Management: Financial, Social, and Ecological Well-Being

# Management: Financial, Social, and Ecological Well-Being

Bruno Dyck; Arran Caza; Patrick Adriel H. Aure; James Leaman; Joel Marcus; Shieradel Jimenez; and Anne Kato

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We respect the Treaties that were made on these territories, we acknowledge the harms and mistakes of the past, and we dedicate ourselves to move forward in partnership with Indigenous communities in a spirit of reconciliation and collaboration.

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# Part 1: Background and Basics

# 1. Introduction to Management


- Learning Goals
- 1.0. Opening Case – Taylor Swift's Taylor Guitars
- 1.1. Introduction
- 1.2. Why Learn About Management?
- 1.3. The Nature of Management
- 1.4. Entrepreneurial Management
- Chapter Summary
- Questions for Reflection an Discussion


*This chapter describes what management is and why it is worth learning about, and introduces readers to three approaches to management: Financial Bottom Line, Triple Bottom Line, and Social and Ecological Thought. The chapter is summarized in the following table and in the whiteboard animation video.*

| Management — An Overview | |
|---|---|
| **Why Learn About Management?** | • Develop skills to become a manager<br>• Enable improved working relationships with managers<br>• Promote understanding of the role of managers in society<br>• Improve ability to create value and to capture value<br>• Nurture self-understanding |
| **The Nature of Management** | |
| *The What of Management: Functions and Roles* | **Fayol's four generic functions of management:**<br>• Planning: identifying organizational resources, goals, and strategies<br>• Organizing: designing systems and structures to enable meeting goals/plans<br>• Leading: influencing others to help meet the organization's goals<br>• Controlling: ensuring that members' actions are consistent with the organization's standards/values |
| | **Mintzberg's ten managerial roles:**<br>• Interpersonal roles: figurehead, leader, liaison<br>• Informational roles: monitor, disseminator, spokesperson<br>• Decisional roles: entrepreneur, disturbance handler, resource allocator, negotiator |
| *The Why of Management: Effectiveness and Success* | **FBL management**<br>• Based on the financial bottom line, seeks to maximize an organization's financial well-being |
| | **TBL management**<br>• Based on the triple bottom line, seeks to enhance an organization's financial well-being while reducing its negative social and ecological externalities |
| | **SET management**<br>• Based on social and ecological thought, seeks to enhance social and ecological well-being while maintaining financial viability |
| **Why Learn About Three Management Approaches?** | • Increase critical thinking skills<br>• Improve ethical thinking skills<br>• Improve adaptability in working in different situations and with different people |
| **Entrepreneurial Management** | **Three reasons people become entrepreneurs:**<br>• To be one's own boss, choose one's work<br>• To pursue opportunities for improving social and environmental well-being<br>• To achieve financial goals |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=955*

## Learning Goals

After reading this chapter, you should be able to:

1. State five reasons why the study of management is important.
2. Describe Fayol's four functions of management and Mintzberg's ten managerial roles.
3. Distinguish between the three approaches to effective management.
4. Describe the benefits of studying three approaches to management.
5. Identify three important reasons that people start new businesses.
6. Distinguish between different types of entrepreneurs.

## 1.0. Opening Case – Taylor Swift's Taylor Guitars

Taylor Swift's 2023–2024 Eras Tour was a cultural phenomenon that further cemented the pop star's staggering fame and groundbreaking influence.[1] Police-escorted motorcades, traffic brought to a standstill, frenzied fans flocking with no hope of venue entry, and resale tickets selling for up to the cost of four years' college tuition prompted luminaries like Billy Joel to compare the response to Beatlemania.[2] Those lucky enough to be in attendance might have glimpsed the name "Taylor" emblazoned on the headstock of the artist's guitar. And many may have assumed it was a custom instrument or one of Swift's licensed branding deals, given her status as "one of the world's most influential business leaders."[3] In fact, the headstock emblem is the coincidental namesake of Bob Taylor of Taylor Guitars, who many years earlier was instrumental in supporting the budding teenage singer-songwriter on her improbable path to eventual superstardom.[4]

Like the Taylor Swift phenomenon, the Taylor Guitars story is a classic

example of a highly successful business enterprise built from humble and uncertain beginnings. The company was founded in San Diego in 1974, when Bob and two young partners purchased a fledgling guitar-building collective fortuitously known as The American Dream.[5] Despite meager start-up resources and little business experience, Taylor Guitars has grown to be one of the most established and revered American guitar brands through decades of hard work, frugality, and dogged determination. Today the company boasts approximately 1,200 employees and over $100 million in sales.[6] Known as a quality and innovation leader, Taylor Guitars has spearheaded the application of advanced manufacturing technology (e.g., use of computer controlled machinery, lasers, and robotics) and numerous transformative product designs. Even more impressive, the company's contributions to social and ecological well-being make it a standout not just among guitar manufacturers but among businesses more generally.[7] The company's conversion to full employee ownership in 2021 was just the latest marker of its progressive practices on behalf of workers.[8]

Despite its reputation for innovation, Taylor Guitars remains a staunch traditionalist in at least one area: for fingerboards, it uses ebony wood exclusively. Ebony is an extremely dark, dense, and hard-wearing wood that has been favored by stringed-instrument builders for hundreds of years. In 2011, Bob and his team were presented an opportunity to purchase a small ebony mill in the West African country of Cameroon. During multiple trips to the country, they witnessed firsthand the desperate conditions on the ground: facilities lacking the bare necessities of running water and reliable electricity; machines in disrepair and a constant state of failure; workers paid less than Cameroon's minimum wage without any job security; and a business environment where bribes were routinely paid to advance favors and economic interests.

One of their early, shocking discoveries was that for every marketable ebony tree harvested, loggers were cutting up to ten other trees deemed unmarketable and leaving them on the forest floor to rot. No one in the guitar industry had any idea this extreme level of waste was taking place. But once seen, it was impossible to unsee. Bob realized he faced a critical fork in the road. If he walked away from purchasing the ebony mill, it would mean he could never use ebony again. He could no longer in good conscience participate in sourcing wood from the ethically and environmentally compromised conditions he had witnessed. Bob recounts: "We decided that the only way around it was through it, and that by buying the company, [that] would be the very vehicle where it was done ethically, legally, all the rules followed . . . not just the rules of Cameroon, but the rules of the United States. . . . And then our adventure began."[9]

## 1.1. Introduction

The development of Taylor Guitars from entrepreneurial start-up to established industry leader, and the various factors weighing on Bob Taylor's purchase decision in Cameroon depict the real world of management. This book is all about management, and it was written for people who want to better understand what it means to be an effective manager in today's world. In this first chapter, we start by explaining why it is important to learn about management. We then describe what management is all about and what managers do. Next, we introduce three different approaches to management, which we will refer to continuously throughout the rest of the book. The first approach will be of interest to those who want to learn about the classic ideas related to maximizing an organization's financial bottom line. The second approach describes the current emphasis on a triple bottom line approach, where managers seek to enhance financial well-being by reducing social and ecological costs associated with their organization's activities. The third approach describes what management looks like when the primary organizational goal is to optimize social and ecological well-being instead of profit. In this approach, financial viability is important but not the top priority, and it does not need to be maximized. The final section of this chapter, as with every chapter in this book, highlights the implications of the chapter material for entrepreneurship theory and practice.

## 1.2. Why Learn About Management?

Learning about management is valuable for at least five reasons. First, it will increase your opportunities to be offered a job as a manager. Managers must develop strong **technical skills**—*expertise in a particular area like marketing, accounting, finance, or human resources*—and strong **social skills**—*abilities in getting along with people, leadership, helping others to be motivated, communication, and conflict resolution*. But technical and social skills by themselves are insufficient to get promoted into management. Rather, it is strong conceptual skills that often determine who gets promoted. **Conceptual skills** *refers to the ability to think about complex and broad organizational issues*. This is the focus of this book: to introduce and develop a solid conceptual framework of what

management is all about. The book will also help you to better understand and develop relevant skills in areas like strategic management.

*Having strong conceptual skills is key to getting promoted.*

Second, the better you understand the nature of managerial work, the easier it will be for you to get along with the managers for whom you work. This will not only make your work experience less stressful and more enjoyable, but it should also help to make your organization run more smoothly.

Third, learning about management will help you to better understand the important role that managers play in our society. That in turn will help you deal with the various organizations you encounter on a daily basis. The knowledge provided in this book is relevant for all kinds of organizations: large or small, profit-oriented or nonprofit, local or international, traditional or virtual. It is also relevant at every level of management in organizations, including for

- **first-line supervisors**, who manage the work of organizational members who are involved in the actual production or creation of an organization's products or services;
- **middle managers**, who manage the work of first-line supervisors and others; and
- **top managers**, who have organization-wide managerial responsibilities, such as chief executive officers (CEOs), vice-presidents, and board chairs.

Of course, the nature of managerial work changes depending on the level and type of organization. What a manager does may also vary depending on the size of the organization, the kind of technology it uses, its location, its culture, and so on.

Fourth, studying management can help you to improve the ability of organizations you are involved with to create and capture value. All organizations need to engage in **value creation**, *which means offering goods and services that are valued by society,* and financial **value capture**, *which means acquiring part of the financial benefits associated with the value being created.* The book will enhance your ability and knowledge to create value, especially in developing new

products and services within an organization or in starting a new organization. It will also teach you different ways to think about what value capture actually means. For example, should business always seek to maximize profits and shareholder wealth, or is it sufficient to remain financially viable while enhancing opportunities to create socio-ecological value?

Finally, the study of management is important because it fosters self-understanding. By understanding management, we get a better sense of the values and forces that shape us as persons and as societies. According to prominent management philosopher and scholar Peter Drucker, management "deals with people, their values, and their personal development . . . management is deeply involved in moral concerns."[10] Thus, one goal of this book is to help you develop a rich understanding of how different approaches to management are based upon different sets of values. This will also help you to think about contemporary issues like personal and corporate corruption, climate change, downsizing, income inequality, diversity and inclusion, and decisions to move jobs overseas.

While the goal of this book is to help you on your path to becoming an effective manager, it is important to recognize that management skills cannot be learned simply by reading a textbook or by studying in the classroom. Henry Mintzberg, an influential management thinker whom we'll discuss later in this chapter, explains that management is neither a science nor an art but rather a practice.[11] To draw an analogy, the path to becoming a concert pianist certainly requires a solid understanding of music theory and familiarity with the mechanics of the instrument, but most important are the many hours over many years spent actually practicing the piano. Similarly, management skills are developed over many years of actually working in organizations, and effective managers continually develop and refine their skills throughout their career. You may not be ready for the CEO's office yet, but it's not too soon to begin practicing management in student clubs, your current workplace, or any of the other organizations you participate in (hint: student group projects can be an especially good place to practice!). Although this book alone cannot turn you into an effective manager, it will help you better understand and think about what that means. Let's get started.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=955#h5p-9*

## 1.3. The Nature of Management

Because we live in a time when organizations dominate our lives, most people have at least some idea of what managers do. We generally think of a manager as "the boss" who is "in charge." A manager has status, power, and influence. A manager gets to tell others what to do, and usually earns more money than others. Managers also have a chance to make the world a better place and to make a difference in the lives of others, both inside and outside of their specific organization. Even though managers are commonplace in our society, most people are not able to provide a clear definition of what management is. And without knowing the hallmarks of management, it is difficult to become a successful manager, a good follower, or to understand the role of management in our society.

*Management is the process of planning, organizing, leading, and controlling human and other resources toward the effective achievement of organizational goals.*

Definitions of management commonly have two components. **Management** *is* (a) *the process of planning, organizing, leading, and controlling human and other organizational resources toward* (b) *the effective achievement of organizational goals.* The first part of the definition looks at the *what* of management (i.e., the four functions that managers perform), and the second part looks at the *why* of management (the meaning of success and effectiveness). We will look at each component in turn.

### 1.3.1. The *What* of Management: Managerial Functions and Roles

Planning, organizing, leading, and controlling are traditionally defined as the four main functions of management. These functions were first identified by Henri Fayol over a century ago and are still commonly used as the organizing framework for management courses and textbooks throughout the world.[12] These four management functions are also evident in the basic definition of an organization:

An **organization** *is a goal-directed, deliberately structured group of people working together to provide specific goods and services.* Or in less technical jargon, management involves deciding what goods and services an organization will provide (planning), arranging the necessary resources (organizing) and helping people to enable this to happen (leading), and overseeing the whole process (controlling).

Although Fayol's four functions of management continue to serve as the *conceptual* framework most often used to describe management, a famous study by Henry Mintzberg helps to better understand what managers *actually* do.[13] Mintzberg literally followed managers around for weeks and took careful notes on what they did every minute of each day. Rather than the orderly and thoughtful picture that might be implied by Fayol's four functions, Mintzberg found that managers' workdays are fragmented (the average time a manager spends on any activity is less than nine minutes), have a lot of variety, and move at a relentless pace. Whereas Fayol's functions might suggest that managers spend a lot of their time at their desks, Mintzberg found that desk work accounts for only 22 percent of managers' time.

*Managers play a variety of roles in the drama that is the improv theater of organizational life.*

Mintzberg's study suggests that managers play a variety of roles in the drama that is the improv theater of organizational life. In particular, he identifies ten roles that managers play, organized into three categories:[14]

1. Interpersonal roles (figurehead, leader, and liaison)
2. Informational roles (monitor, disseminator, and spokesperson)
3. Decisional roles (entrepreneur, disturbance handler, resource allocator, and negotiator).[15]

These categories and roles are closely integrated and follow directly from the formal authority or status a manager has, based on their responsibility for an organization or subunit.[16] That formal authority leads to interpersonal roles, which include the relationships managers have with individuals both inside and

outside the organization. Interpersonal roles subsequently lead to informational roles, whereby the manager obtains and distributes the information needed to facilitate organizational work. Finally, interpersonal and informational roles culminate in decisional roles, which are critical to determining what goals the organization pursues and how it goes about trying to achieve them. Managers' ability to choose appropriately between alternative courses of action is greatly improved when they have a deep understanding of their work.

Table 1.1 provides the definitions of Fayol's four *functions* and Mintzberg's ten *roles*, and identifies areas of overlap between them. In the following paragraphs we describe the four functions and how each of Mintzberg's roles can be associated with a specific function.[17]

**Table 1.1. Management functions and roles**

| Fayol's Management Functions | Mintzberg's Managerial Roles |
|---|---|
| 1. **Planning**: deciding on an organization's goals and strategies, plus identifying the appropriate organizational resources required to achieve them. | **Entrepreneur role:** proactively and voluntarily initiating, designing, or encouraging change and innovation |
| | **Negotiator role:** making incremental changes related to plans and resources |
| | **Disseminator role:** transmitting to members of one's organizational unit information gathered from internal or external sources |
| 2. **Organizing**: ensuring that tasks are assigned and a structure of organizational relationships is created that facilitates meeting organizational goals. | **Resource allocator role:** distributing all types of resources (time, funds, equipment, human resources, etc.) |
| | **Liaison role:** building and maintaining a good structure of information contacts beyond the boundaries of a one's specific work unit |
| 3. **Leading**: relating to other members in the organizational unit so that their work efforts contribute to the achievement of organizational goals. | **Leader role:** communicating with subordinates, including motivation and coaching |
| | **Spokesperson role:** transmitting decisions and other information up, down, and across an organization's hierarchy, and/or to the general public |
| | **Figurehead role:** representing an organizational unit in a symbolic or ceremonial capacity |
| 4. **Controlling**: ensuring that an organization's activities serve to accomplish its goals. | **Monitor role:** acquiring internal and external information about issues that can affect the organization |
| | **Crisis handler role:** taking corrective action when things are not going as planned |

### Planning

Planning means deciding on an organization's goals and strategies, plus identifying the appropriate organizational resources that are required to achieve them. The planning function draws attention to managers' hierarchical authority. Managers call meetings and set the agendas as to what will be discussed at those meetings. Managers ensure that departmental goals and strategies are developed, which often includes planning for the exchange of resources with key suppliers and customers. Managers are held responsible for their organizational unit's decisions, goals, and strategies.

Mintzberg's study suggests that planning can focus on fine-tuning a firm's

current operations, or on developing strategic organizational changes. For example, the *negotiator* role often involves making incremental changes to ongoing plans and resources. In this role, a manager represents the organization in major negotiations affecting the manager's area of responsibility (e.g., negotiation of a union contract, negotiating the fee that a consulting company will be paid, negotiating the price to be paid for a new acquisition, and so on). In the *disseminator* role, managers transmit information to members of their own organizational unit; this information may have been gathered from internal or external sources. Such information is essential to the planning function, and includes sending memos, scheduling and attending weekly staff meetings, retelling the stories and anecdotes that represent an organization's culture, and relaying information from top management.[18]

Perhaps the most far-reaching role in Mintzberg's framework is the *entrepreneur* role, which involves proactively and voluntarily initiating, designing, or encouraging change and innovation. Managers may delegate parts of the implementation process to others but will often oversee the overall process and retain the authority to make final decisions. The entrepreneurial role, which is evident in all four managerial functions, is of growing importance in the fast-changing practitioner world, and an important part of this book.

#### Organizing

Organizing means ensuring that tasks have been assigned and a structure of organizational relationships has been created that facilitates meeting organizational goals. Organizing has to do with the structures and systems that managers establish and maintain. This includes developing an **organization chart**, *which depicts the reporting relationships and authority structure of the organization*, deciding on the approach to departmentalization, choosing the technology that the organization uses, the physical layout of a factory or office space, budgets, human resource policies, and so on. When senior managers are asked about the most challenging part of their job, they often talk about implementing changes to organizational structures and systems.

Two of Mintzberg's managerial roles are most closely related to organizing. First, the *resource allocator* role is defined very broadly and involves the distribution of all types of resources (time, funds, equipment, human resources, and so on). Managers oversee the organizational structure that members work within, such as what sort of departments an organization has and how budgeting processes are used to allocate financial resources. Second, organizing also requires coordinating the use of resources with external stakeholders. **Stakehold-**

**ers** *are parties that have an interest in what an organization does because they contribute resources to the organization and/or are affected by its operations*. This is accomplished via the *liaison* role, which includes building and maintaining a good structure (network) of information contacts beyond the boundaries of a manager's specific work unit. It also includes activities like meeting with bosses and other managers at the same level within the organization, and dealing with competitors, suppliers, and customers.

#### Leading

Leading refers to relating with other members in the organizational unit so that their work efforts contribute to the achievement of organizational goals. Leading is often the first function that comes to mind when people think about management, because it is the most obvious and visible face of management for most subordinates. Leading includes the use of interpersonal skills in communicating with members, encouraging them, resolving interpersonal conflicts, fostering members' motivation, and so on.

*Managers spend 75 percent of their time interacting with people.*

Mintzberg found that on average, managers spend 75 percent of their time interacting with people. Of particular importance is the *leader* role, which includes virtually all forms of communicating with subordinates, including motivating and coaching. Most of the focus of the leader role is on face-to-face interactions, and includes activities like staffing, training, and motivating. The public face of leading is often seen in the *spokesperson* role, where the manager transmits information and decisions up, down, and across the hierarchy, and/or to the general public. Finally, the *figurehead* role highlights the important symbolic function that managers play for their organizational units. Organizational members pay special attention to their manager's behavior, taking cues from them regarding work, company values, and even personal dress codes. The figurehead role is evident when a manager hands out a plaque to honor a high-performing employee at an organizational banquet, is present at the ribbon-cutting ceremony for a new plant, or is interviewed by the media to announce a new organizational initiative.[19]

#### Controlling

Controlling means ensuring that an organization's activities actually serve to accomplish its goals. Controlling can be a very visible function, such as asking members to punch in on a time clock to ensure they do not overstay their lunch hour. However, as described in subsequent chapters, the most influential controls are often less visible. These include professional norms, organizational culture, and the informal understanding employees have of "the way we do things around here" that characterizes each organization. This less visible activity of management is important because it determines the organization's identity, shapes the identities of individual members within the organization, and provides members with meaning in their jobs.

Mintzberg's roles draw attention to the fact that controlling includes both correcting things that are going wrong and supporting things that are going well by providing positive recognition of good work. In the *monitor* role, a manager seeks internal and external information about issues that can affect the organization. This might include talking to members, taking observational tours in the organization, asking questions, keeping up with the news, attending conferences to keep abreast of trends in the field, monitoring performance reports, and reading minutes from meetings. The *crisis handler* role requires taking corrective action when things are not going as planned. Often this includes managing unexpected difficulties (e.g., fire damage in a factory, loss of a major customer, or the breakdown of an important machine).

**Test Your Knowledge**



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=955#h5p-10*

### 1.3.2. The *Why* of Management: Effectiveness and Success

The second part of the definition of management states that the four management functions are to be performed *effectively*.[20] There is an old expression that distinguishes between efficiency and effectiveness, where efficiency refers to doing

things right and effectiveness refers to doing the right things. The idea of effectiveness points to larger, meaning-of-life, overarching goals that shape management. The question of what it means to be a good manager draws attention to the fact that managers, like anyone who makes decisions that affect other people, have *moral* obligations. The opening case illustrates how moral obligations impacted Bob Taylor's decision to purchase an ebony mill. Mintzberg draws attention to this issue when he notes that "managers who can be introspective about their work are likely to be effective at their jobs."[21]

But what does it mean to be an effective or a successful manager? It depends on the criteria people use to evaluate success. In this book we describe three different approaches for understanding managerial effectiveness. We call them Financial Bottom Line (FBL) management, Triple Bottom Line (TBL) management, and Social and Ecological Thought (SET) management. Each approach is briefly introduced here and developed more fully throughout the book.

#### Financial Bottom Line (FBL) Management

**FBL management** *is characterized by its emphasis on maximizing an organization's financial well-being, which is typically achieved by appealing to individual self-interests*. For most of the past century "effective" management has been virtually interchangeable with "financially successful" management. This is particularly true when talking about business managers, where effectiveness has been measured primarily in economic terms.

## Exemplary FBL Manager: Jeff Bezos

In 1994 Jeff Bezos and his then-wife MacKenzie Scott co-founded Amazon, where Bezos continues as executive chairman and is considered one of the most renowned and financially successful managers of our time.[22] Armed with a computer science degree from Princeton and leaving behind a decade of experience on Wall Street, Bezos struck out with Scott on a risky entrepreneurial venture with grand ambitions tied to the dawn of the internet age. Ambitions notwithstanding, Amazon's austere beginnings saw Bezos selling books online

from a rented garage in Bellevue, Washington, furnished with makeshift desks assembled from door slabs. The story of how, over the course of thirty years, Bezos built the global e-commerce and computing empire we know today is the stuff of management lore and wonder. Bezos's Amazon has systematically reshaped industries, markets, and society, often against considerable odds and by bucking well-established management norms. Amazon's growth, spread, and dominance—spanning market categories from tech to entertainment to groceries to healthcare—is unparalleled. In 2015 it became the fastest company to reach $100 billion in annual sales and in 2023 was approaching $600 billion with $30.4 billion net revenue.[23] Bezos's personal wealth accumulation has been similarly astronomical, landing him on top of the Forbes list of world billionaires from 2018 to 2021.[24]

With respect to *planning*, Bezos pursued a famously unconventional strategy from the outset, one that was singularly "customer-obsessed" and coupled with an unusually long-term orientation. Consecutive financial losses over the first eight years and modest yet uneven profits through the first twenty were deemed the cost of fueling growth and securing market dominance.

On the *organizing* front, Bezos purposely avoided bureaucratic hierarchies and structured Amazon to encourage innovation through risk-taking along with operational excellence. The goal was to ensure that the best ideas always surfaced no matter where in the organization they originated.

Consistent with the flat organizational structure, Bezos is a notoriously hands-on and demanding *leader* who has been described as a micromanager. While he is equally revered and feared by those who work with him, there is near-unanimous agreement that Amazon's success is directly tied to his unique vision and force of personality.

One of the company's earliest and most powerful discoveries was the rich insight into consumer behavior made possible by the online retail environment. Data-driven technology platforms and processes remain the foundation of Amazon's *control* systems.

FBL management is based on the idea that societal well-being is optimized when organizations maximize the creation of financial wealth, which occurs via managers maximizing organizational wealth under the assumption that individuals pursue their own financial self-interests.[25] This premise has very old roots, including the work of Adam Smith (1776) who is considered the founding father of economics. In his book *The Wealth of Nations*,[26] Smith introduces the metaphor of the **invisible hand**, *which suggests that the good of the community is increased when every individual is permitted to pursue their own self-interested*

*goals*.[27] Smith's logic is twofold. First, when individuals maximize their own financial well-being, then (regardless of whether or not they intend to) they will inevitably also maximize society's financial well-being.[28] Second, the invisible hand will work to protect the interests of everyone; Smith argued that even rich, selfish landlords would pay their workers well, because the landlords would recognize that they were dependent on the workers who grow their food and care for their property.[29]

Not only is FBL management effective according to this economic rationality, it is also deemed to be effective and ethical according to a popularized understanding of a moral point of view called **consequential utilitarianism**, *which focuses on optimizing an action's rightness (and limiting its wrongness) as measured by its effect on the net overall happiness outcome for everyone involved*.[30] From this view, an organization is rightly ordered when its structures and systems are arranged in a way that maximizes everyone's net overall happiness. Because different people will have a different view of what constitutes happiness and satisfaction (e.g., some people value vacationing, others value fine food, and others value supporting charity) in practice, money is often used as a proxy for happiness (because people can use money to go on vacation, purchase fine food, or make donations to charities). Thus, in its simplified popular form, consequential utilitarianism suggests that ethical management strives to maximize a firm's financial outcomes. Milton Friedman, recipient of the 1976 Nobel Prize in economics, can be seen as a champion of an FBL approach to effectiveness. Friedman's views are consistent with consequential utilitarianism and with the invisible hand.[31]

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*"There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."—Milton Friedman*

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The FBL approach has created unprecedented financial wealth. However, the FBL approach also is increasingly criticized for its shortcomings, because it overlooks social and ecological well-being. For example, as Amazon's power has grown, it has faced persistent criticism regarding its labor practices and has been

accused of creating excessively demanding working conditions and suppressing employees' rights.[32] Similarly persistent are charges that Amazon acts monopolistically, illegally using its platform power to quash competition, bring dissenting vendors into line, and even invade personal privacy, with broad negative consequences for the economic and democratic health of society. The company's environmental record is also tainted by its enormous—and potentially underreported—carbon footprint, along with highly wasteful practices tied to destruction of returned goods, packaging and plastics pollution, and increasing the materialistic appetite of a consumer society.

Overall, FBL management is facing increasing criticism because it is associated with (unintentionally) creating negative ecological and social externalities. **Externalities** *refer to positive and negative effects that organizations have on society that are not reflected in their financial statements.* For example, because current accounting practices report only activities internal to a firm's boundaries (but not external to them), FBL profit-maximizing firms are incentivized to create negative social externalities (e.g., to keep their costs low, firms may pay less than a living wage, thereby creating expenses for others in society to cover the difference) and to create negative ecological externalities (e.g., they use the lowest-price energy sources that minimize the firm's costs but emit greenhouse gases [GHGs] that create external costs related to climate change that others will need to pay). For example, the International Monetary Fund estimated that the externalities associated with fossil fuel use amounted to about $5 trillion in 2022, over 80 percent of which came from business.[33] In other words, business generates $1,000 worth of ecological damage per year for every person on the planet, which is about the same amount of money that the poorest half of the world lives on each year.[34]

Recall that FBL is based on the "invisible hand" assumption that increasing financial well-being at the individual or organizational level will inevitably create positive externalities that enhance overall societal well-being. And indeed, countries whose businesses have the most effective FBL managers and businesses also tend to have a high GDP (gross domestic product, which measures the total financial value of all the goods and services produced within a country) and good standard of living. However, as we shall see in later chapters, those same high-income countries also tend to deplete more than their share of environmental resources, and their inhabitants are living far beyond the carrying capacity of the planet, which is contributing to negative externalities related to climate change and the deterioration of ecological resources. Moreover, the financial benefits of large businesses that create negative externalities are not spread evenly across the

globe; it is only the relatively wealthy who can afford to own shares in them. This contributes to the widening gap between rich and poor and related social problems. Observations such these have led to the development and adoption of approaches to management that seek to improve the triple bottom line.

#### Triple Bottom Line (TBL) Management

**TBL management** *is characterized by its emphasis on enhancing an organization's financial well-being while simultaneously reducing its negative socio-ecological externalities.* The TBL approach is based on the assumption that managers can find win-win-win solutions that simultaneously benefit profits, people, and the planet.[35] TBL management pursues **sustainable development**, *which means "meeting the needs of the present generation without compromising the ability of future generations to meet their needs."*[36] From a TBL perspective, sustainable development means simultaneously pursuing economic prosperity, social equity, and environmental quality.[37]

## Exemplary TBL Manager: Jeff Bezos

In 2019, with Amazon firmly established as an exceptional model of FBL success, Jeff Bezos reoriented the company toward a broader corporate agenda in line with TBL goals.[38] On August 19 of that year, Bezos (along with 180 other CEOs of leading American organizations) endorsed the Business Roundtable's revised Statement on the Purpose of a Corporation, including a fundamental commitment to serve a broad set of stakeholders and the natural environment rather than a narrow group of shareholders[39] (see Chapter 2). At an invited press gathering exactly one month later, Bezos described Earth as the "best planet in the solar system" and expressed full acceptance of climate science and a deep concern for the alarming state of Earth's climate trajectory. He simultaneously announced the founding of The Climate Pledge,[40] an ambitious and collaborative Amazon-led initiative for corporations to accept responsibility and act to better the planet. In 2020, at the height of the COVID-19 pandemic, Bezos followed up personally by committing $10 billion of his own money to "address climate and nature within the current decade" through the establishment of the Bezos Earth Fund.[41]

Under The Climate Pledge framework, *planning* is directed by a top-line commitment to be net-zero (carbon neutral) by 2040, ten years ahead of the international target set out in the 2015 Paris Agreement. To meet this goal, Amazon announced it would move to 100 percent renewable energy by 2030 and ordered 100,000 delivery vans from the electric vehicle start-up Rivian.[42]

Under the direction of Amazon's central sustainability team, social and environmental efforts are *organized* to comprehensively address all aspects of the company's operations in five focus areas: (1) climate solutions, (2) waste & packaging, (3) natural resources, (4) human rights, and (5) products and services. Externally oriented organizing activities involve collaborations and partnerships with a broad spectrum of stakeholder organizations spanning the private, public, and nonprofit sectors.

The Climate Pledge also represents a concerted effort to establish Amazon's *leadership* in corporate sustainability (early signatories included Verizon, Microsoft, Unilever, and Coca-Cola).[43] The company's recently launched Amazon Sustainability Exchange is another leadership exercise designed to share best practices and knowledge resources with suppliers.

As with other TBL frameworks, *controlling* is achieved through a systematic process of target setting, measuring, and public reporting in line with third-party standards such as the Sustainability Accounting Standards Board and the United Nations Guiding Principles Reporting Framework. Regular reporting of GHG emissions is one of three primary Climate Pledge commitments, and true to form, Amazon has built a sophisticated carbon accounting system on the Amazon Web Services platform.

TBL management recognizes that the classic FBL approach ignores negative socio-ecological externalities created by business. In contrast, the TBL approach maintains that by attending to and reducing these negative externalities, organizations can actually further enhance their financial well-being. In short, the TBL approach draws attention to the business case for sustainable development. A **business case** *is a justification, often documented, that shows how a proposed new organizational initiative will enhance the organization's financial bottom line.* Often a business case also demonstrates that the financial resources invested in the new initiative will yield higher returns than if they were invested elsewhere.[44] Walmart has become a leading example of TBL management by showing, for example, how decreasing the packaging of the products it sells can save money and the environment, and how LED lighting and solar panels can reduce energy costs and fossil fuel GHG emissions. TBL management is particularly

popular among businesses in the Silicon Valley, which are known for providing free organic meals at their cafeterias to increase employees' health, job satisfaction, and productivity, and thus reduce costs associated with sick days and turnover.

The TBL approach has arguably become the dominant management paradigm among large businesses. Today over 14,000 businesses in over 100 countries report according to the standards of the Global Reporting Initiative[45]—the international benchmark for sustainability reporting—which grew out of the work of the environmental nonprofit organization Ceres (Coalition for Environmentally Responsible Economies). Formed in 1989 in the wake of the Exxon Valdez oil spill in Alaska, Ceres members include fifty of the largest and most influential global corporations, including Amazon, Apple, Coca-Cola, Ford, PayPal, and Starbucks. Consistent with a TBL orientation, their primary emphasis is on the financial rewards and investment opportunities that come from attending to social and environmental issues. They claim that "our powerful networks of investors and companies are proving that sustainability is the bottom line."[46]

A significant shift at present is the move from voluntary reporting and participation in networks such as Ceres to legally mandated requirements for businesses to account for and report on their social and environmental performance. As of 2025, the Corporate Sustainability Reporting Directive dictates that companies in the European Union report on social and environmental risks, opportunities, and impacts, and have those reports independently audited by a third party.[47] Similarly, new sustainability standards issued in 2023 by the International Sustainability Standards Board are being evaluated by numerous countries around the world, with anticipation that mandatory ESG (economic, social, and governance) reporting is on the horizon.[48] ESG reporting is now *the* dominant trend in the areas of investing, finance, and accounting, and is emblematic of TBL thinking.[49]

Finally, in terms of what it means to be a "good" manager, when compared to the FBL approach, TBL management can be seen as more effective according to both organizational economic rationality and consequential utilitarianism. First, just as FBL management can be seen to be effective because it enhances a firm's financial well-being, the same can be said for TBL management. Indeed, research suggests that TBL firms often financially outperform FBL firms.[50] Second, the TBL approach is also arguably more ethically effective than the FBL approach within a moral point of view called **enlightened consequential utilitarianism**, *which suggests that ethical management seeks to improve an organization's financial well-being, especially via reducing negative social and*

*ecological externalities*.[51] This enlightened TBL approach is similar to the FBL approach, except that the TBL approach explicitly notes that reducing negative externalities can be in one's self-interest; pursuing sustainable development and reducing negative socio-ecological externalities can serve the financial self-interests of the firm.

#### Social and Ecological Thought (SET) Management

**SET management** *is characterized by its emphasis on enhancing social and ecological well-being while maintaining financial viability.* SET management recognizes the importance of financial viability, but it encourages managers to improve social and ecological well-being even when this does not *maximize* the financial well-being of the organization. In other words, the SET approach realizes that management involves a larger "set" or collection of factors that go beyond maximizing the financial bottom line, and that management is "set" or embedded within larger social and ecological environments. The SET approach prepares managers to be ready and set to face the socio-ecological issues facing humankind. SET management is also more process-oriented than either FBL or TBL; this is consistent with the historical roots of "set" in the Old French word *sette*, which means "sequence" (e.g., a musical set played by a band) and points to process.[52] SET management principles are evident at Taylor Guitars (the opening case) and at Greyston Bakery, co-founded by Bernie Glassman, a former aeronautical engineer with a PhD in applied mathematics.

## Exemplary SET Manager: Bernie Glassman

In 1982 Bernie Glassman and his wife started Greyston Bakery in New York City, a company that illustrates a SET approach to the four management functions.[53] Today the bakery, located on the Hudson River, is famous for the 35,000 pounds of brownies made with fair-trade ingredients it produces daily,[54] most of which end up in Ben & Jerry's ice cream or sold at Whole Foods.

First, in terms of *planning*, the mission of Greyston is reflected in its motto:

"We don't hire people to bake brownies; we bake brownies to hire people." Greyston hires chronically underemployed people such as ex-convicts and homeless people, using what it calls an open hiring process, where people apply for jobs by adding their names and contact information to a waiting list and are offered a job when it's their turn. No resumes or references are required. In this way, over the years Greyston has created over 3,500 jobs with $65 million in salaries paid in the community. Greyston currently employs approximately 120 workers, including eighty open hires.[55]

Second, in terms of *organizing* its resources, all the profits from the bakery go to the Greyston Foundation, a nonprofit organization that invests in the local community. Greyston has created space for community gardens, workforce development programs that provide skills training and job placement services for youth aged eighteen to twenty-four, a learning center for children, and environmental education programs.

Third, in terms of *leading*, Glassman's approach is based on two core principles: (1) life is intrinsically interdependent, which means that all businesses should help meet the needs of the whole community and the whole person; and (2) change is constant, which gives rise to seeing business as a path where one never arrives, a journey where managers value innovation, agility, and growth.[56] For example, new hires at Greyston enter a ten-month apprenticeship process during which they learn to grow as employees and as persons. In addition to the benefits this provides to participants, Greyston estimates it "generates almost $7 million per year of local economic impact through public assistance savings, increased tax revenue and reduced incarceration costs."[57]

Fourth, with regard to *controlling*, in 2014 Greyston became the first company in New York to register as a benefit corporation, a new legal status now available in most US states that enables firms to place socio-ecological well-being ahead of maximizing profits. As a B Corp, Greyston uses services provided by a nonprofit organization called B Lab to monitor, measure, and certify its financial, social, and ecological performance.[58]

Just as TBL management seeks to address shortcomings associated with its FBL forerunner, so also SET management seeks to address shortcomings associated with the TBL approach. Proponents of SET management are skeptical that the TBL approach can adequately address socio-ecological problems caused by business. While it is heartening that many of the world's largest firms are leaders in TBL practices, in 2018 the world's 1,200 largest corporations also created about $5 trillion dollars of negative ecological externalities, an amount 50 percent greater than five years before and an amount greater than their combined

profits.[59] Observations like these raise the question of whether even the best practices associated with the TBL approach are good enough. For example, Walmart's TBL approach has had impressive accomplishments in the areas of renewable solar energy and reduced packaging, but the retailer also puts pressure on suppliers to constantly reduce prices, which creates incentives to cut corners, which in turn can reduce social and ecological well-being. As well, Walmart's past policies on minimizing employee benefits (e.g., by keeping employees at a part-time level) off-loads costs onto social agencies and taxpayers, and its sourcing of products from around the planet creates negative externalities caused by GHG emissions related to shipping (not to mention negative socio-ecological externalities in overseas manufacturing facilities).[60]

In short, because TBL management is committed to improving financial well-being, it can address only the subset of socio-ecological problems that lend themselves to enhancing an organization's financial bottom line. Thus, TBL businesses are unable to address the host of socio-ecological problems that cannot be solved within a profit-maximizing approach to management. It has even been argued that because business-case logic privileges financial outcomes, the TBL approach can be detrimental to the social and environmental goals it purports to uphold.[61]

Another difference between SET management and a TBL approach is that, while both emphasize reducing *negative* socio-ecological externalities, the SET approach places relatively more emphasis on enhancing or creating *positive* socio-ecological externalities. For example, after purchasing the ebony mill in Cameroon, Bob Taylor implemented immediate measures to stop the enormous waste of streaked ebony trees (reducing environmental harm) and is simultaneously finding alternative uses for the wood and launched other initiatives that ensure local communities retain the economic value of their natural resources and production (increasing social good). Greyston Bakery hires ex-convicts and others who have a difficult time finding jobs in the economy (increasing social good) and lowers recidivism and crime rates (reducing social harm).

With respect to effectiveness as defined by economic rationality, SET management is seen as less effective than the FBL and TBL approaches to maximizing a firm's financial well-being, at least in the medium to short term. However, if we accept the argument that the FBL and TBL approaches are not sustainable in the long term, then SET management could be seen as more economically effective than the FBL and TBL approaches in the long run.[62] Along these lines, while a TBL approach to ESG has been found to increase financial performance in some studies, there are concerns that such ESG reporting and related activities

have had little positive impact on meaningful social and environmental outcomes.[63]

*From a virtue ethics perspective, the purpose of business is not to make as much money as possible but rather to provide goods and services that benefit society.*

The effectiveness of SET management in terms of ethics also differs from the FBL and TBL approaches. Recall that the FBL and TBL approaches are both based on variations of a consequential utilitarian moral point of view, which focuses on outcomes (i.e., consequences) and the idea that more financial wealth is better (more ethical). In contrast, SET management is based on **virtue ethics**, *which focuses on how happiness is achieved by practicing virtues in community.*[64] The SET approach emphasizes virtuous process and character, not financial outcomes. Indeed, virtue ethics deems it unethical to maximize economic goals for their own sake.[65] When it comes to financial well-being, virtue ethics emphasizes that "enough is enough." This applies to having enough consumer goods as well as to creating enough financial value capture (e.g., profits). Thus, a SET approach stands in contrast to the insatiable "more money is better" assumptions that are evident in the FBL and TBL approaches. From a virtue ethics perspective, the purpose of business is not to make as much money as possible but rather to provide goods and services that benefit society.

