Leaders

A **leader** is someone who sets the business's overall goals and targets for other people. Leaders guide, encourage and inspire their staff towards achieving these goals. Strong leaders define and shape an organisation's culture.

Bill Gates famously founded Microsoft. He was chief executive of Microsoft from the time it floated in 1986 until 2000. He is now the company's chairman and chief software architect of Microsoft. He has played a key role in setting the Microsoft's objectives, shaped the way the company operates and continues to be an inspirational figure in the company's commercial and technical success.

<insert picture of Bill Gates speaking at a conference, possible caption:

An important role for leaders is communicating their ideas and vision to other people in the organisation, especially managers

Managers

A **manager** sets goals and targets for the aspects of the business for which he or she is responsible. The manager uses the financial, physical and human resources which are available to achieve these goals as efficiently as possible. In many cases, people are the most important resource for which managers are responsible.

Leadership and management skills

As well as looking at the roles and responsibilities of managers and leaders, this unit also examines the skills that they require to be successful. What has made Bill Gates, Stelios Haji-Ioannou (the founder of easyJet) and Richard Branson successful leaders? Are they the same types of leaders and is that why they are successful? This unit will classify leaders according to styles and consider the circumstances in which these styles may be successful.

We also consider what makes leaders and managers powerful and what gives them authority. What is authority and how does it differ from power? This unit will help you distinguish between these two terms. It focuses on what makes people powerful within a business and how they use that power within the business by, for example, taking decisions.

Leaders and managers have to motivate workers to achieve the organisation's goals and objectives. Motivation is simply the desire to do something. How do managers increase the desire of employees to work harder and to help achieve the organisation's goals? Can particular leadership styles encourage (or inhibit) motivation)?

Numerous leadership theories have been proposed in an attempt to answer to these questions. We review some of these theories and attempt to assess their value to modern managers and leaders. We shall help you relate theory to the practical issues within a business, to the practical actions and decisions that managers and leaders can take.

Organisational structure

Not all business are organised in the same way. In large businesses, particularly public limited companies, the roles of managers and leaders are clearly defined and separated. However, in small businesses the roles of managers and leaders may become blurred as it is common for the same person to carry out both roles.

Some businesses are very formally organised with managers of different levels of seniority all reporting to up a clear management chain. Other organisations do not rely strongly on formal structures.

<insert screen grab of Google home page>

Google, the company that created and owns the popular internet search engine, does not run on formal lines. Teams work independently and decisions can be taken by many people within the organisation. It is a very informal company. It employs 5000 people worldwide, but gives its staff a great amount of freedom within the workplace. For example, many of its staff are allowed to spend some time researching private projects in the fields of information technology and the internet. By encouraging its employees creativity, The company expects to benefit in some way from these private research projects.

Using other real examples, we will look further at how organisations can structure themselves and consider the implications of these different structures for those within the business, as well as the business itself.

Decision making

Finally, the unit looks in some detail at decision making. This is one of the major roles of managers and leaders, and most senior managers will make decisions everyday. Some are major decisionsr, with long-term consequences, while others are small and relatively unimportant. For example, in 2005 Tesco, the UK's largest supermarket chain agreed to buy 21 petrol retailing stations from Morrisons, one of its rivals. The deal is thought to be worth about £60 million. This is a major decision. In contrast, a manager in an individual supermarket store might be continually makeing a range of minor decisions, such as arranging and authorising overtime for some employees to cover a particularly busy period.

The unit will help you to assess the different types of decisions that have to be taken within businesses and evaluate a number of techniques that can be used by leaders and managers to help with decision making.

How is this unit assessed?

This unit is assessed by an external examination.

- The examination lasts one and a half hours with a maximum mark of 80.
- The examination paper comprises three or four short case studies giving a small amount of information about specific businesses.
- A series of questions is asked about each case study. The first questions are relatively straightforward, the later ones are more demanding.
- The questions will range widely over the subject material covered by this unit.

At the end of each section in this unit you are given an opportunity to tackle questions similar in style to those you will face in the examination. Completing the questions in these assessment practice sections is an important part of studying Unit 12.

Topic 1 Management: roles, responsibilities and skills

Setting the scene: managing a shop selling fashion clothes

If you want to be the manager of a London based fashion shop (earning about £30,000 a year), then you will be expected to carry out a wide range of responsibilities.

This list (adapted from a real job description) shows the diverse roles and responsibilities of a modern fashion store manager. They are:

- **manage staff, recruiting new employees as necessary**
- **train new and existing staff**
- **develop an effective team within the store**
- **meet targets for sales performance**
- **develop new plans for the business to increase sales**
- **manage the shop's stock to ensure maximum possible sales**
- **maintain good communication within the shop and between the shop and head office**
- **maintain the shop in excellent order and ensure health and safety standards are met**
- **carry out administrative duties effectively and promptly**
- **make sure the shop's security is maintained at all times.**

Adapted from www.fashionunited.co.uk

<insert picture of fashion store>

What do managers do?

The management theorist Mary Parker Follet defined management as "the art of getting things done through people". What does this mean in practice? All managers have to carry out certain roles and to meet their responsibilities. These roles and responsibilities are normally set out in job descriptions which are given to managers when they are applying for posts or when they are first appointed.

Roles are the duties or tasks that a manager has to carry out as part of the job. For example, a production manager in a food processing plant would have to order stock and draw up work schedules for production line employees. These are some of the duties that make up the role.

Responsibilities are slightly different. They relate to managers being accountable for their actions and decisions. Thus, the production manager's responsibilities are likely to include manufacturing food of sufficient quality. If the quality falls below expected standards, the manager will be expected to put things right and, possibly, to explain why the problems occurred in the first place. The job description for most positions will state to whom a manager is responsible and accountable.

stop and think

What roles does the head teacher or principal of your school or college carry out? What are the responsibilities associated with the post of a head teacher or principal?

The main duties or roles of managers

The precise roles carried out by managers vary according to their seniority, the size of the business and the type of business. A small printing firm, for example, may only have a single manager (who may also be the owner). This manager will necessarily carry out a wide range of duties because there is no other manager in the firm to delegate some managerial tasks. A manager in a large business is likely to have a more specialised role. For example, most universities are likely to employ a human resource manager whose duties include planning for future staffing needs, overseeing recruitment, training and related activities.

However, all managers' jobs have common elements. These are illustrated in Figure 12.1.

1 Planning

A key management role is to look ahead. Planning helps to co-ordinate a business's activities so that it is moving forward in a focused and coherent manner. Managers draw up plans at different levels. Businesses have a strategic plan, usually drawn up by the most senior managers which sets out how the business will fulfil its objectives. Once this plan is complete more junior managers can begin the process of planning. Their plans should complement the strategic plan, and set out in some detail how their areas of responsibility will contribute to achieving the business's overall objectives.

Planning can entail a broad range of duties. These include:

- setting targets, goals or objectives for the future
- forecasting likely sales over some future time period and assessing how production might need to be adjusted
- planning marketing actions for the future, such as new markets to be entered and promotional campaigns
- estimating the expected labour requirements of the organisation, including overall numbers, where workers need to be located and the skills the workforce will require
- financial planning by examining the business's need for long-term capital and short-term cash and making arrangements to ensure these needs are met.
- planning resource needs by detailing the business's likely needs in terms of offices, factories, shops, machinery, vehicles, materials and components.

Through planning in this way, managers aim to work towards strategic objectives and to minimise the chances of the business failing. Most businesses also undertake some form of contingency planning, a specialised form of planning that attempts to forecast, and makes preparations to overcome, any potential crises or emergencies that a business might face.

Figure 12.1: The manager's role

stop and think

What planning activities might these two managers undertake as a normal part of their role?

- A senior marketing manager at Sainsbury's head office.
- The manager of a small nightclub in a seaside resort.

business practice

Managers plan for bird flu

Concerns about a bird flu pandemic have led to calls for businesses to plan for large-scale absences as the ir employees succumb to the illness. The research firm Gartner has warned that businesses should not wait until bird flu becomes a problem because they will not have enough time to prepare. Gartner warns that a pandemic could limit travel, disrupt supply chains and hit staff attendance, leading to businesses being unable to maintain production of goods and services.

Gartner advises that managers should plan for a pandemic in which travel may be curtailed and businesses may not always be able to open. Key actions could include:

- keeping staff informed about what is happening so they know when to travel to work and when not to do so.
- placing a senior manager in charge of the business's response to the bird flu pandemic
- updating contingency plans especially to cope with large-scale staff absences
- helping staff to work from home, for example by ordering laptops in advance
- increasing the amount of business that is conducted online since it involves less travelling by customers and, possibly, employees.

Assume you are a manager of a Tesco superstore. Write a list of the actions you might take in advance to prepare for an expected outbreak of bird flu in your locality?

2 Organising

Managers have to bring together a range of resources to meet a business's objectives. This can entail considerable organisation. For example, a manager appointed to a fashion shop (see the *setting the scene* at the start of this topic) would need to:

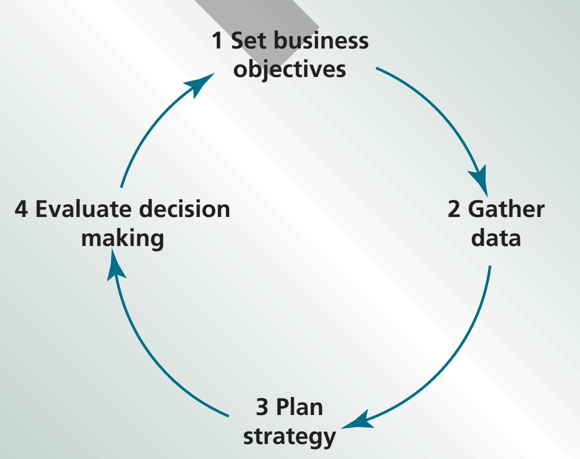
- ensure that the shop had sufficient well-trained staff available throughout its opening hours
- have enough supplies of high fashion stock to satisfy consumers' needs
- make sure that suppliers are paid promptly to ensure continued supplies of stock
- keep accurate records of sales, employee performance and attendance, and the financial performance of the shop
- be aware of customers' views on the shop's stock and on trends in the fashion market to ensure popular products are purchased from suppliers.

This management role requires a substantial amount of organisation. Managers are also expected to use the minimum amount of resources necessary to meet the business's objectives. This can place further pressure on organisational skills.

3 Monitoring and evaluating

Monitoring the effectiveness of the business, and evaluating the impact of individual management decisions, is vital if managers are not to repeat mistakes. As Figure 12.2 shows this is the final stage in a series of management activities relating to decision making.

Figure 12.2: The decision-making cycle



Monitoring can also help managers to improve the business's performance. In 2005 the Sickness Absence Management (SAM) project was launched in Scotland. This project aims to assist businesses in reducing the financial losses (estimated to be £11 billion for UK businesses each year) associated with staff absences. The project is assessing the value of computer software which can be used by managers in all businesses to record and monitor staff absences. It also offers advice on how to reduce absence levels.

4 Reporting

Reporting can provide important information that managers can use in decision making and planning. The reporting function for managers can take a number of forms.

Annual report and accounts

Senior managers prepare the annual report and accounts. There is a legal requirement for companies to publish an annual report and accounts, but sole traders and partnerships have to report on profits or losses to allow HM Revenue and Customs to assess tax liability. A company's annual report and accounts sets out its profits and losses as well as the value of its assets and liabilities. In addition, the report also gives a range of information about the business's activities over the past year. Suppliers, shareholders and potential investors are all likely to be interested in the financial performance of the business.

Other financial information

Managers are likely to report on whether they have kept within their budgets over the past year. For example, a marketing manager might have to give information to a senior manager about expenditure on advertising, so that the senior management team can compare advertising spend against the advertising budget that was granted at the start of the business's financial year.

Market research

Managers may investigate customers' views in order to gain a fuller understanding of trends in the market. These findings are likely to form the basis of a report for other managers within the business, including those responsible for finance and production.

Employee performance

Reporting on the performance of employees can encompass a range of data. Human resource (HR) managers might provide information on productivity, absenteeism, wage costs and training costs. They may also have responsibility for writing reports on health and safety, identifying areas where action is needed. For example, managers in the leisure industry have reported on the increase chance of bar staff in pubs and clubs suffering hearing impairment as a result of loud music and extensions in opening hours. These reports will be used to help busineses in the industry decide what action to take to tackle the problem.

Key management skills

A manager needs a wide range of skills because managerial jobs are very complex. All managers need the ability to see the organisational as a whole, even if they are in relatively junior positions. They must understand how their section or department fits into the business, so that they can assess the impact of their decisions on other areas of the business. As managers are promoted, the ability to think strategically and consider the long-term needs of the entire organisation become more important. However, there are a number of vital skills that all managers need to possess to carry out their roles effectively.

1 Technical skills

A manager's specific role within the organisation will determine the need for a particular range of technical skills. A marketing manager, for example, needs to have the skills to design an advertising campaign or to develop a successful strategy for researching a particular market. A marketing manager would also need some skills in handling statistical data to interpret the results of market research. In contrast, production managers need skills relating to stock control or scheduling production.

Some technical skills are common to managers throughout a business. Junior and middle managers are likely to need analytical ability and problem-solving skills. Conceptual and strategic skills will become more important as managers are promoted and they have to develop medium- and long-term strategies for large parts of the business.

2 Communication skills

Managers need a range of communication skills to carry out their jobs effectively. They need to be able to articulate their ideas and vision and to convey enthusiasm. Good managers may, at times, need to be able to argue points cogently and to persuade people to their point of view.

However, good managers appreciate that communication is a two-way process, and that listening is an important element of communication. Listening to the views of others can help to test ideas as well as to develop new products and methods of production.

Meetings are the most common forum in which managers are required to communicate. It is important for managers to plan for meetings, whether with a single person or with a group. Managers should restrict those attending meetings to keep numbers to a minimum. They should have a clear agenda for discussion and should exercise tight time controls to prevent meetings dragging on. Managers should enter each meeting with a clear idea of what they want it to achieve. At the end of a meeting it is good practice to summarise what has been agreed and what is expected to happen in the future.

One criticism of UK managers is that relatively few speak a second language fluently. This can cause obvious problems for businesses that trade in a global market. Research suggests that UK companies lose around 13 per cent of the international deals they try to complete due to "communication problems".

Managers also need effective written skills if they are to carry out their jobs effectively. The ability to quickly summarise key points in the form of a report for others in the business is of real value. So is the skill of reading a report written by someone else and being able to draw out the important elements.

These skills should not be taken for granted. Many managers require training in written and oral communication skills and many businesses would benefit from employing managers who speak at least one other language.

stop and think

Why might a manager working for Shell have to rely more on written communication than a manager in a very small business?

3 Organisational skills

Managers have to organise people and other resources effectively to be successful. Organisational skills can take a number of forms.

Setting achievable targets

Managers have to set targets for themselves and others. These targets should be challenging to stretch employees, but not impossible or they will demotivate staff. Targets can take many forms, they could be a financial sales target, a benchmark for reducing the number of faulty products manufactured, or a time scale within which a project must be completed.

Planning workload

Managers frequently have much more work than they can complete in the time available. They must decide what work is to take priority and what work can be delegated to more junior employees. Well-organised managers do this at the beginning of each week (or at the start of each day) to ensure that they keep up to date and on top of their jobs.

Time management

Having decided which tasks are to be priorities, managers must ensure that they do not spend too long on them. Managers can adopt simple techniques to help make effective use of their time such as imposing deadlines on meetings, dissuading colleagues from "dropping in", and being tidy so that it does not take valuable time to find documents.

Creating effective teams

Many businesses rely heavily on teams to supply goods and deliver services. For example, the pensions and insurance company Standard Life uses teams throughout its organisation. Picking team members who are complementary but have different and supporting skills is an important skill for a manager. Having created effective teams, managers may be more prepared to delegate work.

4 Interpersonal skills

Good interpersonal skills are necessary if a manager is to work successfully with other people. If managers lack interpersonal skills, then they are likely to be of limited effectiveness in their role. Managers with effective interpersonal skills can motivate others and can co-ordinate the work of their employees. To do this, managers may need to coach and encourage employees as well as solving disputes and, perhaps more importantly, preventing conflict.