Virtue ethics goes back to ancient Greece and to philosophers like Aristotle and his peers, who argued that using money simply to make more money and achieving luxurious amounts of financial wealth is dysfunctional and unethical. Rather, from the perspective of virtue ethics, the purpose of human activity is to optimize people's happiness, which is achieved by practicing virtues in community. In terms of the four cardinal virtues, the virtue of *wisdom* is evident when managers make decisions that are deliberately aware of and informed by their larger socio-ecological setting; *justice* is evident when managers ensure that all stakeholders associated with a product or service receive their due and are treated fairly (being especially sensitive to the marginalized); *self-control* is evident when managers temper their own narrow self-interests; and *courage* is evident when managers are willing to address shortcomings of dominant socio-economic structures and systems.[66]

The SET management emphasis on community is also consistent with time-honored moral points of view associated with the Indigenous peoples of the planet, such as North American Cree and Ojibway, Australian Aboriginals, and the African Ubuntu philosophy, whose heritage stretches back thousands of years to the Egyptian idea of *maat* (which was associated with the Hebrew idea of *shalom*, or wholeness). Like other Indigenous moral philosophies,[67] Ubuntu has a lot to do with interconnectedness, especially people's interconnectedness with each other and with nature. Whereas from a traditional Western perspective people see themselves primarily as individuals and secondarily as members of a larger community and cosmos, from an Ubuntu perspective we are primarily members of a larger cosmos and community who secondarily see ourselves as individuals: "I am, because we are; and since we are, therefore I am."[68]

In sum, principles associated with SET management have been evident for a long time in the history of humankind, and the influence of SET management can be expected to grow, especially as people become more aware of the shortcomings and critiques of both FBL and TBL management approaches.[69]

#### Depicting Differences Between FBL, TBL, and SET Approaches

This following chapters of this book will examine in detail the differences between FBL, TBL, and SET approaches to management. For now, we will offer two simple ways the differences can be depicted in terms of how each approach understands the relationships between financial, social, and ecological well-being. First, as shown in the Venn diagram in Figure 1.1,[70] the FBL approach tends to assume that management is primarily concerned with economic activity, which is why that circle is the largest in the figure. From an FBL perspective, the focus of management on economic activity is separate and independent from natural and social environments—this approach assumes that government and other societal institutions will manage social and ecological well-being. A TBL management approach suggests that economic activity is interdependent with the natural and social environments. TBL managers therefore seek to simultaneously improve financial, ecological, and social well-being. However, the areas of overlap are limited because TBL managers are constrained by needing to make a business case for which socio-ecological issues they can address. Finally, a SET management approach holds that economic activity is embedded within and dependent upon social and ecological well-being. Specifically, economic activities are understood to be a human invention and thus a subset of society, and society is in turn a subset of the natural environment. Just as the planet existed

for billions of years before humankind came on the scene, so also humankind existed for thousands of years before money was invented.

**Figure 1.1. Relationship between financial, ecological, and social realms under the three management approaches**




A second way to understand the differences between the three management approaches is shown in Figure 1.2. The bar chart provides a simplified depiction of the performance level for each management approach in terms of overall financial, ecological, and social well-being. The values on the chart are intended to be suggestive and represent an average relative performance within each approach; there will be exceptions to these representations. Under FBL management, financial well-being is high, but social and ecological well-being are unsustainably low. With TBL management, financial performance is even higher, and social and ecological well-being have improved, thanks to the reduction of negative socio-ecological externalities, though they are still unsustainably low. Finally, under SET management, financial well-being is viable but lower than for the FBL and TBL approaches. However, social and ecological well-being have increased and become sustainable, thanks to a reduction of negative externalities and an increase in positive externalities.

**Figure 1.2. Financial, social, and ecological performance associated with the three management approaches**




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### 1.3.3. Why Learn About Three Management Approaches?

You may be wondering why this text presents three different approaches to management. Why not just pick the best approach and teach it? It's a fair question. Most management texts present a relatively singular view, typically reflecting an FBL perspective (though increasingly supplemented with TBL content). But, as will be elaborated below, understanding multiple approaches fosters adaptability and improves critical and ethical thinking. Also, as the cases already introduced illustrate, there is no universal agreement on what constitutes "best" when it comes to management. Finally, research suggests that contemporary management students align themselves with all three approaches, although after learning about

the SET approach they are more likely to align with that than with the FBL or TBL approaches.[71]

Each of the three approaches to management discussed in this book represents what Max Weber calls an "ideal type." This does *not* mean that they are the ideal or best way of managing. Rather, an **ideal type of management** *refers to a specified constellation of concepts and theory that collectively identifies what effective management means and how it is practiced.* Just as with other ideal types that you may be familiar with—for example, introverts versus extroverts—we would not expect to find many managers who are a perfect model of an FBL, TBL, or SET approach. This means that even though this book will provide many instances of managers who illustrate FBL, TBL, or SET management, those same managers could sometimes be used to illustrate one of the other two approaches. For example, as highlighted above, Jeff Bezos has transitioned from a predominantly FBL approach to a TBL orientation over the course of his career.

Research points to several benefits that come from learning more than one approach to management, that is, from learning about different ideal types of management. First, doing so increases critical thinking skills.[72] This is an important point, since research suggests that the critical thinking skills of university students often fail to improve even after four years of study, and that business students' critical thinking skills sometimes lag behind those of students in other disciplines.[73] Learning multiple approaches to management helps students to develop their ability to resist simple answers by exploring and integrating opposing ideas or viewpoints, which is a hallmark of outstanding managers.[74] Learning multiple approaches can help go beyond management *training* (learning what managers do), and instead achieve management *education* (understanding why managers do what they do), so that students will be prepared to adapt appropriately to the conditions they will face in the future.[75]

*Learning multiple approaches to management increases your critical thinking skills.*

Second, research suggests that learning about multiple approaches also improves skills in ethical thinking and serves as an ongoing reminder that managers' actions and practices are not value neutral.[76] In fact, it is impossible to develop

management theory that is *not* based on some values. Each of the three approaches to management discussed in this book is value laden (i.e., each is based on its own distinct moral point of view). Studying only one approach often acts as a self-fulfilling prophecy, where students forget that the approach is based on specific values and thus increasingly adopt those values.[77] Business schools that teach only FBL management have been criticized because their students become more materialistic and individualistic during their program of study. In contrast, learning multiple approaches compels and enables students to give careful thought regarding their own personal moral point of view and how it is expressed in the workplace. You may feel drawn to any one of the three types described here, or you may find yourself using the tools provided in this book to develop your own distinct approach to management, based on your own values and understanding of managerial effectiveness.

Finally, studying the three different approaches to management improves the ability to adapt to different situations and work with different people. It can be likened to studying three managerial languages.[78] It is important for managers to become familiar with multiple languages, because they will be managing a variety of people in a variety of settings during their careers. Students who are multilingual tend to have higher levels of cultural empathy, open-mindedness, tolerance for ambiguity and creativity,[79] a deeper understanding of their mother tongue, and an enhanced ability to learn and understand additional languages.[80] The ability to adapt and shift direction is especially important during periods of more intensive change and instability (the kind characterized by COVID-19, climate change, and escalating political tensions). Adaptability is also an essential ingredient in entrepreneurial activities, which involve developing new business solutions to real-world problems and challenges.

## Test Your Knowledge



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## 1.4. Entrepreneurial Management

Each chapter in this book ends with a discussion about the implications of the chapter material for entrepreneurship. Entrepreneurs and the organizations they create are vitally important to the world. An **entrepreneur** *is someone who conceives of new or improved goods or services and exhibits the initiative to develop that idea by making plans and mobilizing the necessary resources to convert the idea into reality.* Entrepreneurs can implement changes within existing organizations and create entirely new ones, potentially fostering whole new industries and ways of doing things. Entrepreneurs have provided many of the breakthroughs and conveniences that shape our lives, and needed solutions to current problems facing the world will also be generated by entrepreneurs. A 2023–2024 report shows that in the United States, entrepreneurial activity and intentions are highest among eighteen- to twenty-four-year-olds, and that sustainability is a key priority for this group.[81]

The recipe for entrepreneurial success has two main ingredients: (1) an opportunity for a new product or service that creates value for society; and (2) an organizational plan that identifies and facilitates assembling the necessary resources to pursue the opportunity. The first part of this book (especially Chapters 3, 4 and 5) will help you to explore and develop the first ingredient (that is, identifying opportunities to create value), while the remainder of the book will help with the second (establishing an organization).

In addition to these two ingredients, entrepreneurship requires a third factor: a motivated entrepreneur who acts like a chef in choosing and assembling the ingredients. Just as a chef can make an almost infinite variety of food dishes, so entrepreneurs can create an almost infinite variety of new organizational start-ups. And just as a chef is informed by their taste and the purpose and style of the meal (is it lunch, dessert, fusion?), so also entrepreneurs are influenced by their experiences and motivations.

### 1.4.1. Three Reasons Why People Become Entrepreneurs

A 2015 study based on the Global Entrepreneurship Monitor (GEM, which provides the best international dataset available for studying entrepreneurship) found that three main reasons motivate entrepreneurs to start a new business. These reasons are directly relevant to our discussion of the FBL, TBL, and SET approaches to management.[82] First, according to the entrepreneurs in this study, perhaps unexpectedly, financial gain is only the third-most important reason for

starting a new business. Although many people might assume that the main reason entrepreneurs go into business is to make money, the data suggest that this simply is not true. When entrepreneurs were asked to list *all* of the reasons they could think of for starting their business, less than half (42 percent) even mentioned needing or wanting more income, and only 25 percent indicated that having great wealth or very high income was important to them.[83] These results are consistent with other research findings that show that when asked to identify their *primary* motivation for starting a business, only 8 percent of entrepreneurs mention money.[84] So even though most management and entrepreneurship research and writing may still assume an FBL approach,[85] most entrepreneurs do not even mention financial well-being as a reason for starting a business.[86]

*Most entrepreneurs do not start a business in order to make money; rather, they want work they find more satisfying, and they want to make the world a better place.*

If not money, then what is important? The top reason entrepreneurs identify for starting their business is related to their desire for autonomy and better work (which are central components of personal social well-being, related to TBL management). For example, 73 percent of entrepreneurs rated "To have considerable freedom to adapt my *own approach* to work" as important.[87] This desire for autonomy and the chance to be one's own boss is also identified as a main reason in other studies of entrepreneurs,[88] and is clearly of considerable relevance for a book on management. In order to be your own boss and to effectively manage a business in a way that is consistent with your own approach to work, it is clearly helpful to learn about different approaches to management.[89]

The second-most important reason entrepreneurs identify for starting their new business is to address challenges and pursue opportunities that are related to a SET approach. For example, 40 percent of entrepreneurs mentioned the desire "To make a positive difference to my community, to others, or to the environment."[90] The latest GEM research confirms that entrepreneurs around the world and regardless of income level systematically prioritize social and environmental well-being above economic performance.[91] Start-ups created by entrepreneurs

with this motivation and/or the motivation for autonomy and good work, have higher survival rates than financially motivated firms.

Finally, note that the reasons given above are the three main motivations for entrepreneurs who have started traditional businesses. The study does not include founders of nonprofit organizations or other **social enterprises**, *which are entrepreneurial organizations created intentionally and specifically to pursue a social or environmental well-being mission*. Thus, if such SET-oriented entrepreneurs had been included, we might expect financial well-being to be even less important and enhancing socio-ecological well-being to be more important.

### 1.4.2. Types of Entrepreneurs

In addition to identifying the three main motivations of entrepreneurs, the literature also points to three important characteristics that are helpful for distinguishing between different types of entrepreneurs: (1) the scope of their ambition; (2) their propensity to start multiple new organizations; and (3) and their desire to work within existing organizations (see Figure 1.3). Each of these three characteristics is discussed below to identify different types of entrepreneurs and to explain how each type is evident in the three management approaches (FBL, TBL, and SET).

**Figure 1.3. Different types of entrepreneurship**




#### Scope

Some entrepreneurs, called **growth-oriented entrepreneurs**, *are distinguished by a strong and clear intention to grow a new organization into a large and influential force in their industry*. Examples of successful growth-oriented entrepreneurial organizations include Amazon, Facebook, Tesla, Google, and Habitat for Humanity. These and other similar organizations started in the minds of one or a few people and grew to become global giants. Because growth-oriented entrepreneurs create and capture so much value, they attract media attention and tend to be what many people imagine when thinking about entrepreneurship.

However, entrepreneurs with less ambitious goals are more common.[92] **Micropreneurs** *seek to develop successful and viable organizations but not large ones; they do not include size in their definition of success*. Many micropreneurs start their organizations for personal satisfaction or lifestyle reasons rather than to dominate an industry. Recent research suggests that entrepreneurs who seek to scale up quickly provide fewer jobs for the local economy than place-based entrepreneurs who seek to scale deep (e.g., who work with stakeholders to become more sustainable).[93] Micropreneurial organizations include local mom &

pop stores, craft-oriented businesses such as microbreweries, and the many small manufacturing operations that support families in low-income economies. One common approach to becoming a micropreneur is to purchase a franchise. **Franchising** *involves a franchisor selling a franchisee a complete package to set up an organization, including such things as using its trademark and trade name, its products and services, its ingredients, its technology and machinery, as well as its management and standard operating systems*. Many well-known multiple outlet businesses are franchises, including McDonald's, 7-Eleven, UPS, Lululemon, and Freshii.

In this discussion, scope or ambition refers to how large the entrepreneur intends for the new organization to grow; it does not refer to which of the three management approaches is used. In fact, entrepreneurs of any scope or ambition level may adopt an FBL, TBL, or SET management approach. Because many of the highest profile growth-oriented entrepreneurs appear to be primarily driven by financial profit,[94] one might assume that the FBL approach is most compatible with this style of entrepreneurship. However, that is not necessarily the case. For example, Nina Smith founded the organization GoodWeave in 1994 with the goal of eliminating all child labor in the global carpet industry. By 2022, GoodWeave had 431 partner businesses in twenty-two countries and had restored freedom for 9,739 children.[95] Similarly, Vivek Maru and Sonkita Conteh founded Namati, which is a global organization working with communities to protect their legal rights in land, healthcare, and citizenship. Namati has helped tens of thousands of clients in numerous countries.[96] While these and other SET organizations are clearly not pursuing maximum financial profit, they are certainly examples of growth-oriented entrepreneurship both in terms of their ambitious goals and the extent of their influence.

Likewise, because of their focus on small organizations, one might assume that micropreneurs are most interested in TBL or SET approaches. It is true that many micropreneurs leave traditional jobs in FBL firms to start their own business as a way to serve social and ecological ends.[97] However, it is also true that some micropreneurs are primarily concerned with making money rather than with outcomes associated with TBL or SET management.

#### Multiplicity

Another characteristic that helps to differentiate among entrepreneurs is their propensity to start multiple organizations. Many entrepreneurs are **monopreneurs**, *who start a viable organization in order to manage it for the rest of their*

*career*. Other entrepreneurs, however, find more satisfaction in starting new organizations than in managing them indefinitely. **Serial entrepreneurs** *start many organizations*. Serial entrepreneurs are typically excited by new ideas and thrive when facing the challenge of creating a new organization. Entrepreneurs of this sort often prefer the energy and uncertainty of a start-up and frequently leave managing the organization to others once it is successfully underway (see opening case, Chapter 9).

*Serial entrepreneurs prefer the energy and uncertainty of the start-up phase and frequently leave managing the organization to others once it is successfully underway.*

Both monopreneurs and serial entrepreneurs may adopt any of the three managerial approaches. For example, Thomas Edison founded more than 100 FBL businesses in a variety of industries related to automobiles, batteries, cement, mining, and farming.[98] Elon Musk has created TBL ventures in automotive, software, financial services, space travel, artificial intelligence, and drilling organizations (see opening case, Chapter 15).

#### Launch Point

The final characteristic that distinguishes entrepreneurs is whether they create a new organization or work within an existing one. When we think of entrepreneurs, we usually think of the **classic entrepreneur**, *who starts an entirely new organization to pursue a new product or service idea*. However, many new ideas, products, and services are launched from within existing organizations. Such ventures are started by **intrapreneurs**, *persons who exhibit entrepreneurship within an existing organization*. Unlike a classic entrepreneur, an intrapreneur does not create a new organization but works within one that is already operating. Many new products or services created by organizations, as well as spin-off and subsidiary firms, are the result of intrapreneurship. Some organizations even go as far as making intrapreneurship a formal part of all of their operations. For example, Google famously allows employees to devote as much as 20 percent of their work time to projects of their own choosing,[99] and 3M has a framework of internal systems, centers, and funding for developing employees' new ideas (such

as the development of Post-it Notes).[100] Much of what an intrapreneur does is similar to what any other entrepreneur does, but there are also some important differences, which are discussed at the end of Chapter 13.

All types of entrepreneurs must address all four functions of management. They must plan how to implement their idea, organize the resources to do so, lead their organization as it begins to operate, and control operations to achieve their ultimate goal. As a result, entrepreneurship offers an excellent lens for taking a closer look at every aspect of management. To help readers understand and apply the ideas in this book, each chapter ends with a discussion that connects the ideas in that chapter to the choices and challenges faced by entrepreneurs. And each chapter provides questions and guidance for developing an **Entrepreneurial Start-Up Plan (ESUP)**, *which identifies an entrepreneurial opportunity and describes a detailed management plan for acting on that opportunity* (described more fully in Chapter 6). Taken as a whole, this book will help readers to better understand management, organizations, and the entrepreneurial process that is so vital to society.

## Test Your Knowledge



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*Entrepreneurship offers an excellent lens for taking a closer look at every aspect of management.*

## Chapter Summary

1. The study of management is important for five reasons:
    - It develops conceptual skills that increase your likelihood of being promoted into a managerial position.
    - It helps to enhance your working relationships with the managers for whom you work.
    - It allows you to better understand how managers operate in different organizations and settings.
    - It improves your ability to create value for society and to capture value for organizations.
    - It helps you to develop a richer understanding of who you are and of your life ambitions.
2. The definition of management has two parts:

    (a) *Management functions*

    - **Planning** means deciding on an organization's goals and strategies and identifying the appropriate organizational resources that are required to achieve them (facilitated by entrepreneur, negotiator, and disseminator roles).
    - **Organizing** means ensuring that tasks have been assigned and a structure of organizational relationships created that facilitates meeting organizational goals (facilitated by resource allocator and liaison roles).
    - **Leading** means relating to others in the organizational unit so that their work efforts help to achieve organizational goals (facilitated by leader, spokesperson, and figurehead roles).
    - **Controlling** means ensuring that an organization's activities actually serve to accomplish its goals (facilitated by monitor and crisis handler roles).

    (b) *Management effectiveness*

- For **FBL management**, effectiveness is evident when managers maximize the financial well-being of their organizations. It is based on assumptions about the invisible hand and is consistent with a consequentialist utilitarian moral point of view.
- For **TBL management**, effectiveness is evident when managers enhance an organization's financial well-being while simultaneously reducing its negative socio-ecological externalities. It is based on ideas about sustainable development and is consistent with an enlightened consequentialist utilitarian moral point of view.
- For **SET management**, effectiveness is evident when managers enhance socio-ecological well-being while maintaining financial viability. It is based on recognizing the finite resources of the planet and is consistent with virtue ethics and other moral philosophies with a deep history in humankind.

3. Studying FBL, TBL, and SET approaches to management enhances the following abilities:
    - critical thinking (education vs. training; preparation for future conditions),
    - ethical thinking (all management is value laden),
    - cultural empathy, open-mindedness, tolerance, and creativity.
4. Entrepreneurs start businesses for the following reasons:
    - to gain autonomy and freedom,
    - to meet challenges and opportunities,
    - to achieve financial goals.
5. Different types of entrepreneurs can be identified based on their scope (micropreneurs vs. growth-oriented entrepreneurs), multiplicity (monopreneurs vs. serial entrepreneurs), and launch point (classic entrepreneurs vs. intrapreneurs).

## Questions for Reflection and Discussion

1. Many people are attracted to the status, power, and financial rewards associated with being a manager. However, the lifestyle of managers can be stressful, with a high workload and an unrelenting sense of obligation and responsibility to the people being managed. For example, a 2018 *Harvard Business Review* study found that CEOs work an average of 9.7 hours per weekday as well as putting in work time on 79 percent of weekend days and 70 percent of vacation days.[101] What do you think are some of the pros and cons of becoming a manager? Is this a profession and a lifestyle that appeals to you? Why are you studying management?
2. Which conception of management do you like better: Fayol's theory that managers perform four functions in an orderly manner, or Mintzberg's idea that managers play ten roles alongside other organizational actors? Can you think of additional concepts or metaphors that might be useful for understanding management?
3. Some research argues that money can effectively reduce unhappiness (especially for those living in poverty) but has little ability to improve overall life satisfaction beyond that,[102] and that money and materialism are, in fact, associated with a *decline* in life satisfaction and personal well-being.[103] Do these findings ring true to you? Think of a person you know who is truly happy and content. What would that person say about the relationship between overall well-being and an FBL worldview? Do you think that money can buy happiness? Explain your reasoning.
4. When someone is described as an "effective" or "successful" manager, do you assume that the manager is *financially* successful (FBL management), or do you assume they have been able maximize profits while at the same time responsibly attending to social and ecological externalities (TBL)? Or do you assume they have enhanced socio-ecological well-being (SET)? What criteria of success would you like to see used by the manager you report to? By what criteria would you like to be judged?
5. Recall a current or past manager you have worked for. How would you describe that person in terms of FBL, TBL, and SET approaches? What factors did you consider?
6. Why study three different approaches to management? Why not simply find the "best" or most popular approach and then learn about it?

7. Do you think that TBL management is able to adequately address the socio-ecological crises that are facing humankind? If not, why do you think the popularity of TBL management has been increasing so rapidly? Do you think SET management is needed? What are factors that might impede or promote the acceptance of SET management?
8. How likely (as a percentage) are you to start a new organization in your career? What would be your main reasons for starting an organization? Look at Figure 1.3 and identify what type of entrepreneur most reflects who you are. Which of the three approaches to management would you like to emphasize in a start-up?

## Notes

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14. According to Mintzberg (1973: 54), a role is defined as an organized set of behaviors belonging to an identifiable office or position. Individual personality may affect *how* a role is performed, but not *that* it is performed.
15. Note that the relative emphasis on the different roles changes across an organization's hierarchy, with the leader role more important at lower levels, and top managers placing greater emphasis on disseminator, figurehead, negotiator, liaison, and spokesperson roles. For example, see page 9 in Robbins, S. P., & Coulter, M. (2003). *Management* (7th ed.). Prentice Hall.
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18. Part of the disseminator role includes taking inputs from other parts of the organization and relaying information on overall organizational values to subordinates, who use it as a guide in decision-making. Note that for Mintzberg, the dissemination of values occurs in terms of specific statements on specific issues, not in terms of lofty global principles (Mintzberg, 1973: 97).
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27. Moreover, interference by government would minimize the effectiveness of the invisible hand.
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30. An organization is rightly ordered when its structures and systems are arranged in a way that maximizes the net balance of satisfaction of all its members. McKay, R. B. (2000). Consequential utilitarianism: Addressing ethical deficiencies in the municipal landfill siting process. *Journal of Business Ethics*, 26(4): 289–306.
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35. Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Oxford: Capstone.
36. Quote from page 8 of Brundtland, G. H., & Khalid, M. (1987). *Our common future* [Brundtland report]. World Commission on Environment and Development, United Nations.
37. Elkington (1997: 397).
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success in FBL terms. The second documents the transition period into TBL management; see Stone, B. (2021). *Amazon unbound: Jeff Bezos and the invention of a global empire*. Simon & Schuster.

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40. The Climate Pledge. (n.d.). Retrieved September 12, 2024, from https://www.theclimatepledge.com
41. Bezos has faced criticism for his relatively limited philanthropic activity relative to his vast personal wealth. The Earth Fund represents his largest ever contribution by a factor of five. See Weise, K. (2020, February 17). Jeff Bezos commits $10 billion to address climate change. *The New York Times*. https://www.nytimes.com/2020/02/17/technology/jeff-bezos-climate-change-earth-fund.html; and Bezos Earth Fund. (n.d.). Retrieved November 25, 2024, from https://www.bezosearthfund.org/who-we-are
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46. Ceres. About. (n.d.). Ceres: Sustainability is the bottom line. Retrieved August 5, 2024, from https://www.ceres.org/about
47. See Foley, M. (2024, January 29). The auditors are coming to corporate sustainability reporting. *Forbes*. Retrieved August 5, 2024, from https://www.forbes.com/sites/maryfoley/2024/01/29/the-auditors-are-coming-to-corporate-sustainability-reporting/; and Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 Amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance), EP, CONSIL, 322 OJ L (2022). http://data.europa.eu/eli/dir/2022/2464/oj/eng
48. What are the ISSB's new sustainability standards? (2024, January 5). BDO Canada. Retrieved August 3, 2024, from https://www.bdo.ca/insights/what-are-the-issb-s-new-sustainability-standards

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50. Riillo, C. A. F. (2017). Beyond the question "Does it pay to be green?": How much green? and when? *Journal of Cleaner Production*, 141: 626–640.
51. Ajibo, C. C. (2014). A critique of enlightened shareholder value: Revisiting the shareholder primacy theory. *Birkbeck Law Review*, 2: 37.
52. However, the meaning of "process" was typically associated with hardening or becoming rigid, which we don't mean. Rather, a SET approach looks more at the ongoing processes and rhythms of management, similar to the regular setting of the sun. These ideas on the meaning of set were drawn from the entry for "set" in the Online etymology dictionary. (2021–2025). http://www.etymonline.com/index.php?term=Set&allowed_in_frame=0. Finally, although SET management has nothing to do with Egyptian deities, note that the Egyptian god Set was born of the earth god (Geb) and the sky goddess (Nut). Set was traditionally the god of foreigners or outsiders and demonized by Egyptians when they were conquered by foreign nations, and later became the "Lord of the Oasis/Town." In our terms, SET management champions ideas that conventional management considers "foreign" (socio-ecological well-being), it may be demonized by anyone who feels threatened by the socio-ecological crises facing humankind (and wants to return to the good old days), and may become the go-to approach for identifying the niches or oases where humankind can flourish. Information drawn from Set (deity). (2025, January 6). In *Wikipedia*. https://en.wikipedia.org/wiki/Set_(deity)
53. Glassman retired from Greyston in 1996. The firm is now located in a relatively poor part of Yonkers, New York.
54. See company website: http://greyston.com/2014/12/fair-trade-ingredients-another-reason-enjoy-greyston-brownie/. Greyston is also involved in ecologically responsible initiatives, such as "installing LEF lights to reduce energy usage by over 60% and installing solar panels on its roof to decrease its carbon footprint." Wilburn, K., & Wilburn, R. (2014). The double bottom line: Profit and social benefit. *Business Horizons*, 57(1): 11–20.
55. Schindelheim, R. (2022, October 11). Greyston Bakery's 40-year mix of purpose and profit. *Working Nation*. Retrieved November 27, 2024, from https://www.workingnation.com/greyston-bakerys-40-year-mix-of-purpose-and-profit/
56. These Buddhist principles reflect Glassman's background as a Zen Buddhist monk. Weber, J. (2009). Using exemplary business practices to identify Buddhist and Confucian ethical value systems. *Business and Society Review*, 114(4): 511–540.
57. Johnson, K. (2023, January 18). Greyston CEO shares six reasons to consider open hiring in 2023. *CEO Magazine*. Retrieved November 27, 2024, from https://www.theceomagazine.com/business/hr/open-hiring/
58. According to Mike Brady, past CEO of Greyston: "There is no substitute for articulating a clear vision and being transparent when reporting on your successes and failures in pursuit of that vision. . . . Give everyone an equal chance to be successful,

hold people accountable for their behavior, and encourage open dialogue from anyone that has a suggestion for improving the business." (Keeley & French Dunbar, 2015).

59. Makower, J., et al. (2020). *2020 state of green business*. GreenBiz Group.
60. For more on this general topic, see Carolan, M. (2014). *Cheaponomics: The high cost of low prices*. Routledge; Sheehy, B. (2012). Corporations and social costs: The Wal-Mart case study. *Journal of Law & Commerce* (2004), 24(1): 1–55.
61. Schendler, A. (2021, April 7). The complicity of corporate sustainability. *Stanford Social Innovation Review*. https://doi.org/10.48558/KKJB-K728
62. "On the one hand, business and related activities are at the centre of the production–consumption system that is the major cause of our sustainability problems. On the other hand, the dynamism of modern business and its ability to innovate and generate solutions to current and emerging problems, including those related to sustainability, promises to be one of the primary sources of new ideas and strategies to tackle the sustainability challenges we face." Quote from Gaziulusoy, I., & Twomey, P. (2014, August). *Emerging approaches in business model innovation relevant to sustainability and low-carbon transitions* [Working paper]. Visions and Pathways project. http://doi.org/10.13140/RG.2.1.3019.0329
63. Harvard Business School professor George Sarafeim describes numerous issues related to ESG assessments and ratings, and the difficulty in drawing firm conclusions regarding associated financial outcomes; see Serafeim, G. (2021). ESG: Hyperboles and reality (Harvard Business School Research Paper Series, Working Paper 22-03)]. Available at *SSRN Electronic Journal*. https://dx.doi.org/10.2139/ssrn.3966695. Former Timberland COO Keneth Pucker argues that twenty years of ESG have had little discernable impact on improved social and environmental outcomes; see Pucker, K. P. (2021). Overselling sustainability reporting. *Harvard Business Review*, 99(3): 134–143.
64. Aristotle. (1962). *Nichomachean ethics* (M. Oswald, Trans.). MacMillan.
65. Leshem, D. (2016). Retrospectives: What did the ancient Greeks mean by *oikonomia*? *Journal of Economic Perspectives*, 30(1): 225–238.
66. Note that our understanding of virtue ethics aligns McIntyre and others who have a communal, versus individualistic, understanding. MacIntyre, A. (2007). *After virtue: A study in moral theory*. University of Notre Dame Press. This review of how the four cardinal virtues are evident in community draws from and adapts a review of the literature and discussion in Dyck, B., & Manchanda, R. (2021). Sustainable marketing based on virtue ethics: Addressing socio-ecological challenges facing humankind. *Academy of Marketing Science Review*, 11: 115–132.
67. Spiller, C., & Wolfgramm, R. (Eds.) (2015). *Indigenous spiritualities at work: Transforming the spirit of the enterprise*. Information Age Publishing.
68. West, A. (2014). Ubuntu and business ethics: Problems, perspectives and prospects. *Journal of Business Ethics*, 121(1): 47–61.
69. As will become evident in subsequent chapters in this book, there are many examples

of and calls for a SET-like approach to management: Ambrosini, V., Jack, G., & Thomas, L. (2023). *How to develop a sustainable business school*. Edward Elgar Publishing; Bell, G. G., & Dyck, B. (2012). Conventional resource-based theory and its radical alternative: A less materialist-individualist approach to strategy. *Journal of Business Ethics*, 99(1): 121–130; Colombo, L. A., Moser, C., Muehlfeld, K., & Joy, S. (2024). Sowing the seeds of change: Calling for a social–ecological approach to management learning and education. *Academy of Management Learning & Education*, 23(2), 207–213; Donaldson, T., & Walsh, J. P. (2015). Toward a theory of business. *Research in Organizational Behavior*, 35: 181–207; Gallagher, J., & Buckeye, J. (2014). *Structures of grace: The business practices of the Economy of Communion*. New City Press; Hamel, G. (2009, February). Moonshots for management. *Harvard Business Review*, 91–98; Marcus, J., Kurucz, E. C., & Colbert, B. A. (2010). Conceptions of the business-society-nature interface: Implications for management scholarship. *Business & Society*, 49(3): 402–438; Tencati, A., & Zsolnai, L. (2012). Collaborative enterprise and sustainability: The case of Slow Food. *Journal of Business Ethics*, 110: 345–354.

70. This figure draws from Kurucz, E. C., Colbert, B. A., & Marcus, J. (2014). Sustainability as a provocation to rethink management education: Building a progressive educative practice. *Management Learning*, 45(4): 437–457. See also Marcus et al. (2010).

71. Dyck, B., & Caza, A. (2021). Teaching multiple approaches to management to facilitate prosocial and environmental well-being. *Management Learning*, 53(1): 98–122.

72. Dyck, B., Walker, K., Starke, F., & Uggerslev, K. (2012). Enhancing critical thinking by teaching two distinct approaches to management. *Journal of Education for Business*, 87(6): 343–357.

73. Arum, R., & Roksa, J. (2011). Academically adrift: Limited learning on college campuses. University of Chicago Press. See also literature reviewed in Dyck et al. (2012).

74. Martin, R. (2007). How successful managers think. *Harvard Business Review*, 85(6): 60–67.

75. Godard, J. (1992). Education vs. training in business schools: The case of industrial relations. *Canadian Journal of Administrative Sciences*, 9: 238–252.

76. Dyck, B., Walker, K., Starke, F. & Uggerslev, K. (2011). Addressing concerns raised by critics of business schools by teaching multiple approaches to management. *Business and Society Review*, 116(1): 1–27.

77. Research suggests that business students become increasingly materialist-individualist over their program of studies, thanks to the self-fulfilling prophecies that underlie the conventional FBL management paradigm they are taught. For a review, see Ferraro et al. (2005). See also Krishnan, V. R. (2003). Do business schools change students' values along desirable lines? A longitudinal study. In A. F. Libertella, & S. M. Natale (Eds.), *Business education and training: A value-laden process* (Vol. 8, pp. 26–39). University Press of America; see also Abueg, L., Largoza, G., Sauler, M., & Teehankee, B. (2016). The impact of a common good model of the firm on

prosocial business decision-making of students: An experimental investigation. In *Proceedings of the DLSU Research Congress*, 4.

78. Dyck, B. (2017). Reflecting on 25 years teaching, researching, and textbook-writing for introduction to management: An essay with some lessons learned. *Journal of Management Education*, 41(6): 817–834. http://doi.org/10.1177/1052562917693381
79. Dewaele, J.-M. (2015). Bilingualism and multilingualism. In K. Tracy, T. Sandel and C. Ilie (Eds.), *The international encyclopedia of language and social interaction* (pp. 1–11). https://doi.org/10.1002/9781118611463.wbielsi108
80. Cenoz, J. (2013). The influence of bilingualism on third language acquisition: Focus on multilingualism. *Language Teaching*, 46(1): 71–86.
81. Based on the 2023–2024 Global Entrepreneurship Monitor (USA) report; see Shay, J. (2024, October 26). These three trends will change what it means to be an entrepreneur in 2025. Entrepreneur. Retrieved November 27, 2024, from https://www.entrepreneur.com/leadership/3-trends-that-will-change-the-future-of-entrepreneurship/480375
82. Note that Ute Stephan et al. do not talk about FBL, TBL, and SET approaches per se. They call the three main bundles of reasons "financial," "autonomy and better work," and "challenge and opportunity." These three motivations are also consistent with an earlier review of the literature on this topic. Stephan, U., Hart, M., Mickiewicz, T., Drews, C.-C., & IFF Research (2015). *Understanding motivations for entrepreneurship* (BIS Research Paper No. 212, Department for Business, Innovation & Skills, UK). http://publications.aston.ac.uk/25296/1/Understanding_motivations_for_entrepreneurship.pdf
83. Stephan et al. (2015).
84. Waltower, S. (2024, June 20). The top reasons most entrepreneurs start businesses. *Business News Daily*. http://www.businessnewsdaily.com/4652-entrepreneur-motivation-benefits.html
85. Ladd, T. (2016). Customer development and effectuation: A review of textbooks to teach a contemporary introduction to entrepreneurship. *Management Teaching Review*, 1: 205–210.
86. The GEM data show that financially motivated entrepreneurs are more likely to be male and their start-ups are more likely to include with family members (Stephan et al., 2015).
87. Emphasis added here. And 63% of entrepreneurs rated "To have greater flexibility for my personal and family life" as important.
88. For example, see Good, W. (2008). *Building a dream: A Canadian guide to starting your own business*. McGraw-Hill; Longenecker, J. G., Petty, J. W., Palich, L. E., & Hoy, F. (2013). *Small business management* (17th ed.). South-Western College.
89. The study also show that entrepreneurial ventures motivated by reasons related to autonomy and better work have a higher survival rate than financially motived start-ups, and that the more educated the entrepreneurs, the higher the survival rate of the

firm. Stephan et al. (2015).

90. "To fulfill a personal vision" was rated "important" by 64% of entrepreneurs. When given opportunity to respond to the question "In your own words, what were the reasons for wanting to a business?" 10% of entrepreneurs mentioned that they "wanted to help others." Stephan et al. (2015).
91. GEM (Global Entrepreneurship Monitor). (2023). *GEM 2023/2024 Global report: 25 years and growing*.
92. Stephan et al. (2015).
93. Kim, S., & Kim, A. (2022). Going viral or growing like an oak tree? Towards sustainable local development through entrepreneurship. *Academy of Management Journal*, 65(5): 1709–1746.
94. In fact, the firms of entrepreneurs who start for financial reasons are larger (have more job growth) than firms started for other reasons. Stephan et al. (2015).
95. GoodWeave International. (2022). *Annual report 2022: Transforming supply chains, transforming lives*. https://goodweave.org/wp-content/uploads/2024/03/GW-annual-report-2022.pdf
96. Schwab, H. (2017, March). *Meet the social entrepreneurs of the year 2017*. World Economic Forum. https://www.weforum.org/agenda/2017/03/2017-social-entrepreneurs/
97. Elgin, D. (1993) *Voluntary simplicity: Toward a way of life that is outwardly simple, inwardly rich* (rev. ed.). Quill.
98. For a list, see Edison's Companies at Thomas A. Edison Papers. https://edison.rutgers.edu/life-of-edison/companies
99. Clark, D. (2021, December 16). Google's "20% rule" shows exactly how much time you should spend learning new skills—and why it works. CNBC *Make it*. https://www.cnbc.com/2021/12/16/google-20-percent-rule-shows-exactly-how-much-time-you-should-spend-learning-new-skills.html
100. Side project time. (2024, August 2). In *Wikipedia*. https://en.wikipedia.org/w/index.php?title=Side_project_time&oldid=1238098809; 3M's 15% Culture—Cultivate & Pursue Your Innovative Ideas. (n.d.) 3M United Kingdom. Retrieved November 28, 2024, from https://www.3m.co.uk/3M/en_GB/careers/culture/15-percent-culture/
101. This study, led by Michael Porter at Harvard Business School, tracked twenty-seven CEOs of companies averaging annual revenue of $13.2 billion beginning in 2006 and logged nearly 60,000 observer hours; see Porter, M. E., & Nohria, N. (2018, July-August). How CEOs manage time. *Harvard Business Review*, 42–51. The findings regarding the relentless pace of managerial life update and extend Henry Mintzberg's influential work from the 1970s; see Mintzberg (1973).
102. Brooks, A. C. (2022, February 8). How to want less. *The Atlantic*. Retrieved June 21, 2023, from https://www.theatlantic.com/magazine/archive/2022/03/why-we-are-never-satisfied-happiness/621304/

103. See research reviewed in Dyck & Schroeder (2005), especially Kasser, T. (2003). *The high price of materialism*. Bradford Book, MIT Press. A materialist-individualist lifestyle may contribute to lower satisfaction with life (Burroughs, J. E., & Rindfleisch, A. [2002]. Materialism and well-being: A conflicting values perspective. *Journal of Consumer Research*, 29: 348–370); to poorer interpersonal relationships (Richins, M. L., & Dawson, S. [1992]. A consumer values orientation for materialism and its measurement: Scale development and validation. *Journal of Consumer Research*, 19: 303–316); to an increase in mental disorders (Cohen, P., & Cohen, J. [1996]. *Life values and adolescent mental health*. Erlbaum); environmental degradation (McCarty, J. A., & Shrum, L. J. [2001]. The influence of individualism, collectivism, and locus of control on environmental beliefs and behavior. *Journal of Public Policy and Marketing*, 20[1]: 93–104); and social injustice (Rees, W. E. [2002]. Globalization and sustainability: Conflict or convergence? *Bulletin of Science, Technology and Society*, 22[4]: 249–268). An important exception is the very poorest among us, for whom materialism is positively correlated with well-being and life-satisfaction.