As well as their own staff and direct subordinates, managers have to work with other people too. They interact with customers, more senior managers, suppliers, trade union officials, government officials and the local community. Managers need to be comfortable in the company of diverse groups, and they need to able to communicate formally when required and to engage in informal small talk.

business practice

Assessing interpersonal skills at Mobil

Mobil, one of the world's largest multinational oil companies, asks potential managers a series of questions in an attempt to discover the extent of their interpersonal skills.

- Describe the achievement you were most pleased with while holding a position of responsibility. What happened? What role did you play?
- Describe a situation from your work history where you have used your own initiative to achieve success. What did you do?
- Describe what you consider to be one of your most challenging situations. Detail how you became involved, and the key steps you took to reach a satisfactory conclusion. What was the final outcome?
- Give an account of a difficult situation you had to deal with which with hindsight you could have handled more effectively. What was involved? What were your key learning points?

The fact that a major employer such as Mobil asks this number of questions suggests that the company considers interpersonal skills to be an important element in successful management.

assessment practice

McAlpine manager wins construction manager of the year

John Roper has won the 2005 Construction Manager of the Year award for his outstanding work leading the McAlpine team that bid for and built the Paul O'Gorman building at Newcastle University. According to the judges John "demonstrated an excellent understanding of how the project could be successfully delivered within a challenging, live, inner city environment".

John led McAlpine's bid team, working closely with the building's designers. One of his many achievements was to instigate a series of exercises which reduced costs by 10 per cent without sacrificing quality. Putting John at the helm of the team, with his obvious dedication, gave the client great confidence, leading to his McAlpine's appointment to construct the Paul O'Gorman building, even though they were not the lowest bidder.

John was then asked to lead the construction team for this very complex project. He introduced a variety of programming techniques, including detailed resource monitoring, to ensure the project developed on track. Employing his own direct workforce gave him close control and allowed him to monitor efficiency in great detail and carry out cost-value exercises, an approach now adopted by all McAlpine sites in the region.

Chris Blythe, chief executive of the Chartered Institute of Building, commented: "John Roper's work on the successful bid was so impressive that his employer, and the client, gave him the job of building it. His total dedication to the project resulted in a world-class building that exudes quality at every level."

Source: Chartered Institute of Building news release, October 2005

A **Identify and explain two ways in which John's communication skills might have helped him during the bidding and building stages of this project.**

B **Describe fully one other management skill which you think was important to John.**

C **Explain the managerial responsibilities that John Roper may have had during the construction of the Paul O'Gorman building.**

D **Do you think that John would immediately be a successful manager of a large supermarket? Justify your view.**

Topic 2 Organisational structure

Setting the scene: changed company structures make fraud easier

Companies in the UK are more vulnerable to fraud following the introduction of flatter or delayered organisational structures. The increasing popularity of machines such as iPods has also added to the risk.

This combination of MP3 technology which can be used to download vast quantities of corporate information (as well as music) and lower levels of supervision has allowed some disgruntled employees to obtain large amounts of company information such as databases of customers. This data is then sold or used to start-up a rival business.

Staff who have been given the sack or missed out on promotions are the most likely to turn to this type of fraud. They may be supported by criminal gangs who use employees as insiders to extract information, but even in these cases the insiders are more likely to be disgruntled employees who want to punish their employer.

Andrew Clark, head of fraud investigations at KPMG, said data theft was an increasing problem. "Data is valuable and companies don't always realise that. These thefts can happen because there is a reliance on automated processes and there are fewer middle managers after 10 years of delayering."

Source: Adapted from www.guardian.co.uk

Understanding organisational structures

An organisational structure is the particular way in which a business is arranged in order to carry out its activities. The organisational structure illustrates a number of important features of the business:

- the routes by which communication passes through the business
- the structure of authority within the organisation
- the roles and titles of individuals within the organisation
- the staff to whom individual employees are accountable
- the units and divisions for which individual managers are responsible.

Businesses change their organisational structure rapidly and regularly; some entrepreneurs believe that they should be continually reorganising their businesses to keep them flexible, efficient and responsive. A principal reason, therefore, for the regular change in organisational structures is that changing external factors frequently force businesses to respond to new environments.

KEY TERMS

Levels of hierarchy refer to the number of layers of authority within an organisation.

The **span of control** is the number of subordinates reporting directly to a manager.

Centralisation places decision-making powers firmly in the hands of senior personnel (often at head office).

Decentralisation is the opposite, it gives decision-making powers to those at lower levels in the organisation and employees in branch offices and other locations.

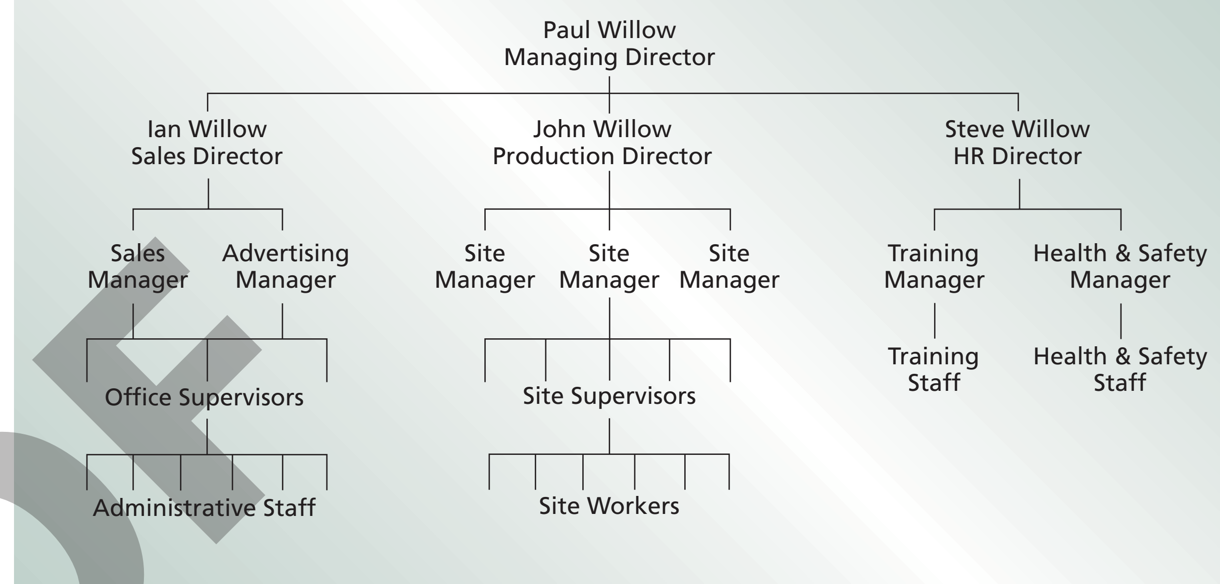
Delayering is the removal of one or more layers of hierarchy from the organisational structure.

Another reason is operational efficiency. All businesses have to ensure that they are able to compete with rival firms. Keeping costs to a minimum is an important part of a successful competitive strategy and a common reason for businesses to change their organisational structures. In 2005, businesses such as Barclays Bank and Cadbury Schweppes announced major changes in organisational structure in an attempt to maintain profitability and competitiveness.

There are two key elements that are vital in understanding an organisation's structure:

- levels of hierarchy
- spans of control.

Figure 12.3: Willow & Sons Ltd organisational structure



Levels of hierarchy

The number of layers of authority within an organisation define the levels of hierarchy. Figure 12.3 shows the organisational structure Willow & Sons Ltd, a family-owned house building firm. This firm has five layers of hierarchy.

Paul Willow, the managing director, has authority to control the whole business. Below him, his three sons have authority over different divisions of the business: production, personnel and sales. In turn, each of these three directors has appointed managers with particular responsibilities such as training employees, looking after health and safety, and managing one of the building sites. The company's managers have supervisors to look after particular areas of responsibility and particular groups of junior employees.

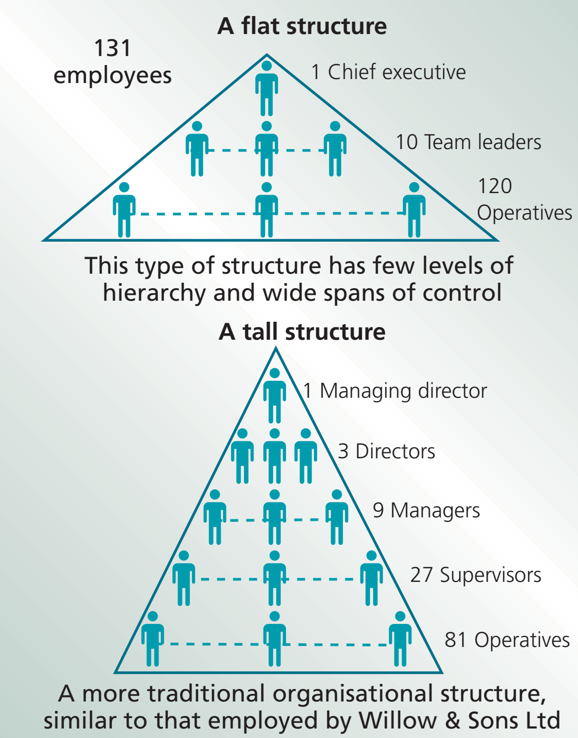
Note that although the bottom tier of employees – the administrative staff and site workers – are not responsible for managing any staff, they will have responsibility (and authority) for carrying out their duties in their particular functional areas.

Spans of control

A span of control is the number of people reporting directly to a manager. Paul Willow has three people reporting directly to him and, therefore, a span of control of three. Steve Willow has a span of control of two.

The balance between spans of control and levels of hierarchy determines whether a business's organisational hierarchy is flat or tall. There is an inverse relationship between the average span of control and the number of layers of hierarchy within an organisation. So an organisation with a wide span of control will have few layers of hierarchy; it will be the flat organisation in Figure 12.4. On the other hand, tall organisations have many layers of hierarchy, but narrow spans of control.

Figure 12.4: Flat and tall organisational structures



Flat or tall?

A tall organisational structure, with narrow spans of control, enables managers to keep close control over the activities of their subordinates. As the organisational structure becomes flatter, the span of control widens. This means that junior employees are permitted a greater degree of independence in their working lives, as it is impossible for an individual manager to closely monitor the work of a large number of subordinates. Some managers believe that the span of control should not exceed six people to allow close supervision of juniors. However, in business environments where subordinates are carrying out a range of broadly similar duties, a span of control of 10–12 is common.

It is normal for a span of control to be narrower at the top of organisation. This is because senior employees have more complex and diverse duties and are therefore more difficult to supervise effectively.

In recent years, as businesses have sought to control or cut their wage costs, it has become increasingly common to introduce towards flatter organisational structures. (This trends goes back at least as far as the early 1990s.) Many businesses have achieved flatter organisational structures by removing management levels or layers of hierarchy. This process is known as delayering. When companies decide to delayer, it is often middle ranking managers who lose their jobs. For example, in 2000 Barclays Bank delayered, reducing its workforce by 10 per cent and making many middle managers redundant in the process. The popularity of delayering indicates that it has numerous advantages, but there are many associated drawbacks too. Figure 12.5 sets out arguments for and against a delayering strategy.

The trend towards flatter organisational structures has meant that junior employees have become empowered. This means that they have more control over their everyday working lives, principally because they take more work-related decisions themselves rather than relying on managers. Decisions are taken further down the organisational structure, making communication of instructions easier as they have to be passed through fewer people. It also creates a need for upward communication, so that more senior managers are aware what has been decided.

Centralisation and decentralisation

Centralisation and decentralisation are opposites. A centralised organisation is one where the majority of decisions are taken by senior managers at the top (or centre) of the business. Centralisation can provide rapid decision making, as few people need to be consulted because all decisions are made by a small number of managers, possibly working at the organisation's head office. Centralisation is one way of ensuring that the business pursues the objectives set by senior managers.

Decentralisation gives greater authority to staff lower down the organisational structure, to employees in branch offices and other locations. The recent trend in the UK has been towards greater decentralisation and it can offer businesses a number of advantages.

- Decentralisation can improve motivation as junior employees are given greater authority. This can lead to improved performance and foster employee loyalty to the organisation.

Figure 12.5: The pros and cons of delayering

Advantages	Drawbacks
Delayering can improve the competitiveness of a business by reducing wage costs, especially as middle managers often earning high salaries	The experience and knowledge of middle managers may be missed in an organisation that has delayered
Delayering often gives junior employees a wider range of tasks and greater responsibility which may help to motivate them	Employees may not perform well in a delayered organisation if they fear that future organisational changes may put their jobs at risk
It is easier for junior and senior employees to communicate in a delayered organisation, and this may result in new ideas and perspectives	An organisation's training expenditure is likely to increase substantially after delayering as staff have to be prepared to take on new and more demanding roles
	Wide spans of control giving many staff a very heavy workload which may impair their efficiency

- Senior managers can benefit from a policy of decentralisation as it reduces their workload because more decisions are taken lower down the organisational structure.
- Many junior employees get a better understanding of operational matters following decentralisation. This can help them to gain promotion to more senior posts.

Decentralisation can also improve communication as many decisions are taken lower down the organisation, making it easier and quicker to inform the employees affected by any decision. However, there is a need to ensure that senior managers are aware of the results of decentralised decisions so that a business's overall performance can be co-ordinated.

business practice

Offshoring

Major British companies such as Lloyds TSB, HSBC and Norwich Union have transferred call centre and IT jobs from the UK to Asia in recent years in the hope of reducing costs. This process is called offshoring. In 2005, experts forecast that offshore outsourcing of call centre work could grow by 25 per cent in the next five years.

<insert pic of a call centre that looks like it is based in Asia>

Put yourself in the position of a senior manager at Norwich Union responsible for its call centre operations. How might the policy of offshoring affect the flow of information

- **within the area of the business for which you are responsible**
- **within the whole of Norwich Union?**

Decentralisation can assist businesses in introducing new products and entering new markets because it allows decisions to be made closer to the customer. This is why decentralisation is attractive to many large multinationals. They are simply too big and too diverse for the majority of decisions to be made by senior managers.

Decentralisation can create problems for businesses, however. It can result in a lack of communication and co-ordination. Northern Foods plc is one of the UK's largest manufacturers of chilled foods. It supplies about 34 per cent of Marks & Spencer's ready meals. However, the company has blamed disappointing performances on decentralisation. It said that decentralisation had increased costs and had not helped communication or consistent decision making.

stop and think

Imagine you are a manager for Coca-Cola with responsibility for selling the company's products in Germany. What benefits might you gain if the company introduces a policy of decentralisation? How might the company benefit if you have greater authority to take decisions?

business practice

Pernod Ricard

The French-owned company Pernod Ricard is the second largest producer of wines and spirits in the world. Founded in 1975 by the merger of two businesses, the company's brands include Malibu, Beefeater gin, Havana Club rum, Stolichnaya vodka, Jameson whisky and Mumm champagne. Pernod Ricard is a dominant presence in markets throughout the world, from Europe to Asia Pacific and North and South America.

The company has benefited from decentralisation as it has expanded its range of products and the markets in which it operates. It allows its managers considerable freedom in decision making.

The company's chief executive Patrick Ricard says: "We have local roots but global reach. Pernod Ricard is a very decentralised group – we try to make decisions as close as we can to consumers."

Figure 12.6: A matrix structure

	Chief Executive			
	Finance	Marketing	Operations	Human Resources
Project A Manager	Finance Staff	Marketing Staff	Operations Staff	HR Staff
Project B Manager	Finance Staff	Marketing Staff	Operations Staff	HR Staff
Project C Manager	Finance Staff	Marketing Staff	Operations Staff	HR Staff

Matrix structures

A matrix structure is a fluid one in which teams of employees with appropriate skills are assembled to carry out particular tasks. A matrix structure embodies flexibility, allowing individuals to use their skills to best effect. Project managers bring teams together for a relatively short time until the task is complete. Individuals may be part of two or more teams simultaneously. A matrix structure is often used by businesses such as marketing agencies and management consultancies that manage a number of different projects at one time. Figure 12.6 illustrates a typical matrix structure.

Matrix structures focus on the task in hand – launching a new product, opening new retail outlets, closing down factories or entering overseas markets for the first time. Project groups often have a strong sense of identity in spite of being drawn from various areas in the business. This is because they are pursuing a clearly defined objective, providing team members with a sense of purpose and responsibility. Matrix structures can assist in improving communication within an organisation as they bring together teams of people drawn from all areas of the business. This enhances communication between different levels in the organisation as well as horizontal communication between those at the same level in the business.

Matrix structures bring problems with them. Employees can find it difficult having two managers (project managers and departmental managers) because of divided loyalties. They can be uncertain about which parts of their work to prioritise and conflict can result. Matrix structures have a reputation for being expensive to operate: administrative and secretarial staff can be costly when used in support of a number of projects.

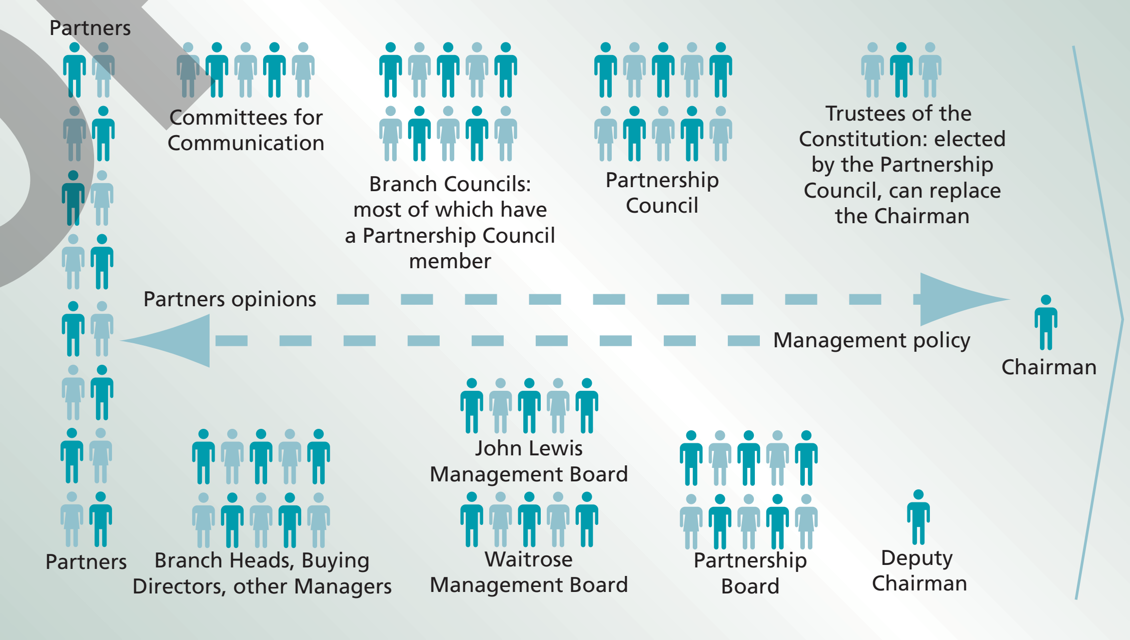
assessmentpractice

The John Lewis Group

The John Lewis Group is UK's largest department store chain with a network of shops stretching from Aberdeen in north-east Scotland to Bristol in south-west England. The company has twenty-six department stores with over five million square feet of space, as well as its Waitrose chain of 160 supermarkets.

The company is also Britain's biggest and longest surviving example of worker co-ownership. All 60,000 of John Lewis's permanent staff are partners in the business and share in its profits.

Figure 12.7: The organisational structure at the John Lewis Group



Source: Adapted from The John Lewis Corporate Brochure

A **John Lewis operates a relatively tall organisational structure.**

(i) What is meant by a 'tall organisational structure?

(ii) Explain how this might affect the business's ability to communicate effectively.

B **Assume the John Lewis Group is considering implementing a policy of decentralisation. Assess the likely effects of this on:**

(i) the flow of information throughout the business

(ii) its ability to assemble teams to manage projects (such as introducing new ranges of products to its stores).

Topic 3 Leadership

Setting the scene: the legendary Jack Welch

Jack Welch is arguably the best known leader of a business in the world. He was employed by the giant American corporation General Electric (GE) for 41 years, and last was the company's chief executive for more than 20 years. GE produces a wide range of products including jet engines, equipment to generate power and insurance.

Jack Welch has clear, but tough, views on leadership. Watch out for three things, he says, and success will follow.

- **Employee satisfaction – at GE every six months the firm's staff filled in a survey to check for signs of discontent**
- **Customer satisfaction – every half year the conglomerate's customers were asked to give feedback as well**
- **Cash flow – ignore short-term profitability, as long as cash flows you are doing fine.**

He wants to see managers create something, grow the enterprise, take care of their staff, train up new leaders, and make customers happy. So how does one do it? Go to business school? Read the latest books on good management?

"Go with your gut instinct, you've got to act on your gut," Mr Welch says. Yes, some management theory can provide useful tools, but gut feeling and the ability to recognise patterns in your business are the best assets a manager can have.

Jack Welch was certainly a tough manager. When he was running GE, every year the top 20 per cent of his managers were amply rewarded with bonuses and stock options, the middle 70 per cent benefited from the growth of the firm, and the bottom 10 per cent were axed.

Source: adapted from news.bbc.co.uk

What do leaders do?

The precise duties that fall to a leader depend on the type and size of business as well as the preferences and working style of any individual leader. However, it is possible to identify a number of common features that make up the workload of a leader.

- Leaders set objectives and a direction for the business. They must have vision and know where the business is going. This vision is most effective when it can be expressed in terms of targets for subordinates to achieve.
- Leaders should set standards for the business. This can lead by setting an example in terms of commitment, professionalism and ethical behaviour.
- Leaders need to recognise the skills that exist within the organisation and to make effective use of the human talent available to them.
- Leaders help to shape the culture of the business (the way in which it operates) as well as its organisational structure. (Microsoft, for example, adopts a very informal approach at its Seattle headquarters.) Some leaders prefer tall organisational structures with narrow spans of control. Others do not.
- Leaders may become role models for individuals within the organisation and may choose to build alliances of senior individuals to protect their position.

The demands placed upon leaders have increased over recent years. The increasing use of information technology has meant that senior managers have much more information available to take decisions. This can help them make better informed decisions but it can also risks information overload: leaders can have difficulty in selecting the key elements and trends from a multitude of data.

stop and think

How might the major duties of Marks & Spencer's chief executive differ from those of the owner and manager of a small garden centre?

Styles or types of leadership

There is a broad spectrum of leadership styles. However, it is possible to identify five distinct styles. These are:

- autocratic or authoritarian leadership
- paternalistic leadership
- democratic leadership
- participative leadership
- laissez-faire leadership.

Figure 12.8 illustrates how these styles relate to one another and the degree of freedom to which each gives to junior employees. This figure is based on the work of Tannenbaum and Schmidt.

1 Autocratic leadership

Autocratic leaders are also sometimes called authoFigure 12.8: A spectrum of leadership stylesritarian leaders. People who use this style of leadership exhibit several common characteristics.

- They give little freedom to junior employees to take decisions, preferring to retain control.
- Communication tends to be downwards; they give junior employees instructions and tasks.
- Autocratic leaders state objectives they expect employees to pursue; in other words, they allocate tasks and demand that subordinates act on their decisions.

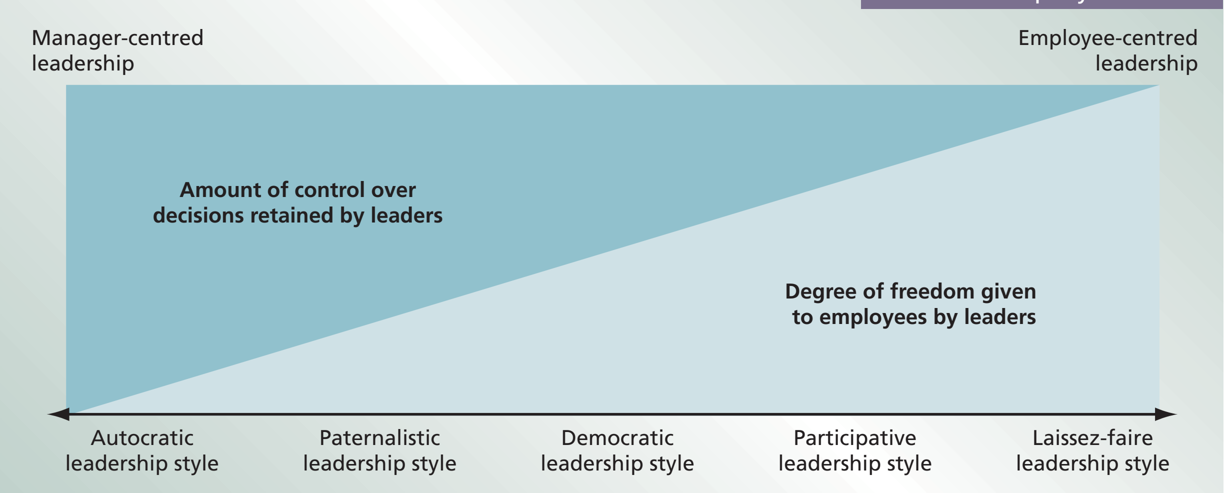
Autocratic leadership can have drawbacks. Employees in an autocratically led organisation often become very dependent on their leaders. Staff do not have the information, support and confidence to act on their own initiative. This can make the organisation less responsive and slow down decision making, as junior employees are reluctant to take action alone.

Organisations managed in an authoritarian style may face other difficulties. Autocratic leaders are often harsh critics of other people's work. If subordinates make mistakes, or are perceived to have performed poorly, they can face criticism and, sometimes, disciplinary action. This can result in staff trying to avoid "putting themselves on the line" – matters to be decided are either passed up for decisions to be made at a higher level, or decisions are made by committees to avoid any individual responsibility. Senior managers tend to be overworked, and it is not unusual for staff turnover to be high.

However, autocratic styles of management do have a part to play in modern businesses. An autocratic style might be appropriate in the several circumstances.

- When a quick decision is needed. This might be necessary, for example, if a company is facing a crisis. In 2004, Coca-Cola bosses took a rapid decision to withdraw its new bottled water (Dasani) from the market because it infringed health regulations. Senior managers decided not

Figure 12.8: A spectrum of leadership styles



to attempt to modify Dasani to make it comply with the regulations, because the product had attracted too much adverse publicity.

- When it is important that a uniform message is expressed by all employees, in an attempt to be convincing and to restore public confidence.
- When managers are responsible for a large number of relatively unskilled subordinates.

The term autocratic leadership includes the extremely forceful approach used in the armed forces to a softer but still largely autocratic style known as paternalistic leadership. We consider this approach to leadership next.

business practice

Morrisons attracts criticism

Sir Ken Morrison has been chairman of the Morrisons supermarket group since 1956. The company has been highly successful for many years with Sir Ken at its helm. Recently Sir Ken has come under pressure as the company has had to announce that its profits are significantly lower than expected. So what has caused this change?

Problems have arisen because of Morrisons' £3,000 million takeover of its former rival, Safeway, in 2004. At that time analysts thought it was a good decision and a triumph for Sir Ken. Morrisons was gaining control of a larger company, and it had done so before major rivals such as Tesco and Sainsbury could act.

The acquisition seemed an ideal marriage in that Morrisons was dominant in the north of England while Safeway owned many stores in the south. However, the businesses were different in many other ways. Different cultures, different customers and different accounting systems.

However problems soon occurred, and the autocratic Sir Ken came in for the majority of the criticism.

Why might Sir Ken's leadership style not have been appropriate for the new enlarged business?

2 Paternalistic leadership

Paternalistic leadership is broadly autocratic, but paternalistic leaders take the interests of the workforce into account when making decisions. They consult with junior employees over decisions and take some notice of the views expressed by subordinates. However, paternalistic leaders retain control over most decision making and only delegate minor decisions (and little freedom) to subordinates.

Paternalistic leaders regard their staff as part of an extended family. They feel they have a duty of care to their employees. Traditional UK companies, like the chocolate manufacturer Cadbury (now part of Cadbury Schweppes plc), have often adopted this approach in the past. Businesses using this style of leadership consider it important to meet the social and leisure needs of their staff. In the 1950s and 1960s, for example, many companies set up sports and social clubs for employees as part of their approach to leadership and motivating employees.

Paternalistic leaders often have loyal subordinates. Because staff feel protected and cared for, they are likely to show strong loyalty to the company. It is not unusual for paternalistically led businesses to have a low rate of labour turnover. This can help to reduce recruitment costs and improve competitiveness.

However, paternalistic leaders do not encourage their employees to use their creative and imaginative skills, nor do they encourage the use of initiative. This can mean that the business does not make the most effective use of its human resources.

3 Democratic leadership

Democratic leadership is a broad-ranging term encompassing a range of similar styles of leadership. In its most extreme form, it shades into full participative leadership (see below) in which some employees play a full role in decision making. More generally, democratic leaders allow subordinates some role in decision making. Some democratically led organisations arrive at decisions through a form of voting, but most take decisions on a more informal basis.

There is no fixed pattern to democratic leadership, but typically leaders:

- delegate some decision-making powers to subordinates (which can help to develop managerial skills in junior employees)
- encourage junior employees to express views and ideas which can help enhance the creativity of the management team
- listen to junior employees' views and explain why particular decisions have been taken.

Successful democratic leaders normally possess excellent communication skills and encourage effective communications up and down the organisation's structure. A considerable amount of a leader's time may be devoted to communication.

Employees working for democratic leaders frequently offer constructive and imaginative ideas and suggestions. This can raise staff morale and motivation, and most democratically-led employees gain high levels of satisfaction from their work.

As businesses have become larger and more complex to manage, some form of democratic leadership has become more common. This trend has been accelerated by delayering (see topic 2), which has resulted in relatively junior employees being given a greater role in decision making. Modern businesses are often large and complicated organisations, and the environment in which they operate is dynamic and changes rapidly. Leaders in these businesses are likely to need the support that democratic leadership can provide.

Democratic leadership does have some drawbacks. It can result in slower decision making as consulting with other employees can take time. Furthermore, it can allow some managers to absolve themselves of some of the responsibility for taking decisions. It may result in less consistent decision making in pursuit of the business's corporate objectives.

4 Participative leadership

Participation is a style of leadership in which business leaders fully involve one or more employees in determining what to do and how to do it. This is a highly democratic leadership style, giving employees a high degree of control over decision making and their working lives.

This style of leadership has similar advantages to democratic leadership, but arguably the benefits are more pronounced. It allows managers to utilise the talents and creativity of subordinates to the fullest extent. This can benefit the organisation both in developing new ideas and approaches as well as in increasing the skills and confidence of junior managers. Participative leadership is most valuable when businesses are required to take complex decisions requiring a range of specialist skills.

The downside is similar to democratic leadership too. Slower decision making and less consistency may be a price that has to be paid for the benefits of this style.

5 Laissez-faire leadership

Laissez-faire literally means "leave alone" and this accurately describes this style of leadership. This can be regarded as the most extreme type of democratic leadership. Laissez-faire leaders have a relatively small say in the management of the business. Subordinates are empowered to take many decisions without any reference to their managers. This means that businesses with laissez-faire leadership can lack co-ordination, and possibly a clear sense of direction. They can sometimes neglect the planning process.

The laissez-faire style of leadership sometimes exists because of the failings of the individual leader. The leader may not be confident enough or able to carry out the duties associated with the role. However, some determined and confident managers may use this style to utilise their employees' talents as fully as possible. It shows a degree of trust and respect for their employees. It may be an appropriate style to use when leading a highly creative and committed team.

Laissez-faire leadership can be successful in the certain situations, such as when:

- the leader or manager leads a well-qualified and experienced team of employees
- subordinates are highly motivated and supportive of the manager
- the leader and the employees are all pursuing the same objectives.

stop and think

Identify three situations in which laissez-faire leadership might be most suitable. Justify your decisions.

The skills of leadership

John Gardner, a US writer, studied a large number of North American organisations and leaders and came to the conclusion that there were some qualities and attributes that appeared common to good leaders. This suggests a leader in one situation could lead in another. These qualities and attributes include:

- physical vitality and stamina
- intelligence and judgement
- eagerness to accept responsibility

- understanding of subordinates and their needs
- skill in dealing with people and the capacity to motivate people
- courage and resolution
- trustworthiness
- decisiveness
- self-confidence and assertiveness
- adaptability and flexibility.

Style versatility

It may be that the best leaders are those who adopt a style appropriate to the situation that they face. The most talented are arguably the most versatile, able to call on one or more of the styles we have discussed having assessed the demands of the situation.