# 2. A Short History of Management Theory and Practice


- Learning Goals
- 2.0. Opening Case – A Short History of Chocolate
- 2.1. Introduction
- 2.2. Five Eras of Pre-Contemporary Management Thought
- 2.3. Six Eras of Contemporary Management Thought
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 2 provides a historical overview of pre-contemporary and contemporary management thought, as summarized in the following table and whiteboard animation video.*

| Time Frame | Era | Emphasis | Hallmarks |
|---|---|---|---|
| **Five eras of pre-contemporary management thought** | | | |
| 13.7 billion years BCE | Pre-humankind | Creation/ Evolution | • Development of the cosmos and the ecological capacity of Earth to support human life |
| 40,000 BCE | Hunting and gathering | Attunement to nature and people | • Organization by humankind into groups and development of technologies to enhance human well-being |
| 10,000 BCE | First agricultural revolution | Stability | • Management of natural resources to serve human interests |
| 1500 BCE | Advent of money | Commerce | • Invention of money (which can be used to make more money) |
| 1500 CE | Industrial Revolution/ capitalism (pre-FBL) | Economic development | • Development of and growing agreement that capitalism and (large) business encourages positive expressions of the materialistic and individualistic nature of humankind |
| **Six eras of contemporary management thought** | | | |
| 1910-1930 CE | Classical (FBL) | Organizing | • Development of technical skills to improve the design of jobs and organization structures to maximize performance (i.e., productivity, efficiency, and financial well-being) |
| 1930-1950 CE | Human relations | Leading | • Development of people skills to further enhance performance |
| 1950-1970 CE | Calculating | Planning | • Understanding how planning and organizational systems can be used to further enhance performance |
| 1970-1990 CE | Values and beliefs | Controlling | • Understanding how organizational values and beliefs can be managed to further enhance performance |
| 1990-2010 CE | Sustainable Development (TBL) | Triple bottom line | • Understanding how addressing (some) negative socio-ecological externalities can further enhance financial well-being |
| 2010-present | Emergence of Social and Ecological Thought (SET) | Social and ecological well-being | • Understanding how relaxing the need to maximize financial well-being can enhance social and ecological well-being |



*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=679*

## Learning Goals

After reading this chapter, you should be able to:

1. Describe five key historical eras that predate and provide the context for the development of contemporary management thought.
2. Describe the six eras of contemporary management thought.
3. Describe how differences among FBL, TBL, and SET approaches are informed by and aligned with the different eras.
4. Understand what it means to say that management is socially constructed, and think about how you will participate in socially (re)constructing the meaning of management in your career.

## 2.0. Opening Case – A Short History of Chocolate

Chocolate may be most people's favorite flavor,[1] but most of us know little about how the chocolate industry has developed over time, nor about how current chocolate companies are managed.[2] Consider how the meaning of chocolate has been socially (re)constructed throughout history.[3]

**Chocolate as idol**: The history of chocolate dates back to 1900 BCE among people living in Mesoamerica, where the Mayans worshipped the cocoa bean as an idol closely linked to the merchant god Ek Chuah, and the Aztecs believed cocoa was a gift from Quetzalcoatl, the god of wisdom.[4] In 1753 the Swedish botanist Carl von Linne gave it the scientific name *theobroma*, where *theo* means god and *broma* means food.

**Chocolate as money**: Both the Mayans and the Aztecs used cocoa beans as currency. In fact, in some parts of Central America the cocoa bean was still being used as currency as recently as the 1800s: with ten cocoa beans you could buy a rabbit, and with 100 you could buy a slave. When the Spanish explorer Don Hernán Cortés was introduced to a chocolate drink by the Aztec emperor Montezuma, Cortés may not have liked the taste but he did like the idea that money could grow on (cocoa) trees. Realizing its value as currency, he established a cocoa plantation in order to cultivate cash (this gives new meaning to the idea of a chocolate mint).[5]

**Chocolate as medicine**: The Mayans used cocoa for treating coughs, fever, and discomfort during pregnancy. The Aztecs thought that wisdom and power came from eating the fruit of the cocoa tree. In Europe some of the earliest cocoa makers were apothecaries (early chemists), interested in the supposed medicinal properties of cocoa. In seventeenth-century Holland, cocoa was recommended by doctors as a cure for almost every ailment. Today, research points to health benefits from eating dark chocolate, such as reducing the risk of cancer, heart disease, and stroke.

**Chocolate as an agent of social well-being**: Technological breakthroughs by entrepreneurs like C. van Houten—a Dutch chocolate master who invented the cocoa press in 1828 —helped to make chocolate affordable for many more people. At that time many leading businesspeople in the chocolate industry were Quakers, whose motivation included a desire to persuade poor people to give up alcohol in favor of the healthier chocolate drink.[6] One such Quaker was John Cadbury, who started Cadbury Limited in 1831. An important turning point for the company occurred in 1866, when it introduced a process for pressing cocoa butter from the cocoa bean, and by 1879 the firm had become so financially successful that John's son George Cadbury could afford to build the "factory in a garden" on a park-like property in Bournville, England.[7] Cadbury's Bournville factory became famous for setting an example of promoting social well-being in the workplace. Cadbury was the first firm to reduce the workweek to five-and-a-half days, encourage workers to continue their education while employed, offer medical and dental departments, and provide workers with a kitchen where they could heat up their dinners. Wanting to offer wage earners affordable housing in pleasant surroundings, in 1895 George Cadbury purchased another 120 acres near the Bournville plant to establish what has become the Bournville Estate, a charitable trust that today covers 1,000 acres and has 7,600 homes.[8]

**Chocolate as big business (FBL and TBL management)**: Once technology enabled chocolate to become a mass consumption item, it soon became big

business, with global retail sales topping a sweet $133 billion in 2024.[9] About 60 percent of all chocolate is consumed in the United States and European Union. As the industry has grown it has become dominated by a few very large firms, so that today about 57 percent of the global retail market in chocolate confectionary is controlled by five firms (Cadbury, Mars, Nestlé, Hershey, and Ferrero), and in the United States about 75 percent of the candy rack is owned by Hershey and Mars.

Unfortunately, having so much power concentrated in the hands of a few major players has meant that the farmers who grow the cocoa beans have little bargaining power and are not particularly well served.[10] For example, the price of cocoa on the global market in 2018 was less than half the price it had commanded forty years earlier, though it rose sharply in the wake of the COVID-19 pandemic.[11] Although the chocolate industry began to embrace practices consistent with TBL management starting around 1990,[12] nevertheless in West Africa (where Côte d'Ivoire and Ghana provide most of the world's cocoa), many plantations use slaves and there are up to 2 million child laborers, with the typical cocoa producer earning only $1/day on average.[13] (That average wage could be doubled by increasing the retail price of a chocolate bar by 7 percent.)[14]

**Chocolate as an opportunity for SET businesses**: The Divine Chocolate Company was founded in 1998 and deliberately structured so that its cocoa producers would own 33 percent of the company, have representatives on the board of directors, and be guaranteed a fair price for their chocolate.[15] Even in 2024, it was the world's only fair trade and farmer-owned chocolate company.[16] More precisely, Divine is co-owned by a Ghanaian cooperative called Kuapa Kokoo, a group of 85,000 cocoa producers from over 1,200 villages who collectively sell about 5 percent of their cocoa to Divine. A **cooperative** *is an organization that is owned and democratically run directly by its members*, in this case the cocoa farmers themselves (see Chapter 6). In addition to purchasing their cocoa for a fair price, Divine helps its farming co-owners to address issues like child labor and climate change, and together they have invested about $3 million in medical clinics, water wells, and schools throughout Ghana. Perhaps Divine's most important contribution has been as a force in the marketplace that compels mainstream businesses to begin to purchase cocoa at fair prices. For example, when Cadbury decided to source all its Ghanaian chocolate from certified fair trade suppliers, this doubled the amount of fair trade sales for the Kuapa Kokoo farmers (for more on fair trade, see Chapter 5).[17]

## 2.1. Introduction

The idea of *studying* management in business schools is barely a century old, yet today management has become among the world's most popular courses in colleges and universities. Although management is an essential feature of modern life, we often forget that our understanding of management is relatively new, and that it is a subjective, socially constructed concept.[18] The **social construction of reality** *occurs when something is* ***perceived*** *to be an* ***objective*** *reality and people allow it to shape their thinking and actions, even though its meaning has been subjectively created by humans and must be constantly recreated by humans in order to continue to exist.* For example, a $100 bill is just a small piece of plastic polymer; it only has value because we all agree to treat it as valuable. Similarly, the meaning of "management" was invented and is constantly being re-invented by people who, like us, live in a specific social context. Just as the meaning of chocolate has changed over the past 4,000 years, the opening case describes, so also has the meaning of management.

To illustrate the importance of studying the history of management and how it is a socially constructed concept, we can look at how other socially constructed ideas have changed over time. For example, consider how the meaning of being a woman or a man has changed. Not so long ago, women were treated as objects owned by men. Three or four generations ago, American women did not have the right to vote, but now it seems impossible to believe that women should not vote. Likewise, the wage gap between men and women has been narrowing over time: since 1970, women's pay as a percentage of men's has increased from around 60 percent to around 80 percent in the United States. Indeed, the fact that *Time* magazine named the #MeToo movement as the "person of the year" in 2017 highlights how the meaning of gender continues to change.[19] In the same way, the social construction of what it means to be a manager has also changed over the years and should be expected to change in the future.

In this chapter, we begin with an examination of how for most of the history of humankind, people's understanding of management was more aligned with a Social and Ecological Thought (SET) approach than with the Financial Bottom Line (FBL) or Triple Bottom Line (TBL) approaches. We then describe various events that, taken together, created the foundation for the development of FBL management, the formal study of which became popular about 100 years ago. After this brief look at history, we describe the twentieth-century development of the contemporary functions of management (planning, organizing, lead-

ing, and controlling), the transition to the TBL approach starting in the 1990s, and signs of a transition to the SET approach starting around 2010.

As you read this chapter, keep in mind that every way of seeing management is also a way of *not* seeing management. For example, if we understand management as being primarily about maximizing financial well-being, then other forms of well-being become secondary and subservient. But if we see management primarily as a way of improving social and ecological well-being, then it cannot be primarily about maximizing profits. By saying or believing that management is about something, we implicitly say and believe that it is not about something else.

*Every way of seeing management is also a way of not seeing management.*

## 2.2. Five Eras of Pre-Contemporary Management Thought

### 2.2.1. Pre-Humankind (13,700,000,000 BCE)

Because we tend to live in the "here and now," we often forget that humankind constitutes a very small part of the cosmos, and many scientists suggest that the cosmos is about 13.7 billion years old. Imagine that we were to compress the history of the cosmos down to one calendar year. That is, imagine that the Big Bang was the first thing that happened on January 1, and that we are living in the final second of December 31.[20] Table 2.1 shows the timing of some noteworthy events on such a cosmic calendar. In short, humankind has been around for less than ten minutes, and one may wonder if we will still be here a minute from now. Or perhaps we will last five days, like the dinosaurs.

**Table 2.1. Noteworthy dates on the cosmic calendar**

| Date | Event |
|---|---|
| Jan. 1 | Big Bang: The origin of our universe |
| Sept. 14 | Planet Earth is formed |
| Sept. 25 | First life on Earth |
| Dec. 21 | First animals on Earth |
| Dec. 25 to 30 | Dinosaurs on Earth |
| Dec. 31, 11:53 pm | First *Homo sapiens* (200,000 years ago) |
| Dec. 31, 11:59:30 pm | Invention of agriculture (shift from nomadic lifestyle) |
| Dec. 31, 11:59:53 pm | Aristotle, the Roman Empire |

Although many factors helped to create the conditions that have enabled humankind to exist and thrive as a species, we will highlight just three: the sun, carbon, and plankton (these will be elaborated upon in Chapter 4). First, the sun's life-giving energy has shaped—and in this way has managed—the life forms on the planet.[21] Second, carbon is considered by scientists to be "the currency of life,"[22] or the building block of life, because it is found in every plant and animal in the food web.[23] Third, phytoplankton—microscopic photosynthetic organisms that live in the oceans and represent the bottom of the food chain in our oceans (a drop of seawater contains up to 5,000 phytoplankton[24])—were critical in creating the atmosphere that permits humans to breathe, and they still provide half of the planet's supply of oxygen[25] and absorb about 25 percent of the carbon that humankind sends into the atmosphere by burning fossil fuels.[26]

In sum, the life forces of the cosmos have helped to shape and give rise to humankind. Although it may be tempting to construct a social reality that suggests, for example, that humans can "own" land or other natural resources, in reality it is Earth and its natural systems that has given rise to and owns humankind.

### 2.2.2. Hunting and Gathering (40,000 BCE)

Scientists are not sure when humankind's ancestors first walked the planet; it may be as long as six million years ago, and people who, anatomically speaking, looked like modern *Homo sapiens* have been around for up to 200,000 years.[27] But the idea of human culture dates back to about 40,000 to 80,000 years ago,

when we find the earliest evidence of people thinking symbolically (i.e., in pictures and words),[28] and thus able to manage and organize the production of goods and services. This ability to think symbolically enhanced the development of language and the ability to communicate information from one generation to another.[29]

For the vast majority of its history, humankind lived a nomadic lifestyle in tune with the natural world, influenced by its natural rhythms and seasons, such as the migratory behavior of the animals we hunted.[30] Organizational structures and systems were simple, and people lived mostly in organizational units we call clans (e.g., forty people who traveled the land together), and each clan collectively produced the goods and services members needed to survive.

We do not have much information about what management looked like during the time when humans were foragers, but we might be able to get a sense of it by studying the structures and systems of the few remaining peoples on the planet who still live as foragers.[31] For example, the San people who live in the Kalahari desert occupy land that is so meager that it remains unattractive for modern agriculture or commerce, and the San are thus still foragers like their ancestors from millennia ago. Table 2.2 compares their values and ways of organizing with contemporary values found in high-income countries.[32]

**Table 2.2. Forager vs. modern values and ways of organizing**

| San people's approach | Typical modern FBL/TBL approaches |
|---|---|
| Looking out for the interests of others and sharing resources is key to a flourishing community. | Individualism and self-interest are key to a flourishing society (via the "invisible hand"). |
| True wealth and status is gained by giving, not having (e.g., there is no merit in the best hunter carrying 100 spears). | Financial wealth is desired and seen as a sign of success (materialism). |
| No notion of money. | Money and financial marketplaces play a central role in ordering behavior. |
| Everyone in a clan belongs to the same "organization." Clans have no warriors or defenses to fight other clans. | Competition between producing organizations is seen as healthy; it is "natural" that some people are unemployed. |
| A kinship structure is evident (based on systems of names that serve to tie people together and thereby reduce uncertainty). | Bureaucratic structures are evident, with legal contracts and formal job descriptions. |
| Clans typically have 10 to 40 members. | Organization size fluctuates widely. |
| Low division of labor beyond hunting and gathering (much work is shared). | High division of labor. |
| If a clan no longer "fits" in a given ecological niche (e.g., water in an oasis runs dry), it moves to the next niche. | Survival of the fittest; organizational failure is expected for the misfits. |
| Leadership is informal and everyone has a voice; both men and women have an equal chance to be leaders; older people have some advantages. | Managers hold a position in the formal hierarchy and have more power than others; women are under-represented in leadership positions. |
| Egalitarianism (people appreciate the meat provided by a top hunter, but will "insult the meat" in order to keep the hunter humble).[34] | Top performers are rewarded with extra pay and promotions. |
| Workweek is 25 hours (18 hours gathering food, plus 7 hours for making and fixing tools).[33] | Workweek is 40 hours. |

Notes: 33 34

### 2.2.3. The First Agricultural Revolution (starting 10,000 BCE)

About 12,000 years ago, humankind started to learn to reliably domesticate animals and plants. This resulted in the ability to establish settlements, which over time also allowed for the development of new social institutions. For example, because the time spent hunting and gathering was reduced, people had time to develop languages and the arts. Domestication also led to surpluses and special-

ization, which eventually fostered economic trade between settlements. Coupled with the idea of property ownership, surplus and trade led to the deepening of social hierarchies, with an increasing differentiation between social classes. The accumulation of wealth and specialization also led to the creation of militaries, in response to people who felt the need to protect their resources (and potentially to seize the resources of others). In combination, growing specialization, surplus creation, wealth, and trade all created the need for management.[35]

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### 2.2.4. The Advent of Money (starting about 1500 BCE)

The first coinage appeared around 1500 BCE, and by 500 BCE Aristotle was distinguishing between what he called the "natural" vs. the "unnatural" management of money.[36] The **natural management of money** *refers to enhancing overall well-being by using money to facilitate the transfer of valued goods in a community-sustaining way* and is associated with sustenance economics (see Chapter 3).[37] It is evident when, for example, a woman brings tomatoes to her village marketplace hoping to come back with a pair of sandals. She sells her tomatoes to a customer for a fair price and buys her sandals from a seller for a fair price. Such interactions and relationships foster what Aristotle calls "true wealth" in communities, evident in all stakeholders creating and obtaining valued goods in a fair and sustainable manner (consistent with SET management).

In contrast, according to Aristotle, the **unnatural management of money** refers "*to maximizing financial well-being by using money to make money,*"[38] and is associated with acquisitive economics (see Chapter 3). It is evident when a woman brings money to a marketplace, purchases tomatoes from a vendor in order to sell them in turn to a customer at a higher price, thus making a financial profit. While the act of buying and selling tomatoes in both examples may appear to be identical, unnatural transactions create what Aristotle calls "spurious wealth," because these transactions do not involve the creation of any goods or

services (e.g., no new sandals are manufactured, and no new tomatoes are grown).[39] Aristotle goes on to lament how managing to create competitive advantage and monopolies can enable people to use money to make more money in ways that are not good for overall societal well-being. The natural use of money has inherent stopping points where the purchaser is satisfied (e.g., one can only eat so much food; one can only wear one pair of shoes at a time), whereas the acquisition of money for its own sake does not.[40] The growing importance of wealth, both its creation and its management, increased the need for professional managers.

### 2.2.5. Capitalism and the Industrial Revolution (1500 CE)

About 500 years ago, important social changes fostered the advent of **capitalism**, *an economic system based on rewarding entrepreneurs for profitably combining resources in ways that create valued goods and services.*[41] With its emphasis on financial rewards for individual entrepreneurs, capitalism would have been unthinkable as a mainstream economic paradigm prior to the 1400s, when economic systems were generally based on one or more of the following three principles: reciprocity (neighborliness, trading with one another); redistribution (ensuring that everyone has enough, which might involve a central entity like a tribal leader or feudal lord collecting and redistributing resources to others); or householding (being a good steward of resources for the sake of the family or larger community).[42]

Max Weber, perhaps the most influential scholar in the field of management and organization theory,[43] argues that the hallmarks of capitalism—its emphasis on financial rewards (materialism) for entrepreneurs (individualism)—arose during the religious reformation in Europe that started around 1500 CE. At this time, people's beliefs about how God wanted them to live began to change. First, rather than focusing on sharing resources so that everyone had enough, people began to see financial wealth as a blessing from God and considered more wealth to be evidence of greater blessings.[44] Second, rather than prioritizing the importance of the larger community and its interests, people began to focus on their own personal calling and interests. Taken together, this led to an emphasis on **materialism** (*placing a high value on physical possessions, financial well-being, and productivity*) and **individualism** (*placing a high value on self-interests*).[45] Although there have long been individuals and groups who pursued selfish material gain, this was the first time that the ideas of individualism

and materialism became widely accepted in society, and this change marked the first time in human history that the dominant economic system was based on the principle of individual economic *gain*.[46]

*The legitimation of materialism, individualism, and the "invisible hand" helped lay the foundation for FBL management.*

Taken together, the legitimation of materialism and individualism, coupled with Adam Smith's ideas about the "invisible hand" growing the economic pie, went a long way in laying the foundation for FBL management and a new kind of entrepreneurial activity that ushered in the Industrial Revolution (1760—1840). During this time, businesspeople were very successful in increasing productivity, creating material goods, and growing the economy. Moreover, they were well rewarded financially for their successes. The Industrial Revolution was a time when factories were built and technology developed so that, for example, the productivity of textile workers increased 1,000-fold thanks to advances like cotton-spinning machinery coupled with steam-engine technology. There were also other changes in supporting institutions—such as banks enabling the use of checks—and, of course, increased capacity in using fossil fuels. These changes also hastened international trade and colonialism, leading to what has been called the first era of colonialism and free trade.

#### Increase in Size and Power of Organizations

These changes led to growth in the size of businesses. Until a couple of centuries ago, most organizations were small; many were family businesses or owner-managed firms where workers could easily see how their specific job fit into the whole operation. Adam Smith's description of a pin factory, published in 1776,[47] provides what is perhaps the best single description of the shift toward people working in factories and away from working in small businesses that were family owned and operated. Smith demonstrated the merits of specialization and the division of labor by describing how four workers, each performing a specialized task, could produce 48,000 pins per day instead of the less than twenty pins per day that each worker might have produced working independently and performing all the tasks. In other words, specialization increased those four workers' pro-

ductivity approximately 1,000-fold. By organizing work in large factories—rather than in small, home-based businesses—productivity could be dramatically increased. Smith's analysis was compelling and reflected how the Industrial Revolution was changing where people worked (factories) and the type of work they did (highly specialized and repetitive tasks).

This era also saw changes in the legal form of business, in particular with the rise of the **corporation**, *a business that enjoys many of the privileges and legal rights of a person, is considered by law to be an entity separate from its owners, and where the financial liability of its owners is limited to the value of their investment in the firm*.[48] For centuries it was very difficult to get a charter to start a corporation, except for special large-scale projects that were clearly in the public interest and could not be completed otherwise (e.g., corporations were given charters expressly for the building of canals, turnpikes, and other public infrastructure). Even in the United States, there were only several hundred corporations at the beginning of the 1800s. At the time, citizens were wary that corporations (domestic or foreign, for-profit or not-for-profit) might inhibit their newly won democratic freedoms. As Paul Hawken writes, "Citizens openly and presciently expressed concern that corporations with specific rights granted under the charters would nevertheless become so powerful that they could take over newspapers, public opinion, elections, and the judiciary. . . . Some states even required public votes to *continue* certain [corporate] charters."[49]

*Initially people were wary of corporations, which were only permitted for special circumstances*

Since the Industrial Revolution, corporations have gained more power and become more prevalent,[50] but there remain ongoing concerns about whether they have too much power.[51] The influence of corporations on government policy and social thought continues to grow through advertising, lobbying, and think tanks. For better or worse, we have come a long way from the original corporate idea of "limited liability" that was intended to support building public infrastructure projects to enhance the common good.

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### 2.2.6. Summary of the Pre-contemporary Management Eras

The development of contemporary management thought did not occur on a blank slate. Rather, it emerged within a specific set of physical and social resources and assumptions that were in place prior to 1910. In particular, important assumptions and ideas were in place in 1910 that would have been inconceivable for most of the history of humankind:

- the idea of private property and that natural resources are subservient to the wishes of humankind;
- the idea that it is praiseworthy to use money to make more money;
- the idea that it is natural for humans to be materialistic and individualistic;
- the idea that capitalism is the best way to organize economic activity; and
- the idea that society is well served by having an increasing amount of its goods and services provided by large and powerful profit-maximizing corporations.

Of course, as we noted at the beginning of this chapter, all of these ideas are socially constructed and only remain "true" as long as people believe in and perpetuate them.

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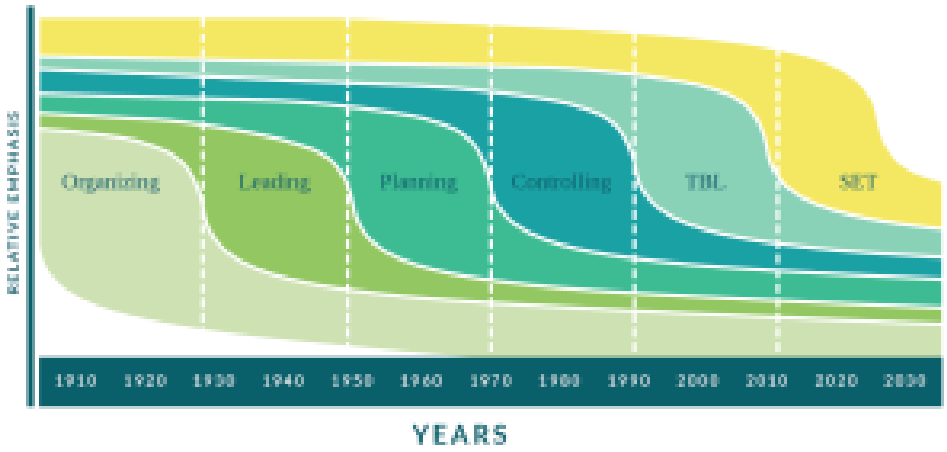
## 2.3. Six Eras of Contemporary Management Thought

The *formal* study of contemporary management is about one century old and, as shown in Figure 2.1, can be seen to have evolved in six eras or phases.[52] Each of the first four phases, which are grounded in an FBL approach, corresponds roughly to one of Henri Fayol's four functions of management—planning, organizing, leading, and controlling—that were introduced in Chapter 1. The fifth phase describes the transition from the FBL to the TBL approach, where managers seek to increase financial performance by reducing negative socio-ecological externalities. The sixth phase describes the start of a movement to SET management, which emphasizes enhancing socio-ecological well-being while ensuring adequate financial well-being.

*The formal study of management is only about one century old.*

Of course, this six-phase model is a simplification, and within each phase there is evidence of research and practice associated with the other phases. Even so, there are identifiable changes over time in the relative emphasis placed on different aspects of management. In the sections that follow, we describe the essential features of each of these eras.

**Figure 2.1. Simplified overview of relative emphases in management**




### 2.3.1. The Classical Era (1910–1930): Emphasis on Organizing

The classical era of contemporary management can be subdivided into two separate schools of thought, one with a micro focus (looking at how to design specific jobs) and the other a macro focus (looking at how all the different jobs fit together in an organization). The first, **scientific management**, *focuses on determining the best way to carry out specific jobs via designing the optimal process for performing a job, selecting people with the required abilities, training them to improve their efficiency, and developing reward systems that will optimize productivity.* The second, **bureaucratic organizing**, *emphasizes the design and management of organizations on an impersonal, rational basis via methods like clearly defined lines of authority and responsibility, formal record keeping, and rule-based decision-making.*

#### Scientific Management

Frederick W. Taylor (1856–1915) is often called "the father of scientific management." His philosophy is captured in this statement: "In the past man [*sic*] has been first. In the future, the system must be first."[53] His most famous study describes how scientific management helped to increase the shoveling productivity at a Bethlehem Steel plant in Pennsylvania. Rather than have workers bring their own shovels to the plant, as had been the custom of the time, Taylor carried out studies to determine the best-designed tool for each task, which included dif-

ferent shovels for different types and weights of materials being shoveled. After managers provided workers with optimally sized shovels, the average output per worker increased almost 280 percent, from 12.5 tons per day to 47.5 tons per day. At the same time, workers' pay increased about 60 percent, from $1.15 per day to $1.85 per day.[54] This was seen as a "win-win" situation, and Taylor's ideas and methods quickly spread throughout industry.[55]

There were other important contributors to the scientific management approach. Henry Gantt (1861–1919) developed the **Gantt chart**, *a bar graph that managers could use to schedule and allocate resources for a production job.*[56] The Gantt chart is still used today to plan project timelines. It identifies various stages of work that need to be completed, sets deadlines for each stage, and monitors the process. This helps managers to determine in advance when and where workers will be needed in throughout the production process.

Another important contributor was Frank B. Gilbreth (1868–1924),[57] who worked independently from Taylor to develop **time and motion studies**, *which precisely measure how long it takes to perform a task in different ways, and use these data to identify the best way to do a task*. Gilbreth is known for his emphasis on efficiency and his quest to find the "one best way" to organize work. For example, his analysis of bricklayers resulted in simplifying the bricklaying process from eighteen different motions down to five, which resulted in a 200 percent increase in productivity. Gilbreth's pioneering work in time and motion studies inspired such innovations as foot levers for garbage cans, aided in the design of ergonomic products and practices, and improved modern surgery techniques.[58]

#### Bureaucratic Organizing

Max Weber (1864–1920) developed ideas about bureaucratic organizing from observing how to manage organizations in ways that are *formally rational* (that is, managed according to impersonal efficiency-maximizing rules).[59] Before Weber, the traditional ways of organizing included an emphasis on providing jobs for relatives and friends. These old ways were replaced by a more professional way of organizing that focused on employee competence, where managers used their positional authority and skills to design and implement rules and procedures that would result in efficient and productive structures and systems. Weber's rich theory and conceptual frameworks continue to underpin contemporary management and organizational theory.

Another important scholar who contributed to the classical era was Henri

Fayol (1841–1925), with his ideas about administrative management. In addition to giving us the four functions of management, described in Chapter 1, Fayol developed several principles of management, including the **unity of command principle**, *where each employee reports to only one superior*, and the **scalar chain**, *which says that an organization should have clear lines of authority that extend from the top to the bottom of its hierarchy and include every employee*.

In sum, scholars in the classical era contributed to our understanding of how the organizing function is managed, that is, how to ensure that tasks have been assigned and a structure of organizational relationships created that facilitates meeting organizational goals. Other scholars soon discovered the importance of complementing this *technical* focus on organizing with a better understanding of how to manage the *human* side of organizations. The key scholars and studies that ushered in this new era of management are described below.

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### 2.3.2. The Human Relations Era (1930–1950): Emphasis on Leading

If Frederick Taylor is considered the father of scientific management, then Mary Parker Follett (1868–1933) is the mother of the human relations era. Follett's emphasis on the human (rather than the technical) side of management was in stark contrast to the scientific management school and its emphasis on impersonal bureaucratic structures.[60] Follett argued that authority should not always belong to the person who formally holds the position of manager, but rather that power should be fluid and flow to workers whose knowledge and experience makes them best suited for a particular task or situation.

*Follett argued that power should flow to workers whose knowledge and experience makes them best suited for a particular task or situation.*

Follett studied how managers actually perform their jobs by observing them in their workplaces. In arguing that managers should *facilitate* the work of subordinates rather than try to *control* it, Follett diverged from the organization-as-machine ideas of the classical era. For her, leadership was defined not by top-down control and the exercise of power but rather by the ability to increase the sense of power among followers.[61] She viewed organizations as communities where managers and workers should work in harmony without one dominating the other, and where each had the freedom to discuss and resolve differences and conflicts. Follett's behavioral approach, which drew from sociology and psychology to help managers see the benefits of viewing people as a collection of beliefs and emotions rather than as cogs in a machine, was far ahead of its time.

Lillian Gilbreth (1878–1972) also made substantial contributions to the field of human resource management.[62] She studied ways to reduce job stress, championed the idea that workers should have standard workdays, and influenced US Congress to establish child labor laws and develop rules to protect workers from unsafe working conditions.[63]

Another important early proponent of the view that people were important in organizations was Chester Barnard (1886–1961), an executive with AT&T and president of New Jersey Bell Telephone. He drew attention to the importance of leadership and the informal aspects of an organization, pointing out that all organizations have informal social groups and cliques that form alongside their formal structures. In his view, organizations were not machines and could not be managed effectively in the impersonal way implied by scientific management theory.

#### The Hawthorne Effect

Another important contribution to the transition from the organizing to the leading era came from Elton Mayo and Fritz Roethlisberger, who worked on a research project originally sponsored by General Electric.[64] Consistent with ideas of the organizing era, the company wanted to sell more light bulbs by demonstrating to potential business customers that the productivity of factory workers would increase with improved lighting. However, the research that took place in one particular location, the Hawthorne, Illinois, plant of the Western Electric Company, provided some startling results.

The research design took the form of a field experiment in the tradition of scientific management. The five independent assembly lines in the Hawthorne plant were divided into two groups: a *control* group, which consisted of three

assembly lines where the amount of lighting stayed constant; and an *experimental* group, which was a separate room with two assembly lines where the amount of lighting was systematically varied. Researchers monitored workers in both the control and the experimental groups. As expected, productivity increased in the experimental group when lighting was increased. However, productivity also increased in the control group at the same time. Indeed, productivity increased in both groups regardless of whether the amount of lighting in the experimental group went up or down. Productivity finally decreased for the experimental group when lighting was dimmed to the level of moonlight or twilight. Not surprisingly, General Electric withdrew its sponsorship of the study![65]

This research led to a number of follow-up studies and became famous with a popularized understanding of the **Hawthorne effect**, *which suggests that giving workers special treatment increases their productivity.*[66] More generally, the Hawthorne effect suggests that knowing they are in an experiment will influence the behavior of subjects. To modern ears, the idea that employees' productivity might be affected by how they are treated by managers may sound pretty obvious, but at the time it helped to move management thought from the classical era to the human era. This is not to suggest that organizing was no longer important, but that scholars began to place increased emphasis on the human element in organizations.

#### The Human Relations Movement

The results of the Hawthorne studies led to the **human relations movement**, *which focused on managerial actions that would increase employee satisfaction in order to improve productivity*. The human relations movement has been described as the "happy cow" approach to management: just as contented cows give more milk, satisfied workers will be more productive. Unlike the scientific management movement, the human relations movement placed emphasis on managers using social skills to motivate employees, and on designing jobs that would be more humane, more interesting, and less fatiguing.

One of the best-known early contributions of the human relations perspective was developed by Douglas McGregor (1906–1964), who differentiated between two types of managers based on their assumptions about employees.[67] **Theory X** managers *assume that people are inherently lazy, dislike work, will avoid working hard unless forced to do so, and prefer to be directed rather than accept responsibility for getting their work done*. Theory X managers therefore design structures and systems that will ensure people work hard. This may take

the form of introducing control systems, setting the pace with assembly lines, implementing piece-rate pay systems, and threatening to lay off workers who fail to work hard enough. McGregor argued that Theory X assumptions reflect a classical approach to management.

*Theory X suggests people are inherently lazy, and Theory Y suggests that are inherently motivated.*

McGregor proposed that managers should adopt Theory Y assumptions, which he considered to be a more realistic (and better) approach to management practice. **Theory Y** managers *assume that work is as natural as play, that people are inherently motivated to work, and that people will feel unfulfilled if they do not have the opportunity to work and thereby make a contribution to society.* Theory Y also assumes that workers prefer to have as much control as possible over their own work, and that people will gladly take responsibility for their work so long as there are adequate structures and systems in place to facilitate their doing so. Thus from a Theory Y perspective, the challenge of management is to provide the support necessary to allow people to excel at their work. This may be accomplished by allowing them to set their own pace for their work, providing opportunities to work in teams, implementing profit-sharing plans, investing in ongoing training and development for workers, and providing a sense of long-term commitment to workers. McGregor argued that this Theory Y approach would maximize productivity.

In sum, where the first era of contemporary management practice laid the groundwork for understanding the importance and role of the technical side of management, the second era did the same for the people side. Taken together, the work of trailblazing scholars in the first two eras provided the foundation for an upsurge in research on organizations that started around 1950, with a focus on elaborating upon the groundbreaking insights of the earlier eras. As the importance of organizational management in society became more evident, more and more universities started to emphasize studies in this area.[68]

### 2.3.3. The Calculating Era (1950–1970): Emphasis on Planning

During World War II there was a need to improve industrial productivity to aid the war effort, and also a need to develop new techniques to manage the war effort. The British, for example, assembled mathematicians and physicists into teams that analyzed the formations, routes, probable locations, and speed of Nazi submarines. These war-related efforts laid the groundwork for management research on planning and strategic decision-making. For example, after the war, lessons learned about deploying troops, submarines, and other equipment were adapted and applied by managers at General Electric to decide where to deploy employees, locate plants, and how to design warehouses. Three different subfields have emerged to aid in managerial planning and decision-making: management science, the systems approach, and contingency theory.

#### Management Science

Management science uses the tools of mathematics, statistics, and other quantitative techniques to inform management planning, decision-making, and problem solving. Management science is sometimes seen as having two areas: *operations research* draws on mathematical model building to explain and predict outcomes,[69] while *operations management* uses quantitative techniques to help managers make decisions that allow organizations to produce goods and services more efficiently. Management science includes the following:

- break-even analysis (e.g., to determine the sales volume and prices required to earn a profit, which product lines to keep and which to drop, and prices to set for products and services);
- forecasting projections (e.g., to help set production targets and decide whether and when to expand production facilities);
- inventory modeling (e.g., to help managers decide on the timing and quantity for ordering supplies to maintain an optimal inventory, and how much end-product inventory to keep on hand);
- linear programming (e.g., to help determine how to allocate scarce resources among competing uses);
- simulations (e.g., mathematical models that test the outcomes associated with making different decisions).

### The Systems Approach

The systems approach recognizes that the elements that comprise and affect organizations are interrelated in complex ways—where each element may be both a determinant and a consequence of other elements—and offers conceptual tools to understand and address problems that cannot be solved by intuition, straightforward mathematics, or simple experience. In particular, the systems approach draws attention to the importance of managers' looking beyond their organization's boundaries.[70] In systems language terms, rather than look at an organization as a closed system, managers should adopt an open systems perspective. The **closed systems** *view looks at managing activities as though the organization were a self-contained and self-sufficient unit*. The primary attention is on activities within an organization's boundaries. A manager who views her pizza restaurant as a closed system will focus on the activities happening within the walls of the restaurant (e.g., friendly customer service, cleanliness in the kitchen, adequate staff training, and so on).

The **open systems** *view emphasizes the organization's place in the larger environment, and how the organization takes inputs from the environment and transforms them into outputs that go into the environment.* A restaurant manager with an open systems perspective will be more aware of where to recruit staff, how to advertise for specific target markets, which suppliers to choose, and so on. Thus, managers who adopt an open systems perspective are aware of their organization's place in the larger environment and their dependence on that environment. Organizations require access to *inputs* (e.g., raw materials, labor) and a market (e.g., customers) for their *outputs*, all of which exist outside the organization in the broader environment.

Managers who adopt an open systems view are more likely to realize **synergy**, *which occurs when the performance gain that results from two or more units working together—such as two or more organizations, departments, or people—is greater than the simple sum of their individual contributions*. By contrast, managers who adopt a closed systems view are likely to experience **entropy**, *the natural tendency for a closed system to fail because it is unable to acquire the inputs and energy it requires.*[71] Some aspects of systems theory are also evident today in subfields like *management information systems* and *total quality management* (see Chapter 18).

*Synergy occurs when two or more systems achieve greater performance when working together than they do independently.*

#### Contingency Theory

Advances in quantitative methods and open systems theory helped to refine the planning and decision-making processes that are central to managers' jobs. However, both perspectives still perpetuated the view that managers could find the "one best way" to manage and to make decisions. Two developments in the field served to challenge this idea that there was one best way. First, Herbert Simon—who won a Nobel prize for his insightful research—argued that managers are rarely able to recognize or choose the best way because of **bounded rationality**, *the tendency to make suboptimal decisions because individuals lack complete information and have limited cognitive ability to process information* (this will be discussed further in Chapter 7).[72]

Second, contingency theorists argued that there is no single best way to manage, because the best way will change based on the situation. In particular, **contingency theory** *suggests that the best way to manage a specific organization depends on, and is determined by, identifying the optimal fit between its structure, culture, environment, technology, and strategy.* For example, as will be discussed further in Chapter 11, to optimize productivity, managers should develop many written rules and procedures if their organization operates in a relatively stable environment. But managers should have fewer organizational rules and prescribed operating procedures if their organization operates in a more volatile environment.[73] In short, the best way to manage depends in part on the environment.

### 2.3.4. The Values and Beliefs Era (1970–1990): Emphasis on Controlling

The values and beliefs era grew out of the 1960s, a decade that produced remarkable technological and large-scale organizational accomplishments such as space travel and walking on the moon. At the same time, the 1960s was also a time of "flower power" and questioning the status quo. It is in this context that the study of management saw a heightened interest in the role of values and beliefs within organizations, which play a fundamental role in the controlling function. Recall

from Chapter 1 that controlling refers to ensuring that the actions of organizational members are consistent with its values and standards.

#### The Social Construction of Reality, Institutionalization, and Managers

In this era, scholars became more interested in how people's behavior is controlled by the socially constructed "scripts" that have been learned over time, noting that these scripts are especially powerful and difficult to change in organizational settings.[74] **Scripts** *are learned guidelines or procedures that help people interpret and respond to what is happening around them*.[75] People learn scripts for a variety of settings, from knowing what to do and say when meeting new people, to proper table manners and etiquette, to driving a car. Recall that the main idea behind the social construction of reality is that much of what we experience as "real" has actually been created by humans.[76] For example, our attitude to money is based on everyone agreeing on scripts regarding what money is (e.g., money can be used to buy stuff, it is a source of status).[77] Or to refer to this chapter's opening case, what is the "real" meaning of chocolate: a sacred plant, a medicine, an alternative to alcoholism, an addictive snack food to make profits, or a way to empower farmers in low-income countries?