A versatile manager might adopt a democratic approach when reaching a decision on an advertising campaign with a small group of highly skilled and experienced writers and artists. In contrast, the same manager might deploy a more paternalistic style when deciding on methods of production to be used to supply an urgent large-scale order.

Victor Vroom and Paul Yetton, two US scholars, have taken this approach further. Their model of leadership assumes that leaders are adaptable and versatile. They say successful leaders should act according to the situation in which they find themselves. Their model concentrates instead on the degree of involvement that subordinates should have in decision making and relates this to the circumstances surrounding the decision.

If it is true that the most effective leaders are versatile, then this has a number of implications.

- Businesses may need to place greater emphasis (and spend more money) on training managers. In it unrealistic to expect managers to recognise the different needs of varied situations and how to respond most effectively without some training. In particular, managers will need training to help them move away from their "natural" style of leadership.
- A more flexible business culture may be required to cope with versatile management styles. For example, a business with a formal culture may experience difficulties adopting and maintaining a policy of delegating authority to more junior employees, particularly when a complex and challenging decision needs to be made.
- Junior employees may require support and training to work with a manager who uses different leadership styles according to circumstances. Subordinates may require training to enable them to carry out duties requiring higher degrees of independence.

assessment practice

Amazon's leader

In 1994, a thirty-year-old New Yorker called Jeff Bezos read about the internet. He moved to California and in a year had set up an online bookshop. When the orders came in, he packed and posted books from his garage. By 2005 Amazon.com was the world's largest online retailer. Its sales in 2004 were over £4500 million.

Jeff Bezos is an outwardly friendly character, but this hides a steely determination to achieve the highest possible rates of growth for Amazon. He even chose the name because of its association with size. Bezos has faced a lot of criticism, but has maintained a consistent leadership style since 1995. He imposes his style and approach on others and this has succeeded even as the company has grown and expanded into other countries such as Germany and Japan.

A **Some observers think that Jeff Bezos is a paternalistic leader. What are the key features of this leadership style?**

B **In what ways might Jeff Bezos have had to change his leadership style as Amazon.com has grown?**

C **Discuss the case for and against Jeff Bezos encouraging all his managers to adopt versatile leadership styles according to circumstances.**

Power and authority

Setting the scene: football club chairman calls new owner a dictator

The former chairman of a major Scottish football club has labelled the new owner a dictator. George Foulkes had been the long-serving chairman of Heart of Midlothian Football Club and initially welcomed the arrival of Lithuanian banker Vladimir Romanov as the club's major shareholder, and effectively its owner.

Foulkes resigned in October 2005 after Heart of Midlothian's chief executive Phil Anderton was sacked, their departures coming just 10 days after manager George Burley left the club "by mutual agreement". Many of the club's supporters supported Foulkes seeing Romanov as abusing his power and wealth.

Foulkes said: "Romanov is behaving like a dictator and if he continues there will be a revolution against him. Phil Anderton has only been there six months and has done a very good job – ask anyone in Edinburgh, ask anyone in Scotland. Not only were we top of the Scottish Premier League, our season tickets sales had doubled and we were planning ground expansion."

These events took place as Vladimir Romanov increased his shareholding in the club to 75 per cent, confirming his control of the business. Other shareholders who have sold out to Romanov hold a different view of his leadership style. He is seen as being a strong leader who has not misused his power, but is decisive in pursuit of his aim of making Hearts a top European club.

Vladimir Romanov has appointed his son, Roman, to be the new chief executive. Roman will rely heavily on his father's position for his authority.

Source: Adapted from news.bbc.co.uk

KEY TERMS

Power exists when one person can get another person to do something that otherwise they would not want to do.

Authority is a special form of power, in the sense that it gives people the right to give commands which others accept as legitimate.

Distinguishing between power and authority

Power and authority are very important topics in understanding the management of people. A manager has power over someone when he or she can get that person to do something that otherwise they would not want to do. Managers exercising power can get staff to act in a way that they want, irrespective of the subordinates' views on the matter.

The most obvious source of power is control over something of value to someone else. In business, an important source of power for some managers is control over the jobs and wages of employees and the influence they can exert on promotion decisions.

Authority is important too. It is a special form of power in the sense that it implies voluntary agreement by subordinates who recognise the legitimate right of their superiors to give orders. Writing nearly 100 years ago, Max Weber identified three forms of authority:

- traditional
- charismatic
- rational/legal.

Traditional authority

Some people have authority because of tradition or custom. The most obvious examples are royalty: they have authority by custom and tradition, with succession arranged through birthright (because of parentage) rather than any particular innate ability. Many entrepreneurs have appointed their sons and daughters to senior posts within their businesses, often when relatively young. For example, three of Rupert Murdoch's children have held senior posts within the media business he has built up and controls. His son James, who became chief executive of satellite broadcaster BSkyB at the age of 30, is expected to become the next chief executive of News Corporation, though this appointment may prove controversial.

Charismatic authority

Charismatic authority arises out of an individual's personality. An example of a leader noted for his charisma is Michael Grade, the chairman of the BBC. This type of authority is based on followers' assessment of the person's abilities. In many cases, charismatic authority supplements other forms of authority, such as rational and legal authority.

Rational/legal authority

Max Weber associated rational and legal authority with bureaucratic businesses. This form of authority relates to someone's position within the organisation, rather than the person as such. An important source of authority comes from the way in which a person is selected for office. For example, a chief executive might be selected following a lengthy selection process. The legitimacy of the chief executive comes from the belief that he or she was selected in a fair competition. Usually this requires that the post is advertised so anyone could apply, reasonable criteria are used in deciding who would be suitable, and fair methods are used to determine which of the applicants best met these criteria.

Managers who are perceived to lack authority are likely to experience difficulty in leading and controlling subordinates. Specifically:

- subordinates may question leaders' decisions and spend long periods arguing about instructions
- subordinates may waste time criticising their manager rather than carrying out their duties
- junior employees may ignore managers' decisions and take actions independently, resulting in a lack of co-ordination and weakening a business's general sense of direction.

Sources of power

There are numerous sources for power. Here we consider five specific sources of power, and look at how staff may respond to each type of power and how it may affect the relationship between managers and subordinates.

1 Coercive power

Coercive power is based on the subordinate's fear of the leader. This form of power is normally maintained by the use of threats and punishment. Managers may exercise coercive power through the frequent use of reprimands and a hostile attitude, threatening subordinates with the loss of status, the loss of their jobs or, in extreme cases, physical force. Aggressive language or a powerful and dominant physical presence are other forms of coercive power. This form of power is often linked to the most extreme form of autocratic leadership.

Staff can be scared of a manager whose position is based upon coercive power. They may be afraid of being shouted at, of suffering financial loss due to demotion, or of being sacked. Coercive managers use this fear to ensure that their orders are carried out.

Unsurprisingly, coercive power has many drawbacks. Many people do not perform well in this kind of environment. Few people respond to an approach that is all stick and no carrot. Employees cannot develop their skills and use attributes such as creativity when controlled by a manager exercising coercive power. Some will simply not tolerate it, and coercive power can result in high labour turnover.

More generally, coercive power does not encourage open communication between subordinates and their managers. Subordinates will be unwilling or feel unable to communicate freely with managers, they will not offer suggestions and ideas or use their initiative for fear of upsetting their manager. Communication is limited to managers passing instructions down to subordinates.

stopandthink

Are there circumstances where coercive power might be an effective basis for management? Can you think of any organisations in which coercive power is frequently exercised? If so, do you think that they are effective. Justify your answers.

2 Reward power

The ability to provide rewards for followers gives leaders a form of power. Subordinates comply with a manager's requests because they expect to benefit through improved pay, promotion or recognition as a consequence. Rewards can be anything that a person values, and some leaders offer quite subtle rewards to get their way, using praise, compliments or flattery to reward subordinates for undertaking particular actions or tasks. In some senses, reward power is the opposite approach to coercive power in that it encourages good performance through incentives rather than threats.

Reward power can be built into the culture of the business and its approach to leadership and management. The high street chemist, Boots, offers all staff rewards in the form of discounted products and a range of other benefits.

<insert screen grab of Boots rewards page from: http://www.jobpartners.com/jpapps/bootsjobs/stores/rewardstores.htm>

Other businesses pay employees through commission which is related to the achievement of key targets. Employees selling financial services are often rewarded in this way.

Reward power is more likely to be associated with a democratic style of leadership. Many staff respond positively to the exercise of reward power, though the precise motivational impact of specific rewards varies between individuals. The next topic on motivation (see page XX) considers this issue in more detail.

Managers using reward power may find that staff respond positively and are willing to offer ideas and suggestions as well as to take on additional duties and responsibilities. This source of power can be effective in a variety of circumstances. It can be particularly useful in situations in which employees are required to show initiative, or where staff do not work under close or direct supervision.

business practice

Rewards at Norwich Union

Norwich Union Life has offices in 13 main locations around the UK and offers a wide range of products covering pensions, investments, life assurance and healthcare insurance. Norwich Union Life has around six million customers and employs over 14,000 people.

<insert Norwich Union logo or something associated with company>

Norwich Union offers staff rewards as part of its VIP awards programme. Employees who are considered to have shown particular merit can be nominated by their colleagues throughout the year to receive a bronze, silver or gold VIP award. These awards reflect the differing levels of achievement by individuals or teams. Each award is worth a number of value points, which can be redeemed on a discount shopping website. Award winners also receive formal recognition of their contribution through, for example, a listing in the company's staff magazine.

Why might a provider of financial and insurance products such as Norwich Union chose a system such as its VIP awards which are based on rewards as a source of power?

3 Expert power

Possession of particular expertise, skills and knowledge can give power. Leaders with these attributes have the power to make decisions, as subordinates are likely to recognise the leaders' expertise and be willing to follow suggestions. The more important and unusual the expertise, the greater the power associated with it.

Expert skills can give a leader legitimacy. However expert power also derives, in part, from the difficulty of finding replacements if "experts" leave an organisation, and so experts can be perceived as being invaluable to the business. Senior figures such as professors at universities and very experienced chief executives can exercise expert power. Some more junior employees may also do so as a result of long experience with a particular aspect of the business. For example, experience personal assistants may have a degree of expert power due to their knowledge of the business, the relationship they have built up with important clients, and their understanding of the market generally.

Managers with expert power may seek to prevent other employees acquiring their particular knowledge and skills. In this way, they can maintain their power base. They may offer subordinates some elements of their particular knowledge and skills to gain their support or to get agreement on a particular course of action. Staff are likely to be willing to accept instructions from an "expert" so long as the expert maintains their respect and is not seen to abuse the power that the expertise confers.

4 Legitimate (position) power

Legitimate power derives from a person's position or job in an organisation. Legitimate power increases as you go up an organisation's hierarchy: a director would normally exercise more legitimate power than a middle manager. However, some managers are more likely to try exercising legitimate power than others. For example, some managers will respond to any questioning of their decisions with a curt "I'm the boss" – an appeal to their legitimate power – whereas other managers may try to direct subordinates using other forms of power.

Organisations vary in the extent to which they emphasise and reinforce legitimate power. At one extreme are Britain's police forces, which have many levels of command, different uniforms to denote various levels of authority and rituals such as calling senior officers sir or ma'am to highlight the relative power of individuals. In contrast, some modern businesses such as Microsoft operate relatively flat organisational structures, place little emphasis on job titles, and strongly value talent and creativity over hierarchical positions.

Legitimate power does not always result in effective and flexible organisations. It gives employees power because of their roles, rather than because they have particular skills and talents. However, many people are used to accepting (and using) legitimate power. Research in multinational companies shows that employees say that legitimate power is the major reason why they follow their bosses' orders.

stopand**think**

To what extent might the organisational structure of a business reflect the importance of legitimate power in the firm?

5 Referent power

Referent power derives from a leader's charisma. People are more likely to follow the lead (and instructions) of someone they like and admire. Many employees identify with managers who hold referent power, seek their approval and use them as role models. Strong interpersonal skills may allow managers using referent power to have influence across the business. This can work outside the usual channels of legitimate authority, reward and coercion.

Referent power can be potent. Subordinates identify with a charismatic leader, and they are more likely to follow instructions and to believe in – and work hard to achieve – the leader's policies and goals. This gives charismatic leaders considerable power because their employees have a belief in what they are doing – they are not merely following orders to receive rewards or to avoid punishment. And, as employees and leaders share the same values, it encourages interaction between managers and subordinates.

Of course, anyone in a business may have charisma and be well liked, irrespective of their status and position within the organisation. This means that referent power can be exercised by people at all levels within the organisation.

stopand**think**

Can you think of any managers in the public eye that exercise referent power? What are the qualities that make them successful?

What works in the long term

A series of studies of organisations of all types have shown that coercive power and reward power have a fairly limited lifespan. Legitimate power doesn't really last either. After a while, people start to want more in a leader than just a title. The most long-lasting forms of power, the ones that bring the most change, are based on a leader's expertise and charisma, and the qualities they express.

assessmentpractice

Bernie Ebbers and WorldCom

Bernie Ebbers was both feared and admired during his period as chief executive of WorldCom, the US telecommunications company which collapsed following financial mismanagement and fraud by its senior managers. A big man, Ebbers had a number of jobs including spells as a nightclub bouncer and a basketball coach before his business career.

Ebbers used a mixture of ruthlessness and charisma to achieve a series of deals which made WorldCom one of America's largest telecom companies. Under Ebbers' control WorldCom pursued an aggressive strategy taking over 50 small telecommunications businesses. Ebbers made his name as a successful and ambitious manager when sealing the deal which saw WorldCom buy a major rival (MCI) for $40,000 million, one of the largest corporate deals in history.

Some reporters writing about the collapse of WorldCom have suggested that it was Ebbers' aggressive management style that was the basic cause of the company's troubles. Some who knew Ebbers described him as brusque and short-tempered with a reputation for throwing unprepared colleagues out of meetings. Yet he was also charming and caring at times. He opened shareholder meetings with a prayer, could charm important people and was not worried about eating meals in WorldCom's cafeteria amongst junior staff.

At the trial which followed the collapse of WorldCom, Ebbers maintained that he was not aware of the fraud being perpetrated at the company which eventually cost its shareholders an estimated £120 billion. Despite this, Ebbers was found guilty and sentenced to 25 years in jail.

A **Bernie Ebbers exercised power and authority. What is the difference between these two terms?**

B **Explain the sources of power that Bernie Ebbers may have drawn upon during his time as chief executive at WorldCom.**

C **Discuss how Ebbers' use of power might have affected WorldCom's employees and the efficiency with which they carried out their jobs.**

Topic 5 Motivation

Setting the scene: report says employees think colleagues are lazy

A survey for Investors in People by YouGov has found that most people think that their colleagues do not pull their weight in the workplace. The survey uncovered that three quarters of UK bosses and 79 per cent of their employees thought some colleagues were lazy and underperformed. About 50 per cent of employees said they worked closely with someone they think is "deadwood". Nearly 40 per cent of the employees interviewed said that managers did not take action to improve the performance of poor workers.

The Investors in People survey revealed that the problem of poorly performing employees was more common in larger organisations. The survey showed that 84 per cent of workers in organisations with more than 1,000 employees thought they had an underperforming colleague, compared with 50 per cent in firms with under 50 workers.

The survey found that the employers and employees agreed that the top three indicators of employees "not pulling their weight" are:

- **prioritising personal life over work**
- **refusing extra responsibility**
- **passing off colleagues' work as their own.**

Both employers and employees also agreed that the major reason for someone failing in their job was sheer laziness. Employees reported that they had to work longer hours to cover for shirking colleagues and felt undervalued as a result. Ultimately, working alongside a lazy colleague could prompt workers to look for a new job the survey found.

Ruth Spellman, chief executive of Investors in People UK, commented: "This survey lifts the lid on an issue that bosses have shied away from traditionally. It's clear from the findings that UK managers are aware that deadwood is a problem that can damage their organisation – but are failing to do anything about it. However, left unchecked, staff who don't pull their weight can breed resentment amongst colleagues and cripple an organisation's productivity. It's vital that managers are equipped with the skills and confidence to tackle the issue before it becomes a problem."

Source: Investors in People press release, 19 August 2005

Models of motivation

Motivation can be defined in two ways. Some writers believe that motivation is the willingness to achieve a target or gaol. This assumes that employees require some external factor or stimulus to motivate them. Other writers define motivation as the will to work because of enjoying work for its own sake. (Such people might talk about "loving their job".) This view of motivation suggests that motivation comes from within an individual employee.

However one defines motivation, it is undoubtedly important to all businesses, and especially those in the service industry. Business with highly motivated workforces benefit in several ways.

- Worker absenteeism is likely to be low, ensuring that the supply of goods and services is not interrupted.
- The workforce is more likely to be highly productive and to supply a high-quality product with few errors. This can make the business highly competitive.
- Motivated employees are more likely to offer ideas and suggestions to improve the production process and the business's goods and services.
- Labour turnover is more likely to be low, because motivated employees are more likely to experience job satisfaction. This can help a business to avoid the substantial costs incurred in recruiting and training new employees.

There are many models or theories of motivation. We consider two models, based on the work of Abraham Maslow and Frederick Herzberg, in some detail. Maslow's and Herzberg's models are similar in the sense that they both consider the psychological aspects of work. By examining the psychological needs of workers, Maslow and Herzberg argued that managers should see employees as individuals with different needs, hopes and personalities. Their models highlight the fact that because people are different, and have varying needs, different techniques will be required to motivate them. It is from this standpoint that Abraham Maslow devised a model of motivation based on meeting people's needs in the workplace.

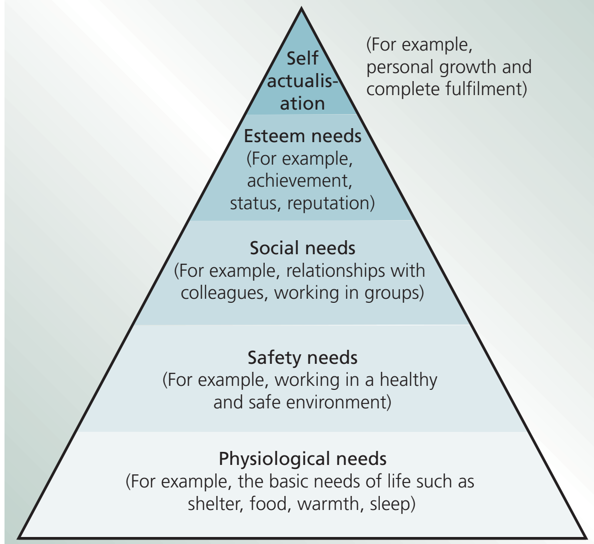
stop and think

Imagine you are a manager of a large hotel in central London. What benefits might you find (as a manager) from having a workforce which is highly motivated?

1 Maslow's hierarchy of needs

Maslow (1908–70) was a lecturer in psychology at Brandeis University in the USA. His main ideas are set out in two publications *Motivation and Personality* (1954) and *Toward a Psychology of Being* (1962). Maslow's hierarchy of needs sets out the five levels of need which he believed every employee wants satisfied through work. Maslow famously presented his hierarchy of needs as a triangle with basic needs shown at the bottom and his higher needs at the top.

Figure 12.9: Maslow's hierarchy of needs



Maslow's argument was straightforward. He argued that employees want to have several needs met through employment. Maslow put these needs into

business practice

putting Maslow into practice

Vodafone's call centres offer a range of customer services, such as help with lost or stolen mobile phones, registration of new customers and top up services for subscriber credit. Call centre staff work shifts to ensure the service is available for long hours each day. Figure 12.10 shows how a manager of a Vodafone call centre might use Maslow's principles to motivate staff.

Figure 12.10: Using Maslow to motivate call centre staff

Maslow's level	Examples	Satisfying needs of call centre staff
Physiological needs	Food, shelter, heating	Through a pay system which is fair and affords a good standard of living
Safety needs	Safe, healthy working environment for employees, job security	Giving employees permanent contracts of employment so that they have some job security and the expectation of a regular income
Social needs	Interacting with other employees	Offering the call centre staff the chance to work in teams, and providing staff social facilities for use during breaks and after work
Esteem needs	Promotion, recognition and status	Allowing teams within the call centre to take some decisions themselves, for example drawing up rotas, identifying and meeting training needs
Self-actualisation	To use individual talents to their fullest extent	Giving staff the opportunity to develop new skills and to suggest means of improving the service provided by the call centre

five categories. What was unique about Maslow's model was that he believed these needs formed a hierarchy. Maslow argued that only once a lower level need has been met would employees want to have needs higher up the hierarchy satisfied.

Maslow's central point was that managers can motivate employees by providing the chance to satisfy needs at work, but they need to do this by satisfying basic needs and then continue the process of motivation through offering the chance to satisfy the next level of need in the hierarchy. So a manager can start to motivate employees by offering a fair rate of pay which allows staff to pay for the basic necessities of life: food, shelter, heating, etc. Further motivation would depend upon the manager providing a safe and secure working environment. Employees might be further motivated by the provision of a permanent contract of employment. This would give some guarantee of employment for the foreseeable future.

At a higher level, an employee might have social needs met by working as part of a team. Further motivation could be provided by the offer of team leadership. This could allow the employee to fulfil esteem needs such as responsibility and recognition.

Maslow's model has attracted much attention ever since it was published. It gives managers in the workplace a range of ideas on how to improve the performance of their subordinates. Maslow's achievement was that he encouraged managers to think about employees as individuals, to move away from the sole use of money as a motivator, and to think about the design of jobs as a primary method of improving the performance of individual employees and the business's workforce as a whole.

2 Frederick Herzberg's two-factor theory

Writing in the 1950s and 1960s, Frederick Herzberg was the first researcher to show that satisfaction and dissatisfaction at work arose from different factors. Herzberg's two-factor theory, drawn originally from an examination of the working lives of engineers and accountants and later from sixteen other studies investigating other professionals, suggests that the factors that determine job satisfaction (and serve to motivate employees) are completely different from the factors that create job dissatisfaction.

Herzberg found that the factors that might enhance job satisfaction and motivation include:

- achievement
- recognition for achievement
- work itself
- responsibility
- growth
- advancement.

Herzberg's view was that managers should seek to motivate people by giving opportunities for achievement, and that they should recognise and celebrate achievement by employees. Using Herzberg's "motivators" can help individuals to enjoy and grow in their jobs.

A fundamental finding of Herzberg's work was that the design of jobs has the biggest impact on levels of motivation. Jobs should be designed to allow employees to achieve personal targets and goals, and there should be opportunities to offer praise and recognition. Job should be designed to help employees develop an interest in their work by, for example, allowing them to concentrate on aspects of the job in which they have genuine interest and expertise.

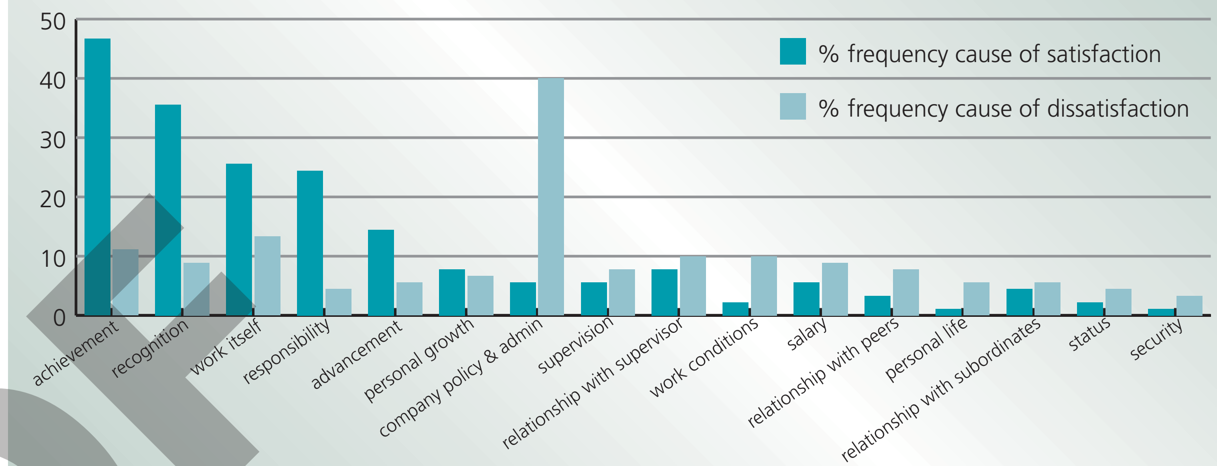
The second key element of Herzberg's two-factor theory is the finding that there are many factors in the workplace that do not actually motivate staff, but which can lead to employee dissatisfaction if they are inadequate. Herzberg's research identified the factors most likely to cause dissatisfaction. He called these "hygiene factors", and they include:

- company policy
- administration
- supervision
- interpersonal relationships
- working conditions
- salary
- status
- security.

Herzberg's research classified pay as a hygiene factor and, therefore, he argued that pay was not able to motivate staff. This is perhaps Herzberg's best-known finding: employees cannot be motivated by pay. Herzberg's research highlighted other factors that may cause dissatisfaction. For example, he recommended that managers should minimise the unnecessary paperwork, rules and regulations that employees often encounter during their working lives.

Herzberg believed that any attempt to improve the workplace through either boosting motivators or tackling hygiene factors should be done

Figure 12.11: Herzberg's motivators and hygiene factors



Source: www.businessballs.com

simultaneously. Managers should avoid actions and circumstances that cause employee dissatisfaction, while seeking to create jobs and projects that contain motivators to stimulate employees.

3 Douglas McGregor's theory X and theory Y

Douglas McGregor was, like Maslow and Herzberg, a psychologist. He published his most famous book, *The Human Side of the Enterprise*, in 1960 and even though he died over 40 years ago his ideas continue to influence management thinking.

McGregor's theories, though included in this section, are not theories of motivation. Instead McGregor examined how managers view their subordinates. His work helps to inform us how different types of managers and leaders might set about motivating employees. However, McGregor's work does not identify explicitly techniques that may be used to enhance the performance of employees by improving their motivation.

In investigating the attitudes held by managers towards their employees, McGregor discovered that the different views held by managers could be placed them into two broad categories. He memorably labelled these categories theory X managers and theory Y managers (see Figure 12.12 on page XXX). McGregor developed this insight by setting out the assumptions that underlay the attitudes of the two types of manager that he had identified.

McGregor argued that theory X managers would carry out their work based on the belief that:

- the average employee dislikes work and will avoid it if he or she can
- unsupervised employees will not perform efficiently
- employees are motivated by money
- the average person prefers to be told what to do, and wants to avoid responsibility
- employees are not ambitious.

In contrast, managers with theory Y beliefs and attitudes make entirely different assumptions about their employees. These are that:

- effort in work is as natural as work and play
- employees are able to work efficiently without constant supervision
- commitment to objectives is a function of rewards associated with their achievement
- employees usually accept and often seek responsibility
- most employees possessingenuity and creativity, and they want to use these skills in their work
- employees seek satisfaction from work and not merely financial rewards.

McGregor's work is a simple reminder of the natural rules for managing people, which under the pressure of day-to-day business are all too easily forgotten. It is a principle from which to develop positive management styles and techniques. We shall consider the application of McGregor's ideas, as well as those of Maslow and Herzberg in the next topic.

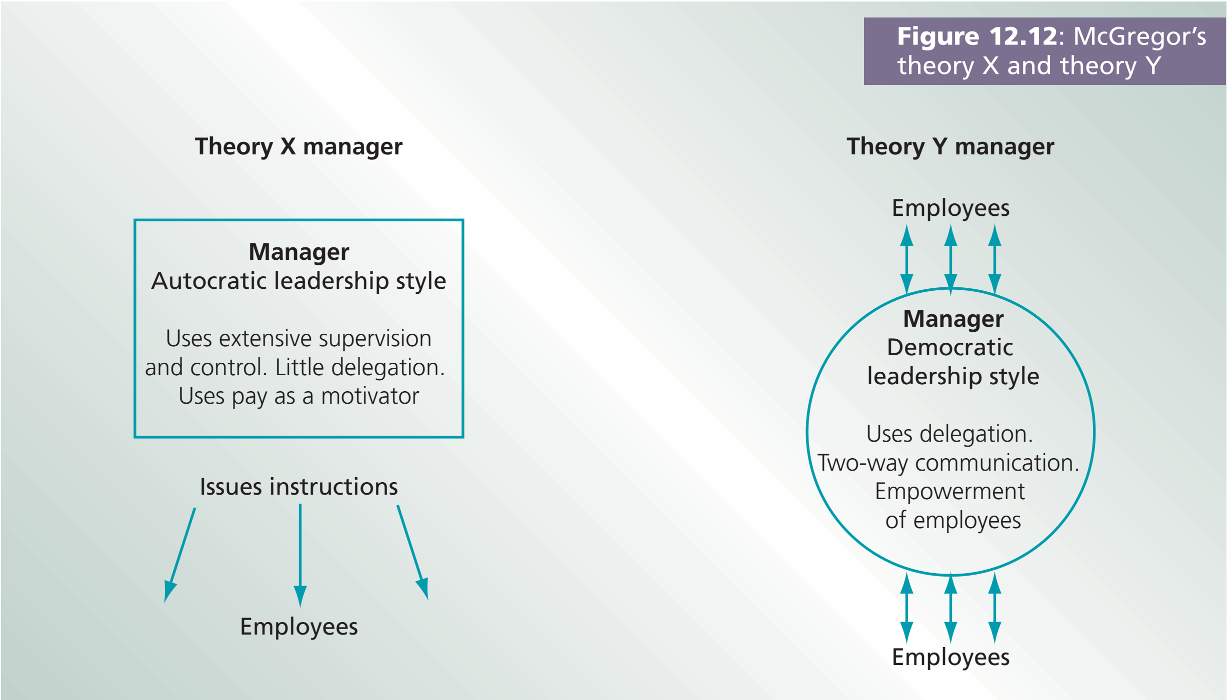


Figure 12.12: McGregor's theory X and theory Y

assessment practice

Nissan's motivated workforce

In 2005, the Japanese-owned car maker Nissan announced that over four million cars had been produced at its Sunderland factory. This represented a major milestone for Europe's most efficient and productive car manufacturing plant. High levels of employee motivation and efficiency have contributed to the success of the Sunderland factory. In 2004 alone, the factory manufactured 320,000 cars.

Nissan operates an extensive training scheme for its employees, which lasts 20 months in total and is delivered through a mix of training and work experience in the factory. In recent years the company has offered its employees extended holidays, however wages are lower than in other car factories elsewhere in the European Union. There is a good pension scheme, although workers appointed after September 2003 are offered a less attractive pension package.

The company's managers have expressed praise for the efforts of the workforce and have stressed how important the committed and highly motivated workforce has been in making its Sunderland factory highly productive. Nissan has supported its workers on the production line with significant investment in technology.

A **What is meant by "a highly motivated workforce"?**

B **What evidence is there that Nissan's managers have based their approaches to motivation on Herzberg's two-factor theory?**

C **Nissan has a productive workforce because it designs jobs to motivate its employees. Discuss the case for and against this view.**

Models of motivation in practice

Setting the scene: stress in the workplace damages employee motivation

A survey by the employment specialists, Kelly Services, of 19,000 workers across Europe has revealed that many employees face high levels of stress in the workplace. The survey showed that 20 per cent of UK workers who were surveyed said their jobs were "too stressful" or "far too stressful". Male employees, older workers and those in senior positions with high levels of responsibility face the highest levels of stress, according to the survey.

Steve Girdler, Kelly Services UK's marketing director, warns that workplace stress can have a significant impact on individuals and their performance at work. "A certain amount of stress can be a good thing as it pushes people beyond their comfort zone to work harder and smarter. But high levels of prolonged stress are not good because they impact on productivity and are associated with physical and emotional illness."

Stress levels were much higher for workers aged 45 and over with greater levels of responsibility and for those who had held jobs for a considerable period of time. Girdler commented that "workers facing… high levels of stress are not performing to their optimum, while their own situation is probably impacting on colleagues, customers or others in the organisation".

Girdler concluded that it was important for employers to design jobs that achieved the right balance between challenging and stressful work. He said that the survey revealed that people are happiest when they are given tasks that stretch them and encourage them to develop new skills and competencies, but that the work must not be too demanding.

Source: Kelly Services media release, 18 October 2005

Motivation models and individual employees

One important and common theme to emerge from the models of motivation created by Herzberg and Maslow is that employees need different factors to motivate them at different times and in different circumstances. The theories challenge managers to consider the needs of their employees in the workplace and to design jobs and create environments that allow work to be more fulfilling.