Once scripts have been developed and well accepted, they can be very useful for the further development and smooth functioning of a way of living. Indeed, one goal of management education and a textbook like this one is to teach students scripts that can help to improve the management of organizations.[78] We hope readers are not only being *trained* to learn scripts but also being *educated* to evaluate the meaning of scripts and acquiring tools to write the new scripts that will be required in their future career.[79]

However, socially constructed management principles can also be dysfunctional and very difficult to change. Specific management principles and organizational practices that may have been very rational when they were initially constructed can, over time, become irrational and dysfunctional via a process of **institutionalization**, *which happens when certain practices or rules have become valued in and of themselves,* even though they no longer optimize financial well-being for the organization or for society.[80] A classic example of institutionalization is how the QWERTY keyboard has remained the standard, even though more efficient configurations of letter keys could be developed and made available for use on word processing software.[81]

Institutionalized scripts can act like self-fulfilling prophecies. **Self-fulfilling prophecies** *shape and control people's actions by channeling behavior in a*

*scripted direction rather than in alternative (possibly more positive) directions.*[82] For example, research shows that students who learn only about mainstream economic theory and practice—which is based on expectations of materialism and individualism—tend themselves to become more materialistic and individualistic.[83] In our society, managers have particular influence in creating self-fulfilling prophecies that shape the lives and socially construct the meaning of the social world inhabited by others.[84] This creates additional (moral) responsibilities for managers.

*Socially constructed scripts (which help organizational members know what to do in different situations) can become self-fulfilling prophecies.*

#### Culture and Transformational Leadership

Socially constructed and institutionalized scripts and self-fulfilling prophecies influence people's norms and values.[85] Once the importance of values in shaping people's behavior became better understood, it created interest among scholars and practitioners to see if managers could control an organization's values to improve productivity and profitability. By the 1980s, organizational culture had become a leading topic of study among management scholars (see Chapter 11). Many influential books and articles were published that talked about the important "symbolic" role of management, and about how the essence of leadership was to create the "meaning" that guides, inspires, and motivates organizational members and engages their values (see more in Chapter 15 on leadership).[86]

**Test Your Knowledge**

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=679#h5p-18*

### 2.3.5. The Sustainable Development Era (1990–2010): Emphasis on the

## Triple Bottom Line

Shortcomings of approaches like FBL management had been long recognized,[87] but two events in the late 1980s were key triggers that helped to usher in the TBL era, which emphasizes financial, social, and ecological well-being. The first occurred in 1987 with publication of *Our Common Future* by the World Commission on Environment and Development (WCED), after which the term "sustainable development" became an important part of public discourse.[88] A second, related event was the increased knowledge about the science of climate change that came via the Intergovernmental Panel on Climate Change (IPCC), established in 1988.[89] The IPCC published its first report in 1990, which argued that climate change was occurring as a result of human activity, specifically from the emission of greenhouse gases into the atmosphere.[90] Though sometimes criticized,[91] together these organizations' reports provided two key ingredients necessary for change to occur: (1) an urgent call based on science regarding the need for change (IPCC publications about climate change); and (2) a vision about what the change could look like (WCED on sustainable development).[92]

Leaders in the world business community took note and began to establish new organizations that would help to encourage and develop management practices that are consistent with the TBL approach. This included the CEO-led World Business Council for Sustainable Development (WBCSD), which "marked the beginning of companies' embedded implementation of sustainable management goals and practices into strategy and process" (1990), and the Global Reporting Initiative (1990), which established guidelines that have become "the world's primary framework for reporting on companies' triple bottom line and have been applied by thousands of businesses."[93]

The TBL approach grew significantly between 1990 and 2010, in terms of both management practice and theory. For example, by 1999 already 35 percent of the 250 largest firms in the world had issued reports on their socio-ecological performance; by 2011 it was 95 percent.[94] This emphasis on socio-ecological sustainability has continued to grow, and by 2023, 37 percent of the 2,000 largest public and private companies globally had committed to becoming carbon neutral by 2050.[95]

*By 2011, 95 percent of the world's 250 largest firms were reporting on*

*their social and ecological performance (up from 35 percent in 1999).*

This shift toward the TBL approach is also evident in the development of new management theory.[96] It was during this era that scholars first began talking about the "triple bottom line" perspective, which shows how managers can improve an organization's financial well-being by reducing negative social and ecological externalities.[97] Another important contribution was the advent of the "natural resource–based view," which takes a dominant strategy theory from FBL management and demonstrates that businesses can enhance their financial performance by reducing costs associated with negative social and ecological externalities (see Chapter 8).[98]

Along the same lines, this era witnessed unprecedented growth in the area of research into **corporate social responsibility**, *which refers to managers' obligations to act in ways that enhance societal well-being even if there are no direct benefits to the firm's financial well-being by doing so*. However, note that even with this apparent de-emphasis on financial well-being, the bulk of research in this field nevertheless examines the business case for corporate social responsibility (see Chapter 5).[99] Nonetheless, many leading scholars who had previously made important contributions to FBL management began to embrace the TBL approach.[100] For example, in an article in the *Harvard Business Review*, FBL management expert Michael Porter argued for businesses to improve their competitiveness and economic performance by creating "shared value," namely goods and services that address the social and environmental problems perceived to have been caused by an FBL approach to businesses.[101]

This era was also characterized by the flourishing of *stakeholder theory*, which was born out of the observation that shareholders are not the only groups with a stake in an organization: employees, neighborhoods, customers, suppliers, and future generations are also stakeholders because they are affected by what managers do (see Chapter 9).[102] By the turn of the millennium, "stakeholder" had become one of the most-cited and familiar terms in the academic management literature.[103] A significant event establishing *stakeholder capitalism* as the mainstream management view occurred in August 2019, when the Business Roundtable issued a new Statement of the Purpose of a Corporation (signatories include 181 of America's largest corporations). The new statement formally reoriented corporate purpose from a singular focus on stockholders (consistent

with an FBL orientation) to a broader mandate that "serves all Americans" with specific commitments to customers, employees, suppliers, communities, and even the natural environment.[104] This public shift in management thinking reflects social trends and, in part, criticisms of profit-centric management practices.

### 2.3.6. The Emergence of Social and Ecological Thought (2010–present): Emphasis on Social and Ecological Well-Being

The sustainability of approaches like FBL and TBL management and the general idea that humankind can or should grow the economic pie indefinitely have been questioned since at least as long ago as Aristotle's argument for a "natural" rather than an "unnatural" management of money. Other historical voices that point to ecological shortcomings in approaches like FBL and TBL management include Thomas Malthus's (1798) observation that Earth has a finite capacity to provide food, Ernst Haeckel's (1866) emphasis on interdependencies between social and environmental systems, Max Weber's (1903/1958) lament that humankind was caught in a dysfunctional materialistic-individualistic iron cage, and Aldo Leopold's (1949) treatise on the land ethic and need for humans to form relationships with the land.[105]

Three events during the TBL era, each related to one of the three bottom lines, can be seen to have triggered the shift toward the SET approach. The first was the infamous global financial crisis of 2008, which at the time made even committed believers in the financial marketplace question whether a profit-maximizing paradigm is indeed good for humankind. It prompted new regulations such as the Dodd-Frank Act that, for example, required brokers providing retirement advice to act in the best interests of their clients rather than seeking to maximize their own profit.[106] The second event coincided with scientists' proclamation that Earth has now entered into a new geological epoch called the Anthropocene, which refers to the effect of humankind on the planet (and the extinctions it has already caused and is poised to continue to cause).[107] The third event was the Occupy Wall Street movement of 2011, which increased awareness of the negative social consequences associated with the increasing gap between the richest 1 percent and the rest (the 99 percent), as well as the role of money in influencing politics. This movement and its leaders helped to increase the minimum wage in a variety of cities and states,[108] and encouraged sixteen state legislatures and over 600 towns in the United States to pass resolutions favoring a constitutional amendment that would ensure the rights of people rather than cor-

porations.[109] Taken together, these three events served to call for a new generation of managers who are convinced of the need for an approach like SET management. For example, a 2012 survey found that about two-thirds of millennials agreed that "businesses make too much profit," and the same number would prefer a job they love that pays $40,000 a year versus a boring job that pays $100,000.[110]

SET management challenges some of the pre-1910 socially constructed assumptions and ideas that FBL and TBL management are founded upon, namely that natural resources are subservient to the wishes of humankind, that it is praiseworthy to use money to (insatiably) make more money, that it is natural for humans to be materialistic and individualistic, and that society is well served by having increasing amounts of its goods and services provided by large and powerful profit-maximizing corporations.

*SET management challenges some socially constructed ideas and assumptions that date back to the beginning of the last century.*

Such considerations attracted great attention during the COVID-19 pandemic that so radically altered worldwide human affairs. The global health emergency saw prioritization of basic human needs and safety over financial and material acquisition, and the need for cooperation, solidarity, and altruism over competition, individualism, and self-interest. Stay-at-home orders that curtailed business activities contributed to a rare period of declining carbon emissions and had positive effects on wildlife populations.[111] Business commitments to social and environmental causes were also heightened during this period,[112] and some observers suggested the pandemic offered an opportunity to reset priorities, with important lessons on how to manage for a more sustainable future.[113]

However, post-pandemic trends showed a quick return to escalating carbon emissions, worsening climate trajectories, and increased geopolitical tensions. Although early contributions to the development of what we call SET management were evident in the TBL era,[114] in recent years, interrelated (un)sustainability concerns have prompted a growing stream of research that places socio-ecological well-being above the need to maximize financial well-being. This stream of research comes from diverse perspectives, many of which will be

referred to in the rest of this book. They include place-based organizing,[115] sustainable intra- and entrepreneurship,[116] the traditional wisdom of Indigenous peoples and from spiritual traditions,[117] insights from quantum physics,[118] research on compassion and the ethic of care,[119] and so on.

Many managers have already embraced the SET paradigm. They can be found in organizations such as Taylor Guitars, Greyston Bakery, Assiniboine Credit Union, Aki Energy, Habitat for Humanity, and Interface, to name just a few that will be described in this book. SET management is also evident in the work and vision of B Lab and its initiatives like Certified B Corporations that work toward a vision of developing a "new economy" where business is a "force for good."[120] In 2024, B Lab had over 9,000 company members in 105 countries, including businesses like Patagonia (outdoor clothing), Ben & Jerry's ice cream (a Unilever subsidiary), and Natura &Co cosmetics (the world's largest and first publicly traded B Corp, with over $4.5 billion in net revenue and 19,000-plus employees in 2023).[121] Other SET managers belong to similar movements like the "economy of communion" and other like-minded communities of organizations.[122] But most SET managers work independently from such umbrella organizations; they are content to march to the beat of a SET drum.

## Chapter Summary

1. The meaning of management is constantly being socially (re)constructed over time.
2. Five eras during the period of pre-contemporary management are of particular relevance for understanding the basic assumptions that supported and informed the development of contemporary management thought:
    - (i) The pre-humankind era (starting about 13.7 billion years BCE) saw planet Earth change over eons of time to create the conditions that were required for the development of human life.

- (ii) The hunting and gathering era (starting about 40,000 BCE) was a time when humankind managed its affairs while being very aware of its dependence on nature and the dependence of people on each other.
- (iii) The first agricultural revolution (starting about 10,000 BCE) refers to the period when humankind managed to domesticate plants and animals, and thereby transitioned into population concentrations and the development of language and new social institutions.
- (iv) The advent of money (starting about 1500 BCE) enabled humankind to trade more efficiently and to use money to make money.
- (v) The advent of capitalism and the Industrial Revolution (starting 1500 CE) legitimated the ideas of materialism, individualism, capitalism, and large profit-maximizing corporations.

3. The development of contemporary management and organization theory can be divided into six eras, the first four of which were mostly characteristic of the FBL approach:
    - (i) The organizing era (1910–1930) saw the development of such basic management concepts like the division of labor, bureaucracy, time and motion studies, and the unity of command.
    - (ii) The leading era (1930–1950) drew attention to the importance of the informal organization, treating people with dignity and respect, and developing teams and groups.
    - (iii) The planning era (1950–1970) pointed to the importance of managing organizational inputs and outputs and open systems, and laid the foundation for future work in strategic management.
    - (iv) The controlling era (1970–1990) drew attention to how managers influence the behavior of organizational members by setting an organization's basic values, core standards, and culture.
    - (v) The Triple Bottom Line era (1990–2010) reflected the desire to profitably address and reduce

the negative socio-ecological externalities associated with FBL management.

- (vi) The Social and Ecological Thought era (2010–present) focuses on enhancing socio-ecological well-being in financially viable ways.

## Questions for Reflection and Discussion

1. According to the cosmic calendar, humankind has been around for about seven minutes. How much longer do you expect we will be around? Explain.
2. Can you think of any unintended negative consequences that come from thinking that humankind can "own" natural resources like land, or that it can patent the DNA of different plants? Explain.
3. Philosophers like Aristotle argue that using money to make money is problematic because (a) people have an insatiable appetite for money (so they can never get enough money or own enough resources); and (b) this leads to a widening of income disparity and creates negative externalities. Provide three pros and cons associated with using money to make money.
4. Do you think it is part of the natural human condition to be greedy, materialistic, and individualistic? For most of the history of humankind, self-interested wealth maximization was dysfunctional (e.g., imagine a nomadic hunter carrying the most spears and the biggest tent of anyone in the clan) and was seen as a moral vice. What would management theory and practice look like if we assumed people were naturally generous and recognized that their own well-being was enhanced by making sure that everyone had enough?
5. We take ideas like corporations for granted today, and we forget that not too long ago many people were concerned about the power of corporations and worried that corporations would have a negative effect on society. If you could, would you make any changes to the power of corporations, or set constraints on what a corporation must do to maintain its charter?
6. Do you agree with the argument that our understanding of manage-

ment has been socially constructed? Can you think of any dysfunctional management principles that have been institutionalized? How might they best be challenged? Explain.

7. Is the "one best way" to manage still waiting to be discovered? Explain.
8. What sort of workplace would you like your manager to construct for you? What sort of organizational reality will you socially construct for others when you are a manager? Is it a social reality that exemplifies FBL, TBL, or SET management principles?
9. The rest of the book will look more closely at the planning, organizing, leading, and controlling functions of management. Which functions are you most and least interested in learning more about? Why?
10. What do you want students thirty years from now to be learning about management? What sorts of key events or entrepreneurial events would you like them to be reading about that may have taken place during your career? And, more importantly, what will be your contribution to socially create the reality that you wish for the future?
11. In your experience, do most businesses reflect FBL, TBL, or SET thinking? Can you think of specific examples for each? Have you observed changes in management practices that reflect these different views during or following the COVID-19 pandemic?

## Notes

1. Chocolate is the favorite flavor of 52 percent of Americans, followed by vanilla and strawberry (each at 12 percent).
2. Chocolate remains one of the most secretive of industries. For example, Mars's candy-making machinery is designed and run by its own engineers. As with Charlie and the Chocolate Factory, few outsiders ever see the inside of a Mars chocolate manufacturing facility. If there is need for an outside worker to fix a problem in the plant, the outsider is blindfolded, escorted to the problem area where their expertise is required, un-blindfolded in order to perform the work, and then re-blindfolded and escorted out.
3. Sources for this overview include McMahon, P., & Keane, P. (2023). *Chocolate and sustainable cocoa farming*. Cambridge Scholars; Brenner, J. G. (1998). *The emperors of chocolate: Inside the secret world of Hershey and Mars*. Random House; Cadbury. (n.d.) http://www.cadbury.co.uk; Doherty, B. (2005). New thinking in international trade? Case study of The Day Chocolate Company. *Sustainable Development*, 13(3): 166–176; Lehman, G. (2007, September 7). *Socially responsible*

*chocolate: Cadbury Brothers in England's Victorian era*. The Annual Howard Raid Chair Lecture, Faculty Colloquium, Bluffton University, Bluffton, Ohio; History.com editors (2022, August 10). *The History of Chocolate*. https://www.history.com/topics/ancient-americas/history-of-chocolate; *Our story*. (n.d.) Divine Chocolate. https://divinechocolate.com/pages/our-story; see also Pucciarelli, D. (2017, March 16). *The history of chocolate*. https://www.youtube.com/watch?v=ibjUpk9Iagk

4. The word chocolate comes from the Mayan word *xocolatl*, which means bitter water; the Mexican Indian word for chocolate comes from the terms *choco* (foam) and *atl* (water). For most of its history, chocolate was consumed as a beverage. The bitter beverage was made from roasted cocoa beans, water, and spices. The cocoa bean also played an important role in the religious lives of the Aztecs, an ancient people who ruled a mighty empire in Mexico around the 1400s and 1500s. They believed that Questzalcoatl, their creator and god of agriculture, had traveled to Earth on a beam of the morning star and carried the cocoa tree from Paradise. Like the Mayans, they also drank the chocolate but added some additional ingredients like honey and vanilla to make it tastier than the Mayans' recipe.
5. Cortés brought cocoa beans to Spain, where they were hidden in Spanish monasteries. They became the secret ingredient in a fashionable drink that only the wealthy and the Spanish nobility could afford. The sources of this ingredient remained secret for almost a century. Spain lost its monopoly on European chocolate in the early 1600s when plantations began to sprout up in other parts of Europe, where chocolate grew in popularity among the well-to-do.
6. In those days chocolate was sold in drinking houses. Another Quaker, Joseph Fry, made the first chocolate bar in Britain in 1847. Quakers, also known as the Society of Friends, are a nonconformist and pacifist group that developed in the seventeenth century in protest against the formalism of the established church. Their strong beliefs and ideals motivated Quakers to pursue projects that fostered justice, equality social reform and alleviated poverty and deprivation.
7. George Cadbury was clearly interested in facilitating different forms of employee well-being outside of the factory, asking, "Why should an industrial area be squalid and depressing?"
8. Cadbury handed over the land and houses to the Bournville Village Trust in 1903 with the proviso that revenues should be devoted to the extension of the estate and the promotion of housing reform.
9. Unless otherwise noted, all dollar amounts are in US currency. Chocolate industry data from Statista. *Confectionary—Worldwide*. Retrieved October 16, 2024, from https://www.statista.com/outlook/cmo/food/confectionery-snacks/confectionery/chocolate-confectionery/worldwide?currency=USD; Statista. (2015, November 2). *Retail consumption of chocolate confectionery worldwide from 2012/13 to 2018/19 (in 1,000 metric tons)*. Retrieved January 6, 2018, from https://www.statista.com/statistics/238849/global-chocolate-consumption/
10. Cocoa is produced in forty-seven different countries, mostly within 10 degrees of the

equator, where temperatures range between 20 and 32 degrees Celsius (68 and 90 degrees Fahrenheit) and annual rainfall is 150 to 255 centimeters (59 to 100 inches). The largest producer of cocoa is Côte d'Ivoire (1,250,000 metric tons) and the second largest is Ghana (370,000 metric tons).

11. "Cocoa decreased 10 USD/MT or 0.52% to 1,895 on Friday January 5 from 1,905 in the previous trading session. Historically, Cocoa reached an all time high of 4361.58 in July of 1977." *Cocoa* (2018, January 6). Trading Economics. Retrieved January 6, 2018, from https://tradingeconomics.com/commodity/cocoa. Cocoa prices are related to the laws of supply and demand. For example, in the 2003–2004 growing year, 3.5 million metric tons of cocoa beans were produced worldwide, but because this was more than needed, the price dropped by almost 25 percent (ICCO Annual Report, 2003/2004). Between 1998 and 2000, the price dropped by almost one half ($1,236 per metric ton to $672 per metric ton). In many cases the control that large firms have over small farmers has a history that goes back to colonialism, when rich European powers used their colonies overseas to procure cheap raw materials. Even after many of the colonies gained their political independence, little changed for small farmers overseas. They had little bargaining power over the large companies that controlled the chocolate trade, and prices continue to fall. In addition, often the situation was made worse by corruption or mismanagement within the new governments. Moreover, rich nations also use restrictions such as tariff barriers to tax some imports differently than others. For example, importing cocoa beans into Europe is much less expensive than importing cocoa butter, and even less expensive than importing chocolate. This serves to penalize poor countries if they try to add value to raw materials like cocoa beans.
12. Since the 1990s, the chocolate industry has been working on expanding sustainable cocoa farming efforts. The World Cocoa Foundation was formed in 2000 and has helped to increase farm incomes by teaching cocoa farmers how to reduce crop loss and costs and how to diversify crops grown for family income. It also helps farmers to organize themselves into cooperatives to sell their cocoa.
13. Food Empowerment Project. (2022, January). *Child labor and slavery in the chocolate industry*. Retrieved October 16, 2024, from https://foodispower.org/human-labor-slavery/slavery-chocolate/
14. Typically, cocoa ingredients represent about 6.6 percent of the retail price of a chocolate bar—non-cocoa ingredients account for about 15 percent, chocolate companies' costs and profits account for over 50 percent, and over 25 percent goes to the shops who sell the chocolates. Make Chocolate Fair. (n.d.). *Niedrige Kakaopreise und Einkommen für Kakaobäuer innen*. https://makechocolatefair.org/issues/cocoa-prices-and-income-farmers-0
15. The company was established in 1998 as the Day Chocolate Company. Today their ownership of the Kuapo Kokoo has grown to 45 percent, thanks to a donation of shares by one of the other founding members, Gordon Roddick of The Body Shop. For more information about Divine Chocolate, see Gallo, P. J., Antolin-López, R., & Montiel, I. (2018). Associative Sustainable Business Models: Cases in the bean-to-bar chocolate industry. *Journal of Cleaner Production*, 174: 905–916; Nelson, V.,

Opoku, K., Martin, A., Bugri, J., & Posthumus, H. (2013). *Assessing the poverty impact of sustainability standards: Fairtrade in Ghanaian cocoa*. https://fairtradekookboek.files.wordpress.com/2013/12/apiss-fairtradeinghanaiancocoa.pdf; see also Divine Chocolate. (2008). *Divine inspiration: Stories from Kuapa Kokoo*. https://www.youtube.com/watch?v=PNVTVx9Lg8g

16. Barston, N., (2024, February 3). *Exclusive: Divine Chocolate MD Ruth Harding celebrates company's 25th anniversary*. Confectionary Production. https://www.confectioneryproduction.com/feature/46969/exclusive-divine-chocolate-md-ruth-harding-celebrates-companys-25th-anniversary/

17. Fair trade chocolate represents about 2 percent of the global chocolate market and is growing at about 50 percent per year. Growth rate in Europe is 30 percent per year (with 48 percent of fair trade cocoa imported into Europe also being certified organic), and in North America the growth rate is 80 percent per year (with 48 percent of fair trade cocoa imported into Europe also being certified organic). Ecole Chocolat. (n.d.). *Learn about organic and fair trade chocolate*. Retrieved on January 9, 2018, from https://www.ecolechocolat.com/en/organic-fair-trade-chocolate.html

18. The idea of the social construction of reality is described later in the chapter. For now, it is sufficient to note that an institution like management, no matter how objective it may appear to be, is produced and sustained by human activity. It is a paradox that humans are capable of producing an idea like "management" that they then experience as something other than a human. To paraphrase Berger and Luckman: Management is a human product that is perceived as an objective reality and which shapes subsequent thinking about management. See page 61 in Berger, P. L., & Luckmann, T. (1966). *The social construction of reality: A treatise on the sociology of knowledge*. Anchor Books.

19. Managers' values will influence gender parity, with research suggesting that the more liberal-minded managers are, the more gender parity there is in the workplace. Carnahan, S., & Greenwood, B. N. (2017). Managers' political beliefs and gender inequality among subordinates: Does his ideology matter more than hers? *Administrative Science Quarterly*, 63(2): 287–322.

20. See clip about the "cosmic calendar" from Neil deGrasse Tyson (2014, March 4). Cosmos. [Video]. https://www.youtube.com/watch?v=ShTxGumvbno; Cordeiro, J. (2014). The boundaries of the human: From humanism to transhumanism. *World Future Review*, 6(3): 231–239.

21. For example, the amount of energy humankind uses in a year is about the same as the sun provides to the planet's deserts in six hours. Shahan, Z. (2012). "Within 6 hours deserts receive more energy from the sun than humankind consumes within a year." CleanTechnica. https://cleantechnica.com/2012/04/15/within-6-hours-deserts-receive-more-energy-from-the-sun-than-humankind-consumes-within-a-year/

22. Levin, D. (2012, September 6). Follow the carbon. *Oceanus*. http://www.whoi.edu/oceanus/feature/follow-the-carbon

23. As noted by Stephen Hawking, "What we normally think of as 'life' is based on

chains of carbon atoms, with a few other atoms such as nitrogen or phosphorous . . . . The Earth was formed largely out of the heavier elements, including carbon and oxygen. Somehow some of these atoms came to be arranged in the form of molecules of DNA." See page 308 in Hawking, L., & Hawking, S. (2014). *George and the unbreakable code*. Random House.

24. Based on observation that there are 20,000 drops in a liter, and up to 10 million phytoplankton in a liter. MintPress News. (2013, January 3). The fabulous history of plankton and why our survival depends on it. http://www.mintpressnews.com/the-fabulous-history-of-plankton-and-why-our-survival-depends-on-it/44732/

25. Daily Mail. (2012, February 17). Are ocean plankton the key ingredient that decides the future of Earth's climate? http://www.dailymail.co.uk/sciencetech/article-2102639/Are-ocean-plankton-key-ingredient-decides-future-Earths-climate.html

26. This amounts to taking about 10 gigatonnes (or 10 million metric tons) of carbon from the atmosphere every year. Alberro, H. (2014, January 24). *Phytoplankton: Small organisms with a massive impact*. Shark Research and Conservation Program, University of Miami. https://sharkresearch.rsmas.miami.edu/conservation/phytoplankton-small-organisms-with-a-massive-impact. This is equivalent to about 25 percent of the 40 gigatonnes of carbon humankind sends into the atmosphere every year from burning fossil fuels. Carbon emissions reached a new high of 37.4 billion metric tons in 2024 according to: Anon. (2024, Nov. 13). *Fossil fuel CO2 emissions increase again in 2024*. Global Carbon Project. https://globalcarbonbudget.org/fossil-fuel-co2-emissions-increase-again-in-2024/#:~:text=The 2024 Global Carbon Budget,, up 0.8% from 2023

27. While these dates have been debated, we take our figures from Harari, Y. N. (2014). *Sapiens: A brief history of humankind*. Penguin Random House.

28. Harari (2014); Wilford, J. N. (2002, February 26). When humans became human. *New York Times*. http://www.nytimes.com/2002/02/26/science/when-humans-became-human.html

29. That is, beyond the use of DNA. Hawking & Hawking (2014: 309).

30. Sahlins, M. (1972). *Stone age economics*. Aldine-Athertone.

31. Though we should be careful not to make too many assumptions about the homogeneity of past societies, or that contemporary practices reflect historical practices (Harari, 2014).

32. Lee, R. B. (1979). *The !Kung San: Men, women and work in a foraging society*. Cambridge University Press.

33. Plus nineteen hours per week housework (forty-four hours total). Lee, R. (1998). Non-capitalist work: Baseline for an anthropology of work or romantic delusion? *Anthropology of Work Review*, 18(4), 9–13.

34. Although clan members are thankful for the meat, they nevertheless "insult" it in order to protect the clan's "fierce egalitarianism" and thereby ensure successful hunters are prevented from thinking that they are more important than others or leaders of the clan. Suzman, J. (2017). *Affluence without abundance: The disappearing world*

*of the Bushmen*. Bloomsbury USA.

35. Of course, this is a simplified summary of thousands of years of human history. For a more interesting and nuanced discussion, see Harari (2014).
36. The discussion in this section draws on Aristotle (1908). *Politics* (Benjamin Jowett, Trans.) Clarendon Press; Crespo, R. F. (2008). *On Aristotle and economics* [Working Paper]. IAE Business School DT 11, Austral University, Buenos Aires province, Argentina; Dyck, B. (2013). *Management and the Gospel: Luke's radical message for the first and twenty-first centuries*. Palgrave-Macmillan; Meikle, S. (1994). Aristotle on money. *Phronesis*, 39(1): 26–44.
37. Dyck (2013: 302).
38. Dyck (2013: 297).
39. Meikle (1994).
40. This latter view is consistent with the story about the billionaire who, when asked how much money was enough, replied: "Just a little bit more than I have now."
41. Bell, D. (2002). Polanyi and the definition of capitalism. In J. Ensminger (Ed.), *Theory in economic anthropology* (pp. 119–134). Alta Mira Press.
42. Biggart, N. W., and R. Delbridge (2004). Systems of exchange. *Academy of Management Review* 29(1): 28–49; they cite Polanyi, K. (1957) *The Great Transformation*. Beacon.
43. Greenwood and Lawrence suggest that Weber's influence on organization studies may be unrivalled. See Greenwood, R., & Lawrence, T. B. (2005). The Iron Cage in the information age: The legacy and relevance of Max Weber for organization studies [Editorial]. *Organization Studies* 26: 493–499. Some of Weber's most influential works include the following: Weber, M. (1958). *The Protestant ethic and the spirit of capitalism* (T. Parsons, Trans.). Scribner's (originally published 1904–1905); Weber, M. (1947). *The theory of social and economic organizations* (T. Parsons, Ed.; A. M. Henderson & T. Parsons Trans.). Free Press; Weber, M. (1946). *From Max Weber: Essays in sociology* (H. H. Gerth & C. W. Mills, Eds.). Oxford University Press; Weber, M. (1978). *Economy and society* (G. Roth & C. Wittich, Eds.). University of California Press; Weber, M. (1927). *General economic history* (Frank H. Knight, Trans.). Allen & Unwin. Weber remains one of the most frequently cited authors in scholarly management journals: Lounsbury, M., & Carberry, E. J. (2005). From king to court jester? Weber's fall from grace in organizational theory. *Organization Studies*, 26(4): 501–525.
44. Traditionally the accumulation of wealth had been seen as a vice, as sign of not sharing resources. In one of the most well-known sociological metaphors, Weber argues that we have been captured in an "iron cage" because we care too much about material goods: "*the care for external goods* should only lie on the shoulders of the 'saint like a light cloak, which can be thrown aside at any moment.' But fate has decreed that the cloak should become an iron cage. . . . material goods have gained an increasing and finally inexorable power over the lives of men [*sic*] as at no previous period in history" (Weber, 1958: 181; emphasis added here). As one famous Reformation preacher said: "Religion must necessarily produce both industry and

frugality [via individuals living out their calling], and these cannot help but produce riches" (Weber, 1958: 175, quoting John Wesley, whose theology was clearly not as simplistic as suggested by this quote). Similarly, Smith's "invisible hand" is also an over-simplification and misrepresentation of his larger argument.

45. Weber's basic argument and description of how a materialist-individualist emphasis underpins contemporary management and organization theory remains widely accepted). See Golembiewski, R. T. (1989). *Men, management, and morality: Toward a new organizational ethic*. McGraw-Hill; Herman, S. W. (1997). *Durable goods: A covenantal ethic for management and employees*. University of Notre Dame Press; Hershberger, G. F. (1958). *The way of the cross in human relations*. Herald Press; Jackall, R. (1988). *Moral mazes: The world of corporate managers*. Oxford University Press; Nash, L. L. (1994). *Believers in business*. Thomas Nelson; Naughton, M. J., & Bausch, T. A. (1994). The integrity of a Catholic management education. *California Management Review*, 38(4): 119–140; Novak, M. (1996). *Business as a calling: Work and the examined life*. The Free Press; Pattison, S. (1997). *The faith of the managers: When management becomes religion*. Cassell; Pfeffer, J. (1982). *Organizations and organization theory*. Pitman Publishing. Moreover, Weber is still considered to be a leading management moral philosopher: see Clegg, S. (1996). The moral philosophy of management [Review of book by P. G. de Monthoux]. *Academy of Management Review*, 21: 867–871. A fuller description of how Weber's writings suggest that mainstream management theory and practice are characterized by their materialist-individualist emphasis can be found in Dyck, B., & Schroeder, D. (2005). Management, theology and moral points of view: Towards an alternative to the conventional materialist-individualist ideal-type of management. *Journal of Management Studies*, 42(4): 705–735; see also Dyck, B., & Weber, M. (2006). Conventional and radical moral agents: An exploratory look at Weber's moral-points-of-view and virtues. *Organization Studies* 27(3): 429–450.

46. The legitimacy of capitalism was further strengthened when Adam Smith challenged the long-standing assumption that the world's wealth was a so-called zero-sum game (i.e., where in order for one person or party to get richer, someone else needed to get poorer). Instead, he suggested, we could grow the economic pie so that everyone benefits (consistent with consequential utilitarianism).

47. Smith, A. (2002). *An inquiry into the nature and causes of the wealth of nations*. (Originally published 1776). https://www.gutenberg.org/ebooks/3300

48. Content and quotations in this discussion are from pages 105–106 in Hawken, P. (1993). *The ecology of commerce: A declaration of sustainability*. HarperBusiness.

49. Hawken (1993: 106).

50. For example, US business was transformed with the reinterpretation of the Fourteenth Amendment—originally introduced to protect the rights of former slaves—to provide the power of a "natural person" to corporations. "It is interesting to note that the death penalty of individuals [i.e., truly natural persons] is less controversial than the mere suggestion that a few corporations [i.e., pseudo—natural persons] may have forfeited their right to exist" (Hawken, 1993: 122).

51. For example, it has been argued that in the United States, corporations have turned the Bill of Rights upside-down: “The first Amendment, guaranteeing the right of every citizen to engage in free speech, was established to encourage, promote, and preserve democratic institutions. . . . By invoking the First Amendment privilege to protect their ‘speech,’ corporations achieve precisely what the Bill of Rights was intended to prevent: domination of public thought and discourse. Although corporations profess that they are legitimately exercising their democratic rights in their attempt to influence the government, their argument presupposes that all parties from the single voter to the multinational company have an equal voice in the political debates surrounding important issues” (Hawken, 1993: 106).Other have argued that “since corporations are allowed to exist only by virtue of a 'social license' granted by society through the government,” they are "not simply an instrument of private property that can be used for the private interests of shareholders at the expense of other stakeholders and society as a whole. . . . [corporations must be socially responsible because they were created by State policy] to promote the good of society and to spread the benefits of capitalism for economic and social development . . . in light of the grave social inequality . . . the responsibility of corporations has become more critical than ever." Teehankee, B. (2007). Why should corporations be socially responsible? In *Doing good in business matters: CSR in the Philippines: Vol. 1. Frameworks* (pp. 1–29). AIM & De La Salle; cited in Habaradas, R. B. (2013). Corporate social initiatives in the Philippines: Experiences of four major corporations. *Journal of Legal, Ethical and Regulatory Issues*, 16(2): 1–16.
52. It is difficult to try to condense over a century’s worth of research into one chapter. We offer the six stylized “eras” described in this chapter to try to make this history more reader friendly, but we do so aware that history is much more complex and nuanced than represented in our relatively simple framework.
53. Cited on page 42 in Daft, R. L. (2003). *Management*. Southwestern. Taylor’s concern for maximizing materialism is evident in Taylor, F. W. (1911). *Principles of scientific management.* Harper. Here Taylor states: “The principal object of management should be to secure maximum prosperity for the employer, coupled with maximum prosperity for the employee.” Cited on page 93 in Schermerhorn, J. R. (2002). *Management* (7th ed.). John Wiley & Sons. See also Taylor, F. W. (1903). *Shop management.* Harper; Wrege, C., & Stoka, A. M. (1978). Cooke creates a classic: The story behind F. W. Taylor’s Principles of Scientific Management. *Academy of Management Review* October: 736–749; Kanigel, R. (1997). *The one best way: Frederick Winslow Taylor and the enigma of efficiency.* Viking.
54. See page 22 in Daft, R. L. (2001). *Organization theory and design* (7th ed.). Southwestern College Publishing.
55. Although this was a “win-win” situation, some readers may note that in this case the firm’s proportion of the winnings was greater than the workers’. Similar methods have been used in other businesses where the benefits of productivity gains are shared more equitably with workers.
56. Gantt, H. L. (1921) *Industrial leadership*. Hive.
57. Gilbreth, F. B. (1911). *Motion study*. Van Nostrand; Gilbreth, F. B. (1912). Primer of

scientific management. Van Nostrand Reinhold; Gilbreth, F. B., & Gilbreth, L. M. (1916). *Fatigue study*. Sturgis & Walton.

58. Gilbreth, F. B., Jr., & Carey, E. G. (1963). *Cheaper by the dozen*. Thomas Y. Crowell. (Originally published 1948).

59. In addition to formal rationality, Weber also talks about substantive rationality (behavior consistent with a set of values or a moral-point-of-view) and practical rationality (behavior consistent with a party's self-interests). See Dyck, B. (1997). Understanding configuration and transformation through a multiple rationalities approach. *Journal of Management Studies*, 34(5): 793–823; Kalberg, S. (1980). Max Weber's types of rationality: Cornerstones for the analysis of rationalization processes in history. *American Journal of Sociology*, 86: 1145–1179.

60. This is evident in her advice, "Don't hug your blueprints," which implies that we should save our hugs and commitment for people, not for formally rational rules and plans; cited in Daft (2003: 45). See also Follett, M. P. (1918). *The new state: Group organization the solution of popular government*. Longmans, Green; Follett, M. P. (1924). *Creative experience.* Longmans, Green; Metcalf, H. C., & Urwick, L. (Eds.) (1940). *Dynamic administration: The collected papers of Mary Parker Follett.* Harper & Row; Parker, L. D. (1984). Control in organizational life: The contribution of Mary Parker Follett. *Academy of Management Review*, 9: 736–745; Graham, P. (1995). *Mary Parker Follett —prophet of management: A celebration of writings from the 1920s.* Harvard Business School Press.

61. See page 186 in Hamel, G., & Breen, B, (2007). *The future of management*. Harvard Business Review Press; cited in Storberg-Walker, J., & Haber-Curran, P. (Eds.). (2017). *Theorizing women and leadership: New insights and contributions from multiple perspectives*. Information Age Publishing.

62. Even though Lillian Gilbreth was more interested in the human side of work than her husband, Frank, was, conventional textbooks always place her with her husband Frank in the "classical" era, sometimes describing her as "the first lady of management" (Daft, 2003: 42.). For more information on Lillian Gilbreth, see Wren, D. (1994). *The evolution of management thought*. Wiley.

63. Interestingly, the work of practitioners and researchers like Mary Follett and Lillian Gilbreth did not get much attention from most management scholars until a series of similar studies by their *male* counterparts.

64. Roethlisberger, F. J., Dickson, W. J., & Wright, H. A. (1939). *Management and the worker.* Harvard University Press; Mayo, E. (1933). *The human problems of an industrial civilization.* MacMillan; Mayo, E. (1945). *The social problems of an industrial civilization.* Graduate School of Business Administration, Harvard University. Note that there is some debate on the correct interpretation of some of the results of their research: Adair, J. G. (1984). The Hawthorne effect: A reconsideration of a methodological artifact. *Journal of Applied Psychology* 69(2): 334–345; Diaper, G. (1990). The Hawthorne effect: A fresh examination. *Education Studies*, 16(3): 261–268; Carey, A. (1967). The Hawthorne studies: A radical criticism. *American Sociological Review*, 32: 403–416; Jones, S. R. (1992). Was there a

Hawthorne effect? *American Sociological Review* (November): 451–468; O'Connor, E. S. (1999). The politics of management thought: A case study of the Harvard Business School and the human relations school. *Academy of Management Review*, 24:117–131.

65. Although this example may seem humorous, large corporations may have a great say in the "reality" that is being socially constructed.

66. Actually, the term "Hawthorne effect" was not coined by the original researchers but rather in French, J. R. P. (1953). Experiments in field settings. In L. Festinger & D. Katz (Eds.), *Research methods in the behavioral sciences* (pp. 98–135). Holt, Rinehart and Winston. French used the term to describe "marked increases in production which were related only to the special position and social treatment they [workers] received." Cited on page 452 of Jones (1992). The idea that the Hawthorne effect shows that it is giving "attention to employees, not working conditions per se, that has the dominant impact on productivity" has been perpetuated in the popular management literature. Pages 5–6 in Peters, T. J., & Waterman, R. H. (1982). *In search of excellence: Lessons from America's best run companies*. HarperCollins; cited in Jones (1992: 454). However, scholars today use the term to refer to "the problem in field experiments that subjects' knowledge that they are in an experiment modifies their behavior" (Adair, 1984: 334) and, indeed, question whether the original data even demonstrate a Hawthorne effect (e.g., Adair, 1984; Jones, 1992).