1 Motivating skilled and unskilled employees

Skilled employees are only able to carry out their jobs effectively when they have acquired the necessary skills and knowledge; this usually requires considerable training. Skilled workers – like electricians, website designers and accountants – are likely to be in demand by businesses and many will receive good salaries and have a permanent contract of employment. In terms of Maslow's model, their physiological and security needs have been met. The key to motivating skilled workers, therefore, might be to design jobs and the working environment to allow workers to fulfil their higher needs.

Maslow's model suggests that to motivate skilled employees businesses should consider:

KEY TERMS

Empowerment is the process of allowing subordinates to have greater control over their working lives by, for example, letting them make many of their own decisions.

Delegation is the passing down of authority to a junior employee for a particular task. This is often limited to specific tasks and activities; in contrast, empowerment is a more general philosophy of passing down of authority and control.

Job enrichment is the process of designing jobs containing tasks of varying complexity that allow employees to use their abilities to a greater extent.

Job enlargement extends the range of duties associated with a particular job.

- organising work in teams to allow employees to interact and to meet social needs
- offering employees the chance of promotion and also recognition for successes in their working lives
- enriching jobs by making tasks more complex and demanding and giving workers more responsibility, perhaps by giving teams responsibility for organising their working day, managing budgets or appointing new staff.

Herzberg's model would encourage a similar approach, except that he placed little emphasis on teamworking.

Employees with fewer or no skills are likely to receive much lower rates of pay than skilled workers. Low-skill workers may be on piece rates; that is, they receive a certain amount of pay for each unit of output they produce. For example, telephone sales assistants' pay may be related, in part at least, to the number of sales they achieve. Some low-skilled or unskilled workers may also not have a permanent contract of employment; some work in difficult and dangerous environments (agricultural workers, for example). Maslow's model suggests that low-skilled workers may be motivated through ensuring that their lower needs are met. Herzberg would disagree to some extent. His model simply predicts that increasing pay, improving job security and personal safety would reduce job dissatisfaction, but not improve motivation.

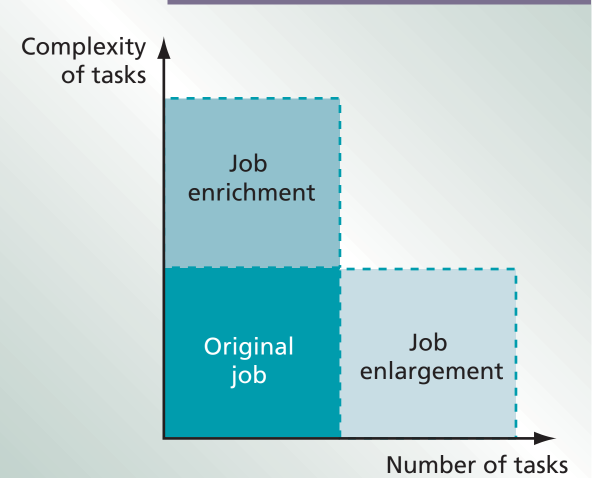
2 Manual workers and knowledge-based employees

Manual work involves some kind of physical labour. Manual workers include plumbers, production line workers, car mechanics and gardeners. One problem with manual work is that it can become repetitive, especially in a factory environment. This can result in boredom and demotivation.

Managers need to recognise that they could increase the motivation of manual employees by extending the range or complexity of tasks that they are required to carry out. Simply extending the range (or diversity) of tasks that employees carry out, but not making them more complex is termed job enlargement. Redesigning employees' jobs to make them more demanding is called job enrichment. Figure 12.13 illustrates this distinction.

Some manual employees might be motivated through offering them a broader range of tasks. For example, production line workers could be required to carry out a range of tasks, rather than carrying out a single task repetitively. Ford uses this approach successfully in a number of its car manufacturing plants. However, although this approach is used widely in practice, it would not necessarily motivate according to Maslow's and Herzberg's models. Their theories would require that workers are also given greater responsibility, perhaps for ordering materials or for quality checking, if their motivation is to be enhanced.

Figure 12.13: Job enrichment vs job enlargement



Knowledge-based employees – like solicitors, teachers, journalists and many managers – use predominantly mental rather than physical effort at work. Stimulating a knowledge-based worker will almost certainly require jobs to be designed to incorporate Herzberg's motivators or to allow Maslow's higher needs to be met through work. One approach could be job enrichment. A junior manager might be motivated by being given responsibility for a particular project such as developing new publicity materials for the business. Further motivation could be achieved by his or her line manager offering praise and according recognition if the project is successfully completed.

Job enlargement is unlikely to be a successful strategy. Offering a broader range of tasks is less likely to motivate knowledge-based workers. Teachers may not want to teach a greater variety of subjects; but they could be motivated by being given greater responsibility for teaching one particular course. Recognition, in the form say of becoming a course leader, may be an effective motivator for teachers.

3 Motivating staff of different ages

The models of motivation developed by Herzberg and Maslow do not specifically take account of an employee's age. However, younger people normally hold more junior positions within businesses, often on temporary contracts of employment, and they usually receive lower rates of pay. Maslow might suggest that designing jobs to ensure that lower needs are met as fully as possible might be the best way to motivate younger employees.

Older employees may be more senior and they are more likely to be financially secure, so Herzberg's motivators will be essential elements in improving performance of the older sections of the workforce. Older workers sometimes feel that age discrimination limits their chances for any further promotion, so ensuring that promotion is clearly based on merit and not age will be an important aspect of managing this age group successfully. Redesigning jobs to offer more responsibility, as well as greater diversity, may also help to raise the performance of someone who has been in the same job for many years and may be becoming stale.

However, it important for managers to realise that they should not stereotype workers according to age. Many young workers are likely to be enthusiastic and keen to progress. They may be motivated by the work itself, and offering them a chance to take responsibility early in their careers may be a successful strategy. If younger staff have the ability and confidence to handle responsible positions, then the company and the individual employees may benefit. Older workers may not want greater responsibility; security may be more important to them. Some older workers fear losing their jobs, and coping with new positions can be difficult later in life.

4 Paid and voluntary work

Paid employees receive wages or salaries as a reward for their efforts in the workplace. However, some people undertake voluntary work for no pay. Many staff used by the Samaritans, for example, are unpaid. Voluntary workers do a job for many reasons, but clearly pay is not a motivation as they do not receive any financial reward for their work. Some voluntary workers are motivated by the desire to help others; some take voluntary roles because the work fits in with their political beliefs; some volunteer because they have retired from paid work and want to keep active. The voluntary sector is fairly substantial, and examples of voluntary work include:

- working in charity shops
- working in hospitals, such as providing drinks and snacks for patients' relatives and visitors
- environmental work, such as clearing litter from places of natural beauty.

Voluntary workers are likely to be motivated by factors such as meeting social needs. Achievement is a particularly important motivator. If voluntary workers can see that their efforts are achieving desired goals, they are likely to be fulfilled in their work. For example, a volunteer in a charity shop may gain great satisfaction at the end of the day from totalling the shop's takings and seeing that it amounts to a considerable sum. A wise manager might make sure that this is part of the volunteer's duties. Praise and other forms of recognition of achievement are also important motivators in the absence of financial rewards. Of course, these factors are important to those in paid jobs, but they must be underpinned by suitable financial rewards and job security, as both Herzberg and Maslow recognised in their models.

Leadership styles and motivation

In topic 3 (see page XX), we looked at the range or spectrum of leadership styles. These vary from highly autocratic leaders, who like to be in total control and offer little freedom, to laissez-faire managers, who give employees a very high degree of control over their working lives. Figure 12.14 links this spectrum of leadership styles to the models of motivation and leadership developed by Abraham Maslow, Frederick Herzberg and Douglas McGregor.

1 Autocratic and paternalistic leaders

Although autocratic and paternalistic approaches are rather different leadership styles, these leaders are likely adopt some common techniques in motivating employees. Autocratic and paternalistic leaders like to be in charge and to retain control, even though paternalistic leaders may seek to hide this fact. This greatly limits the range of techniques they will use to motivate employees.

These leaders have a (McGregor's) theory X view of their subordinates: they believe that staff do not seek responsibility and need close supervision if they are to work efficiently. The prime motivational technique used this group of managers is money. They use financial incentives and bonus schemes to get the best out of their workforce and delegate little, if any, authority to their subordinates. Autocratic and paternalistic leaders want to take decisions themselves, and this rules out any attempt to motivate junior employees through allowing them substantial amounts of decision-making power.

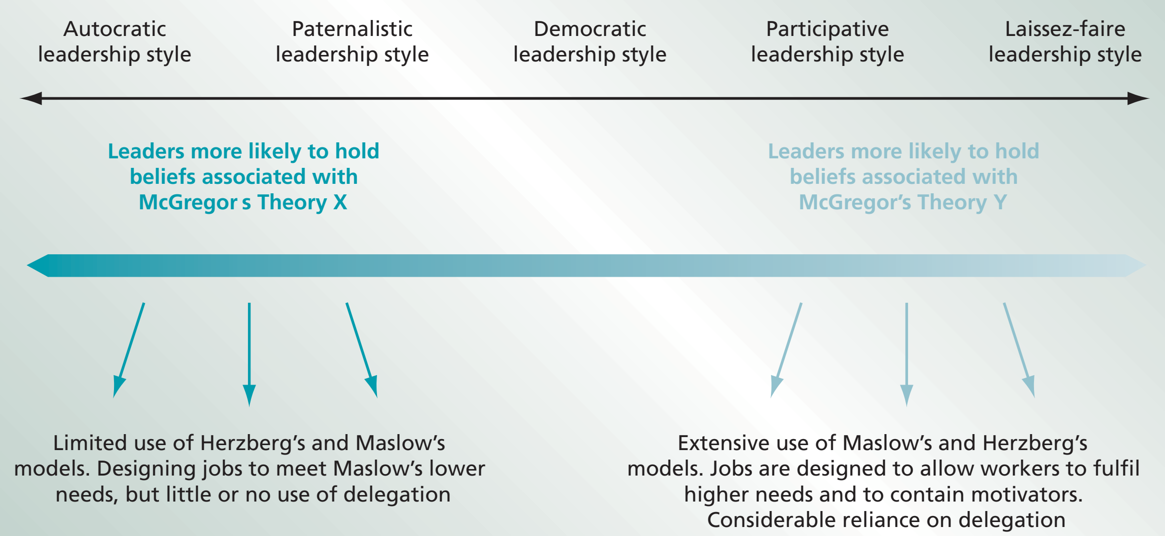


Figure 12.14: Leadership styles and motivation models

Lincoln Electric is a US company that relies heavily on piece-rate pay to reward and motivate its employees. The company manufactures welding equipment and all employees in the company, apart from the five most senior directors, have a substantial part of their pay linked to performance. This suggests that the company's managers have a theory X view of their employees.

2 Democratic, participative and laissez-faire leaders

Arguably this group encompasses an even wider range of leadership styles. However, as with autocratic and paternalistic leaders, it is possible to draw out some common aspects of motivation that this group of managers believe in and use.

This group of leaders believe that subordinates are keen to take responsibility and have the capacity to enjoy work for its own sake. Employees do not need close supervision to work efficiently, and they are not solely motivated by financial rewards. If managers and leaders hold this theory Y view of subordinates, they are likely to make substantial use of Herzberg's and Maslow's models. In particular, these leaders believe in the use of delegation, sometimes using this approach as a fundamental tool of management. This entails giving subordinates considerable control over their working lives. This approach is called empowerment, and we look at this further at the end of this topic.

Delegation involves giving subordinates responsibility for carrying out specific tasks, providing staff with opportunities to set and achieve particular goals, and ensuring that all employees receive recognition for their achievements. By designing subordinates' jobs to incorporate as many of these features as possible, this means, in practice, that managers are using Herzberg's motivators and Maslow's higher needs as motivational factors.

Motivation and organisational structures

The organisational structure operated by the management team has significant implications for the range of techniques that are likely to be used to motivate employees. The organisation's structure will also reflect the dominant leadership style used within the business. As a rule of thumb, leaders at the democratic end of the leadership spectrum are more likely to use flatter or matrix structures.

1 Flat and matrix organisational structures

A flat organisational structure has relatively few layers of hierarchy, but will operate with wide spans of control. This has been a popular option for businesses over recent years and has frequently been achieved through a process called delayering. Delayering is removing one or more levels of hierarchy from the structure of the organisation. In many cases, this is achieved by removing layers of middle management.

business practice

Timpson

The shops might look like shoe repairers, key cutters and engravers, but they are also information and help centres – Yellow Pages are kept in every branch, they never say "no" to pleas for change for meters, and customers can use their toilets and even their phones.

Timpson has its headquarters in Manchester and operates 568 branches or shops. Because its 1,684 staff are spread across so many branches, internal communications are important. "You say" provides a chance for employees to do the talking in their meeting with managers. There are also lunches, update videos, newsletters and road shows. The message is getting through – almost 70 per cent say their manager shares important knowledge and information with them.

Average pay for a branch colleague is £14,948, while only 10 people earn more than £45,000. A substantial proportion would like more pay – just 60 per cent believe their pay fairly reflects their responsibilities.

However, large numbers of staff like it so much they stay and stay – 778 Timpson employees have been with the firm for five or more years, 362 of them for 10 years or more.

The founder and owner of the business, John Timpson, offered this advice in an article he wrote for the BBC News website. "Top managers have to free up the organisation by giving everyone the authority to speak their mind. You need to give people the authority to innovate and you must not have any rules that stand in the way of progress."

KEY DATA

Annual sales	£96.1 million
Staff numbers	1,684
Staff turnover	28%
Earning £35,000+	2%
Typical job	branch colleague
Long service	40% of employees with more than five years' service
Pensions	non-contributory or firms pay double staff contribution
Gym	on-site or subsidised for off-site

What type of leadership style do you think that John Timpson uses? Explain your view. What techniques might his shop managers use to motivate their branch colleagues?

Sources: The Sunday Times 100 Best Companies to Work For (business.timesonline.co.uk) and BBC News (news.bbc.co.uk)

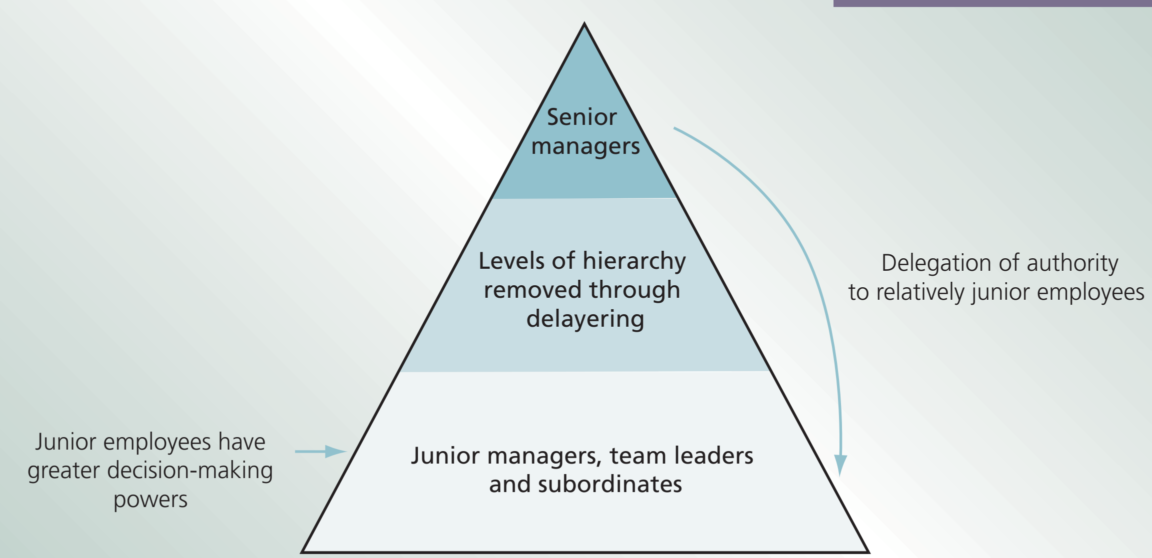


Figure 12.15: Delayering and motivation

Figure 12.15 illustrates how the process of delayering commits senior managers to granting greater freedom to relatively junior employees. In most organisations it would be impossible for a small group of senior managers to have complete control over all decision making. Many powers that previously lay with middle managers have to be transferred further down the structure. So, with a flat organisational structure, junior managers and team leaders may be given responsibility for managing budgets, appointing staff members and organising production.