67. McGregor, D. (1960). *The human side of enterprise*. McGraw-Hill. See also Heil et al. (2000). Douglas *McGregor revisited: Managing the human side of the enterprise*. John Wiley & Sons.

68. See page 856 in Scott. W. R. (2017). Institutional theory: Onward and upward. In R. Greenwood, C. Oliver, T. B. Lawrence, & R. E. Meyer (Eds.), *The SAGE handbook of organizational institutionalism* (Chapter 33, pp. 853–871). Sage.

69. Called *operational* research teams in Great Britain and operations research teams in the United States (Daft, 2003: 50).

70. Leading contributors to this approach include James D. Thompson, Daniel Katz, and Robert L. Kahn. Katz, D., & Kahn, R L. (1966). *The social psychology of organizations*. Wiley; Thompson, J. D. (1967). Organizations in action. McGraw-Hill.

71. Morden, T. (2017). *Principles of management*. Routledge.

72. Simon, H. A. (1947). *Administrative behavior*. MacMillan; Simon, H. A. (1957) *Models of man.* Wiley; March, J. G., & Simon, H. A. (1958). *Organizations.* Wiley; Simon, H. A. (1960). *The new science of management decision.* Harper & Row; Simon, H. A. (1987). Making management decisions: The role of intuition and emotion. *The Academy of Management Executive*, February: 57–63.

73. Burns, T., & Stalker, G. M. (1966). *The management of innovation* (2nd ed.). Tavistock Publications.

74. Zucker, L. (1977). The role of institutionalization in cultural persistence. *American Sociological Review*, 42: 726–743.

75. Dyck, B. (1991). Prescription, description, and inscription: A script theoretic leadership model [Presentation]. Organization and Management Theory Interest Group, Administrative Sciences Association of Canada, Niagara Falls, Ontario.

76. Berger & Luckman (1966). For example, we ascribe meaning to money that is not inherent in a physical 0 bill, we attach more financial value to the job of CEO than to the job of daycare worker, and we come to accept advertisements that teach us that happiness is a by-product of buying the latest stuff. Even things that we think are objectively "real" have meaning that is socially created and re-created, including things like chocolate (this chapter's opening case), money, and even CT scanners—see for example Barley, S. R. (1986). Technology as an occasion for structuring: Evidence from observations of CT scanners and the social order of radiology departments. *Administrative Science Quarterly*, 31: 78–108.

77. Bandelj, N., Frederick F., Wherry, F. F., & Zelizer, V. A. (Eds.) (2017). *Money talks: Explaining how money really works*. Princeton University Press; Zelizer, V. A. (1994). *The social meaning of money*. Princeton University Press.

78. "Universities and professional training institutions are important centers for the development of organizational norms among professional managers and their staff." Page 152 in DiMaggio, P. F., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48 (April): 147–160.

79. Godard, J. (1992). Education vs. training in business schools: The case of industrial relations. *Canadian Journal of Administrative Sciences*, 9: 238–252.

80. Selznick defines institutionalization as occurring when something is "infused with value beyond the technical requirements of the task at hand." Many of today's social structures and systems may have been rational when they were introduced, but over time they have become institutionalized and are difficult to change even if they are no longer rational. Quote from page 17 in Selznick, P. (1949). *TVA and the Grassroots*. University of California Press; see also Selznick, P. (1957). *Leadership and administration*. Harper & Row.

81. The QWERTY system was developed by a man named Christopher Lathan Sholes, who patented the typewriter in 1868. He and his associates chose the QWERTY arrangement for the keys in part in order to slow down the speed of typists, because typewriters had mechanical moving arms for each letter that were prone to jamming if the typing speed was too fast. In 1873, Sholes sold his patent to E. Remington & Sons, who added further mechanical improvements and brought the typewriter into commercial production. At the time, there were a number of other different keyboard configurations on the market. A big step toward the QWERTY keyboard's becoming the industry standard was a typing contest held in Cincinnati in 1888, where Frank McGurrin (using a QWERTY keyboard) won a decisive victory over Louis Taub (who used an alternative keyboard). McGurrin's victory had more to do with the fact that he was one of the first "touch typists" (versus Taub's "hunt-and-peck" method), but because McGurrin happened to be using the QWERTY keyboard, the Remington company could then argue that its keyboard was the most productive. The advent of electronic typewriters and computers meant that key-

boards could be designed to optimize typing speed without regard for jamming keys. But the QWERTY configuration remains the industry standard—it seems to have become infused with value even though it may not be the most technically rational configuration for the task of typing.One example of a configuration of keys purported to be better than QWERTY—called the Dvorak Simplified Keyboard—was invented in 1936 by August Dvorak, a professor at the University of Washington. Dvorak claimed that his keyboard provided advantages of greater speed, reduced fatigue, and easier learning. During World War II, the US Navy did experiments showing that the cost of converting typists to the Dvorak keyboard would be repaid, thanks to increased typing speed, within ten days from the start of retraining. Even so, Dvorak's keyboard never found much acceptance.Your current word-processing software probably has the Dvorak Simplified Keyboard built into it. All you need to do is click into it, do some retraining, and for the rest of your life you will have the benefits of a configuration of keys that was not anti-engineered to slow you down. But you probably won't do that. Instead, you'll continue to use the QWERTY keyboard. Why? Because that keyboard configuration has been institutionalized.This note is based on articles by Liebowitz, S. J., & Margolis, S. E. (1990). The fable of the keys. *Journal of Law & Economics*, 30(1): 1–26; Liebowitz, S. J., & Margolis, S. E. (1996, June). Typing errors. In *Reason*. http://reason.com/9606/Fe.QWERTY.shtml

82. Berger & Luckmann (1966: 52).
83. For a review, see the recipient of the Academy of Management Review "Best Paper of the Year": Ferraro, F., Pfeffer, J., & Sutton, R. I. (2005). Economic language and assumptions: How theories can become self-fulfilling. *Academy of Management Review*, 30(1): 8–24. See also Abueg, L., Largoza, G., Sauler, M., & Teehankee, B. (2016). The impact of a common good model of the firm on prosocial business decision-making of students: An experimental investigation. In *Proceedings of the DLSU Research Congress*, 4.
84. MacIntyre, A. (1981). *After Virtue*. University of Notre Dame Press.
85. For example, Garfinkel describes how these socially constructed scripts become what he calls "moral facts of life." Garfinkel, H. (1964). Studies of the routine grounds of everyday activities, *Social Problems*, 11(3): 225–250. Similarly, Selznick (1957: 17) talks about how to institutionalize is "to infuse with value beyond the technical requirements of the task at hand."
86. See for example Burns, J. M. (1978). Leadership. Harper & Row; Pfeffer, J. (1977). The ambiguity of leadership. *Academy of Management Review*, 2(1): 104–112; Peters & Waterman (1982); Schein, E. H. (1985). *Organizational culture and leadership*. Jossey-Bass.
87. Issues related to the sustainability of approaches like FBL management were recognized as early as the 1700s, when Hans Carl von Carlowitz wrote a book about sustainable forestry in an era called "the age of timber" or "the age of destructive deforestation," a time when forests (unsustainably) provided unprecedented raw materials and fuel wood for industrial purposes, and Thomas Malthus (1798) observed that the Earth has a finite capacity to provide food. In the early twentieth

century, Arthur Cecil Pigou introduced the idea of "externalities" and how to combat them with what have been called Pigovian taxes (e.g., a carbon tax), and Rachel Carson's *Silent Spring* publicly raised environmental concerns about use of pesticides and other chemicals. Von Carlowitz, H. C. (1713). *Sylvicultura oeconomica: Anweisung zur wilden Baum-Zucht.* Leipzig; described in Schuler, A. (1998). Sustainability and biodiversity—forest historical notes on two main concerns of environmental utilisation. In *Assessment of biodiversity for improved forest planning* (pp. 353–360). Springer Netherlands; Malthus, T. (1798). *An essay on the principle of population*. St. Paul's Church-yard, London; Pigou, A. C. (1920). *The economics of welfare* (4th ed.). Macmillan; Carson, R. (2002). *Silent spring*. Houghton Mifflin Harcourt.

88. Brundtland, G. H., & Khalid, M. (1987). *Our common future* [Brundtland report]. World Commission on Environment and Development; United Nations.

89. "The Intergovernmental Panel on Climate Change (IPCC) is the international body for assessing the science related to climate change. The IPCC was set up in 1988 by the World Meteorological Organization (WMO) and United Nations Environment Programme (UNEP) to provide policymakers with regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation." IPCC (2024). *Fact Sheet: What Is the IPCC,* https://www.ipcc.ch/site/assets/uploads/2024/04/IPCCFactSheet_WhatisIPCC.pdf. "Today the IPCC's role is as defined in Principles Governing IPCC Work, '. . . to assess on a comprehensive, objective, open and transparent basis the scientific, technical and socio-economic information relevant to understanding the scientific basis of risk of human-induced climate change, its potential impacts and options for adaptation and mitigation. IPCC reports should be neutral with respect to policy, although they may need to deal objectively with scientific, technical and socio-economic factors relevant to the application of particular policies.'" IPCC (2019). *History*. https://archive.ipcc.ch/organization/organization_history.shtml

90. Houghton, J. T., Jenkins, G. J., & Ephraums, J. J. (Eds.). (1990). *Climate change: The IPCC scientific assessment*. Published for Intergovernmental Panel on Climate Change by Cambridge University Press. Available at https://archive.ipcc.ch/publications_and_data/publications_ipcc_first_assessment_1990_wg1.shtml

91. Schiermeier, Q. (2010). IPCC flooded by criticism. *Nature*, 463(7281): 596–597.

92. Maguire, S., & Hardy, C. (2009). Discourse and deinstitutionalization. *Academy of Management Journal*, 52(1): 148–178.

93. Much content in this paragraph from Laasch, O., & Conway, R. N. (2015). Sustainability: Managing for the triple bottom line. In O. Laasch & R. N. Conway, *Principles of responsible management: Global sustainability, responsibility, and ethics*. Cengage; quotes found on pages 59 and 60. Other notable events in this era that contributed to the move toward TBL management included: (1) the Rio Earth Summit (1992), which discussed reducing the use of harmful chemicals and fossil fuels via renewable energy and improved public transportation system; (2) the Kyoto Protocol (1997), which sought to gain commitments from governments to reduce greenhouse gas emissions; (3) Al Gore's documentary *An inconvenient truth* (2006)

(Al Gore and the IPCC shared the 2007 Nobel Peace Prize), and the Paris Agreement (2015), which has been signed and ratified by over 120 countries to limit global average temperature increases to no more that 1.5 degrees Celsius greater than pre-industrial levels, and to create financial systems that reward decreased greenhouse gas emissions.

94. Buhr, N., Gray, R., & Milne, M. J. (2014). Histories, rationales, voluntary standards and future prospects for sustainability reporting. In J. Bebbington, J. Unerman and B. O'Dwyer (Eds.), *Sustainability accounting and accountability* (2nd ed.) (pp. 51–71). Routledge.
95. Jamison, S., & Ollagnier, J.-M. (2023). *Destination net zero*. Accenture.
96. For example, the Academy of Management now has special groups on "Social Issues in Management" and "Our Natural Environment." As will be evident in subsequent chapters, there is a growing literature addressing concerns related to TBL management, such as corporate social responsibility, positive scholarship, servant leadership, stewardship, social entrepreneurship, and stakeholder theory.
97. While at face value, both in name and basic philosophy, the triple bottom line—that is, financial, social and ecological well-being—seems to treat all three bottom lines equally, in writing (and especially in practice) it is often the case the financial well-being is the "first among equals." For example, John Elkington, who coined the term in 1997, introduced the forerunner to the idea of the triple bottom line in 1994 when he talked about the need to develop "win-win-win strategies" that "simultaneously benefit the company, its customers, and the environment," noting the importance of doing this in ways that "benefit not only in corporate citizenship terms, but also in terms of competitive advantage." Pages 90 and 99 in Elkington, J. (1994). Towards the sustainable corporation: Win-win-win business strategies for sustainable development. *California Management Review*, 36(2): 90–100. Elsewhere he talks about "using TBL thinking and accounting to build the business case for action and investment." Page 3 in Elkington, J. (2004): Enter the triple bottom line. In A. Henriques & J. Richardson, *The triple bottom line: Does it all add up?* (Chapter 1, pp. 1–16). Earthscan; see also Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Capstone.
98. Hart, Stuart L. (1995). A natural-resource-based view of the firm. *Academy of Management Review*, 20(4): 986–1014.
99. Margolis, J. D., & Walsh, J. P. (2003). Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly*, 48(2): 268–305. See also Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International Journal of Management Reviews*, 12(1): 85–105.
100. For example, a 2009 article by Gary Hamel lists a "who's who" of management practitioners and scholars, who met to "spur the reinvention of management in the twenty-first century" and agreed that it was necessary to replace FBL management (what the article calls "Management 1.0") with a more TBL-like approach ("Management 2.0") in order to respond to a series of grand challenges, such as (1)

"Ensure that the work of management serves a higher purpose" (i.e., to find a noble purpose that goes beyond maximizing financial well-being); (2) "Fully embed the ideas of community and citizenship in management systems" (e.g., to focus on social well-being); and (3) "Reconstruct management's philosophical foundations" (e.g., move away from FBL's consequential utilitarianism and toward TBL's enlightened consequential utilitarianism). See pages 92–93 in Hamel, G. (2009). Moon shots for management. *Harvard Business Review* (February): 91–98.

101. Porter, M., & Kramer, M. (2011). Creating shared value. *Harvard Business Review* (January–February): 63–77.

102. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman. From a consequential utilitarian perspective, managers should attend to stakeholder groups only if this enhances the firm's financial well-being. See for example Freeman, R. E. (1999). Response: Divergent stakeholder theory. *Academy of Management Review*, 24: 233–236; Wicks, A. C., Berman, S. L., & Jones, T. M. (1999). The structure of optimal trust: moral and strategic implications. *Academy of Management Review*, 24: 99–116.

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108. Sanchez, R. (2016, September 16). Occupy Wall Street: 5 years later. CNN. https://www.cnn.com/2016/09/16/us/occupy-wall-street-protest-movements/

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social externalities are internalized. In such a case, markets are required to efficiently allocate resources, but other policy instruments and economic incentives are required to place preemptive constraints on the pursuit of purely market criteria bearing upon natural resource use and satisfaction of basic human needs.

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# 3. Management and Financial Well-Being: Jobs, Goods and Services, and Profits


- Learning Goals
- 3.0. Opening Case – A Credit to Banking
- 3.1. Introduction
- 3.2. Varieties of Capitalism and Economics
- 3.3. Financial Well-Being in High-Income Countries
- 3.4. Financial Well-Being at a Global Level: Free Trade versus Fair Trade
- 3.5. Entrepreneurial Implications
- Chapter Summary
- Questions for Reflection an Discussion


*This chapter describes different forms of capitalism and economics, and gives an overview of FBL, TBL, and SET approaches to financial well-being, as described in the summary below and on the chapter whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Capitalism**: System used to reward entrepreneurs who combine resources in ways that create valued goods and services. | *Documentational capitalism*: Detailed written contracts, public financial reports, management rights, short-term maximization of financial performance. | Hybrid: Relational contracts, long-term reputation and maximization of firm's financial performance, costs of neglecting employee rights, needs of key stakeholders. | *Relational capitalism*: Relational contracts, long-term reputation and financial performance, employee rights, the needs of all stakeholder groups. |
| **Economics**: How goods and services are produced, distributed, and consumed. | *Acquisitive economics*: Managing property and wealth to maximize monetary value for owners, especially in short-term. | *Hybrid*: Managing property and wealth to maximize monetary value for owners while reducing negative socio-ecological externalities for key stakeholders. | *Sustenance economics*: Managing property and wealth to increase long-term overall well-being for owners, members, and other stakeholders. |
| **Performance in High-Income Countries** | | | |
| Jobs | • Increase the number of jobs created. | • Provide jobs that motivate workers. | • Broad opportunities; pay living wage. |
| Goods and Services | • Increase overall and net productivity. | • Productivity via reduced externalities. | • More with less; reduce consumption. |
| Profits | • Increase profits. | • Increase profits. | • Enough profits; GPI. |
| **Performance in Global Context** | | | |
| Jobs | • Jobs for people who are income insecure. | • Good jobs for people who are income insecure. | • Fair trade; living wage. |
| Goods and Services | • Free trade/global GDP. | • Sustainable development/"Base of the Pyramid". | • Fair trade; tariffs that benefit people who are income insecure. |
| Profits | • Free flow of money helps all/IMF. | • Socially responsible investing; ESG. | • Profit circulating within local communities, social impact investing. |
| **Entrepreneurship** | • Maximize profits (even if it raises socio-ecological costs). | • Maximize profits (via lowering socio-ecological costs). | • Achieve financial viability and socio-ecological well-being. |



*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=1586*

## Learning Goals

After reading this chapter, you should be able to:

1. Understand different varieties of capitalism and economics.
2. Identify key turning points in the economic history of humankind.
3. Summarize the approach to jobs, goods and services, and profits that FBL, TBL, and SET perspectives take in high-income countries.
4. Summarize the approach to jobs, goods and services, and profits that FBL, TBL, and SET perspectives take in a global context.
5. Describe potential problems and opportunities that entrepreneurs encounter when they try to enhance financial well-being in terms of jobs, goods and services, and profits.

## 3.0. Opening Case – A Credit to Banking

> What's important is to step back and ask that question: What is the kind of world we want to live in?[1]

Does it surprise you to learn that the quote above is not from a religious leader or social activist, but a banker? At least since the moneychangers of biblical times, financial professionals have had a reputation for greed, self-interest, and turning others' misfortunes into economic gains for themselves. In the aftermath of the 2008 financial crisis, when countless homeowners lost everything while governments bailed out "too-big-to-fail" banks (which were largely responsible for the crisis), would anyone believe that bankers and banks cared about making the

world a better place? It's fair to say there is little love lost on bankers.[2] But the man behind the quote, Brendan Reimer, is a different kind of banker who works for a different kind of bank.

The bank in question is Assiniboine Credit Union (ACU), a member-owned co-operative in Winnipeg, Canada, which was formed in 1943 to meet the credit needs of modest-income individuals who were being turned away by standard banks, and who were otherwise subject to very high interest rates from moneylenders. At the first meeting, the grand sum of CAD$100 was collectively pooled. The first loan, in the amount of $50, went to help a member pay off medical debts. And in the early days, ACU business was conducted around a kitchen table.[3]

From those inauspicious beginnings, ACU has grown into an established, full-service financial institution with more than CAD$6 billion in assets, over 140,000 member-owners, 500-plus employees, and a truly outsized impact in the community.[4] Especially since the early 1990s, ACU has played a central role in many of the region's community economic development initiatives and is responsible for many long-standing programs.[5] These include financial empowerment services through Supporting Employment and Economic Development (SEED) Winnipeg, job creation programs for struggling individuals through Local Investment Towards Employment (LITE), entrepreneurial support through the Entrepreneurs with Disabilities Program, and the Jubilee Fund for social impact investing.

ACU has provided targeted support for the needs of specific populations such as newcomers to Canada and Indigenous communities, and has been the only regional bank to offer specially designed "Islamic" mortgages for Muslims, whose faith permits borrowing and lending but prohibits the charging of interest.[6] In the post-pandemic period, ACU has supported its members to address such wide-ranging issues as food insecurity, tiny home development, and restoration of Winnipeg's tree canopy, along with being a major sponsor of the world-famous Winnipeg Folk Festival.[7]

At the core of ACU's work is a mission to serve the economic well-being of its members and the community, especially the financially insecure and underserved. Its ability to do so is fully dependent on having its own financial house in order, meaning ACU must be profitable. But the meaning of profit within this banking institution does not match that of the industry as a whole. In his role as Strategic Partner, Values-Based Banking, Brendan Reimer describes it this way:

> Profit is important to financial strength and to being able to do what

> we want to do as a business, but profit is not our purpose. Our purpose is making a difference in the lives of our employees, our members, and our communities.[8]

In 2020, ACU became a certified B Corp (or benefit corporation), a designation of the US nonprofit entity B Lab, which certifies firms based on a detailed assessment of social and environmental activities and impacts. In their initial assessment, ACU achieved the sixth-highest score ever in B Lab's history, and the top score ever for a Canadian company. The credit union was subsequently awarded B Lab's "Best for the World" recognition, adding to an extensive list of awards and recognitions from industry associations and governments over the years. But like profits, such accolades are taken in stride and not given more weight than they deserve. Kevin Sitka, ACU's chief executive officer, explains:

> We did not spend a lot of time looking at where we ranked nationally or globally. We were pleasantly surprised. But we are a mission-driven organization. It's something we spend a lot of time and effort on and we're really busy doing the work that goes along with that. . . . It is who we are and who we have been for so many years. This [B Corp certification] is just helping to bring awareness to that.[9]

https://youtube.com/watch?v=CJhB8KAv2HU%3Fsi%3Dcw-I-wK4W3EzqyP6

For more information about ACU and B Corps, see this video: https://www.youtube.com/watch?v=CJhB8KAv2HU.

## 3.1. Introduction

Managers are expected to enhance economic well-being. Of course, there are many different ways to measure exactly what economic well-being means, but these measures usually involve the creation of jobs, goods and services, and financial value (especially profits). In this chapter, we examine these three basic standards of economic performance from the Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) perspectives.

As we do so, it will become apparent that the larger economic structures and systems that managers work in are socially constructed.[10] For example, con-

sider how the meaning of the term "market" has changed over time. Not so long ago it referred to a place in the center of a village where people met to buy and sell goods and services with their neighbors. Today, the term **market** *refers to the impersonal laws of supply and demand that dictate what firms can and cannot do*. Of course, because they are socially constructed, ideas like the "market" and its "laws" can be and have been revised throughout history (see Chapter 2).

*Not so long ago, the term "market" referred to a place in the center of a village where people met to buy and sell goods and services with their neighbors.*

We begin by describing several varieties of capitalism and economics, and we provide a brief history of economic activity. Learning about different types of capitalism—akin to learning about different approaches to management—can improve one's critical thinking and awareness of possibilities. The current state of economics, capitalism, and organizational practices reflects historical choices, not inevitable laws. Things we take for granted today could have been different, and they can be different in the future. We all determine what the future looks like. Following the discussion of capitalism and economics, we describe FBL, TBL, and SET approaches to the creation and management of jobs, goods and services, and profits in high-income countries as well as from a global perspective. The chapter concludes by considering the implications of our discussion for entrepreneurship.

## 3.2. Varieties of Capitalism and Economics

The economic context in which managers operate is governed by the **political-legal environment**, *which includes the prevailing philosophy and objectives of the various levels of government, as well as their ongoing laws and regulations.* It includes legislation about things like workplace health and safety, consumer protection, pollution, international trade, anti-trust laws, tax rates, minimum wage rates, and many other issues. One chapter is not sufficient to discuss these issues in depth, but we want to briefly introduce two approaches to capitalism (documentational and relational) and two approaches to economics (acquisitive

and sustenance) that provide helpful language for talking about these issues. These approaches are influenced by the different types of political-legal systems that permit and regulate economic activity.

### 3.2.1. Documentational Versus Relational Capitalism

Recall that capitalism is distinct from other economic systems because of its emphasis on rewarding entrepreneurs for profitably combining resources in ways that create valued goods and services.[11] Capitalism has been praised as one of the key innovations in the history of humankind, and it has facilitated the creation of unprecedented financial wealth. The general idea of capitalism influences all the world's economies. It is therefore helpful for managers to have a basic understanding of the different varieties of capitalism, and what influence a type of capitalism might have on how management is approached in different organizations.

For the purposes of this book, it is helpful to understand two prominent variations on the basic idea of capitalism. **Documentational capitalism**—which is prevalent in English-speaking countries like the United States, Canada, the United Kingdom, and Australia—*is characterized by its emphasis on detailed contracts, public financial reports, short-term maximization of financial performance, management independence and rights, stringent anti-trust legislation, rewarding a labor force that is mobile and has transferable skills, and using stock options to motivate managers.* In contrast, **relational capitalism**—which can be found in countries like Japan, Germany, France, Finland, and Italy—*is characterized by its emphasis on relational contracts, the long-term reputation and financial performance of an organization, employee rights, satisfying the needs of many different stakeholder groups, and investment in developing the skills of employees.*[12]

Some key differences between these two types are summarized in Table 3.1.[13] In very general terms, documentational capitalism is more consistent with FBL management, while relational capitalism is more conducive to TBL and SET approaches (where there is more emphasis on building trust and relationships among stakeholders than on solely developing comprehensive legal contracts).[14] Managers in documentational capitalism tend to have more freedom to make top-down decisions and to act quickly, and there are more generous financial rewards for managers who are able to maximize their organization's profits. Managers in relational capitalism generally look at the longer term. There is more continuity of membership within organizations (less job-hopping from one organization to another), and there is greater emphasis on developing strong

interpersonal relationships with managers in other organizations instead of developing formal contracts. The increased importance of relationships creates an incentive to pay more attention to the needs of all stakeholders, which increases the attention paid to socio-ecological issues.

**Table 3.1. Some differences between documentational and relational capitalism**

| Measure | Documentational Capitalism (liberal market economies) | Relational Capitalism (coordinated market economies) |
|---|---|---|
| Governing Mechanism | Legal systems | Socio-relational systems |
| Employment | Greater job mobility (from one organization to another) | Lower unemployment |
| Innovation | More radical innovations | More incremental fine-tuning |
| Income Equality | Greater chance to become extraordinarily rich | Greater income equality |
| Employee Protection | Greater freedom for managers to hire and fire employees | Greater employee protection |

### 3.2.2. Acquisitive Versus Sustenance Economics

**Economics** *refers to how goods and services are produced, distributed, and consumed.* There are at least two basic varieties of economics. An FBL understanding of economics points to the importance of the financial marketplace, to the so-called laws of supply and demand, and to the creation of financial wealth. This is similar to an idea that Aristotle developed over 2,000 years ago called **acquisitive economics**, *which refers to the management of property and wealth in such a way that the short-term monetary value for owners is maximized (profit maximization focus).*[15] Modern economic theory has refined this basic notion. For example, today the main economic theories that underpin FBL management explicitly add the assumption that not only are all economic entities (individuals and organizations) seeking to improve their financial well-being, they are so strongly motivated to optimize their short-term self-interests that they are prone

to lie, steal, cheat, and give out bad information in a calculated effort to mislead or confuse partners in an exchange.[16]

*There are at least two approaches to economics: acquisitive and sustenance.*

The TBL and SET approaches have a different view of economics. The TBL view, which combines elements of FBL and SET approaches, is called **hybrid economics**, *which refers to managing property and wealth to maximize monetary value for owners, while simultaneously reducing negative socio-ecological externalities for key stakeholders (harm reduction focus).* The SET approach can be traced back to Aristotle's second concept, that of **sustenance economics**, *which refers to managing property and wealth to increase the long-term overall well-being for owners, members, and other stakeholders (well-being focus).* Sustenance economics emphasizes real human needs, community-oriented values, long-term multi-generational concerns, and stewardship. It speaks to issues of quality of life that cannot be meaningfully expressed by or reduced to quantifiable measures like financial wealth, income, or goods consumed.[17] Both TBL and SET perspectives agree that dysfunctions occur when managers are solely driven to maximize financial profit without regard to socio-ecological externalities.

Before we examine how managers enhance economic well-being via jobs, goods and services, and profits, it is helpful to consider a brief historical overview of how these three elements came to be important and how they fit together.

### 3.2.3. Simplified Models of the Economy

Humankind has always worked in groups in order to create the goods and services that people require to survive and thrive. Before money was invented, the economic model looked like Figure 3.1.[18] People contributed to their clan's well-being by performing tasks (e.g., hunting, gathering food, caring for children), with everyone in the clan sharing the resulting benefits (e.g., everyone had food, social relationships, and security). The clan was both the producing and the consuming group, with all members actively participating in both aspects, so that

producing goods and services was a part of clan membership. Everyone had a personal connection to the goods and services produced in the clan.

**Figure 3.1. Simple economy (starting 40,000 BCE)**



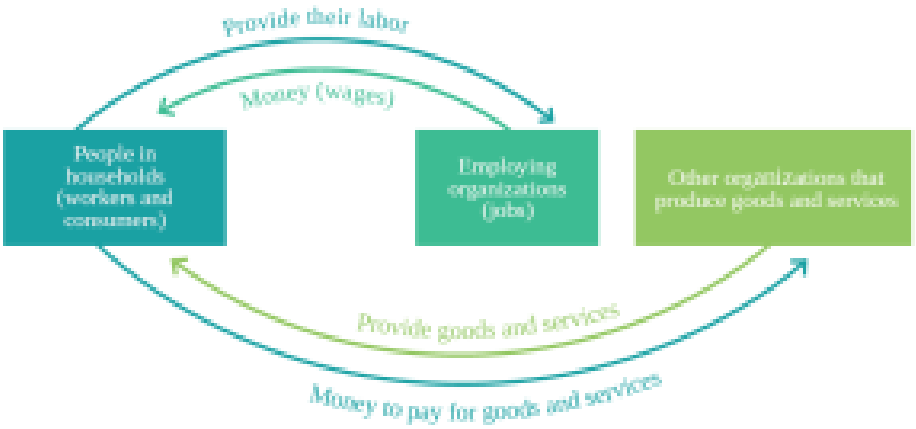

In terms of jobs, estimates suggest that on average people worked about twenty-four hours a week on hunting and gathering, and about nineteen hours on childcare, cooking, and other domestic tasks.[19] In terms of goods and services, people only had the (fresh) food that was in season, there were no modern health-care services, and life could be harsh. Because the idea of money had not yet been invented, there were no profits per se.

*In hunting and gathering societies, people work about twenty-four hours a week on hunting and gathering, plus nineteen hours on food preparation and childcare.*

Over time, and with the advent of money around 1500 BCE, the economic situation changed so that eventually there was a separation between the unit of consumption (i.e., the household, where people lived) and the unit of production (the workplace, where people had jobs and worked to produce goods and services). As shown in Figure 3.2, people now "sold" their labor for money (wages), typically working to produce goods and services they would not person-

ally use. Instead, workers used their wages to purchase goods and services from a variety of organizations, most of which they were not members of. Before money, people had used their labor to produce the goods and services they consumed. After money became a generic measure of value, the goods and services that people produced became separated from the goods and services they consumed. Business owners and managers could choose whom to hire (or not hire) and had some motivation to create profits by reducing labor and other input costs, increasing productivity and efficiency, and selling at the highest price the market would tolerate. During this second era, people gained additional freedom and more choice, and there was opportunity for greater financial inequality than there had been in the clan economy.

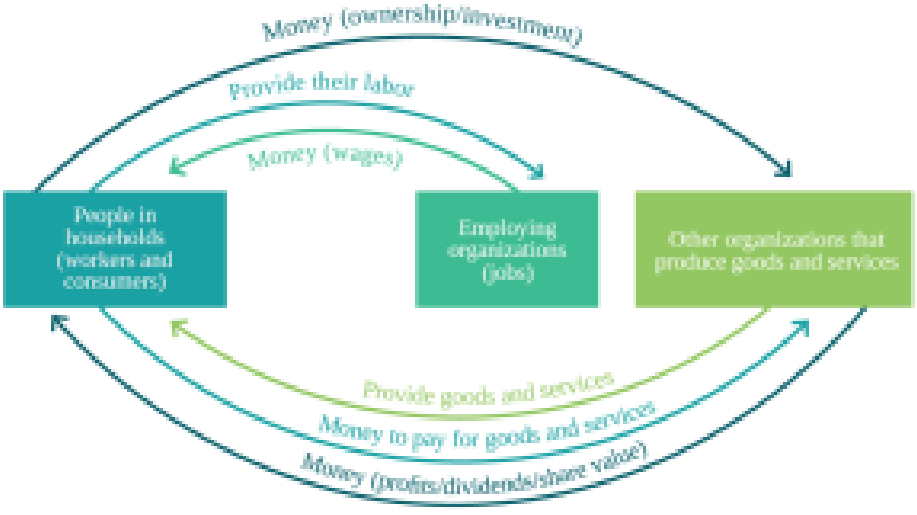
**Figure 3.2. Simple monetized economy**




With the advent of corporations (businesses that are distinct legal entities that are separate from their owners, see Chapter 2) during the Industrial Revolution, the situation changed again (see Figure 3.3). As organizations grew in size and breadth, relationships between the household (worker and consumer) and the business (employer, merchant) became even more impersonal. Prior to corporations, even though production and consumption were separated, the economy was based mostly on small local organizations, with owners often living in the same community as their employees and customers. This co-location and face-to-face contact encouraged everyone to treat each other with dignity and not merely as

the means to an end.[20] In contrast, the proliferation of corporations led to increasing distance between owners, employees, and customers, thereby eroding face-to-face relationships and putting greater emphasis on quantifiable measures of success. For example, instead of seeing the smile of a satisfied customer or the pride of a worker completing a task, an owner who had no contact with the organization's operations would only see impersonal reports of sales revenue and employee productivity. Because this was the main information owners had, it grew in importance. As we noted in Chapter 2, the increased emphasis on maximizing the financial well-being of owners contributed to a self-fulfilling assumption that everyone was financially self-interested. As corporations have continued increasing in size and influence—most of the world's 100 largest economic entities are businesses, not countries—the relative power of owners and managers has increased. This has resulted in financial benefits for people from households who own shares in corporations, including shares owned indirectly through pension funds invested in the stock market.[21]

**Figure 3.3. Simple corporate economy**




With this simplified understanding of the corporate economy in hand—and the realization that it was socially constructed, not inevitable or "natural"—we can now examine how the FBL, TBL, and SET approaches differ on

the three dimensions of economic well-being: jobs, goods and services, and profits. First, we examine each dimension from the perspective that characterizes much of the management literature, namely that of managers working in high-income countries like the United States.[22] Second, we examine each dimension from a more global perspective, aware that most of the world earns less than $3,000 per year.[23]

**Test Your Knowledge**

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## 3.3. Financial Well-Being in High-Income Countries

### 3.3.1. Jobs

**Jobs**—*that is, opportunities to get paid by an organization in return for doing work that produces goods and services*—are the first dimension of economic well-being. People generally expect managers to create jobs that allow them to meaningfully contribute to society and enable them to earn money so that they can purchase the goods and services they need to have a good life.

#### The FBL Approach to Jobs

Thanks largely to FBL management, today there are more jobs to choose from than ever before. Supporters of the FBL approach are rightly proud of its job creation record. For example, the number of jobs in the United States increased from about 60 million in 1950 to over 160 million in 2023 (an increase of about 270 percent, similar to the growth in population).[24] People entering the workforce are faced with an unprecedented number of career options and are given an unprecedented number of educational options to prepare for the careers that they would like to pursue. Moreover, people can work for a variety of organizations (e.g., if they are not satisfied with their pay or other work arrangements in one company,

they are free to move to a competitor). All these jobs based on FBL management principles were created in order to enhance employers' financial well-being.

#### The TBL Approach to Jobs

TBL management considers not only the number and variety of jobs that are available but also the social and ecological implications of those jobs. The widening of income gaps is a particularly relevant example of how jobs can affect financial and social well-being. For an example from the United States, in the fifty years from 1974 to 2024 the average productivity per worker increased by 90 percent, while the average pay increased by only 32 percent.[25] **Net productivity** *refers to the growth in the total goods and services created per the number of hours worked.* During about the same time period, CEOs' pay increased by over 1,000 percent, and in 2023 CEOs were paid about 290 times what the typical worker was paid, compared to seventeen times as much in 1973.[26]

*Today CEOs earn about 290 times as much as typical workers; in 1973, it was seventeen times as much.*

Despite the growth in number of jobs and productivity and pay for top managers, today about 37 million people in the United States—the largest and most productive economy in the world—still live in poverty.[27] In other words, the gap between the rich and the poor has been widening. The TBL approach considers this gap worrisome because it may cause reduced job satisfaction, increased turnover costs, lower productivity, and ultimately reduction of a firm's financial performance. TBL management seeks to increase job satisfaction and reduce turnover costs, thereby contributing to a firm's financial bottom line.[28]

#### The SET Approach to Jobs

The SET approach shares TBL management's concern about widening income inequality, but not only because of its effect on worker motivation, performance, and contribution to the firm's financial bottom line. SET management recognizes that income inequality is associated with other negative societal outcomes, including increased levels of anxiety, obesity, crime, homicide, and differences in

how genders are treated. Income inequality is also connected to lower levels of mental health, life expectancy, social mobility, and social trust. The greater the income inequality, the lower the overall quality of life (interestingly, a widening inequality gap also worsens the quality of life for the rich).[29]

*Income inequality is associated with increased levels of anxiety, obesity, crime, homicide, with differences in how genders are treated, and with lower levels of mental health, life expectancy, social mobility, and social trust.*

The SET perspective also questions the focus FBL and TBL approaches place on productivity maximization, an emphasis that has created unintended negative societal externalities. In particular, SET seeks to create jobs for people who may not find a job in productivity-maximizing FBL and TBL firms. For example, organizations like Greyston Bakery in New York (see Chapter 1) and BUILD Inc. in Winnipeg, Canada,[30] deliberately hire people who have been in prison or are from other groups who often find it difficult to get a job. These organizations may hire a person even if they need considerably more training than other candidates who are better qualified, because the goal is to help everyone to earn a living and contribute to society, not merely to maximize productivity (see also Chapter 12).

SET management seeks to ensure that all workers are paid a **living wage**, *which is enough money to pay for the basic amenities of life, including adequate housing, food, clothing, education, and healthcare.* A living wage is typically higher than the legal minimum wage, and indeed most of the people who earn a minimum wage do not earn a living wage.[31] Research suggests that when a firm pays a living wage it has a negligible effect on the firm's financial overall costs, in part because it improves worker morale and productivity while reducing absenteeism and turnover.[32] This is illustrated by companies like Assiniboine Credit Union (opening case) and Enviro-Stewards that pay employees to volunteer on company time, which helps to "attract and retain staff with outstanding technical competence, integrity, judgement, interpersonal skills and a strong desire to serve others."[33]

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### 3.3.2. Goods and services

Humankind requires goods and services in order to survive. Our ability to thrive is influenced not only by how the goods and services are created (e.g., jobs), but also by whether there are enough appropriate goods and services available, and whether they are affordable and sustainable.

#### The FBL Approach to Goods and Services

The general goal of FBL management is to increase the quantity and profitability of goods and services produced, with more being better. For example, it is common to measure economic well-being in terms of growth in **gross domestic product (GDP)**, *which measures the total financial value of all the goods and services produced within a country.* The FBL approach has proven to be very successful when financial well-being is measured in these terms. In the fifty years prior to 2025, the GDP of the United States grew seventeen-fold (from $1.5 trillion to $27.3 trillion).[34] By this standard, FBL management has been very successful.

#### The TBL Approach to Goods and Services

TBL management considers not only the financial value of goods and services that are created but also their socio-ecological externalities. For example, the TBL approach promotes the development of alternative sources of energy (e.g., wind, solar) and the reduction of energy usage (e.g., LED lighting, reduced packaging) in order to increase profits and protect the environment. Industries related to alternative sources of energy have grown substantially since 1990, consistent with what is promoted by a TBL approach.

Similarly, consumer packaged goods (CPG) marketed as sustainable are one of the fastest-growing retail segments, growing from a 13.7 percent market

share in 2015 to 18.5 percent in 2023 (about 35 percent market share growth over eight years).[35] This category had an estimated value of $293 billion in 2023 and is projected to continue growing at a compounded annual rate of 10.7 percent till 2030, driven by consumers with a clear preference for environmentally and ethically sound products and willing to pay a premium for them.[36] Unfortunately, when managers recognize the increasing demand for sustainable products, they may be tempted to market goods as "sustainable" even if they are not, via a practice called **greenwashing**—*which refers to deliberately using misleading information in order to present a false image of ecological responsibility (see also Chapter 4).*

Simultaneously improving ecological well-being and profits can be challenging for TBL firms, as illustrated by the Taiwanese shipping giant Evergreen, a leading example of TBL best practices in the global transportation and distribution of goods. Their extensive sustainability agenda is laid out in a comprehensive, audited annual report, and centers on an ambitious goal of achieving carbon neutrality (aka, net zero) by 2050. Since 2008, Evergreen has made consistent progress toward this goal based on their primary metric of $CO_2$ intensity, which is a measure of how much carbon is produced for a standardized quantity of goods shipped.[37] However, Evergreen also has an ambitious growth strategy and in 2023 alone added thirty-three container ships to their fleet, which contains many of the largest ships in the world.[38] As a result of this growth in size, Evergreen's reports indicate that the company's overall carbon emissions continue to rise. Furthermore, Evergreen's net zero strategy does not take into consideration the carbon footprint associated with the production, use, and disposal of the ever-increasing amount of goods it ships around the world annually.