This type of structure is likely to encourage the use of motivational techniques associated with Maslow's higher needs and Herzberg's motivators. Junior employees will take on additional responsibilities, have the opportunity to develop managerial skills and should get recognition for achieving goals and targets.

Many businesses have opted for delayering in an attempt to improve competitiveness by cutting wage costs, but as a consequence they have had to use different techniques to motivate subordinates. It has forced a move towards techniques associated with Maslow's and Herzberg's models of motivation.

The effects of operating a matrix structure are similar, but possibly more calculated. A matrix structure is based on independent teams which are formed for specific tasks and projects before being dismantled once the specific task is completed. They are very task-oriented and the rewards for attaining the team's goals are recognition, achievement and possibly future promotion. Most employees in a matrix structure have jobs which are complex, challenging and likely to be fulfilling.

As an example, consider the research and development department within a pharmaceutical company that operates a matrix structure. Teams would be assembled to conduct given projects, such as developing a new drug to treat a specific condition. There would be a high degree of empowerment for the teams and significant rewards for successfully developing new products. The motivational techniques and the organisational structures go hand-in-hand.

2 Tall organisational structures

Tall organisational structures are the opposite of flat ones: they have many layers of hierarchy but narrow spans of control. In this type of structure, managers retain high levels of control over subordinates, and the narrow spans of control permit close supervision. In these circumstances relatively few techniques of motivation may be used. Financial rewards are most commonly utilised, possibly in the form of bonuses.

stop and think

Which leadership style or styles are most likely to be associated with a tall organisational structure? Why might you, as a middle manager in such an organisation, be unwilling to delegate significant amounts of authority to junior employees?

Tall organisations can place great emphasis on status and job titles, and career advancement and promotion may be used as techniques to motivate subordinates. However, it difficult to fully implement the motivational techniques set out in the Maslow's and Herzberg's models within a tall organisational structure. The structures make it difficult to delegate to any great extent, and delegation is at the heart of the two theories.

Motivation and empowerment

Empowerment can be viewed as an extreme form of motivation. A business that has an empowered workforce is engaging in more than just delegation. Delegation is giving authority to juniors for a specific task; empowerment is granting junior employees a high degree of control over their working lives on a permanent basis. Empowerment gives employees the opportunity to decide how to carry out their duties and how to organise their working day. They have the opportunity to decide what to do and how to do it. It is a philosophy that relates to an entire organisation.

Empowerment is based on the models drawn up by Maslow and Herzberg. It is based on the beliefs that employees want to work, that they seek responsibility and enjoy the opportunity to achieve and receive recognition. Empowerment is most likely to be implemented by managers who take a theory Y view of leadership.

Potential problems

As with any management technique, empowerment has advantages and disadvantages. It works better in some circumstances than in others. If a workforce is used to delegation and possesses some of the necessary skills to work with some independence, a move to empowerment might not be too great a shock. For employees used to autocratic management and being tightly supervised and directed, the change might be considerable. In this case, some time and resources will need to be put into training employees and managers alike if the policy is to succeed.

Some managers are reluctant to genuinely empower their subordinates as this involves a loss of control on their part. Some managers may not be prepared to give up power to junior employees. This is especially true of managers used to exercising coercive power. If workforce empowerment is to be successful, all managers must participate fully.

In most businesses the real benefits of empowerment can only be seen in the long term. In the short term, the disruption, uncertainty and the adverse effects of any redundancy and retirement (as a result of delayering, for example) may detract from organisational performance. Empowerment represents an investment that does not generate a quick return.

A manager considering implementing a policy of empowerment may benefit from thinking about the issues on this check list.

Check list for empowerment

- Are senior managers committed to this approach and prepared to empower those below them. Are they good role models?
- Does the organisational structure fit with this policy? A matrix or flat structure is most likely to complement empowerment.
- Have staff the desire to take greater control of their working lives. This desire may be based on confidence.
- Does the prevailing culture encourage empowerment? Even if senior managers are committed to the approach, empowerment may not work if other managers are seeking to retain power and control.
- Are all elements of the business to be empowered? Does the nature of the work carried out by some departments mean that some employees should have less control?

assessment practice

Troubled times at Microsoft?

Microsoft has 60,000 employees and is one of the most successful technology companies in the world. The company receives over 40,000 applications from job hunters every month. Few applicants turn the company down if they get the chance, over 90 per cent accept a job with the company if it is offered.

Microsoft is well known for providing generous benefits. In return, staff tend to be loyal and willing to work long hours. However, the company has removed some of the perks it previously offered. Some staff have criticised these cuts, arguing that they are unnecessary and would only result in minor savings for the enormously rich company. Perks that have been cut include:

- options to buy the company's shares at predetermined prices
- free health scheme – employees are now asked to make contributions towards the scheme
- generous leave entitlements for new parents – these have been reduced from previous levels.

Traditionally Microsoft employees have been free to be creative and to do "great work". The workforce was liberated and creative. However, as Microsoft has grown, there is evidence that some employees are becoming frustrated by the company's bureaucracy. Today, the various groups which make up the business (computer games, search engines, operating systems, etc.) need to liaise regularly. As a result, employees spend more time in meetings ensuring that product developments are compatible. They need to prepare regular reviews for senior managers, again leaving less time for the more interesting work of creating new technologies and products.

A **How might Herzberg have explained why some staff are unhappy at the loss of some perks?**

B **Explain why empowerment was an effective strategy with Microsoft's skilled workforce.**

C **Discuss whether employee motivation at Microsoft might improve if the company is split into, say, four separate companies.**

Topic 7 Taking decisions

Setting the scene: British American Tobacco's decision

One of the world's largest tobacco producers, British American Tobacco (BAT), announced in July 2005 that 530 jobs were being axed at its Millbrook factory in Southampton after 80 years of production. BAT claimed that a number of reviews had found that the factory was not viable.

About 24 billion cigarettes a year are manufactured at the factory, most of which are exported. Manufacturing is being transferred to factories in Poland, Romania and Switzerland, and elsewhere in Europe.

Mike Budd, regional officer for the trade union Amicus, said he was far from happy with BAT's decision-making process. "At the end of the day, the company has gone away, made its decision to close and presented its proposals to the board without including us in that process – and we're extremely unhappy."

Many employees feel that the decision-making process was flawed and that they should have been involved. "A lot of our members are still very sore and shocked and taking it all in," Mike Budd said. He added there would be many meetings with BAT over the next 90 days to try to come to an agreement over the job losses.

Allan Short, head of UK and Ireland operations for BAT, told BBC News: "Obviously it's been a dreadful week for all of us here in Southampton, a lot of shock. We have a good relationship with Amicus and we expect the meetings to be constructive and businesslike."

Mr Short said it would take between 18 and 24 months for manufacturing to cease at the factory and that for now it was "business as usual".

Source: Adapted from news.bbc.co.uk, 15 July 2005,

Types of decisions

When managers make decisions, they have to make a choice between two or more options. Decisions can be particularly difficult for managers to make when:

- they do not have enough information on which to base a decision
- they lack experience in the area in which the decision has to be made
- a decision is needed quickly.

Nearly every decision made by managers affects the employees of the business. For example decisions to produce new products or scrap old products, introduce new technology or implement new working practices all impact on an organisation's employees. Jobs may be lost or transferred to different locations, new skills may be needed or established working groups may be split up.

Before looking at some of the techniques and models that managers can use in decision making, we first consider the different types of decisions that have to be made. It is possible to classify decisions into several distinct types.

1 Routine and non-routine

Routine decisions are ones that are taken regularly. They are also decisions that are not unexpected, so managers expect and are prepared to make them as part of their regular duties. For example, routine decisions that would be taken by a branch manager of the retailers W H Smith might include:

- agreeing staff rotas for the coming weeks
- appointing new part-time staff to work in the shop at weekends
- ordering stock for the shop
- making minor changes to the layout of the shop to help boost sales
- reducing the prices of some goods by making special offers if they are not selling well.

Routine decisions are normally low-level decisions that can be taken by relatively junior staff. These decisions can often be delegated to more junior employees. So, the assistant manager of the W H Smith branch, or a head of section, might be given the task of drawing up the staff rota for the next month, especially if this normally does not provoke controversy.

However, some routine decisions can be major ones, and they will need to be taken by senior managers in the organisation. Many financial decisions have to be taken on a regular basis: for example, most businesses prepare financial plans, or budgets, on a regular (often quarterly) basis. Although a number of junior and middle managers may be involved in drawing up these plans, the budgets are unlikely to be implemented without senior manager approval.

In some industries products typically have short life cycles, so decisions have to be taken regularly about when to launch new products. This is the case in the technology industry, where new versions of products such as MP3 players are launched routinely. Senior managers will normally take these decisions, because they can be crucial to a business's future prospects

stop and think

Give examples of the routine decisions that the manager of a Premiership football club might have to take. Are these all easy decisions, just because they are routine?

Non-routine decisions, by definition, occur irregularly, and may be needed because of some unexpected event. These can be taken by managers at all levels within an organisation. Here are four examples of different types of non-routine decisions.

- Deciding how to respond to an emergency, such as a fire or a break-in at the business's premises.
- Making locations decisions. For example, many financial services companies like Norwich Union have decided to move some of their call centres from the UK to countries such as India where staff costs are lower.
- Deciding to cease production of a well-established product which has generated sales for many years. Television companies have to take decisions to stop making popular programmes such as Friends or Frasier at some point.
- Taking a decision to enter a new market. In 2004 Tesco took the decision to open supermarkets in eastern China. This followed many years of planning and was not routine in any sense as it entailed an investment of £140 million.

It is the nature of the non-routine decision that determines at what level it is made in the organisation. If a decision will affect the whole enterprise, then it is more likely to be made by senior managers. For example, the non-routine decision to relocate part of all of the business will be taken at senior level. However, deciding how to respond to a break-in at one of the company's offices, may be dealt with by more junior employees.

2 Tactical and strategic decisions

Tactical decisions are based on short-term factors. For example, a business might decide to reduce the price of product if its sales are below the budgeted or expected figure. This price cut would only be for a short period of time. Similarly a decision to increase overtime pay rates might be made if the business faces a large and unexpected order from a major customer. This enhanced rate of pay might only be offered for a few weeks until the order is complete.

Tactical decisions are normally taken by middle managers, although they may be taken by senior managers if there are significant cost implications or impacts on a large section of the business. So a decision by a retailer to reduce prices on all products in the run up to Christmas would be taken by senior managers, because of the considerable financial implications, even though the decision only involves a short-term pricing policy.

Strategic decisions are those that have long-term implications, often for the entire business. Here are four examples of some strategic decisions taken by well-known UK-based businesses in recent years.

- In 2002 Dyson, the manufacturer best known for its vacuum cleaners, decided to move its manufacturing facilities from the UK to Malaysia.
- Monsanto, the US biotechnology company, decided in 2004 to close its European cereal business (based in Cambridge) which had been working on genetically-modified crops.
- In 2005 Britain's biggest cable company NTL bought rival operator Telewest for £3,400 million. The deal created the UK's largest cable television company.
- British Airports Authority (BAA) announced in 2005 that it was cutting 700 jobs as part of a move to reduce costs. This is expected to save the company about £45 million a year.

Strategic decisions are made by senior managers because they have far-ranging implications for the businesses concerned. Decisions are normally only taken following prolonged discussion, and after gathering and analysing relevant data.

3 Proactive and reactive decisions

A proactive decision is one taken in advance of events. Managers at all levels in the organisation can take proactive decisions. Junior managers might decide to hold extra stocks of popular products in case of a sudden rise in demand. Senior managers may decide to keep some of last year's profits in a contingency fund to deal with the consequences of a natural disaster such as a severe storm.

Most chief executives (81 per cent according to a 2005 survey) think their businesses are vulnerable to crisis factors such as terrorism, epidemics, accounting scandals and natural disasters. One type of proactive decision is putting in place contingency plans to deal with and mitigate these threats before they occur. However, the survey revealed that only 50 per cent of businesses questioned had any sort of contingency plan in place.

Proactive decisions are taken by enterprising and innovative firms that want to be market leaders and to shape market developments. Apple has manufactured a special version of its popular iPod which will show television programmes and music videos as well as having the usual functions to play music. In the UK the company announced that owners of the video iPod will be able to download BBC television programmes. This is a risky decision by Apple. Time will tell whether this product will be popular with consumers and whether being proactive will pay dividends in this case.

Reactive decisions are taken when businesses respond to events rather than trying to shape them. Apple's rivals will have to decide how to respond to the launch of the video iPod. Manufacturers such as Sony may decide to bring out a rival product or they may choose to keep out of the market as miniature televisions produced in the 1980s did not sell well. In this situation reactive decisions can be less risky, but also less profitable. Apple has taken the risky proactive decision here and, if it is successful, may reap high profits by being first in the market with a new type of product.

Reactive decisions are taken at all levels in the organisation and by all types of businesses. The manager of a café may decide to match a price cut introduced by other cafés in the locality. Senior managers at the Ford motor company may respond to an announcement of a major marketing campaign by Volkswagen by offering interest free deals on its cars.

Decision-making models

There are a number of decision-making models and techniques that managers can use. In this section we review and assess the value of three of the most common techniques: critical path analysis, statistical process control ad decision trees.

1 Critical path analysis

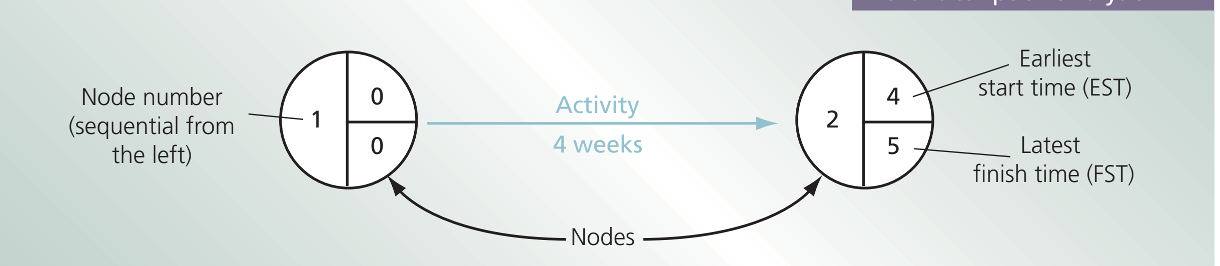
The intention here is to explain the use of critical path analysis and make some assessment of its value. In Unit 16, Managing Resources, we look at the technique in more detail, including how to draw a critical path network.

Critical path analysis (CPA) is one type of network analysis. It is a method of calculating and illustrating how complex projects can be completed as quickly as possible. CPA shows:

- the sequence in which the tasks must be undertaken
- the length of time taken by each task
- the earliest time at which each stage can commence.

A CPA network has two elements, activities and nodes. Activities are the separate parts of a project, that requiring time and (probably) resources. In a CPA diagram, activities are represented by arrows. They are frequently given letters, so that each activity can be easily identified. The duration of each activity is written below the arrow. The arrows (running from left to right) show the sequence of the activities necessary to complete the project. Note that is a typical project some, though not necessarily all, activities cannot be started until others are concluded.

Figure 12.16: Features of a critical path analysis



Nodes are the start or end of each activity, and they are drawn as circles in a CPA diagram. Each node is numbered in the left-hand segment; the top right-hand segment gives the earliest start time' (EST); the lower right-hand segment gives the latest finish time (LFT). The EST is the first time at which an activity can be started, and the LFT state the time by which the activity must be started if the entire project is to be completed on schedule and not to be delayed.

Using CPA to take decisions

It is easiest to illustrate the use of CPA through an example. Suppose a retailer is planning to open a new flagship store in central London as part of a major promotional campaign. The company has bought a warehouse and plans to redevelop the space to create a light, airy and large new shop. The new store needs to be ready to open in 40 weeks if it is to be part of the campaign.

The directors of the company need to decide whether the opening of the new store should feature as a central element of the promotional campaign. This hinges on whether the store will be completed and ready in 40 weeks. A building firm that has been hired to redevelop the warehouse, and Figure 12.17 listed the major activities that have to be undertaken with the firm's estimate of time it will take to complete each activity.

Figure 12.17: Activities in the warehouse redevelopment

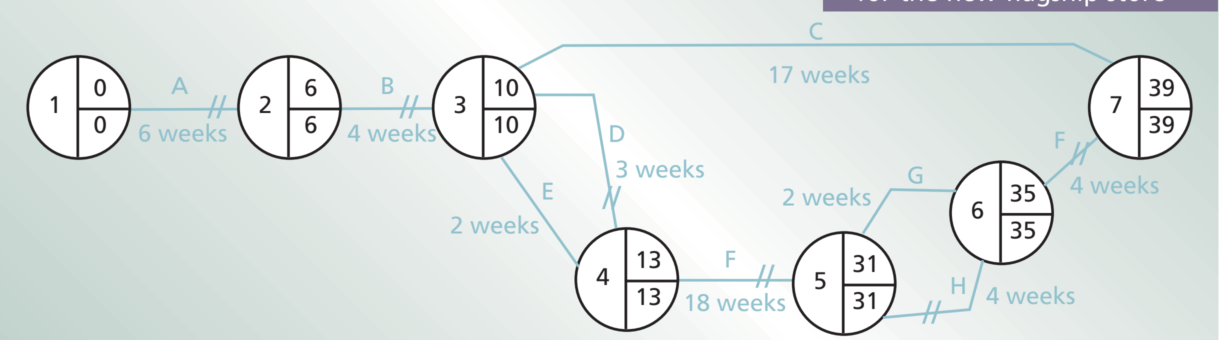
Activity	Expected duration (weeks)
A Design the interior of the new store	6
B Obtain planning permission	4
C Renovate exterior of building and landscape grounds	17
D Carry out internal demolition	3
E Order construction materials	2
F Carry out construction work	18
G Decorate interior	2
H Install shop fittings	4
I Train staff in new techniques	4

The activities in Figure 12.17 cannot be undertaken in any order. You can only install the new shop fittings (activity H), for example, after the design (A) and the major construction work (activity F) have been undertaken. Here is a complete list of the activities that are order critical.

- Activity A is the start of the project, it must be undertaken first
- B starts when A is complete
- C, D and E follow B
- F follows D and E
- G and H follow F
- I follows G & H

Figure 12.18 shows the CPA network for the development of the new store. The critical path shows the sequence of activities that must be completed on time if the whole project is not to be delayed. This critical path is indicated by two small dashes across the relevant activities. In Figure 12.18 the critical path is A–B–D–F–H–I.

Figure 12.18: The network for the new flagship store



This analysis helps managers in deciding whether a project can be completed within a certain time period. In this case, the directors can see that the project should be finished within 39 weeks, just within the required timescale, though there is very little margin to catch up if any activity on the critical path gets delayed.

Advantages and disadvantages of critical path analysis

There are several reasons why managers might use CPA as a central part of the decision-making process. The technique helps managers use time efficiently by showing which tasks can be carried out simultaneously, helping to minimise costs and reduce the time a project takes to complete. By planning the start times of individual tasks, the resources needed for each activity can be made available at the appropriate time, thus reducing storage and other upfront costs.

The major benefit of CPA is that it helps managers to make informed decisions about project timings, as in the example above. So, CPA can help a manager decide whether a particular process or event can be complete by a certain date. If delays and problems do occur, the CPA network assists managers in deciding on the best solution to rectify the problem.

But as with many techniques in business, there are disadvantages and challenges in using CPA. Complex activities, such as building the new Olympic stadium in London, may be difficult or even impossible to represent on a network. External factors may change, such as the lack of availability of crucial resources, meaning that the information on CPA network is not accurate. More fundamentally, the accuracy of the whole CPA network depends on the time durations allocated to the various activities. If these are inaccurate, the whole network will give an incorrect answer.

In general, the benefits often outweigh the drawbacks, and CPA is particularly suited to assisting managers plan the quickest way to complete a project or to assess whether a particular event or project will be completed within a given time period.

2 Statistical process control

Statistical process control (also known as control charts) uses monitoring systems based on statistics to make sure that production is efficient and meets quality standards.

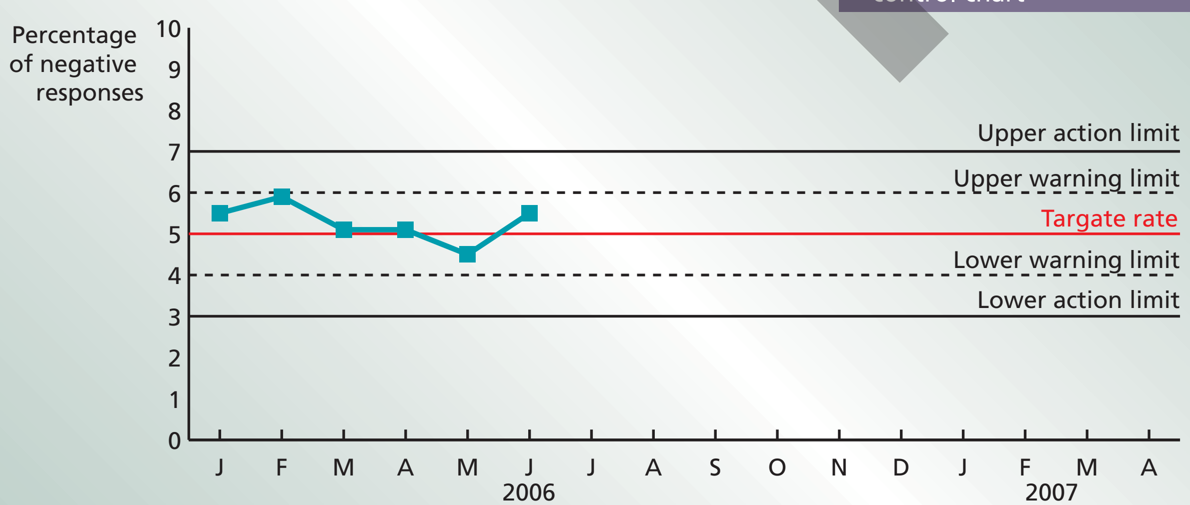
Two examples are given below to show how statistical process control (SPC) can be used in different circumstances.

The airline

Many airlines monitor passenger satisfaction. It is not unusual for airlines to select a random sample of customers who have flown in the last month and ask them to complete a brief questionnaire about the quality of the service that they have received.

Suppose the final question in the customer questionnaire is: "would you fly with this airline again?" The responses to this question could be used as a basis for SPC. The airline management may expect some (though hopefully not too many) customers are likely to respond "no" to this question, perhaps because they have experienced delays or because their baggage was lost. If a negative rate of 5 per cent is a target for this question, SPC can be used to monitor whether this rate is achieved regularly.

Figure 12.19: The airline's control chart



The results each month can be presented on a control chart, such as Figure 12.19, which show the questionnaire responses in relation to the target figure. Upper and lower limits are often added to the chart, providing warning limits (when managers become aware that a problem is arising) and action limits when a decision is needed.

Figure 12.19 shows data for the first five months of 2005. It can be seen that the level of negative responses is within the acceptable boundaries, and managers could use this information to decide that the current levels of customer service provided by its staff is satisfactory and no corrective action is necessary. If the levels of negative responses rise above the upper action level of 7 per cent, a decision would have to be made about what action to take. This might, for example, involve increasing staffing levels on flights or giving staff additional customer service training.

The fundamental weakness of this method is that the survey might not be representative. If all passengers are questioned, a higher (or lower) percentage might say that they will not fly with the airline again. Although it is possible to use statistical techniques to judge how representative a sample is likely to be, this remains a weakness.

A food canning factory

Using samples as a basis for SPC is a potential weakness. However, technology can help address this problem. The managers in the food canning factory can use lasers and bar-coding systems to check every product. The lasers can read the bar code on every can as it comes down the production line. In this way, managers can monitor the rate of production. If this rate falls below an agreed figure (say 50 cans per minute) an alarm bell can ring, alerting managers to a potential problem and inviting them to take the necessary decisions to correct it.

Different technology can be used to monitor the quality of the product. For example, scanners could check the shape of the cans to confirm they are not damaged in any way. Once again an alarm could sound if the number of damaged cans moves outside agreed tolerances.

It is this combination of technology and statistics that is characteristic of statistical quality control. It is a powerful tool that can be used to alert managers to possible quality problems before they become too serious. This allows remedial decisions to be taken at an early stage, ideally before products reach customers. However, implementing SPC can be expensive and some employees may resent what they perceive as an electronic spy checking up on their work.

3 Decision trees

Decision trees is a more general technique that can help managers take decisions. Decision trees can help to reduce the amount of uncertainty in any decision, giving managers much more confidence in the choices they make.

Decision trees use a combination of financial data and probability theory to give expected values to each of the choices that a manager faces when taking a decision. These expected values can then help the manager in taking the decision. The expected value of an outcome is calculated by:

> multiplying the probability of an outcome by the benefit the business can expect if it happens

As an example, suppose a retailer is considering whether to open a new shop. If the shop succeeds, the retailer forecasts that the new shop will make £1.0 million profits annually. The retailer estimates that new shop has a 0.6 (60%) probability of success. Then, the expected value from the new shop is:

£1.0 million x 0.6 = £600,000

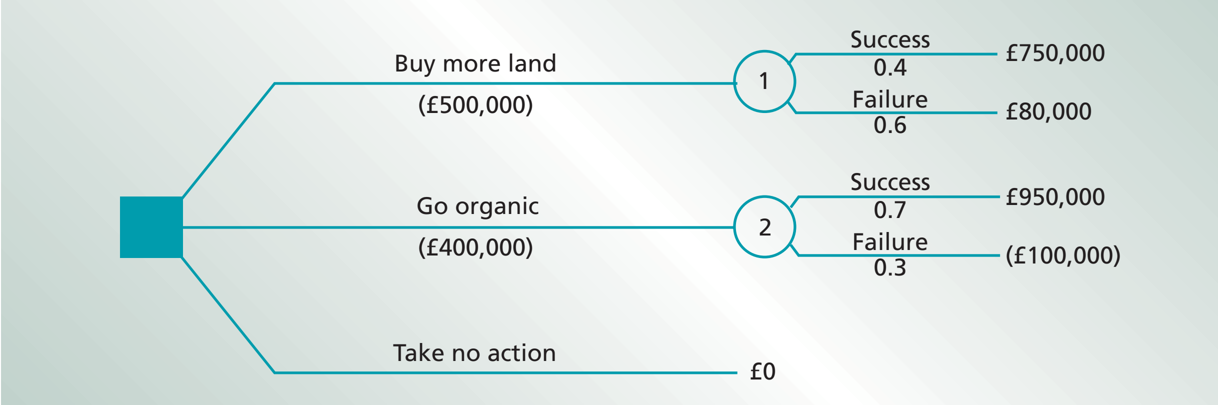
A manager needs to take a series of steps to construct a decision tree.

1 Identify the options available to the business.
2 Assess the likely outcomes of each option.
3 Calculate probabilities for every option that the business faces.
4 Forecast the expected financial returns from each course of action.
5 Calculate the expected value of each course of action.
6 Choose the course of action generating the highest expected value (although, a manager may use other data to help take the decision).

An example: Tom's decision

Tom Dix owns and manages a small farm in Norfolk The farm produces a variety of fruit and vegetables which Tom sells to a range of customers including a small supermarket chain. He is, however, dissatisfied with his profit levels and is considering ways to improve his profits.

Figure 12.20: Tom's decision tree



Tom has reduced the decision to three choices:

- buy more land and expand production – this might enable him to supply a larger supermarket chain
- go organic – this would enable him to charge higher prices
- do nothing – if this appears to be the best option.

Tom has drawn the decision tree to help him make this particular decision. He has forecast costs and revenues over a five-year period, enabling him to calculate the additional profits each option might make. Figure 12.20 shows Tom's decision tree:

- a decision point is indicated by a square
- costs associated with decisions are shown next to the decision in brackets
- circles represent alternative outcomes
- probabilities of each outcome are shown by decimal figures on the appropriate line
- forecast additional profits are listed on the right-hand side of the decision tree.

To calculate the outcome of any option, Tom has to add the total expected value of the course of action (the expected value of the course of action being a success plus the expected value of the course of action failing) and subtract the cost of the course of action.

The outcomes for the three options available to Tom and illustrated in Figure 12.7.3 are as follows.

- Buy more land = (0.4 x £750 000) + (0.6 x £80 000) - £500 000 = (£152 000).
- Go organic = (0.7 x £950 000) + (0.3 x (£100 000)) - £400 000 = £235 000
- Do nothing = £0

Buying more land has a 0.4 or 40% chance of success and Tom calculates it would generate additional profits of £750,000 over a five year period. However, if this approach was unsuccessful (maybe Tom might fail to get a big contract from a large supermarket), he forecasts that it would only generate £80,000 in additional profit of £80,000 over the five years – he has termed this a failure. Success or failure, the option will cost an estimated £500,000 for the extra land and equipment. The value of this option is therefore:

(0.4 x £750,000) + (0.6 x £80,000) – £500,000
= (£152,000)

The expected outcome is a negative figure. This means the cost of this option exceeds the expected returns. This makes it very unattractive. Clearly Tom would make more profit by doing nothing, and he is best advised to keep his farm as it is.

The second choice is to go organic and produce chemical and additive-free fruit and vegetables. This is less costly (£400,000) and should produce high profits if the venture is successful. However, if it is unsuccessful (say Tom cannot find enough customers), then it will reduce the profits of the business by £100,000 over the five-year period. The value of this option is £235,000, given by:

(0.7 x £950,000) + (0.3 x –£100,000) – £400,000
= £235,000

The third option, doing nothing, obviously leaves his forecast profits for the next five years unchanged. So, using the decision tree alone, Tom should choose to go organic as this gives the highest expected value. Indeed, it is the only option that would fulfil the original objective to increase profits. However, Tom should take other factors into account before he makes a final decision, such as the likely future demand for organic fruit and vegetables and the degree of competition he would face in this market.

stop and think

Suppose the cost of buying new land is lower than Tom originally expected, this option would only cost £300,000 rather than £500,000 to implement. Recalculate the expected return of the "buy more land" option and say what decision Tom should take now.

Advantages and disadvantages of decision trees

As with the other decision-making techniques we have considered, decision trees have advantages and disadvantages. On the plus side, the use of decision trees encourages managers such as Tom to be logical and to consider all the possibilities, and it discourages managers from relying too heavily on hunches or instinct. If a manager has access to accurate data, then decision trees can be particularly valuable.

Decision trees are probably most useful when making routine decisions for which financial data and probabilities are likely to be known. It is very difficult to get accurate data – especially relating to probabilities – when taking a major decision which may involve a step into the dark. For example, Tesco would have face problems constructing an accurate decision tree to help it to decide whether or not to expand into China. Decisions of this type involve too many unknowns.

Decision trees can also be problematic if the business environment is too changeable. This makes it very difficult to assess the various outcomes with any degree of confidence (and the associated probabilities and financial returns).

assessment practice

Nestlé launches fair trade coffee

Nestlé has recognised the growing importance of the fair trade market and has followed a number of other businesses in launching its own fair trade coffee. Nestlé confirmed that it would be buying its fair trade coffee from poor farmers in El Salvador and Ethiopia.

Fair trade products are designed to support producers in less developed countries. Manufacturers such as Nestlé pay higher and guaranteed prices to suppliers (in this case coffee farmers) helping to improve their businesses and enhance their standard of living.

The fair trade market is now 3 per cent of total coffee sales, and growing. Fair trade products appeal to ethical consumers who don't want to buy products that exploit producers in poorer economies.

The launch of Nestlé's fair trade coffee has been endorsed by the Fairtrade Foundation following an approach by the company's senior managers. Many large businesses have been considering launching fair trade brands, and there is an increasing trend for big business to c endorse more ethical products and practices.

Nestlé new *Partners' Blend* (due to be launched in 2006) will only form a small part of the company's production and sales of coffee. Observers think that the multinational wants to present a more "friendly" image, and this is a major reason behind the decision.

A **Classify Nestlé's decision. Was it routine or non-routine, strategic or tactical, proactive or reactive? Explain your choices.**

B **Explain how Nestlé might use statistical process control to help monitor the quality of the fair trade coffee that it sells.**

C **Nestlé could have used decision trees or critical path analysis (CPA) to help with this decision. Which technique would have been more suitable in these circumstances? Explain your decision.**