#### The SET Approach to Goods and Services

Rather than focus on producing more goods and services, the SET approach recognizes that many of us already consume more goods than the planet can sustain. SET management emphasizes sustenance economics and questions the FBL view that economic growth is always good. From a SET perspective, a first step in building a sustainable economy requires recognizing when enough is enough, and that having more than enough may actually impoverish other aspects of our lives.[39] This view inverts the logic of economists like Henry Wallich who argue that "growth is a substitute for equality of income. So long as there is growth there is hope, and that makes large income differentials tolerable." If this claim is true, namely that growth and income equality are substitutes for each other, then

the SET approach prefers the corollary: "Greater equality of income is a substitute for growth."[40]

Similar to TBL management, the SET approach seeks to improve organizational performance via innovative technologies that enhance socio-ecological well-being. However, unlike FBL and TBL approaches, SET management actively and deliberately challenges the thinking that more consumption and more sales and more revenue are necessarily better. SET asks questions such as, What if we already have too many goods and services on the market? Do we really need to purchase fifty-eight new garments a year?[41] Do we really need the 50 percent increase in square footage per person in our homes compared to what we had fifty years ago? Do we really need the latest version of an iPhone? Do we really need to own our own car? Can we live better with less?[42]

*From a SET perspective, wanting more than enough goods—and spending the time (and Earth's resources) to produce and acquire them—is dysfunctional and unethical, especially in a world where many people do not have enough.*

The SET approach is consistent with research that shows that engaging in voluntary simplicity makes people happier.[43] Rather than working long hours in order to earn money to go to restaurants and have better smart phones, people appreciate having more time to cook home-made meals and to visit with friends in person. From a SET perspective, wanting more than enough goods—and spending the time (and Earth's resources) to produce and acquire them—is dysfunctional and unethical,[44] especially in a world where many people do not have enough.[45]

### 3.3.3. Profit

The word "profit" is used here in its most general sense, to indicate that there is a "proper fit" (pro-fit) between the goods and services an organization produces (value creation) and the financial resources it is able to earn as a result (value capture). This is also consistent with Darwin's understanding of "survival of the fittest," which focuses on ecological fitness (i.e., the "fit" in relationships with

others in a physical system or environment); it does not refer to being fit in the sense of being the most powerful or strongest but instead fitting within an ecosystem's resource exchange relationships.[46] Such an understanding of pro-fitable organizing can apply to for-profit businesses, but also to nonprofit and government organizations, where it can be associated with providing sustainable goods and services in a way that is financially sustainable. For example, an organization like World Vision is pro-fitable when it has enough funding to pay for the work it does.

#### The FBL Approach to Profit

The FBL approach seeks to maximize financial profits by increasing the financial value it captures from the goods and services it offers. Consistent with an acquisitive economic perspective, FBL management defines the profit dimension of economic well-being in terms of money made. And the track record of FBL management is impressive in these terms. With few exceptions (e.g., the recession of 2008), corporate profits in the United States have been on an increasingly upward trajectory (e.g., from $73 billion in 1974 to $3,128 billion in 2024, a forty-three-fold increase, which is considerably greater than the seventeen-fold increase in GDP over that same time).[47]

The profitability performance of financial institutions may be an example of the FBL approach at its best. In the United States, the proportion of total GDP generated by the finance and insurance industry grew from 2.8 percent in 1950 to 7.3 percent in 2023. This industry, which accounted for 9 percent of total profits (of all sectors in the US economy) in 1950, reached nearly 40 percent in the early 2000s (prior to the financial crisis) and was sitting at 17 percent in 2023.[48] Bankers have benefited from deregulation and opportunities to lend more money than they have on reserve, thereby literally growing the size of the economy (and in doing so creating value for society) in profitable ways (increasing the banks' capture of financial value). The pay of jobs in the banking industry is also noteworthy: people working in finance earn 50 percent more money than employees with a similar education working in other parts of the economy.[49]

#### The TBL Approach to Profit

The TBL approach is also primarily concerned with financial profit, but it proposes different means for achieving it. Many of the studies that show "it pays to be green" suggest that TBL management's focus on the triple bottom line is more

profitable than FBL management's limited focus on just financial issues.[50] From a TBL perspective, it makes sense that profits would increase for companies that reduce their ecological input costs (e.g., reducing the energy used to light their facilities) and who find cost-effective ways to improve worker motivation and productivity (e.g., offering flextime, casual dress Fridays). Organizations like Walmart and Amazon demonstrate the benefit of TBL thinking.

*Many studies suggest that "it pays to be green."*

#### The SET Approach to Profit

While FBL and TBL supporters are justifiably proud of generating impressive financial profits, the SET perspective questions the unsustainable and insatiable pursuit of material and financial wealth. Instead, the SET approach favors measures of economic performance that consider positive and negative socio-ecological externalities. To illustrate, the developers of the GDP measure never intended for it to be used as a reflection of a nation's economic well-being.[51] They note, for example, that GDP goes up when someone steals a car because the owner then needs to spend money replacing it. It also goes up when criminals are put in jail (which creates jobs at the prison), or when an oil pipeline bursts (and the pollution needs to be cleaned up). GDP also goes up when toxins in the air create illness and hospital expenses, and when mental stress creates the need for psychiatrists and medication. In short, although GDP is widely interpreted as a measure of national economic well-being, it includes many detrimental activities that are harmful to society.

By contrast, the SET approach suggests measuring economic well-being via something akin to the Genuine Progress Indicator (GPI), a measure of quality of life that accounts for the following factors:[52]

- **Income distribution**: GPI increases when people who have a low income receive a larger portion of national income and decreases when their share declines.
- **Crime**: Unlike GDP, which grows with costs of crime (e.g., because of legal and healthcare costs, property damage), GPI subtracts these costs.

- **Resource depletion**: Unlike GDP, which ignores externalities like the depletion and degradation of forests, farmland, wetlands, and nonrenewable minerals, GPI treats these as costs.
- **Pollution**: Unlike GDP, which often double-counts pollution (first for the costs incurred in creating pollution, and second for the costs of cleaning up pollution), GPI subtracts costs of water and air pollution based on their damage to the environment and human health.
- **Long-term environmental damage**: GPI recognizes the negative financial externalities associated with carbon emissions.
- **Leisure time**: GPI goes up with increases in leisure time and down with decreases.

While high-income countries achieve impressive increases in GDP, it is not unusual for their GPI to lag behind. For example, one study showed that over a forty-five-year period the United States' per capital GDP more than doubled, while its GPI *decreased* by 28 percent.[53]

SET management also makes a distinction between two types of profit: conventional and genuine. **Conventional profit** *refers to the difference between a firm's financial expenses and its financial revenues,* without considering negative socio-ecological externalities (e.g., it does not account for the $5 trillion in negative ecological externalities associated with the world's 1,200 largest corporations in 2018[54]). **Genuine profit** *refers to the difference between a firm's financial expenses and its financial revenues after considering its socio-ecological externalities.* For example, a firm might voluntarily pay fees in order to address the negative externalities associated with greenhouse gas (GHG) emissions, as illustrated by companies that voluntarily purchase carbon offsets when employees travel by air. Or a firm may refuse to have its products made in overseas factories that use child labor or have oppressive working conditions.[55] Tall Grass Prairie Bread Company (see Chapter 15) is an example of a bakery that tries to earn genuine profit. It uses local organically grown grains, hires people facing barriers to employment and pays a living wage, uses electric vehicles, and has retrofitted its building to be environmentally friendly.

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*Unlike conventional profit, genuine profit takes externalities into account.*

## 3.4. Financial Well-Being at a Global Level: Free Trade versus Fair Trade

Thus far, we have focused our discussion on managing economic well-being within the context of high-income countries. We will now adopt a more global perspective, drawing greater attention to the challenges of economic well-being facing people in low-income countries.

### 3.4.1. Jobs in a Global Context

#### The FBL Approach to Jobs

The FBL philosophy for improving the global economy can be summed up with the basic idea of "free trade" and the maxim that "a rising tide raises all boats." **Free trade** *refers to the idea that goods and services can flow across national and international boundaries without financial barriers (i.e., tariffs, quotas, or subsidies).* The assumption underlying the FBL philosophy is that everyone will benefit if we remove trade barriers between countries. When jobs, goods and services, and money can flow freely across borders, the "invisible hand" (see Adam Smith, Chapter 1) will guide them to the most productive locations and uses, so that the output and financial well-being of total global economy will be maximized.[56]

Our highly developed international transportation systems, coupled with the ability to communicate instantly around the world, helps put the FBL vision for the global economy into practice. Factories can be located wherever labor costs are the lowest, and products can be shipped to wherever demand is greatest.

Indeed, this **globalization**—*which refers to changes in economics, technology, politics, and culture that result in increasing interdependence and integration among organizations and people around the world*—is considered by some to be the genius of the FBL approach, because it creates financial incentives for multinational corporations to create jobs in economically depressed regions of the world. Insofar as businesses are motivated to reduce their financial costs, they will be motivated to locate factories in countries where people are willing to work for a low salary. This should result in jobs moving to places where they are most needed, promising a "win-win-win" proposition: shareholders win because financial labor costs will be reduced; consumers win because the prices of goods can be reduced; and unemployed people in low-income countries win because they get a paying job. Those jobs will also help to grow the economies in low-income countries. As of 2024, 98 percent of garments purchased in the United States were imported,[57] whereas as recently as 1990 only 50 percent were imported.[58] In 2018, the average American purchased sixty-eight new garments a year,[59] about five times more than in 2000,[60] in part because of fast fashion and decreasing costs thanks to jobs moving to low-income countries.

Proponents of FBL management point out that globalization has had a positive effect on the world's people who have the greatest financial need. For example, the proportion of people in the world living in extreme poverty (i.e., spending less than $2.15 international dollars per day) decreased from 82 percent in 1910 to 60 percent in 1970, 37 percent in 1990, and 8.5 percent in 2024.[61]

*The proportion of people in the world living in extreme poverty decreased from 82 percent in 1910 to 60 percent in 1970, 37 percent in 1990, and 8.5 percent in 2024.*

#### The TBL Approach to Jobs

TBL management is interested in not only the number of jobs that are created around the world but also the quality of those jobs. A study by the World Bank that interviewed 20,000 people facing financially insecurity from more than forty countries found that when asked about what they needed, people didn't talk so much about wanting money per se. What they wanted was a secure job where they could earn enough money to provide their families with food, clothing, shel-

ter, and education.[62] However, because of the relative power advantage that large organizations have over unemployed people in low-income countries, people with little financial security have little negotiating power. Indeed, many of the new jobs that have been created via globalization do not pay a living wage and have terrible working conditions.[63] The TBL management response to such conditions has been the development of third-party accreditation agencies that monitor overseas working conditions. For example, Worldwide Responsible Accredited Production (WRAP) is a nonprofit, independent association of social compliance experts that promotes and certifies humane, ethical, and lawful manufacturing around the world.[64] Improving working conditions offers TBL firms many benefits, including helping them to maintain a positive brand image with consumers. One study found that paying factory workers 20 percent above the industry average and establishing a welfare fund for workers improved profitability.[65] Similarly, other research suggests that firms that care enough for workers and the environment to be listed on the Dow Jones Sustainability Index (DJSI) can enjoy significant financial gains.[66] The argument that compensating employees well can increase productivity and firm performance goes as far back as Henry Ford (who in 1914 paid workers more than double the rate of neighboring factories), and multiple recent studies support this practice even as firms struggle with the economic aftermath of the COVID-19 pandemic.[67]

#### The SET Approach to Jobs

The SET approach seeks to create jobs that meet human needs and treat all people with dignity and respect. Such jobs are lacking in low-income countries, even among well-known FBL and TBL corporations. For example, Apple has faced persistent criticism for having its iPhones assembled in factories with numerous labor-rights violations, including mandatory overtime, bullying, harassment, and conditions that make workers prone to suicide.[68] In contrast, SET management is evident in firms like Taylor Guitars, which implemented training, wage increases, and job-security measures immediately upon purchasing an ebony mill in Cameroon (see opening case, Chapter 1).

The SET approach is reflected in the jobs created by the best practices of **fair trade**, *which tries to ensure that workers in low-income countries are paid a fair price for the products they produce.* Fair trade helps consumers to respect producers and provides transparency so that consumers know the working conditions of producers. Fair trade allows consumers in high-income countries to use their purchases to reduce income inequality, while benefiting the environment by

providing eco-friendly products.[69] The World Fair Trade Organization (WFTO) works toward 10 Principles of Fair Trade, the first being to create opportunities for marginalized producers "to move them from insecurity and poverty to economic self-sufficiency and ownership."[70] Although they can be challenging to put into practice,[71] key principles of fair trade include paying a *fair* price (vs. paying the *lowest* price the market will withstand), implementing gender equity (vs. allowing women to be persistently underpaid), offering healthy working conditions (vs. sweat shops or child labor[72]), fostering mutual respect between producer and consumers, and practicing environmentally friendly practices. The Fairtrade Mark, which first appeared on just three products in the United Kingdom in 1994, now appears on over 37,000 products offered by over 2 million farmers and producers belonging to nearly 2,000 producer organizations from seventy countries. Fair trade products are sold in over 140 countries.[73] An example is the Divine Chocolate Company, which is 33 percent owned by cocoa farmers from Ghana (see Chapter 2).

*Fair trade promotes fair prices, gender equality, healthy working conditions, and eco-friendly practices.*

### 3.4.2. Goods and Services in a Global Context

#### The FBL Approach to Goods and Services

FBL management encourages the free movement of goods and service across international borders through minimizing tariffs, quotas, and government subsidies. **Tariffs**—*which are taxes on goods or services entering a country*—protect domestic companies from international competitors. **Quotas** *place restrictions on the quantity of specific goods or services that can be imported (or exported).* Government **subsidies** *are direct or indirect payments to domestic businesses that help them compete with foreign companies*. For example, farmers in high-income countries received about $800 billion dollars in subsidies in 2023 to allow their domestic agricultural products to be price-competitive in global markets.[74]

Free trade is enhanced by general trade agreements. The World Trade

Organization (WTO) strives to make it easier for goods to flow among member countries by urging countries to lower tariffs and to work toward free trade and open markets. Created in 1995, the WTO has over 160 member countries that represent 98 percent of global trade. In addition to the WTO, there are a series of regional free trade agreements among different countries. Many of these have been facing considerable opposition, for a variety of reasons (e.g., they are perceived to favor large international corporations rather than smaller locally owned firms, and they restrict the ability of governments to create regulations for their local jurisdictions).

The United States–Mexico–Canada Agreement (USMCA), which took force in July 2020 (superseding the North America Free Trade Agreement [NAFTA], signed in 1994) has eliminated numerous tariff and non-tariff barriers between the United States, Mexico, and Canada. The agreement affects over 510 million consumers, about $30 trillion dollars in annual economic activity, and constitutes one of the largest free trade zones in the world.

The European Union (EU) is a group of almost thirty European countries committed to making trade among members easier by lowering tariffs and other impediments to trade. The EU comprises about 450 million consumers and has a common currency (the euro). In 2020, the United Kingdom withdrew from the EU ("Brexit") and a new free trade agreement—the EU–UK Trade and Cooperation Agreement—was signed. There are various other free trade organizations as well. For example, the Association of Southeast Asian Nations (ASEAN) includes ten nations and over 600 million people in one of the fastest-growing economic regions in the world.

Enabled by free trade, global GDP increased from $10 trillion in 1950 to $139 trillion in 2022 (a fourteenfold increase), during which time the global GDP per capita went from $4,000 to over $17,000 (a fourfold increase).[75] Between 2013 and 2023, global GDP has increased 3.0 percent per year, with lower-income countries averaging 3.59 percent per year and high-income economies less than 2 percent. The FBL approach counts this larger growth in lower-income countries as a success and as support for the maxim that "a rising tide raises all boats."[76]

*Global trade has grown fourteenfold since 1950.*

### The TBL Approach to Goods and Services

Like the FBL approach, TBL management supports free trade because firms can become more profitable if they expand their target markets to consumers in foreign countries. In particular, firms that develop low-priced goods and services for people on low incomes will not only empower and welcome them into the globalized economy, but the firm itself will create more revenue and a larger customer base. This is the basic idea behind what is known as the Base of the Pyramid,[77] which has developed alongside TBL theory and refers to the billions of people surviving on extremely limited incomes.[78] For example, in 2007 the UK-based organization Vodafone helped launch an organization called M-PESA to provide financial services to people in Kenya via their mobile phones. The venture has generated healthy profits for the company, which had 57 million customers and $885 billion revenue in 2023.[79] Extensions of Base of the Pyramid theory have been developed to encourage firms from high-income countries to partner with communities in low-income countries in order to co-create mutually beneficial businesses that produce goods and services in low-income countries.

Unlike the FBL approach, TBL management is more attuned to the potential financial benefits that can come from developing goods and services that are not directly valued by the high-income marketplace. For example, from an FBL perspective, research and development should be invested in developing drugs that target the concerns of people in high-income countries (like the top-selling drugs for obesity, sleep disorders, and sexual dysfunction) rather than in developing drugs for people in low-income countries, who can't afford to purchase them. In contrast, a TBL approach is evident in the actions of pharmaceutical company Merck, which helped to develop a product called Mectizan that can prevent river blindness, a disease prevalent among the poorest people in the world. For over thirty-five years, Merck has supplied Mectizan for free to anyone in the world who needs it and works with organizations such as the World Bank and the World Health Organization to distribute medicine in remote areas. Merck's managers believe that actions like these ones help to make their firm more attractive to the world's best scientists, because they know that discoveries at Merck may reach sick people regardless of their economic status.[80]

### The SET Approach to Goods and Services

The SET approach also supports international trade agreements but is more interested in fair trade than in free trade. Consistent with the rise of SET management,

the fair trade movement is growing in consumer awareness. For example, Fairtrade International products averaged 20 percent annual revenue growth from 2004–2018. Recent surveys indicate that over 70 percent of shoppers recognize the label, that it creates positive brand associations, and that 56 percent are willing to pay more for a Fairtrade product even with cost-of-living increases.[81] This growth seems to represent a great opportunity to bring living wages to impoverished farmers.[82]

Unlike FBL and TBL approaches, SET management has misgivings about conventional international free trade agreements for two reasons. First, free trade benefits the rich more than the poor. While it is true that free trade agreements have been associated with impressive growth in the global economy, it is not clear that this has been a win-win proposition. The disparities between rich and poor have been increasing, and the wealthy have benefited more from globalization than the poor.[83] According to the 2022 World Inequity Report, the "richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it."[84] Another study suggests that in terms of the relative economic benefits associated with globalization over the past fifty years within countries, it has had a positive effect on only the richest top 5 percent (with the top 1 percent garnering 24 percent of the benefits). The lowest 70 percent experienced statistically significant losses, while the group in the middle (i.e., the 25 percent between the lowest 70 percent and the top 5 percent) did not experience a statistically significant difference).[85]

*About one-quarter of the relative economic benefits of globalization go to the richest 1 percent of the global population, while the lowest 70 percent experience significant losses.*

Rather than support tariffs, quotas, and subsidies that allow the relatively rich and powerful companies and countries to maintain or gain further economic advantage, SET management is more likely to favor subsidies for low-income countries to develop their economies and for practices that benefit the natural environment. For example, the current $800 billion in agricultural subsidies in high-income countries cause unintended negative externalities for farmers in low-income countries (and for the natural environment; see Chapter 4). These

subsidies represent around $1,400 per year for each of the world's 570 million small-scale farmers, a large portion of whom earn less than that in a year.[86] Indeed, the unwillingness of high-income countries to reduce their barriers (e.g., reduce their tariffs and lower subsidies to their own producers) to agricultural exports from low-income countries has been a long-standing reason for the impasse in WTO negotiations to liberalize world trade.[87] SET management supports free trade where people with the least financial security get a greater share of the benefits.

*Agricultural subsidies disadvantage the world's farmers who have the least in financial resources.*

### 3.4.3. Profits in a Global Context

#### The FBL Approach to Profits

The FBL management goal with regard to global profit is to maximize overall financial gains, with little regard for who receives them. Consistent with its consequential utilitarian ethic, the FBL approach is more concerned with total profit than with its distribution. Toward this end, international financial institutions that have made it easier for money to flow across borders have been an important factor in creating the increases in global GDP.[88] This flow of money is facilitated by the International Monetary Fund (IMF)**,** an organization with about 200 member countries, which was established to promote orderly and stable international monetary exchange; foster international economic growth and high levels of employment; and provide temporary financial assistance to countries to help ease balance of payments problems. To meet these goals, the IMF monitors international commerce and provides financial and technical assistance.[89] This allows capital to move to where it receives the highest return, and limits national boundaries and governments from constraining economic investment. During the COVID-19 pandemic, the IMF dispensed $650 billion to countries around the world in a successful effort to stabilize the global economy and return to economic growth.[90]

### The TBL Approach to Profits

As noted earlier, TBL management is concerned with total profits but also with the growing income gap that results from practices associated with FBL management. There is extensive evidence that there is a widening gap between rich and poor, both within and between countries. For example, the income gap between United States and south Asia and Latin America has tripled since 1960. This is true not only in terms of absolute wealth (the richest 1.5 percent own 47.5 percent of the world's wealth), but also in terms of income.[91] Recall that the richest 10 percent of the world take more than half of global income.

To address this widening gap, the TBL approach promotes the work of institutions such as the United Nations Global Compact, which is the world's largest initiative for corporate sustainability and is built on principles of labor standards, the environmental protection, human rights, and anti-corruption. Research suggests that profits have increased for firms that sign on with the Global Compact, like the Tata Group and LEGO.[92] TBL management also aligns with the work of the World Bank, an organization that provides financial and technical assistance to reduce poverty in low-income countries.[93] The World Bank—owned by about 200 countries—provides interest-free credit, low-interest loans, and grants to low-income countries for purposes like healthcare, education, and infrastructure. Often these financial services have been linked to structural adjustment programs, which are designed to ensure that low-income countries have balanced budgets and play according to the rules of a free market. Promoting free market principles can serve the interests of high-income funding countries as much as—and sometimes more than—the economic interests of the low-income countries. For example, structural adjustment programs have discouraged subsidies and tariffs in low-income countries, making it difficult for them to compete with the subsidies and tariffs enacted by high-income countries. Because of this, it has been argued that structural adjustment programs have an unintended negative effect on the economies of low-income countries,[94] and that IMF programs may undermine human security.[95]

A major global trend intended to address the negative externalities associated with FBL management is the rise in **socially responsible investing**, *where investment decisions seek to maximize "financial returns via strategically reducing negative social and ecological externalities."*[96] This includes ESG (economic, social, and governance) investing, and provides a welcome option for the over 80 percent of people who are interested in investing in firms that are socially and ecologically responsible.[97] By some estimates, over $30 trillion is invested in

sustainable assets globally, with growth around 10 percent annually.[98] The International Sustainability Standards Board (ISSB) supports these investment efforts and in 2024 released two new standards: one for general sustainability reporting and another for climate-related financial reporting. Both aim to "provide the right information, in the right way, to support investor decision-making and facilitate international comparability to attract capital."[99] Overall, sustainable investment strategies seek to maximize profit in ways that lessen social and environmental externalities, and sustainable funds are often celebrated for outperforming traditional funds.[100] However, despite the enormous value of sustainability funds, there is little evidence that such investments are adding up to meaningful positive social and environmental change, and greenwashing remains a major challenge throughout the investment sector.[101]

#### The SET Approach to Profits

Compared to FBL and TBL managers, SET managers are more likely to recognize that the free flow of capital across borders has often not had the intended outcome of making everyone better off.[102] In fact, critics note that easing the flow of money has created several negative externalities. The vast majority of money being traded, and a lot of the profit being generated, does not contribute to productivity in any real sense. Consider the example of global $600 trillion-dollar derivatives market,[103] where people seek to earn a profit by speculating (similar to betting) on the future value of an asset (such as the future price of a stock, bond, currency or commodity) without owning the asset itself. As a simplistic analogy, even though a billion-dollar bet on the outcome of a Super Bowl game may increase economic activity, it does not grow food or sew garments. In fact, financial tools like derivatives have contributed to international recessions and to income inequality.[104]

*The multi-trillion-dollar derivatives market does not contribute to productivity in any tangible way, but it worsens income inequality.*

The SET approach seeks to reform the flow of money so that it is better aligned with sustenance economics. Perhaps the most notable reformer is Nobel

prizewinner James Tobin, who in the 1970s anticipated some of the difficulties that have arisen from the deregulated flow of capital and suggested a simple 1 percent tax on all foreign currency transactions. This tax would ensure that financial transfers were based more on "real" changes in production and market opportunities than on the speculative and acquisitive economics of investors. In other words, the Tobin tax favors SET *investors* who are interested in the long term and penalizes FBL *traders* who are looking for quick profits. For example, this would deter traders who purchase $100 million of Japanese yen only to sell them fifteen minutes later for a profit of $10,000 when their value increases by 0.01 percent (the profit from such a transaction would be insufficient to pay the Tobin tax—in this case, $1 million). The Tobin tax would also give national governments greater freedom to change interest rates in their jurisdictions. There is widespread agreement that the Tobin tax is theoretically brilliant, but it has yet to be implemented because it conflicts with the dominant understanding of the free movement of capital, consistent with an FBL approach.[105]

*The Tobin tax favors long-term investors and penalizes traders who look for quick profits.*

SET management is aligned with **sustainable impact investing**, *where investment decisions "seek to optimize social and ecological well-being without a need to maximize financial returns."*[106] Indeed, as many as one-third of retail investors already willingly put social and ecological well-being ahead of maximizing financial returns.[107] Having access to such capital enables and compels managers to relax the need to maximize profits and instead place greater emphasis on making a positive impact. This is relevant for B Corps and for most of the SET businesses described in this book. Research suggests that if prior to making an investment decision, investors were asked about their views on sustainability, this would increase the likelihood that they would accept lower financial returns in favor of social and ecological returns.[108] Moreover, students who learn about FBL, TBL and SET approaches to management "allocate less money to investments that focus only on financial returns without regard for social and ecological well-being."[109]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1586#h5p-22*

## 3.5. Entrepreneurial Implications

Having explained important concepts related to economic well-being, we now consider some business examples that illustrate the effect different approaches to entrepreneurship and management have on jobs, goods and services, and profits. Which forms of economic well-being, opportunities and kinds of entrepreneurial ventures are you most attracted to?

### 3.5.1. FBL Entrepreneurship and Economic Well-Being

The following opening sentence from an influential entrepreneurship textbook illustrates the strong connection between entrepreneurship and economic well-being: "Entrepreneurs everywhere endlessly create value for economies around the world."[110] The drive for economic well-being may well be considered the engine of entrepreneurial activity, and entrepreneurship theory defines "monetization"—the generation of entrepreneurial reward and sustainable value—as the outcome stage of the entrepreneurial process.

As illustrated throughout this chapter, it is hard to deny the role of financially motivated entrepreneurship in creating vast numbers of jobs, endless development of goods and services, and increasing aggregate financial wealth as never before seen in human history. Nor is it a surprise that FBL thinking is characteristic of many entrepreneurs.

Most of the largest organizations and best-known entrepreneurs have embraced many aspects of FBL management. For example, consider Amazon founder Jeff Bezos, our exemplar of an FBL manager from Chapter 1, who withstood years of losses and modest profits to gain a dominant market position, thereby securing larger and longer-term financial returns. Despite the merits of low prices and same-day delivery (equaling more money and time for cus-

tomers), Amazon has long been accused of engaging in unfair competition—for example, by taking losses to put competitors out of business, removing the "buy" button when platform vendors step out of line, and manipulating product search returns to prioritize Amazon's house brands over third-party offerings.[111] Bezos is not alone. He, along with tech entrepreneurs and titans Mark Zuckerberg (Facebook), Tim Cook (Apple), and Sundar Pichai (Alphabet, Google's parent company), faced US Senate antitrust hearings in 2020 against charges of monopolistic practices that harm the economy and society. Amazon was subsequently sued in 2023 by the Federal Trade Commission for illegally maintaining monopoly power, with a trial set for 2025.[112]

More generally, FBL entrepreneurship maintains a strong separation between business-oriented, profit-seeking activities versus socially or environmentally oriented, philanthropic activities. This can be observed in the "robber baron" industrialist era of the 1800s up to the present. The altruistic mark of that earlier generation lives on in such cultural landmarks as the Rockefeller Center, Carnegie Hall, and Vanderbilt University, which tend to mask the unethical, exploitative, and environmentally destructive business practices of their namesakes.[113] To some, Bill Gates, founder of Microsoft, represents a modern variation of this theme. The first of the great tech entrepreneurs, Gates was also a forerunner in the anti-competitive and monopolistic practices observed throughout the sector, of which Microsoft was convicted in a landmark 2001 antitrust lawsuit.[114] After leaving the company, Gates went on to create one of the largest philanthropic foundations in the world, devoting himself to issues of healthcare, extreme poverty, and education in the most disadvantaged regions of the world, and more recently to environmental and climate change efforts.[115] Thus, while FBL entrepreneurship has an impressive record in terms of economic well-being, it tends to be less sensitive to the deleterious consequences that accompany extreme wealth creation and concentrations of economic power, and to treat social and environmental issues as largely separate from the realm of business.

### 3.5.2. TBL Entrepreneurship and Economic Well-Being

By contrast, TBL entrepreneurship recognizes the inseparability of economic, social, and environmental well-being, and aims to address the negative externalities of profit-seeking activities. Jeff Bezos's transition from FBL to TBL manager, as described in Chapter 1, is illustrative. For many years, and even after the company achieved great success, Bezos seemed unconcerned with environmental issues, gave little thought to his local community, and was widely criticized for

his extremely limited philanthropic contributions.[116] Since adopting TBL thinking, however, Amazon has simultaneously promoted its ambitious and comprehensive sustainability agenda alongside its primary profit pursuits, as reflected in the company's annual sustainability and financial reports.[117]

Walmart provides a complementary example, because like Amazon, the company has made the transition from FBL to TBL management. When it was managed according to FBL principles, Walmart became known for designing jobs that paid employees as little as possible (and often limited their hours to part time to minimize the need to pay employee benefits) and for pressuring suppliers to keep prices low (which created poor-paying jobs in the supplier organizations).[118] As a measure of the financial success of Walmart's FBL management approach, consider that the wealth of the Walton family is equivalent to the total wealth of the poorest 130 million people in the United States.[119]

This final point merits further comment, as it draws attention to entrepreneurial opportunities related to the **local multiplier effect**, *which refers to the enhanced financial well-being a community gains when it supports locally owned businesses.*[120] In the example of Walmart, consider that for every dollar spent making a purchase from a *national* retailer, 14 cents stay in the local community (e.g., in the form of wages for clerks). In contrast, 52 cents of every dollar spent at a *locally owned* retailer stays in the community (e.g., wages for clerks and professionals, purchasing more locally-sourced products, and profits staying in the community). Along the same lines, for every new retail job that Walmart creates in a community, an average of 1.4 other jobs are lost in that community.[121] Note that there are also differences in types of jobs created by local versus nationally owned businesses, with locally owned firms being more likely to hire local professionals like accountants and marketers and information system experts. The more aware consumers are of how the local multiplier works, the more opportunities there are expected to be for local entrepreneurs.

*The local multiplier effect refers to the enhanced financial well-being a community enjoys when it supports locally owned businesses.*

Firms managed with the TBL approach often have effects on jobs, goods and services, and profits that are similar to those of FBL managed firms, but with

reduced negative externalities in situations where it is profitable to do. This similarity comes from the fact that like the FBL approach, the TBL approach is focused on maximizing monetary profit. In other words, entrepreneurs with a TBL perspective seek social and ecological initiatives that promise financial gain. To continue with the example of Walmart, thanks to the intrapreneurial initiatives of then-CEO Lee Scott, Walmart has moved away its former FBL approach and is today considered a leading TBL organization, thanks to its innovations in reducing energy use and waste production. Each of these innovations reduced costs (and so increased profits). However, Walmart still faces criticism for its treatment of employees and is still looking to find better ways to profit from increasing job quality.[122]

### 3.5.3. SET Entrepreneurship and Economic Well-Being

Because it is not seeking to maximize financial well-being as its primary motive, the SET approach to entrepreneurship is remarkably different from the FBL or TBL approaches. Yvon Chouinard, the environmentalist and founder of the outdoor apparel company Patagonia, is a standout example of the SET mindset toward economic well-being (see also opening case, Chapter 10). With respect to jobs, Chouinard instituted an emblematic "let my people go surfing" policy, allowing employees to take breaks and do things like go surfing whenever they see fit (or whenever the surf is good!).[123] On the product front, Patagonia's clothing is not only designed for functional durability, the company also offers in-house repair services and a platform for resale of used goods (known as Worn Wear) to extend their useful life and reduce waste. As a further statement against excess consumerism, Patagonia took out a now-famous full-page ad in the *New York Times* on Black Friday in 2011. The ad featured one of the company's fleece coats and the headline "Don't Buy This Jacket."[124] Prior to that, in 2002 Chouinard established a nonprofit named 1% for the Planet, for like-minded businesses to donate 1 percent of total revenue (not profits, which are far less than overall sales) to environmental causes, which Patagonia had been doing since 1985. Today, 1% for the Planet has close to 5,000 business members in over 100 countries and has donated over $672 million to environmental partners.[125]

Patagonia has steadfastly stood for values other than profit seeking, but perhaps the most impressive indication of Chouinard's SET leadership occurred in 2022, when the "reluctant billionaire" irrevocably transferred ownership of the company—and thereby his entire family wealth estimated at $3 billion—to a specially designed Purpose Trust and nonprofit entity whose singular objective is to

help fight the climate crisis.[126] As in this chapter's opening case, SET entrepreneurs do not see economic well-being as an end in itself but as a foundation for serving higher purpose. In a press release announcing the ownership transfer, Chouinard explained his motivation this way:

> As the business leader I never wanted to be, I am doing my part. Instead of extracting value from nature and transforming it into wealth, we are using the wealth Patagonia creates to protect the source. We're making Earth our only shareholder. I am dead serious about saving this planet.[127]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1586#h5p-23*

## Chapter Summary

1. There are two key varieties of capitalism:
    - (i) documentational capitalism, which emphasizes detailed written contracts, public financial reports, management rights, and short-term maximization of financial performance; and
    - (ii) relational capitalism, which emphasizes relational contracts, long-term reputation and financial performance, employee rights, and the needs of all stakeholder groups.
2. There are two key varieties of economics:
    - (i) acquisitive economics, which refers to managing property and wealth to maximize short-term monetary value for owners; and

    - (ii) sustenance economics, which refers to managing property and wealth to increase long-term overall well-being for owners, members, and other stakeholders.

3. Three key outcomes are typically used to measure success in terms of economic well-being: jobs, goods and services, and profit.
4. When it comes to managing economic well-being in high-income countries:
    - FBL management emphasizes creating jobs, maximizing productivity, and maximizing profits.
    - TBL management emphasizes creating good jobs, pursuing sustainable development, and maximizing profits.
    - SET management emphasizes creating jobs for people from all walks of life and paying a living wage, producing goods and services that meet real needs rather than endless wants, and maximizing the GPI (Genuine Progress Indicator).
5. When it comes to managing economic well-being from a global perspective:
    - FBL management emphasizes creating jobs for people facing income insecurity, practicing free trade, promoting the free flow of money, and maximizing global GDP (gross domestic product).
    - TBL management emphasizes creating good jobs for people facing income insecurity, pursuing sustainable development, and maximizing global GDP through sustainable/ESG (economic, social, and governance) investments.
    - SET management emphasizes creating jobs that pay a living wage, practicing fair trade that benefits people facing income insecurity, and directing profit toward long-term (non-speculative) investments and circulation within local communities.
6. Entrepreneurs reflect and reinforce these emphases, with FBL- and TBL-oriented entrepreneurship seeking maximum financial return, while SET-oriented entrepreneurship addresses societal expectations and ecological needs regarding jobs, goods and services, and profits.

## Questions for Reflection and Discussion

1. Does the country you live in place greater emphasis on documentational or on relational capitalism? Do you see that changing during your career? Why or why not? What effect do you think this has on what is taught in business schools in your country? Explain your reasoning.
2. Modern acquisitive economic theory assumes that people will act in a self-interested way and will cheat to get what they want. Do you think this assumption is based on a realistic and full appraisal of human nature? Do you think people are more likely to cheat when they are expected to? How do you react when people don't trust you to act with integrity?
3. Many proponents of free trade are selective in their views. For example, they promote the free flow of money and goods and services but do not support the free flow of labor across national borders (even though the free flow of economic assets should include people being free to move from one country to the next, as in the EU). What are the implications of such a selective view? What would be pros and cons of free flow of labor? Would they be different for low-income than for high-income countries?
4. Which do you prefer, free trade or fair trade? Explain your reasoning.
5. What is the difference between GDP and the GPI? Given that the economists who developed the GDP measure did not intend or want it to be used as a measure of economic well-being, why do you think it has become so popular? What changes would you expect if the GPI became the new norm? How likely is that to happen?
6. Most people would agree that business should enhance financial well-being by creating jobs, providing goods and services, and being profitable. However, the criteria used to evaluate what it means to enhance financial well-being differ depending on one's management approach (FBL, TBL, or SET). Describe the criteria or standards used by each management approach for each of the three elements (jobs, goods and services, profits). Which approach is closest to your own view of what "enhancing financial well-being" means? Explain.
7. TBL management proposes to address social inequality and climate change through socially responsible investing by directing funds toward companies with higher sustainability and ESG rankings. Do you believe this approach has been or will be effective, and what evi-

dence is your assessment based on? Do you think it is affected by greenwashing? What examples of greenwashing have you personally seen?

8. The third-most important reason entrepreneurs give for starting a new organization is to enhance financial well-being. Based on this chapter, which elements (jobs, goods and services, or profits) would you most want to achieve and which management approach would you use if you were to start a new business? Describe how you might be able to address this in a new start-up.

## Notes

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22. Note that we prefer the more descriptive language of "high-income" and "low-income" countries, rather than the more commonly used evaluative terms of "developed" versus "developing" countries, because we recognize that people living in a low-income country are more likely to live within the Earth's ecological carrying capacity and in so doing, they may actually be viewed as more developed than a high-income country with wasteful lifestyles that use up resources beyond the carrying capacity of the Earth.
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# 4. Management and Ecological Well-Being: Energy, Food Systems, and Health


- Learning Goals
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*Chapter 4 provides an overview of the relationship between management and ecological well-being, with a focus on energy, food systems, and health, as summarized in the following table and in the whiteboard animation video.*

| | FBL (Financial Bottom Line) | TBL (Triple Bottom Line) | SET (Social and Ecological Thought) |
|---|---|---|---|
| **Approaches to managing ecological well-being** | • Unawareness<br>• Obstruction-ist<br>• Minimalist | • Listen to consumers<br>• Use resources efficiently<br>• Protective/legal | • Proactive<br>• Stakeholder-centric<br>• Place-based organizing |
| **Energy:**<br>Issues related to carbon economy (e.g., GHG emissions, pollution) | • Ignore issues on climate change<br>• Undermine change efforts<br>• Adhere to letter of the law | • Respond to market (e.g., Tesla)<br>• Reduce costs via eco-efficiencies<br>• Lobby for carbon tax | • Take initiatives like commuting via bike<br>• Treat natural environment as stakeholder<br>• Reduce consumerism (e.g., local, slow fashion) |
| **Food systems:**<br>Issues related to food production, distribution, and consumption<br>(e.g., waste, reduced biodiversity) | • Ignore food-related issues<br>• Refuse access to CAFOs<br>• Favor large-scale farming | • Create new industries (e.g., organic foods)<br>• Train workers to minimize waste<br>• Lobby for favorable laws | • Care for environment regardless of business case<br>• Connect with organic locavores<br>• Support slow food movement; de-commodify food |
| **Human physical health:**<br>Issues related to physical well-being (e.g., effects of diet, physical fitness, pollution) | • Ignore health-related issues<br>• Hide negative information<br>• Lobby/follow letter of law | • Introduce healthier products<br>• Increase efficiencies providing healthier options<br>• Create favorable health standards | • Promote active living, company fitness center<br>• Offer healthy food in cafeteria<br>• Follow precautionary principle |
| **Entrepreneurship opportunities** | • Fossil fuel industry | • Trends to eat less meat, reduce GHG energy | • Soil-enhancing agricultural practices, plant-based diets |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=1723*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain differences in the FBL, TBL, and SET approaches to ecological well-being.
2. Describe the carbon cycle and identify positive contributions and negative externalities associated with carbon-based energy.
3. Identify problems and opportunities that exist in the global food system.
4. Explain the linkages between ecological well-being and human health.
5. Identify entrepreneurial opportunities related to ecological well-being.

## 4.0. Opening Case – Coffee: A Dark Roast

Gabriel Calderon is a fourth-generation coffee farmer in the Central Valley of Costa Rica. When Gabriel was a young adult his father became very ill, and extensive testing revealed that the chemicals deployed to make their coffee commercially viable were causing sickness and threatening their lives. His father's near-death experience prompted Gabriel to research everything about coffee and coffee production, and what he learned was unsettling.

Coffee is a juggernaut in the global economy. It's a $200 billion industry and the world's third-largest traded commodity.[1] Starbucks alone has annual revenue of $36 billion.[2] The 3 billion coffee cups that are consumed each day support the livelihoods of some 125 million people.[3] While concerns of fair and just treatment of farmers in the supply chain persist, it is clear that coffee provides livelihoods and financial benefits to many global citizens, and a pleasing beverage to more than a billion.[4]

But what about the social and environmental impacts of coffee production? Coffee is harvested only once a year, requiring a large assembly of labor for just one month. Because of both the intermittent work and the toil of the task, coffee harvesting tends to utilize migrant labor for all but very small farms. Migrant and

transient work has negative social implications, often dislocating and separating families, and disrupting the education and health workers' children. Another social concern is the relatively low wages paid to coffee pickers, and while there are frequent fair trade appeals to more justly reward all stakeholders, gross inequity of wages and returns persist throughout the coffee industry.

Environmental impacts are numerous. The coffee fruit is harvested as a cherry, and while the peel and pulp contain good nutritional value for humans,[5] these are stripped away in the process of obtaining the bean (seed), which is then dried, roasted, ground, and filtered. Only 0.001 percent of the nutrient value of the cherry is consumed in a typical coffee drink. Processing coffee from cherry to consumable drink requires significant water and energy. The typical commercial process requires 100 liters of water to process one cup of coffee. If we add the water needed to grow the cherries, it takes an estimated 3 cubic meters of water per cup of consumed coffee. Vast amounts of heat are required to dry the bean for storage and shipping, and then additional heat is used in the roasting process. The (green) unroasted bean is quite heavy and dense, leading to significant transportation costs, both financially and ecologically. Other than in Ethiopia, which is the only place on Earth where the plant is indigenous, coffee requires regular chemical inputs to support financially viable commercial scale farming. Fertilizers such as nitrates are needed to restore depleted soils, and pesticides and herbicides are required to maximize yields. In addition to leaching into the ground, these chemicals are often carried with erosion into streams that contaminate groundwater and threaten human health and wider natural ecosystems.

Climate change is also driving feedback loops with coffee production. The optimal conditions for growing coffee typically occur within a narrow altitude band, but changes in temperature and rainfall are pushing coffee cultivation into higher elevations and more fragile ecosystems. This push is often onto steeper grades, resulting in higher levels of erosion and runoff of synthetic chemicals. A warming planet also threatens coffee trees at lower elevations, leading farmers to respond with still greater levels of chemical inputs like those that nearly took the life of Gabriel's father.

Confronting these negative impacts was unsettling for a fourth-generation coffee farmer like Gabriel Calderon. He knew that he could not subject his family to the risks of chemical exposure, so he set out to explore alternatives. He implemented organic farming techniques, replacing synthetic chemicals with a combination of integrated pest management, intercropping, and physical/labor defenses. To manage insects that threaten to devour the leaves or fruit of his coffee, Gabriel added other plants that the bugs prefer; this form of natural pesticide is rarely as effective as chemicals, but chemicals also disrupt the natural ecosys-

tem, often leading to unintended consequences. Rather than adding chemical fertilizers, Gabriel grew other plants alongside the coffee that fix nitrates to the soil and other nutrients that coffee trees deplete. Visitors to his farm, El Toledo, can witness in action these intercropping and integrated pest management approaches, which aspire to work *with* nature rather than *against* it. Adapting to the rising temperatures and uneven rainfall of climate change, Gabriel added trees for a canopy to strategically shade his coffee plants. He hired permanent local workers to replace what chemicals might have otherwise performed, and this built demand for year-round labor and cut demand for transient workers.

Initially the transition to organic farming reduced El Toledo's coffee yield by 50 percent, placing the farm on the edge of survival. Only 3 percent of the world's coffee is organically grown,[6] which illustrates the financial challenge of making changes for non-financial reasons, in this case to reduce social and environmental harms. For the coffee farm to thrive, Gabriel needed to find other sources of revenue. He began experimenting with different fruit trees that could also serve the goals of shade, intercropping, and integrated pest management; now he has cacao, banana, mango, papaya, and other fruits as a revenue stream to augment that from coffee. Gabriel learned how to make wine and "coffee tea" from the skin of the cherry, which is considered a nuisance in commercial processing. He also makes flour and jams from the pulp of the cherry, another waste product of commercial coffee. He invested in equipment that processes the coffee without water, and he uses sunshine rather than fuel to dry the beans. Gabriel opened El Toledo for others to visit and learn about coffee and his unique story and approach, and all these initiatives have widened and diversified the revenue base for the farm.

Gabriel shares this story and further insights in a coffee tour, where his first order of business is to encourage his guests to stop drinking coffee, or at least to reduce their consumption. More than 11 million hectares (27 million acres) are under coffee cultivation in over fifty countries,[7] and Gabriel transparently expresses his conflict over being a coffee farmer in a world where too many people struggle to meet their basic food needs. He exposes coffee for what it is: a luxury good for the global elite, and a product and process that has many unfortunate social and ecological impacts. Gabriel reminds visitors that what looks or seems normal and right is simply passed along to us by our family and the culture in which we live, yet we know that "*business as usual*" is not working well for all creatures today and especially into the future. Does Gabriel's story prompt a reconsideration of any of your lifestyle decisions?[8]

## 4.1. Introduction

There is a growing consensus that managers in all kinds of organizations must increase their awareness and knowledge of fundamental ecological issues and systems. Organizations have a significant impact on the natural environment, but they also have great opportunities to reduce negative externalities and enhance positive externalities. In this chapter, we describe the differing assumptions about the natural environment that characterize Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) management and consider their differing approaches to managing ecological well-being. In doing so, we describe the carbon economy and then examine management issues regarding energy, food systems, and human health. As you read through the chapter, think not only about the changes that business needs to make in how it relates to the natural environment but also about how these imperatives can serve as opportunities during your career.

## 4.2. Keys to Managing Ecological Well-Being: Approaches to Energy, Food Systems, and Human Health

**Ecological well-being** is evident when the Earth's natural systems are functioning in a way that sustains and enhances the flourishing of life.[9] Just as the health of human beings depends on the proper functioning of various systems (the cardiovascular system, the respiratory system, the gastrointestinal system, and so on), so also the Earth has many systems that need to function well in order for the planet to sustain life as we know it (for most of its billions of years of history, the conditions on planet Earth would not have sustained humankind).[10] And just as unhealthy behavior can create problems for our bodily systems (e.g., smoking cigarettes affects our respiratory system and can cause cancer), so also human activities can create problems for the Earth's natural systems. The limits of six of nine key systems necessary to sustain ecological well-being have already been exceeded, in large part due to the behavior of humankind.[11] Indeed, scientists are suggesting that the planet is entering a new geological epoch, called the Anthropocene, triggered by human activity particularly since 1950.[12]

*Ecological well-being is evident when the Earth's natural systems serve to*

*sustain and enhance the flourishing of life.*

Today, ecological well-being has become a prominent concern, and it is one of the primary goals in both TBL and SET organizations. As recently as a decade ago, the natural environment was rarely mentioned in management textbooks. The **natural environment** is composed of all living and non-living things that have not been created by human technology or human activity.[13] The natural environment provides important organizational inputs (e.g., raw materials, natural resources, minerals, water, air), but it is also used as a place to dispose of organizational waste (pollution, greenhouse gas emissions, etc.).

*A decade ago, the natural environment was rarely mentioned in management textbooks.*

Humankind has been using an increasing amount of the Earth's resources over time. This is due not only to a growing global population—from 350 million people in 1350, to 1 billion in 1804, to over 8.1 billion today—but also because we have been taking greater portions of resources to serve our needs and wants. The idea of an **ecological footprint**—which refers to the amount of the Earth's natural resources that are required to sustain a particular lifestyle or activity—is becoming a popular way for managers to think about how many natural resources their organizations use.[14] Researchers have divided the total biocapacity of the planet's productive land and marine areas into units called *global hectares*, and they estimate that the planet has about 12 billion global hectares of biocapacity available, which is about 1.6 global hectares per person.[15]

For about 14,000 years, until 1820, our average ecological footprint was between 1.2 to 1.3 global hectares per person. This increased to 1.86 hectares per person by 1950 and has stabilized around 2.70 hectares per person since 1970. In other words, humankind is today consuming over 150 percent of the Earth's sustainable biocapacity.[16] Put more simply, we are living beyond the carrying capacity of the planet. For example, we are using up nutrients in the croplands and fish in the oceans at a greater rate than they are being replenished, and we are putting $CO_2$ into the atmosphere at a greater rate than it can be taken out. Between 1965

and 2005, the ecological footprint in high-income countries increased from about 4.3 to 7.8 global hectares per person. There was a smaller increase in middle-income countries, from 2.0 to 2.2, and in low-income countries it decreased from about 1.2 to 1.0.[17]

While efforts to become more sustainable can start at the household level, it is even more critical that the world's business organizations become more sustainable. Recall that the world's largest 1,200 corporations created $5 trillion in negative ecological externalities in 2018, an increase of 50 percent from five years earlier,[18] and greater than their total profit. Consider also that even if every household were to recycle 100 percent of the goods it consumes, this would still solve only 5 percent of the pollution problem, because more than 75 percent of waste in countries like the United States is industrial waste.[19] As such, ecological well-being demands close consideration of the organizations that produce the goods we consume; these organizations mine, transport, and transform the raw materials that become our smartphones, cars, and soda cans.

*The largest 1,200 corporations create $5 trillion in negative ecological externalities annually.*

### 4.2.1. Ecological Well-Being

As we described in the first chapter, the three approaches to management conceive of the relationship between ecological, social, and financial well-being differently. FBL management considers economic activity to be separate and independent from the larger natural and social environments. TBL management suggests that economic activity is interdependent with the natural and social environments. And the SET approach suggests that economic activity is dependent on social and ecological well-being.

#### FBL Approaches to Ecological Well-Being

FBL organizations tend to use one or more of three approaches or methods to manage ecological well-being: unawareness, obstruction, or legal conformity.

**Unawareness**: FBL management focuses on information from the financial markets to make decisions vis-à-vis the natural environment. Thus FBL man-

agers seek to source natural resources from regions that offer the lowest financial prices and build factories in countries that have the least expensive financial costs associated with pollution. In short, FBL management is unaware of, or perhaps purposely ignores, issues related to ecological well-being and the carrying capacity of the planet, except insofar as these are reflected in financial transactions. From an FBL management perspective, it is the role of government to safeguard ecological well-being. Indeed, even FBL exemplar Milton Friedman favored environmental taxes.[20]

There are two good reasons why FBL management has historically not paid much attention to the ecological environment, and specifically to the negative ecological externalities associated with the production of goods and services. First, over the course of most of our history, humankind has had a minuscule effect on the planet's natural environment. Second, until recently managers have not been educated to take into account the idea of ecological well-being (e.g., many managers are unfamiliar with the carbon cycle or land-use issues). This is changing with a younger generation of managers, but senior leadership is still lagging. In one international study, 67 percent of managers "strongly agreed" that climate change is real, but only 36 percent "strongly agreed" that the leadership of their firm believed climate change is real.[21]

**Obstruction**: Obstruction is evident when managers are aware of the negative ecological externalities created by their organizations but work against any efforts to address them because they fear it will decrease their own financial well-being or that of their organization (e.g., when oil companies use social media to deny or downplay the dangers of fossil fuels and climate change[22]). This may sometimes lead to illegal activity and doing whatever it takes to prevent knowledge of such behavior from reaching other organizational stakeholders and society at large. For example, tobacco companies have withheld data that point to the cancer-causing effects of cigarettes,[23] and Volkswagen (VW) was caught using technology to cheat emissions tests to make its vehicles more attractive to consumers. The "Dieselgate" scandal cost VW more than $38 billion in direct expenses, reduced stakeholder goodwill, tarnished its brand reputation, and diminished customer loyalty.[24]

**Legal conformity**: Legal conformity is a defensive stance taken by managers who are aware of the negative ecological externalities created by their organizations but do only what is minimally and legally required to address them (which includes paying penalties if that is less expensive than compliance). Managers adopting this approach exhibit little environmental sensitivity. They will insist that their employees behave legally, but then put the financial interests of shareholders first, at the expense of other stakeholders and the environment. For

example, Willamette Industries of Portland, Oregon, agreed to install $7.4 million worth of pollution control equipment in its thirteen factories to comply with Environmental Protection Agency requirements. But the move came only after Willamette had been fined $11.2 million for violating emissions standards.[25]

#### TBL Approaches to Ecological Well-Being

TBL management tends to follow one or more of the following three approaches to ecological well-being: respond to customer demand, implement financial cost efficiencies, and support self-serving legislation.

**Customer demand**: TBL management seeks to respond to the growing demand for ecologically friendly products and services, recognizing that this will enhance the firm's financial performance. For example, the 2023 Business of Sustainability Index (BOSI) shows that 72 percent of millennials and 77 percent of Gen Zers are willing to pay extra for goods and services from firms committed to positive ecological and social practices (up from 55 percent in 2014).[26] Entire industries have been created by the desire to be green, from windfarms that generate renewable energy, to community-supported agriculture (CSA), to consultancies related to the Global Reporting Initiative (which works in cooperation with the United Nations Global Compact and helps organizations monitor and report their environmental performance).

*72 percent of millennials and 77 percent of Gen Zers are willing to pay extra for goods and services from firms committed to positive ecological and social practices.*

Unfortunately, sometimes businesses are tempted to participate in **greenwashing**, which refers to deliberately using misleading information in order to present a false image of ecological responsibility. This practice is widespread enough that it has made consumers skeptical and has undermined the green movement. People seek to minimize greenwashing via websites like that of the Greenwashing Index to rate different products and by establishing industry-specific third-party organizations to accredit whether a product is ecologically friendly (e.g., the Marine Stewardship Council).[27]

Relying on customer demand to drive ecological sustainability can be trou-

blesome because customer demand is sometimes fickle. For example, whenever gasoline prices go up due to an oil crisis, automobile manufacturers increase their emphasis on fuel-efficient cars. However, when the prices decline and the market appears ready for bigger and less fuel-efficient cars, the auto industry is quick to invest marketing and production dollars in often more profitable but less environmentally friendly cars and SUVs. Under TBL management, the market drives production decisions, even when this does not promote ecological well-being.

**Efficiency**: TBL management supports business cases that show how reducing negative ecological externalities can lower an organization's financial costs for example, via reducing packaging for goods, using LED lighting, and choosing more energy-efficient transportation options for the flow of goods. Advanced tools have been developed, such as life-cycle assessment (LCA). **Life-cycle assessment** identifies areas where there could be ecological benefits and financial savings in the overall process of how an organization sources raw materials, transforms them into new products, and sells them to customers, and how they are used, maintained, and disposed of by consumers. LCA often embraces **cradle-to-cradle design**, which seeks to ensure that the material content of products at the end of their useful life can be reused to make new products and that new products are made from expired products (thereby reducing the use of new raw materials). For example, Interface Incorporated uses tools like LCA to reduce its net ecological footprint to zero (see opening case, Chapter 13; see also Chapter 18).

**Stricter legislation**: Sometimes it is in the interests of TBL managers to support stricter government legislation and increased taxes related to green practices, such as when their firm has developed patented green technologies that are better than its competitors', or when their firm is in danger of losing its reputation internationally because of environmentally unfriendly practices in its domestic market. Although corporations' public statement about climate-related policies sometimes change over time, many Fortune 100 companies took out advertisements in 2017 to encourage the US government to remain committed to the Paris Climate Accord, even promoting *carbon taxes*.[28] Carbon taxes are a type of green tax designed to reduce use of $CO_2$-emitting technologies that degrade the environment.[29] As implemented in a growing number of countries, such taxes are often phased in over a period of years to allow for a smooth transition, with money raised directed toward health-related and clean-up costs associated with pollution, thereby ensuring that people pay for the negative externalities they create.[30] Some critics argue that governments that promote carbon taxes undermine the international competitiveness of their businesses, but proponents respond by noting that green taxes can stimulate the development of

environmentally friendly technologies that will be increasingly in demand going forward. Countries like Denmark, Sweden, the Netherlands, Britain, Germany, and Canada have been leaders in implementing green taxes.

#### SET Approaches to Ecological Well-Being

SET management promotes more proactive, stakeholder-centric, and/or place-based approaches to enhancing ecological well-being.

**Proaction**: A proactive approach is evident when without being prompted by a stakeholder or a business case to do so, managers take the initiative to seek opportunities to enhance the natural environment. These managers go out of their way to initiate contact with and learn about the needs of different stakeholder groups, and are willing to use organizational resources to promote the interests of the community and the environment. For example, in 2007, the presidents of some of the most prestigious American universities pledged to make their campuses carbon neutral: "We're saying that sustainability is no longer an elective."[31] Taylor Guitars (Chapter 1) was being proactive when it began to increase sustainability practices related to the ebony wood in its products.

**Stakeholder centrism**: A stakeholder-centric approach takes into account customer demand but also listens to other stakeholders such as neighbors, business partners, and special interest groups, even if doing so does not maximize an organization's financial well-being (note that FBL and TBL approaches also attend to stakeholders, but only when it serves a firm's financial interest). The SET approach acknowledges the need to make ecological choices that are reasonable in the eyes of the larger society, even if there is no business case to do so. This is evident when businesses install extra equipment to minimize noise or chemical pollution, not because it is profitable or legally required but simply because it is respectful of their community (see this chapter's opening case of El Toledo using equipment to process coffee without water even though that is more costly).

**Place-based organizing**: For most of its history, humankind has lived in agrarian or hunter-gatherer societies. Today many of us live in concrete jungles and have few reminders of the beauty and harshness of the natural environment. This disconnectedness from place is celebrated and captured in the FBL idea of a "flat world," where technological advances are said to make geographical and regional differences irrelevant.[32] Unfortunately, our disregard for place has coincided with a rise in negative ecological externalities. To counteract this, SET management promotes **place-based organizing** (PBO), which is evident when an organization's ownership, productive activities, and resources are located in a

specific geographic place.[33] PBO not only enhances ecological well-being, it also has locally beneficial social and economic outcomes (see Chapter 3), and is consistent with the "buy local" movement and related ideas like "slow fashion."

*Place-based organizing (PBO) enhances ecological well-being and has locally beneficial social and economic outcomes.*

In terms of enhancing positive ecological externalities, PBO increases the likelihood that an organization's members will care about and care for ecological well-being (rather than merely exploiting natural resources), become mindful of the integral connections between ecological well-being and the organization's socio-economic well-being, and put relatively more emphasis on socio-ecological value creation than on maximizing financial well-being.[34] For example, organic agricultural practices such as those evident in place-based organizations like El Toledo Farm (see opening case) provide ten to fifty times more benefits to ecological well-being (e.g., improved soil health, removal of carbon from the atmosphere) to their local community than industrial agriculture does.[35] PBO also creates positive social externalities by enhancing community, social capital, philanthropy, and participation in local politics.[36] Mental health and creativity are higher in firms that offer nature-based interventions such as outdoor exercise, nature-centered activities, and opportunities to engage with green spaces.[37] Finally, people who feel connected to their natural surroundings are kinder, less stressed, and enjoy greater overall well-being.[38]

*People attuned to their natural surroundings are kinder, less stressed, and enjoy greater overall well-being.*

In terms of negative ecological externalities, PBO reduces the outsourcing of pollution from rich to poor countries, where environmental standards are lower and/or are not enforced.[39] PBO can also reduce negative externalities associated with long-distance transportation of goods.[40] Furthermore, evidence shows that closer social connections lead to reduced negative social externalities. When consumers

purchase goods from local factories where they can watch what is happening and have face-to-face relationships with some of the workers, those factories are less likely to have exploitive working conditions.[41] Examples of PBO include CSAs, farmers' markets that sell local produce and handcrafts, and businesses like the Tall Grass Prairie Bread Company in Winnipeg, Manitoba, which offers organic breads made from locally grown and milled grains.

**Test Your Knowledge**



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1723#h5p-24*

### 4.2.2. Energy and the Carbon Economy

In order to think effectively about ecological well-being, managers must have an understanding of the carbon economy.[42] Carbon has been called "the currency of life" because of its role in providing energy to plants and animals in the food web.[43] This is part of the carbon cycle, which in simple terms describes how carbon moves back and forth between humans and other animals, the atmosphere, plants, and other parts of the environment.

To understand the carbon cycle at a very basic level, it can be helpful to think about carbon-containing molecules as storing different amounts of energy, depending on how carbon combines with other elements.[44] An example of a high-energy carbon molecule is sugar ($C6H12O6$). When we eat sugar, it provides energy for our bodies. After releasing its energy, the carbon is ultimately expelled in the form of a low-energy carbon molecule, such as carbon dioxide ($CO_2$). Then, through the process of photosynthesis, plants take $CO_2$ as an input (along with other inputs like water and energy from the sun) and transform it back into a high-energy form (e.g., sugar). The carbon cycle has been sustaining life on Earth this way for billions of years.

Moreover, other sources of high-energy carbon molecules have also played a central role in providing energy that has enabled the development of civilization as we know it. This started with the human discovery of how to use fire—that is, releasing the energy from high-energy carbon molecules stored in

wood in the form of heat—which improved the efficiency of how we prepared food.

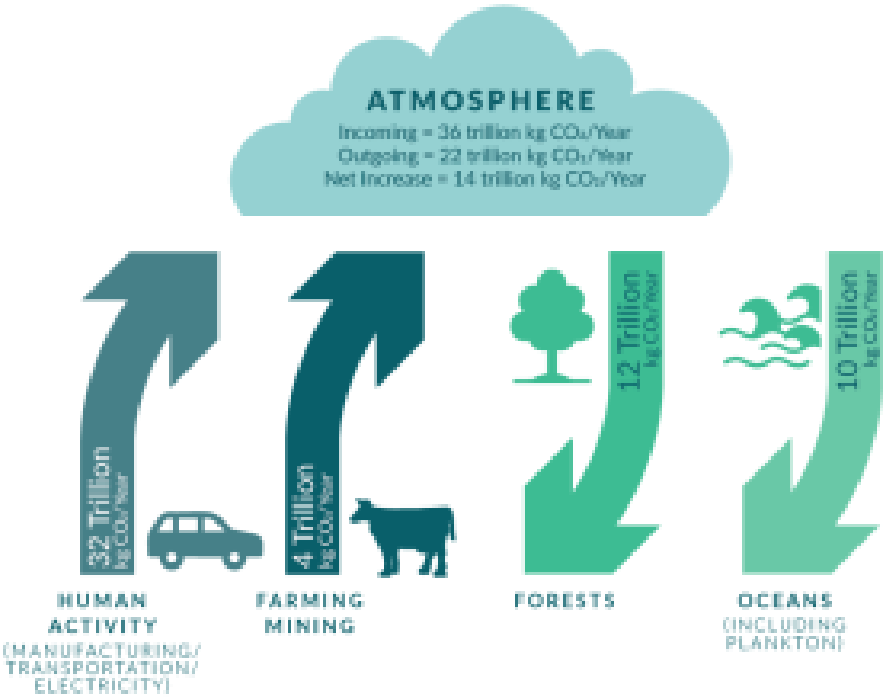
Carbon also played a role in another major shift that started about 12,000 years ago, with the transition from hunting and gathering to agriculture. Crops need carbon and other resources from the soil, yet it is estimated that as much as 50 to 70 percent of the carbon in cultivated soils has been lost over time,[45] thanks to practices like repeatedly plowing the soil, which releases carbon into the atmosphere at the rate of about 1 tonne per hectare plowed.[46] Over the past 10,000 years the Earth has lost about 16 percent of the total amount of carbon in its soil. Until about 1950, more carbon was entering the atmosphere from changes in land use (e.g., soil degradation, deforestation) than from burning fossil fuels.[47] However, since 1950 emissions from burning fossil fuels have doubled, while emissions because of changes in land use have stabilized.[48]

The exploitation of high-energy carbon molecules in fossil fuels played a major role in ushering in the Industrial Revolution, when humankind began to master the ability to use hydrocarbons to power machinery. High-energy carbon molecules are the main ingredient in the coal, oil, and natural gas that—when combined with oxygen and a spark—produces the energy we use to power our vehicles, heat and cool our homes, and run our electronic gadgets and machinery. Fossil fuels are made up of high-energy carbon molecules that were deposited into the ground during millions of years of pre-human history. Crude oil is about 85 percent carbon by weight. One barrel of oil (about 159 liters and 135 kilograms) has about 6 billion joules of energy (about 1.43 billion calories), which is the equivalent energy of a human working twelve hours per day, 365 days per year, for 3.8 years (a healthy person on a treadmill or bike can put out enough energy to light a 100-watt bulb for an hour, which is about 360,000 joules per hour). The average North American uses about twenty-three barrels of oil per year, the equivalent of having eighty-nine laborers working under slave-like conditions for twelve hours per day, 365 days per year.[49] In the same way, one cup of gasoline has the equivalent energy of about fifty hours of heavy manual labor. It is little wonder that carbon-based energy has contributed so dramatically to the development of civilization as we know it.[50]

*One cup of gasoline has the equivalent energy of about fifty hours of heavy manual labor.*

Unfortunately, our use of fossil fuels is adding more $CO_2$ (low-energy carbon molecules) into the atmosphere than photosynthesis and other Earth systems can remove. Overall, each year there is a net gain of about 14 trillion kilograms of $CO_2$ in the Earth's atmosphere. As depicted in Figure 4.1, much of this is due to fossil fuels and industry, which adds 32 trillion kilograms of $CO_2$ to the atmosphere each year.[51] Land-use changes like farming, mining, and deforestation are adding another 4 trillion kilograms of $CO_2$ annually.[52] Of these annual emissions of 36 trillion kilograms of $CO_2$, plants are able to remove about 12 trillion kilograms of $CO_2$ (via photosynthesis) and oceans absorb another 10 trillion kilograms of $CO_2$ (mostly thanks to plankton), resulting in the net addition of 14 trillion kilograms of $CO_2$ per year.[53] As a result of the net increase, atmospheric $CO_2$ levels have risen from 280 parts per million to 420 parts per million, whereas 350 parts per million is considered to be the upper boundary of sustainability (our planet's atmospheric $CO_2$ never exceeded 300 parts per million in the 650,000 years prior to 1950).[54] On an encouraging note, humankind's energy-related $CO_2$ emissions seem to have stabilized (at about 37 trillion kilograms per year) even as the global economy has continued to grow.[55]

**Figure 4.1. Simple depiction of the carbon cycle**




Most scientists believe that the increase in carbon in the atmosphere contributes to climate change via a process called the greenhouse effect. A greenhouse becomes warmer thanks to its roof and walls being made out of clear plastic or glass that allows the sun's rays to enter, but that thin layer also makes it difficult for the heat inside the greenhouse to escape. In the same way, the additional $CO_2$ in the atmosphere permits the sun's rays to heat the Earth but makes it more difficult for that heat to escape.

Scientists generally agree that climate change is occurring (the ten warmest years since 1880 have occurred in the last decade, with 2024 being the first year that Earth has crossed the 1.5 degree Celsius threshold of global warming[56]) and that it is caused by higher amounts of greenhouse gases (GHGs) like $CO_2$ in the atmosphere, added by the activities of humankind.[57] Climate change creates many problems, such as melting the polar ice caps (about 417 billion cubic meters of ice melted between 2002 and 2007; and between 1980 and 2017 the total size of the polar ice caps decreased by about 25 percent, going from an area of 21 million to 16 million square kilometers[58]), which in turn is increasing water

levels (the sea level increased about 1.7 millimeters per year from 1870 to 1994, and has been increasing by about 3.4 millimeters per year since then[59]). Many of the world's thirty-three megacities are vulnerable to rising sea levels, coastal storm surges, and extreme heat.[60]

*Scientists generally agree that climate change is occurring.*

Another negative externality associated with more $CO_2$ in the atmosphere is that more of it is being absorbed into the oceans, which reduces the pH of the ocean and causes acidification.[61] The acidity of ocean surface water has increased about 30 percent since the Industrial Revolution. While the ocean's absorption of $CO_2$ may slow down climate change in the short term, unfortunately it may compromise the resilience of plankton and their ability to remove carbon in the long term. This may not seem like a big worry, but plankton provide half the food eaten by marine animals and remove a large percentage of the carbon from the atmosphere.[62]

#### The FBL Approach to Energy and the Carbon Economy

Some proponents of FBL management correctly note that although there is widespread agreement among scientists that the increasing level of $CO_2$ in the atmosphere is causing climate change, which threatens the Earth's systems that support life as we know it, this is difficult to prove unequivocally. They are also correct to point out that there have been similar fluctuations in temperature in the Earth's distant past. The planet's systems are very complex and seem to be very adaptable to change. For FBL managers who make these points, it makes sense to keep using fossil fuels as the source of energy that drives our economy because it is the least expensive way (in the short term) to generate high profits. Such an FBL approach involves little concern about climate change and may obstruct or minimize standards designed to curb the use of fossil fuels, as illustrated by fossil fuel companies that provide funding to think tanks and by political candidates who deny that climate change is real.[63] Of course, not all FBL managers deny climate change; but recall that the FBL approach is consistent in arguing that it is the responsibility of government, not business, to address ecological issues.

### The TBL Approach to Energy and the Carbon Economy

TBL managers seek to develop new products and services that address consumer concerns about protecting the environment. For example, given that 28 percent of GHG emissions in the United States come from transportation,[64] TBL firms like Tesla have developed electric cars that produce zero $CO_2$ emissions when they are driven. However, a portion of the electricity that powers electric cars is often created using fossil fuels, and the manufacture and recycling of batteries in electric cars creates other unique environmental harms. New industries and firms are emerging to recycle batteries from electric vehicles, and these show early promise to reduce both toxicity and the need for virgin materials.[65]

Some firms sell *carbon offsets* to allow consumers a different way to address the $CO_2$ they put into the atmosphere. Thus, rather than reducing their use of fossil fuels, consumers can pay someone to plant trees that will take the $CO_2$ they emit out of the atmosphere. For example, at Terrapass, carbon offsets cost $7.49 for 1,000 pounds of carbon,[66] so it would cost about $75 per year to offset the carbon emissions of a typical car.[67] Trees absorb different levels of $CO_2$ depending on type, size, and age.[68] It requires thousands of trees to absorb the 10,000 pounds of $CO_2$ emitted each year by a typical passenger vehicle.[69]

In terms of increased eco-efficiency, TBL firms like Walmart are rightly praised for converting their transportation systems to electric, reducing energy consumption via LED lighting, and reducing heating and cooling costs via improved building standards.[70] While Walmart has said it seeks to reach zero carbon emissions by 2035, it is noteworthy that this goal does not include its supply chain, which accounts for 95 percent of its climate impact, and that the company has been accused of greenwashing.[71]

Finally, many TBL firms support new subsidies, taxes, and stricter legislation that support non-carbon-based energy, recognizing that this might boost their subsequent business opportunities in green innovation.[72] TBL management is particularly interested in developing competitive new technologies that address consumer demands and create ecologically friendly efficiencies. This includes investment in non–fossil-fuel–based technologies like wind turbines and solar power panels. Other technological ideas to remove carbon from the atmosphere include vast geo-engineering projects: shooting dust into the upper atmosphere to scatter sunlight away from the Earth; reflecting sunlight away from earth by sending a fleet of 55,000 mirrors into space; and pumping liquid $CO_2$ deep into the oceans.[73] These and other methods to slow and potentially reverse climate change are being tested but have not been proven yet to work at scale.

### The SET Approach to Energy and the Carbon Economy

SET managers take a more radical approach to ecological well-being. First, a SET approach promotes proactive change, illustrated by the provision of bike lanes and car-sharing services in cities like Copenhagen, Denmark, where 56 percent of the population commutes to their work or place of study by bike, and young adults exert peer pressure on others to not purchase a car. In contrast, consider the fact that about half of all Americans live within 8 kilometers (5 miles) of their work, yet only 11 percent bike and 13 percent use public transit.[74] While cycling may sometimes be less convenient than driving, it enhances positive externalities (e.g., improved personal fitness and health) and reduces negative externalities (e.g., lower GHG emissions, lower healthcare costs). It has been estimated that in terms of externalities, society gains about $0.83 per kilometer traveled by bike rather than by car.[75] When we take into account all the time associated with owning a car and compare it to the total distance we drive, then our average travel speed is about 8 kilometers per hour.[76] In light of these observations, SET firms like Velo Renovation proactively pay employees to commute by bike (see opening case, Chapter 9), while others provide workplace bike garages or bus passes to lower employees' commuting emissions or offer subsidize e-bike subscriptions for their employees.[77] That said, with requirements for companies operating in the European Union to report "Scope 3 emissions," which includes reporting GHG emissions related to employee commuting, there may soon be instrumental reasons for all companies to do these things (see Chapter 18).[78]

*When we take into account all the time associated with owning a car and compare it to the total distance we drive, then our average travel speed is about 8 kilometers per hour (5 mph).*

Second, SET managers listen to and empower a wider variety of stakeholders, in some cases ensuring that the natural environment itself is given a symbolic seat at the decision-making table. The merits of this approach may be more observable in organizations that operate in countries like Norway, where environmental rights are entrenched in its constitution. Organizations operating according to stricter environmental protection and performance standards tend to have smaller

ecological footprints. For example, Norway has reduced its air pollution ten times more quickly than countries like Canada have.[79]

Finally, SET management promotes a more place-based consumption and a less energy-intense, consumeristic lifestyle. There is a lot of energy embedded in the products we purchase, much of it related to GHG emissions from international trade. Instead of assuming that more stuff is better, a SET approach assumes that having enough stuff is better, and it promotes place-based businesses and industries aligned with a simpler lifestyle. For example, consider the emerging slow fashion movement. Recall from Chapter 3 that Americans purchase nearly 20 billion garments each year (about fifty-eight garments and seven pairs of shoes per person), of which 98 percent are imported (versus 50 percent in 1990). What if Americans were to purchase only 7 billion garments per year, with each costing three times as much but 98 percent being locally made? Think of the reductions in negative externalities associated with transportation and poor overseas working conditions, think of the benefits to the local economy via the local multiplier effect (Chapter 3),[80] and consider the reduction in waste (fashion accounts for about 10 percent of GHGs). At the same time, think also of the low-paying jobs overseas workers would lose and the reduced choice of products offered to domestic consumers.

*The slow fashion movement represents an alternative to the fact that the average American buys fifty-eight new garments per year, of which 98 percent are imported.*

SET management is consistent with clothing stores that source at least 90 percent of the products they sell from within 160 kilometers (100 miles) of their location and support sustainable practices such as repairing, reusing, and recycling. Such stores promote local designers and manufacturers who focus on local needs and aesthetics. A SET approach is also evident in a a firm like the like Long Way Homestead, a sheep farm and wool mill in Ste-Geneviève, Manitoba, which allows customers and others to knit sweaters made from local and sustainably produced wool.[81] Local garments can also be made from recycled or natural fabrics (e.g., locally grown hemp) and with the aim of creating slow fashion—that is, high quality clothing that has a timeless style, is designed to last, and is amenable to mixing and matching—rather than fast fashion (also known as

"throw-away" fashion). The retail price on slow fashion products will likely be higher, but the hidden price will be much lower.[82] The garments will have a longer useful life, and garment workers could be paid a living wage.[83]

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### 4.2.3. Food Systems

Food systems are essential for humans to survive and to flourish, and farms have long been (and still are) by far the most common type of organization on the planet. Presently the world has about 570 million small-scale farms (smaller than 2 hectares/5 acres), which produce about one-third of the world's food and involve about 2.7 billion people.[84] Food systems are important for our physical well-being and also have a large effect on the planet's ecological well-being.

Humankind has taken over many of the planet's natural resources for its own purposes, including to feed itself. We now use about 25 percent of the Earth's total net primary production of natural vegetation, double what we used a century ago.[85] For much of this we can thank industrial agriculture, with its emphasis on technologies like large-scale operations and machinery, plant breeding, fertilizers, and pesticides.[86] Although modern industrial agriculture seems to be very efficient—for example, in Canada and the United States only about 3 percent of the population is involved in growing food—it has actually become increasingly energy inefficient because of its heavy reliance on carbon-based inputs (e.g., fertilizers need to be mined, transported, and applied with machinery). In pre-industrial Wiltshire, England, the ratio between energy inputs and energy outputs in agriculture was about 1:14 (that is, one calorie of manual labor plus animal energy inputs yielded fourteen calories of food energy outputs), but by 1971 that ratio was 1:2.1;[87] today the overall average for industrial agriculture is at best 1:1,[88] and oftentimes 7:1 or 10:1.[89] In short, a large amount of calories (much of it fossil fuel energy) are embedded in the machinery and inputs like fertilizer that enable industrial agriculture to be so productive. Meanwhile, the aver-

age ratio in agrarian societies is 1:5 or greater, making them much more energy-efficient.[90]

Earth has about 3.2 billion hectares of arable land, of which only 1.3 billion are moderately or highly productive; the remaining 1.9 billion hectares serve as permanent pasture, forest, or woodland.[91] Modern agriculture practices deplete the carbon and nutrients in the soil so that, for example, the planet may have irreversibly lost more productive land over the past 10,000 years than is currently under agricultural production.[92] The three biggest crops in the world—corn, wheat, and rice—together use about 540 million hectares of land and represent about half of all the calories humankind consumes worldwide.[93] Corn, for example, is about 45 percent carbon and is found in hundreds of foods, especially as a sweetener (as much as 50 percent of the carbon in our body comes from corn).[94] Corn uses far more fertilizers, herbicides, and insecticides than any other crop in the United States, making it the country's largest contributor to water pollution.[95] The negative externalities associated with nitrogen fertilizers used to grow corn are greater than the total market value of the corn produced for grain ($75 billion).[96] An additional $70 billion of negative externalities are related to US healthcare costs associated with high-fructose corn syrup.[97] Corn is also used to produce ethanol fuel; this drives up global food prices even while ethanol energy provides only marginally more energy than the energy used to grow the corn and process it into fuel.[98]

In addition to using much of the Earth's plant life, humankind also dominates the animal kingdom. In 2023 Earth was reported to be home to about 27 billion chickens, 1.6 billion cattle, 1.2 billion sheep, and 0.8 billion pigs—sources of the mostly widely consumed animal protein.[99] This leaves fewer natural resources and less room for other animals; for example, between 1970 and 2022 the world's wildlife populations declined by an average of 69 percent.[100] Cattle and sheep are important to the food system because they are ruminants, which means that they can eat grass and convert it into food (meat) for humankind. Grasses cover about 70 percent of the world's total land surface, and cattle and sheep can improve the quality of the soil (with their manure, by aerating the soil with their hooves, and by eating the grass on the surface while permitting deep-rooted grass to sequester carbon from the atmosphere).[101] However, most cattle in the United States find their way to concentrated agricultural feeding operations (CAFOs), where an average cow consumes about 800 kilograms (about 50 bushels) of corn before it is slaughtered. In the United States alone, about 3.5 million hectares of land planted in corn are required to feed all the cattle.

*Earth is home to 27 billion chickens, 1.6 billion cattle, 1.2 billion sheep, and 0.8 billion pigs.*

Ruminants also produce methane gas (CH4) and account for almost half of all the GHG emissions caused by agricultural production (overall, agriculture emits slightly more global GHG emissions than transportation).[102] It has been estimated that one cow produces about as much GHG per year as driving a combustion engine car, and that 1 kilogram of beef is the equivalent to driving about 250 kilometers, or 155 miles (by way of comparison, 1 kilogram of lamb = driving 125 kilometers, pork = 45 kilometers, and chicken = 33 kilometers).[103] Another study estimates that the $250-billion American beef industry creates $412.5 billion in negative externalities (i.e., for every dollar of revenue, the beef industry creates $1.65 in negative externalities).[104]

Perhaps the greatest danger modern agricultural poses to the planet's ecological well-being is in the loss of biodiversity, which is approaching rates associated with Earth's previous mass extinctions, lending support to the argument that we are entering the Anthropocene era.[105] Today, about 75 percent of the world's food comes from five animal and twelve plant species. This increase in monocultures demands large volumes of external inputs that further negatively impact wildlife.[106] Just as the human body is a complex series of diverse interrelated biological systems, organs, and microorganisms that need to work together in harmony to facilitate our well-being, so also the Earth's systems and subsystems depend on biodiversity to remain resilient and allow humankind to flourish.[107]

*About 75 percent of the world's food comes from five animal and twelve plant species*

The decline in biodiversity is partly attributable to the increasing concentration of corporate power in industrial agriculture, which decreases variety.[108] For example, 65 percent of all agricultural land globally is farmed by the largest 1 percent of farms (larger than 50 hectares), with mid-size farms (3 to 49 hectares; 15 percent of all farms) using another 23 percent of the land.[109] The two largest seed producers (Bayer and Corteva) control more than half of the market,[110] and the

four largest pesticide producers control more than 50 percent of the global market.[111] There are similar concentrations of power among fertilizer producers, food processors, and among the supermarkets and hypermarkets where consumers purchase 45 percent of their groceries.[112]

If all the negative ecological externalities were added to the price of food produced via industrial agriculture practices, the price of food would nearly triple.[113] If consumers were to pay for these externalities it would mean, for example, that instead of food accounting for 6.7 percent of American expenditures on consumer goods, it would account for 20 percent (which is still lower than in most countries in the world).[114] Moreover, adding ecological externalities to the price of food would encourage rethinking mainstream practices in the entire food system and would prompt more sustainable practices that reduce the true net cost of food compared to industrial practices (e.g., recall that industrial agriculture is relatively energy inefficient and contributes at least ten times less to the soil and ecosystems than sustainable practices).

Additionally, if people paid the real price for food, they would be less inclined to waste it. The world produces about 4,600 calories of food per person per day, about half of which are wasted (perhaps because the foodstuff was not harvested properly, is disfigured, or because of lack of adequate storage facilities or damage during transport). In countries like the United States, Canada, Australia, and New Zealand, about 25 percent of the food that people purchase and take home from grocery stores is wasted (e.g., thrown out due to spoilage and leftovers) and another 15 percent is wasted between the farm and grocery store.[115] An estimated 8 percent of the world's GHG emissions come from food loss and waste production.[116] A 30 percent reduction of food waste at the consumer level could reduce the need for 100 million acres of cropland by the year 2030.[117] If we would respect food more and waste it less, our net food costs would reduce significantly.

*Overall, people in high-income countries waste 25 percent of the food they purchase.*

#### FBL Approach to Food Systems

FBL management has shown little concern for the negative ecological externali-

ties associated with producing and transporting food, and often seeks to hide them from view. For example, it is not unusual for agribusinesses that run CAFOs—85 percent of US meat is controlled by just four businesses—to bar journalists and documentary producers from coming to their CAFO and showing the general public what goes on inside.[118] CAFOs have been associated with air and water pollution, improper care for animals, and high energy use.[119] FBL organizations argue that it is the responsibility of government agencies to regulate food systems, and conventional large agribusinesses support and benefit from regulations that provide them with relative competitive advantages.[120] For example, laws in the United States require each farm to have each crop individually certified to comply with food safety regulations. This creates a significant financial disincentive for small farms to plant a variety of crops, even though planting a variety of crops is a healthy agronomic practice.[121] Finally, conventional grocers and food retailers are seek to increase sales and revenues rather than cut down food waste. For example, an FBL minimalist approach to addressing concerns about unhealthy food is evident when ultraprocessed food is sold as "sugar-free" cola or "10% less salt" potato chips.

#### TBL Approach to Food Systems

TBL management is sensitive to the increasing consumer demand for foods that are perceived to be healthier or more ecologically responsible. For example, in the 1980s "grass-fed beef" was treated as a second-rate, low-cost alternative to "corn-fed beef" (which is a fattier and considered to be a tastier beef), but within fifteen years an active consumer movement coupled with enterprising entrepreneurs had transformed grass-fed beef into a product that demanded a premium price.[122] Today the organic food industry is worth about $64 billion per year in the United States.[123] Grocers like Whole Foods have become successful, thanks to their early-mover advantage in offering the sorts of products that environmentally aware consumers are demanding. More recently, giant grocers like Walmart and Costco have adapted to the market and become leaders in selling organic produce.

The TBL approach encourages efficiency where firms in the industry reduce food waste by, for example, training staff, measuring waste, changing packaging, and improving the management of inventory. One study showed that firms can save $14 for every dollar they invest in such initiatives.[124] Similarly, for every dollar invested to educate consumers about food waste, the household saves $84.[125]

TBL agribusinesses support the kinds of regulations that provide them with

relative competitive advantages. For example, the Organic Foods Production Act created a national standard in the United States to certify organic food. When the act was under consideration, there was a struggle between small-scale, place-based producers and large multinational corporations. Multinational corporations—which see organic foods as yet another market to develop and conquer—lobby for standards that permit the inclusion of synthetic ingredients into what is labeled "organic."[126] Such regulations favor large-scale monocultural producers and often create competitive disadvantages for small-scale polycultural farms that practice a less synthetic approach to organic agriculture.

#### SET Approach to Food Systems

SET management encourages the proactive adoption of practices that enhance ecological well-being because this is the right thing to do, even if there is not yet a demand for it. This describes farmers like Gabriel Calderon (see opening case), who offered organically grown vegetables and coffee without chemical inputs before consumers at the farmers' market were asking for it, and cattle farmers who were raising grass-fed beef because it was good for the land.[127]

In addition, SET management also encourages working alongside cutting-edge ecologically minded stakeholders. With its emphasis on PBO, a SET approach is particularly attuned to **locavores**, which refers to people "whose diet consists only or principally of locally grown or produced food."[128] This is in contrast to FBL and TBL food systems in places like the United States, where the average forkful of food has traveled over 1,500 kilometers (1,000 miles). The SET approach is particularly attuned to organic locavores. Recall that place-based organic agricultural practices create positive ecological externalities (median = $2,850 per hectare) that are about thirty times greater than practices associated with industrial agriculture (median = $87 per hectare).[129]

There is a difference in consuming organic carrots or grass-fed beef coming from a locally owned farm rather than imported from a large-scale agricultural operation that is 1,500 kilometers away. Not only do the carrots or beef need to be transported shorter distances, but there is a difference in the transaction of selling/purchasing the food when it is grown/consumed by someone from your own community. The food is no longer a mere commodity; it is imbued with a sense of connectedness to place and people. This explains much of the appeal of farmers' markets, community gardens, and CSAs, where growers and eaters can get to know one another.

*In the United States, the average forkful of food has traveled 1,500 kilometers.*

A SET perspective is evident in the fast-growing slow food movement, which presents a clear alternative to conventional FBL and TBL industrial agriculture approaches to processed and fast food.[130] Slow food supports local organically grown food where producers earn a fair price for the fruits of their labor. Again, food is more than merely a commodity; its production and consumption are intrinsically related to ecological and social well-being.[131] The slow food movement promotes food that is grown using ecologically sound agronomic practices that encourage biodiversity and is consumed in healthier (less processed) forms in fellowship with others.[132] Similarly, SET perspectives are evident in the growing shift to more plant-based diets,[133] in the recognition that food derived from animals exacts a much higher cost on the environment compared with equivalent nutrients from plants.[134] The SET approach also seeks to reduce ultraprocessed foods, which currently represent about 60 percent of calories consumed in the United States and create negative effects on people's health, including increases in obesity, vascular diseases, diabetes, cancers and depression.[135]

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### 4.2.4. Human Physical Health

Human physical health is a third key component of ecological well-being. With some exceptions, the average lifespan and health of people has been increasing over the millennia. One notable exception was at the advent of the first agricultural revolution, about 12,000 years ago, which saw a period of decreased nutrition, stunted growth, and weakened bones as nutrient diversity declined, especially among agricultural societies as compared to hunter-gatherers.[136] How-

ever, overall health improved over time owing to advantages brought by the physical security associated with human settlement and agriculture.[137] A second notable exception was during the Industrial Revolution in Britain, which was initially associated with decreased human health, life, and survival, especially in industrial cities.[138] Health eventually improved thanks to higher yields in agriculture, better transport and storage,[139] and discoveries in the medical sciences.

Despite continued improvements in healthcare and pharmaceuticals, there are signs that negative externalities associated with our modern lifestyles may be leading to unintended negative consequences, especially since the 1950s and the start of the Anthropocene.[140] For example, obesity is now a bigger global health crisis than hunger,[141] partly because people are less physically active than they have been in the past, and partly because businesses seek to maximize sales by offering tasty food, even if it is often calorie rich and not particularly healthy (recall that over half the calories consumed in countries like the United States come from ultraprocessed foods). Obesity costs in the United States have been estimated to be as high as $1.4 trillion a year.[142]

The increased use of fossil fuels since the 1950s has contributed not only to concerns about climate change but also to concerns about its negative effects on health. Reducing the use of fossil fuels would decrease emissions of nitrogen oxides, sulfur dioxide, ammonia, and other volatile organic compounds that have serious negative effects on human health. Over 90 percent of the world lives in places that do not meet the air quality guidelines of the World Health Organization, and about one of every eight deaths around the world are a result of air pollution.[143] Asthma and allergy rates have more than doubled in the United States over the past decades, so that today almost 10 percent of children have allergies.[144] A 2016 study found that every dollar spent to double the world's usage of renewable energy by 2030 would save about $15 in associated costs.[145]

*Every dollar spent on doubling the use of renewable energy can save $15 in costs associated with use of fossil fuels.*

#### FBL Approach to Human Health

From an FBL perspective, the responsibility of business is to maximize profits, and it is the responsibility of government and other stakeholders with the neces-

sary expertise to pass and enforce legislation that ensures human health and ecological well-being. Thus, FBL organizations tend to ignore (non-legislated) health-related issues, unless ignoring them hurts their financial bottom line. And the societal costs of unhealthy work conditions can be significant, as illustrated by the fact that close to 3 million people around the world die each year from work-related injuries, illnesses, and accidents.[146] We rarely see and thus seldom think about the working conditions in the overseas factories that produce our goods.

Moreover, an FBL approach encourages businesses to pursue profitable activities, even if there are known significant health problems. For example, even though smoking cigarettes is known to cause cancer, the FBL approach encourages selling cigarettes if doing so is profitable for a firm and within the law. Consistent with this, cigarette manufacturers have continued to profitably sell their addictive products, even though they cause three of ten cancer deaths in the United States.[147] Cigarette manufacturers have been accused of obstructing the ability of consumers and others to access research that demonstrates the extent of tobacco's harm to human health.[148]

Another example comes from the food industry, where research suggests that the pesticide chlorpyrifos causes brain damage, and scientists at the US Environmental Protection Agency concluded that it should be banned. However, lawyers representing pesticide manufacturers like Dow have lobbied federal agencies to ignore the science that shows the negative effects of chlorpyrifos,[149] and today it remains in wide use on crops such as strawberries, oranges, apples, and broccoli.

That said, FBL firms may also engage in minimalist actions that have the appearance of safeguarding for the health of others but have only limited impact, such as promoting their planned implementation of new workplace standards supported by a third party, or engaging in a tree-planting event outside of their factories.

#### TBL Approach to Human Health

TBL management responds to consumer interests in enhancing physical health where it can profitably do so. For example, after finding out that younger customers want healthier food options with fresh ingredients, McDonald's pledged to remove antibiotics from its chicken products.[150] However, the highly processed foods that McDonald's serves have been linked to obesity and diabetes.[151] There are also many negative externalities related to the industrial beef industry, including its reliance on antibiotics and growth hormones, and the con-

sumption of about 3.5 million hectares (35,000 square kilometers) of US-grown, ecologically demanding corn.[152]

When TBL firms provide employees with the option of working at smart or standing desks it can be seen as an efficient way to nurture employees' health by maintaining productivity while also possibly lowering employees' risk of obesity and heart disease.[153] Firms whose CEOs have a regulatory focus associated with a "do no harm" orientation (reduce negative externalities) will have fewer workplace injuries.[154]

#### SET Approach to Human Health

The SET approach is the most deliberate and proactive in promoting physical health, even without a business case to do so. In particular, a SET approach supports three key ways of improving physical health while simultaneously enhancing ecological well-being. First, physical well-being can be improved by becoming more active and in particular, by using our own energy instead of carbon-based fuels to get around. This means walking or cycling to places where we might normally drive, which would reduce GHG emissions and air pollution. SET organizations like Velo facilitate active lifestyles by paying employees to commute by bike, other firms provide showers for employees who cycle or run to work, and some firms develop and promote products that encourage physical activity (e.g., pedal-powered velomobiles and local courier services that use bikes). Other initiatives that promote health include having walking meetings, fitness centers at work, and company sports leagues. Some firms even help to develop and maintain local hiking trails for employees and the larger community to enjoy

Second, physical well-being can be improved through better diet.[155] This is supported by the slow food movement, which aligns with SET values and includes eating less processed food (especially refined sugars and fats), eating more fruits and vegetables, and eating organically grown food in order to reduce intake of chemicals like chlorpyrifos. Life-cycle assessments show that eating more plants and less meat is healthier for our bodies and for the planet (e.g., a vegan diet could reduce agriculture-based GHG emissions by 50 percent and land use by 45 percent).[156] The SET approach also promotes the start-up of place-based organic restaurants, bakeries, and grocery stores, making it easy and convenient for people to eat healthier food. Some firms work together with nutritionists and local farmer to provide health food options in the company cafeteria.

*A vegan diet could reduce agriculture-based GHG emissions by 50 percent and land use by 45 percent.*

Third, people can improve their health by avoiding illness-causing activities and stimuli. In this regard, SET management promotes the **precautionary principle**, which states that before anyone undertakes an action that has a reasonable risk of harming others or the environment, that person must demonstrate that the action is not harmful. It is insufficient to engage in such actions on the basis that there is no evidence that proves them to be harmful.[157] While adoption of the precautionary principle may slow the pace of some innovation, it may also encourage people to become more innovative with proven technologies. For example, from a SET perspective, chlorpyrifos should not be used. Nor, for that matter, should many other biocides, pesticides, endocrine disruptors, and heavy metals. Only 1 percent of the 84,000 chemicals that people come into contact with every day have ever been tested. Along the same lines, SET firms may be the most likely to ban perfumes and colognes, recognizing their possible negative effects on human health.[158] The precautionary principle is especially important in light of research that suggests that exposure to chemicals has a negative effect on children's IQ.[159] Indigenous people are leaders in modeling the precautionary principle. For example, the Iroquois Nation is known for the "seven generations rule," which requires decision-makers to take into account the effects of their decisions seven generations into the future. The principle is evident in contemporary decisions being made by American Indigenous peoples about sustainable energy.[160]

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## 4.3. Entrepreneurial Implications

Finding inventive ways to draw resources from the natural environment to meet

our needs has been a preoccupation of humankind in the hunting and gathering era, in the first agricultural revolution, and in the modern industrial era. What has changed is that we as a species have grown in size and technological know-how so that today we are transforming the natural environment to such an extent that we are in danger of ushering in the Anthropocene. A changing business environment with increasing emphasis on ecological well-being enhances opportunities for TBL and SET entrepreneurs but places FBL entrepreneurs at a relative disadvantage.[161] Entrepreneurs can accelerate, reduce, or reverse negative ecological externalities, depending on the decisions they make.

### 4.3.1. FBL Entrepreneurship and Ecological Well-Being

FBL entrepreneurs feel free to use natural resources in ways that maximize financial well-being without taking negative ecological externalities into account, because they see the latter as the job for governments and others. FBL intrapreneurial opportunities are evident when firms export their GHG- and pollution-causing activities to overseas countries that have lower emission standards or where standards are not enforced.[162] One estimate suggests that 100,000 people in China die each year as a result of pollution that comes from manufacturing goods for Europe and the United States.[163] The FBL approach is also evident when recycling of the world's electronic waste—such as old computers—is done by small-scale entrepreneurs in countries like India that have lax enforcement of environmental standards and where toxic chemicals enter the atmosphere, the soil, and the bodies of unprotected workers.[164]

*In China, about 100,000 people die each year as a result of pollution caused by manufacturing goods for Europe and the United States.*

Perhaps the best contemporary example of FBL entrepreneurship comes from the oil sands of Alberta, Canada, a country with a long history of entrepreneurs who have exploited its rich natural environment to create economic opportunities.[165] Alberta's city of Calgary is a veritable entrepreneurial community, with 15 percent of its population self-employed.[166] About two-thirds of Calgary's entrepreneurship has been related to the energy industry, and its entrepreneurial culture is described as one of "wealth creation," where 42 percent of entrepreneurs are

looking to "maximize their short-term personal profit rather than long-term sustainability."[167]

While there is a lot of money to be made, the oil sands have been called "the most destructive project on Earth" by Environmental Defence, a Canadian non-government organization (NGO), and "the most toxic fossil fuel on the planet" by the Sierra Club, a US-based NGO.[168] The GHG emissions from extracting and upgrading bitumen (which is like a mixture of tar and sand) from Alberta's oil sands are about four times higher than for conventional crude oil.[169] This has contributed to a long debate about whether pipelines should be built to connect the oil sands to the United States and other markets.

### 4.3.2. TBL Entrepreneurship and Ecological Well-Being

TBL entrepreneurs seek profitable opportunities to respond to increased consumer demand for ecologically friendlier goods and services. For example, Suncor and other TBL businesses in the Alberta oil sands have been developing new technologies in carbon capture and storage to reduce GHG emissions into the atmosphere.

Consider also the opportunities in the food industry, as people have become more aware of and concerned about the negative externalities of conventionally raised meat. About 10 percent of Americans do not eat meat,[170] and of the remainder 37 percent say they want to eat less red meat.[171] Some entrepreneurs are promoting ecologically friendlier meat alternatives, including 3D-printed meat and producing synthetic meat grown in a lab.[172] Pat Brown, founder of Impossible Foods—a company that creates meat-like products from plants—implores venture capitalists to hire scientists, "do the math," and fund more ecologically responsible start-ups.[173] Entrepreneurs in the fast food industry have also taken notice, with healthier options being added to the menus of traditional chains, and the start-up and growth of new fast food restaurants that promote healthy options. For example, Sweetgreen, whose mission is "Building healthier communities by connecting people to real food," was started in 2005 by three college students with "a vision to reimagine fast food." It has over 200 locations and annual revenues surpassing $500 million.[174]

TBL entrepreneurs are adept at using messaging and marketing to profitably manage and shape markets to serve their financial interests. For example, sales of vegetable dishes in a university cafeteria increased by 25 percent when they were given exciting names like "dynamite beets," "sizzlin' beans," and "twisted citrus-glazed carrots."[175] Another example comes from the history of the tobacco

industry. When cigarettes were deemed unhealthy for both smokers and those affected by second-hand smoke, intrapreneurial cigarette manufacturers like Philip Morris introduced and promoted new "healthier" filter and low-tar cigarettes. A third example comes from the bottled beverage industry, where firms cooperate to shape public opinion in their favor. Keep America Beautiful (KAB)—a TBL organization associated with the promotion of sustainability—was created in 1953 by a group of companies that produced and sold disposable beverage containers.[176] KAB coined the term "litterbug" and worked hard to create the perception that pollution should be addressed at the consumer level rather than by reducing the number of disposable beverage containers being manufactured and sold.

When PepsiCo's Naked Juice became the first national brand to use a plastic bottle made from 100 percent post-consumer recycled polyethylene—an example of intrapreneurship—it launched a program where it would donate up to five cents per bottle to KAB.[177] While the TBL optics are positive, we should not overlook the fact that 86 percent of the 60 million plastic bottles used in the United States *every day* end up in landfills, where they can take up to 700 years to decompose. The energy used every year to manufacture, transport, and then dispose of these plastic bottles amounts to the equivalent of about 16 million barrels of oil, which is enough fossil fuel to drive more than 100,000 cars for a year.[178]

*Of the 60 million plastic bottles used in the United States every day, 86 percent end up in landfills.*

### 4.3.3. SET Entrepreneurship and Ecological Well-Being

The SET approach recognizes that if humankind is to survive as a species, we need to ensure that we respect and work within the boundaries that define the sustainable ecological niche for our planet.[179] Such a SET approach is evident in this chapter's opening case, where we saw how Gabriel Calderon shifted coffee production from commercial export markets to niche local sales (thereby reducing GHG emissions), while also eliminating the chemical inputs that are used in most coffee plantations around the world to achieve viable coffee at commercial scale. Calderon replaced pesticides, herbicides, and fertilizers by shifting from

monocropping to intercropping and integrated pest management. In addition, intrapreneurial experimentation enabled him to discover attractive uses for what is typically considered waste in coffee processing: wine and "tea" is made from the skin of the coffee cherry, baking flour and pudding from the pulp, and the dry coffee beans are roasted using the combustion energy of the hull and husk . Finally, these entrepreneurs have embarked on an education and awareness campaign to share their experiences with other farmers.

Other examples where glimpses of SET entrepreneurship is evident include local farmers' markets, wind farms that provide a source of renewable energy to replace fossil fuels, and courier companies that use bikes instead of cars (thereby reducing GHG emissions and pollution, and enhancing physical fitness of employees). SET ideas are also evident in a start-up like CityTree's large "green cube" that is filled with moss and reduces air pollution by the same amount as 275 regular trees,[180] and in entrepreneurs who are making shoes using harmful algae that has been harvested to restore polluted lakes.[181]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1723#h5p-28*

*The SET approach recognizes that if humankind is to survive as a species, we need to ensure that we respect and work within the boundaries that define the sustainable ecological niche for our planet.*

## Chapter Summary

1. As a result of economic activity and the proliferation of fossil fuel–based technologies, scientists have documented that humankind is now living beyond the biocapacity of the planet and the Earth's ecosystems that support ecological well-being are in jeopardy.
2. Carbon has long been the key currency of how humans produce goods and services. High-energy carbon molecules provide the energy that fuels our machines, our food systems, and our bodies. Unfortunately, the carbon we use in fossil fuels and draw from the Earth has entered the atmosphere at rates that photosynthesis in plants and the ocean's plankton cannot sequester, upsetting the balance in the carbon cycle that has been in place for millennia. In addition, the scale of humankind's use of plant and animal life is reducing biodiversity, which decreases planetary resilience and contributes to anthropocentric extinction threats. Pollutants from fossil fuels and the consumption of profitable (but unhealthy) foods are threatening human and planetary health.
3. There are three basic approaches to managing ecological well-being:
    - FBL managers are unaware of or deny negative ecological externalities, obstruct stakeholders who seek to monitor their ecological impacts, and meet the lowest legal standards in terms of ecological conservation.
    - TBL managers are responsive to consumer demand for products and services that create fewer negative ecological externalities in a profitable way, seek to use natural resources more efficiently and thus more cost-effectively, and support regulations that are favorable to their business interests.
    - SET managers seek to enhance ecological well-being via proactive, stakeholder-centric, and place-based organizing.
4. A changing environment with increasing emphasis on ecological well-being enhances opportunities for TBL and SET entrepreneurship, and places FBL entrepreneurs at a relative disadvantage.

## Questions for Reflection and Discussion

1. Do you think human-caused climate change is real? Do you think humankind needs to reduce its use of carbon-based fuels? Do you think we need to address negative externalities in our industrial food systems? What sort of evidence would convince you that transformational change is, or is not, needed for each of these three issues?

2. How important is it for managers to acquire a basic understanding of how the Earth's ecological systems work (e.g., the carbon cycle)? Should business schools require students to take courses in environmental studies, or is it already challenging enough for management students to learn about the business functions like accounting, marketing, and finance? What are the dangers of business leaders being unaware of how ecological systems work?

3. Can you imagine a lifestyle where you reduce by 50 percent the fossil fuels you consume by doing things like eating more organically grown food, halving your food waste, purchasing half as many clothes as you do now, reducing by half the trips you take in a car, living in a home with half as much space per person, and so on? What would be the most difficult changes for you to make, and why? What would be the easiest changes to make, and why? Can you think of any entrepreneurial opportunities that would make such changes more compelling and easier for others?

4. Would you shop at a clothing store or restaurant that sources at least 90 percent of its inputs from within 161 kilometers (100 miles) of where it is located? Why or why not?

5. List the five most significant ecological challenges you think are facing humankind over the next thirty years (they need not be mentioned in this chapter). Briefly indicate the evidence you used to reach your conclusion. Then identify at least five things you could do in your career to address at least one of the challenges. How important are entrepreneurial skills to implementing your list?

6. What is the precautionary principle? Do you think it is reasonable for businesses to be bound by it? Explain your reasoning.

7. Discuss the advantages and disadvantages of place-based organizing. On balance, is it a good idea?

8. The previous chapter compared acquisitive versus sustenance economics, and documentational versus relational capitalism. Do you think that either form of economics or capitalism is more likely to improve (or worsen) ecological well-being? Explain your reasoning. What are the implications for your career?

9. Of all the ecological issues listed in this chapter, which one(s) are you personally most interested in addressing? Can you think of any entrepreneurial ideas for how they might be addressed? Develop a list of five ideas for a new start-up organization that addresses the ecological challenges facing humankind. Make sure at least one of your ideas is based on a SET approach.

## Notes

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# 5. Management and Social Well-Being: Meaningful Work, Meaningful Relationships, and Peace


- Learning Goals
- 5.0. Opening Case – Being Boldr: Placing Social Well-Being at the Core of the Business
- 5.1. Introduction
- 5.2. Meaningful Work
- 5.3. Meaningful Relationships
- 5.4. Peace and Social Justice
- 5.5. Entrepreneurial Implications
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 5 provides an overview of three key components of social well-being—meaningful work, meaningful relationships, and peace and social justice—as summarized in the following table and in the whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Meaningful Work** | | | |
| *Meaning of Life* | • Materialistic source and individualistic focus | • Transcendent source and individualistic focus; materialistic source and holistic focus | • Transcendent source and holistic focus |
| *Meaning at Work* | • Financial success<br>• Getting ahead | • Job crafting<br>• Enhancing prosocial aspects | • Healthy giving<br>• Voluntary simplicity |
| **Meaningful Relationships** | • Emphasis on instrumental aspects | • Emphasis on work-life balance | • Re-personalization<br>• Compassion, gratitude |
| **Peace and Social Justice** | • International trade<br>• Ethnocentrism | • UN Global Compact<br>• Polycentrism | • Caux Round Table for Moral Capitalism<br>• Egalicentrism |
| **Entrepreneurial Implications** | Work orientations influence entrepreneurial choices, and those choices have ethical implications. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=608*

## Learning Goals

After reading this chapter, you should be able to:

1. Describe the three key dimensions of social well-being: meaningful work, meaningful relationships, and peace.
2. Explain how the three key dimensions of social well-being are managed in FBL, TBL, and SET approaches.
3. Describe how different assumptions about the source of meaning (transcendent vs. tangible) and the focus of meaning (individualistic

vs. holistic) produce a framework that describes four different views of the meaning of life.

4. Explain the difference between instrumental and non-instrumental relationships.
5. Describe how businesses can undermine or foster peace.
6. Describe three different work orientations and how they influence entrepreneurship.
7. Consider the well-being implications of entrepreneurial choices.

## 5.0. Opening Case – Being Boldr: Placing Social Well-Being at the Core of Business

In 2016, David Sudolsky faced a profound turning point in his life and career when his best friend and business colleague, Jeff Bauer, passed away unexpectedly.[1] This loss prompted Sudolsky, then in his twenties, to deeply reflect on the legacy he wanted to leave. Having spent several years helping companies build global teams, he had witnessed firsthand how the business process outsourcing (BPO) industry—that is, businesses a firm might hire to do its accounting, human resource management, or information systems management—often prioritized profits over people, creating what he saw as a "race-to-the-bottom" mentality that compromised worker well-being for financial gains.

"I started Boldr with a single-minded desire to redefine 'outsourcing' in a way that added more to society than it took," Sudolsky explains.[2] This was the vision behind the founding of Boldr in 2017 as a company that would challenge traditional BPO practices by placing social well-being at the core of its business model.

From its inception, Boldr's approach to meaningful work has differed markedly from industry norms. Rather than view employees as mere "human resources" to optimize for productivity, Boldr's policies and practices emphasize personal growth and fulfillment. This includes, for example, inviting employees to help co-create programming that helps their larger community, including what Sudolsky describes as "getting kids off the street and back into schools . . . You know, I used to think that I had all the answers but then I realized that . . . the best

ideas come from this dialogue that we have with the people around us."[3] The company's commitment to meaningful work is evident in its remarkable 90 percent retention rate among team members supporting e-commerce and software-as-a-service (SaaS) clients, significantly higher than industry averages. As part of empowering employees and providing meaningful work, Boldr ensures that team members can see clear paths for growth, and it became the first BPO in the Philippines to formally implement a living wage policy, eventually extending this commitment across all its global operations. "A living wage makes a huge difference especially compared to our previous salaries," shares Marlene Tabla from Boldr Manila's Office Operations team. "Every time the prices of goods increase, the minimum wage will never be enough for making ends meet. That is why living wage adjustment is an important move and I hope all the companies choose to do the same."[4]

Boldr's emphasis on peace and social justice is perhaps most evident in its approach to global expansion. Rather than simply seeking locations with the lowest operating costs, Boldr has deliberately established operations in communities where it can make significant social impact and has partnered with fifteen organizations across the Philippines, South Africa, and Mexico to provide digital skills training to disadvantaged individuals. In South Africa, for example, where youth unemployment exceeded 60 percent, Boldr opened its BPO Academy in the town of Hazyview to provide digital skills training and employment opportunities.

The company's commitment to meaningful work and to fostering social justice is also evident in its community engagement initiatives. Boldr's team members have contributed over 7,500 volunteer hours to various community projects, ranging from providing internet connections for schools to organizing food fairs and supporting disaster relief efforts. In 2021, Boldr's commitment to social well-being received formal recognition when it became a B Corp–certified company—the first global Employment of Record company to achieve this certification. Boldr allocates 1 percent of its quarterly revenue to community organizations and charitable partners globally.

Boldr's focus on social well-being has not prevented it from enjoying business success. By 2023, the company had grown to serve over 100 clients across North America, Europe, and Australia, with more than 1,500 team members across five countries. This growth earned Boldr recognition on the Inc. 5000 list of fastest-growing private companies for three consecutive years. Yes, Boldr may have enjoyed higher profits if it had paid its employees the going rate instead of a living wage, and if it did not donate 1 percent of its revenues to charity. But then it would not have satisfied Sudolsky's sense of calling to be a transformative

force in the outsourcing industry, nor would it have created such meaningful work for 1,500 people!

In sum, Boldr demonstrates how businesses can go beyond aspirational goals and actually achieve meaningful employment, authentic relationships, and positive social impact—truly a legacy to be proud of.

https://youtube.com/watch?v=3yRQJK53iUA%3Fsi%3Dmm-84tzBD0n33STg

To learn more about Boldr's journey, listen to the video podcast *Building a Mission-Driven BPO: The Story of Boldr Impact*,[5] at https://youtu.be/3yRQJK53iUA?si=vOq18bUXj0HJa_wP

## 5.1. Introduction

Whereas focusing on individual well-being and financial success is a hallmark of Financial Bottom Line (FBL) management, enhancing social well-being is one of the three pillars of Triple Bottom Line (TBL) management and one of the two fundamental goals of Social and Ecological Thought (SET) management. Managers have known about the importance of social well-being since at least the human relations era (see Chapter 2), and subsequent research has confirmed that attending to the social well-being of employees can increase their motivation and productivity, and thus an organization's financial well-being. However, as illustrated by Boldr, a fuller understanding of social well-being goes much deeper than tactics to improve productivity and profits.

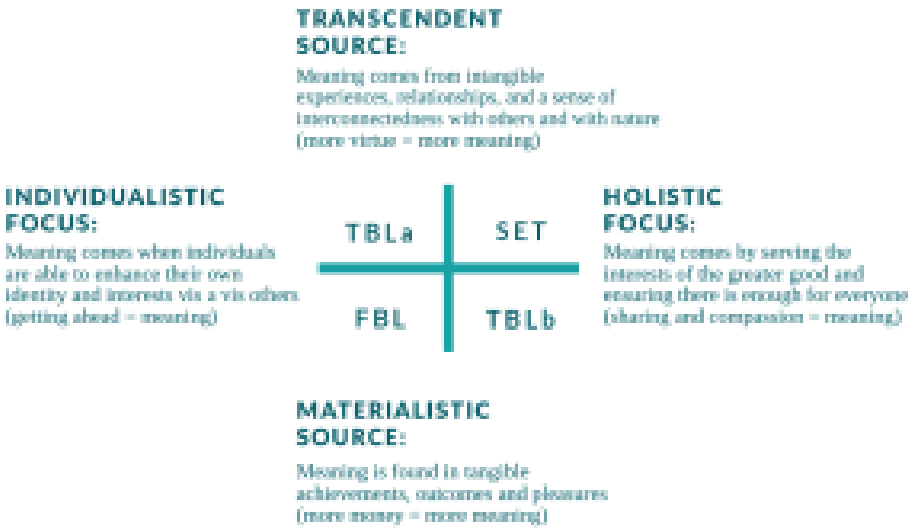
In this chapter, we lay the foundation for understanding social well-being. We will return in later chapters to look in more detail at many of the themes related to social well-being, such as leadership, motivation, groups, and teams. Here we will consider three fundamental components that contribute to social well-being: meaningful work, meaningful relationships, and the opportunity to work in environments that are characterized by and foster peace and social justice.[6]

## 5.2. Meaningful Work

To understand what makes work meaningful, it is helpful to think first about what makes life meaningful. Questions about the meaning of life have been pondered

for millennia, but there is still no universally accepted understanding of what makes life meaningful. In part this may be because finding meaning in life is shaped by our context and environment. Since the context and environment of humankind has changed a lot over time (from hunter-gatherer to postmodern societies), the way we think about meaning in life is also changing. Even so, as depicted in Figure 5.1, two dimensions are helpful for thinking about a meaningful life: the *source* of meaning (transcendent vs. materialistic), and the *focal point* of meaning (individualistic vs. holistic).[7]

**Figure 5.1. Two key dimensions related to meaning in life**




Regarding the *source* of meaning in life, Western society has emphasized a materialistic understanding for the last couple of centuries. Calling an organization or manager "successful" typically suggests that they have achieved financial well-being (note that the word "success" refers to the accomplishment of a desired or meaningful end). It assumes that money is the goal that everyone desires, an idea closely associated with materialism. As noted in an Chapter 2, this definition of success is relatively recent in the history of humankind, as money itself is less than 4,000 years old. Even so, philosophers consider today's emphasis on the meaningfulness of money as a hallmark of our society, one that

often gets in the way of other longer-standing and intangible understandings of a meaningful life.[8]

In contrast to focusing on materialistic sources, in a transcendent understanding understanding of meaning people see themselves as connected to an entity that is greater than or beyond themselves, and meaning is related to deliberately acknowledging this larger entity.[9] A transcendent understanding can include the sense of well-being—which may be experienced as peace or happiness or fulfillment—that comes from feeling deeply connected to other people or to nature. Transcendent understandings are most transparent in management theory and practice in the "spirituality at work" literature, where spirituality is defined as a sense of interconnectedness with others, nature, and a sacred other.[10] Even in Western materialistic societies, 80 percent of college students have shown an interest in spirituality, and almost half (48 percent) have indicated that it is "very important" or "essential" that their college encourage their personal expression of spirituality.[11] Meanwhile, research among university students in China has shown spiritual well-being to explain 70 percent of the variance in psychological health (e.g., depression, anxiety, stress).[12]

*Half of incoming college students believe that it is "very important" or "essential" that their college encourage their personal expression of spirituality.*

Regarding the *focal point* of meaning, Western society places a strong emphasis on an individualistic understanding of meaning. According to this perspective, people and organizations become successful by out-competing others, by pursuing their own self-interests and values, and by getting ahead.

This individualistic focus is also relatively recent in the history of humankind, whose self-understanding has in the past generally been based on holistic and communal philosophies like Ubuntu: "I am because I belong." Here the emphasis is on enhancing the greater good; for example, by bettering the lot of people who live in socio-economic conditions that make them unable to feed their families or provide education for their children.

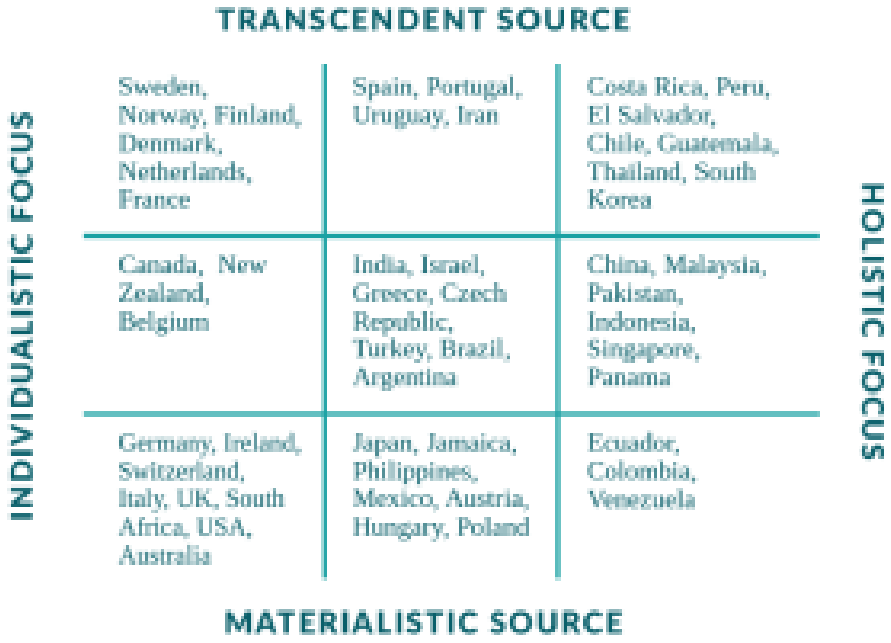
### 5.2.1. Where We Acquire Our Understanding of Meaning

What we perceive to create meaning in life is greatly influenced by socio-cultural factors in our external environment, including the family values in our childhood home, our understanding of morality and ethics,[13] the messages about success embedded in the media, our organizational role models and mentors, and the culture and values in the countries where we live. With respect to ethics and morality, for example, your understanding of what is meaningful will be informed by your level of *moral development*. You may be pre-conventional ("What's in it for me?"), conventional ("How can I fit in with what are the people around me are doing?"), or post-conventional ("What are the timeless truths?").[14] Your views also will be influenced by whether you believe ethics are established by a deity, or whether you think they can be derived from observing natural interactions, or both. The first chapter of this book describes how variations of a consequential utilitarian moral point of view underpin FBL and TBL approaches, and how a virtue ethics perspective underpins SET management.

For an example of how national cultures and values shape people's views of the meaning of life and work, Figure 5.2 shows where countries have been ranked (high, medium, and low medium, and high) in their relative emphases on the two key dimensions related toshown in Figure 5.1: transcendence versus materialism, and individualism versus a holistic focus .[15] As might be expected, countries that rank high in both materialism and individualism—like the United States, the United Kingdom, and Australia—are precisely the ones where FBL management theory and practice has been the most developed. On the other hand, we would expect to see management practices more aligned with SET management in countries that are highly ranked for holistic focus, like Costa Rica and Peru. Consistent with this expectation, Costa Rican managers are five times more likely to prefer a management style where they consult with and invite members to participate in decision-making, rather than following a style based on managerial authority and persuasion.[16] Similarly, it is not unexpected that Costa Rica was named "UN Champion of the Earth" for its important role in combating climate change,[17] that it is seen as a world leader in using ecotourism (which promotes natural attractions while minimizing visitors' ecological impact) as a strategy for economic growth,[18] and that it is a leader among low-income countries in environmental programs[19] (to the point where one study suggested that its forest stock is "sub-optimally large" [20]). More generally, in a study that compared 178 countries according to how well people were able to live long,

happy lives with minimal impact on the natural environment, Costa Rica ranked in the top three.[21]

**Figure 5.2. Relative emphasis (high, medium, low) in different countries on a materialistic vs. transcendent versus materialistic source and an individualistic vs. holistic dimensions focus**




As might be expected, thanks to a materialist-individualist emphasis on maximizing productivity and financial well-being, the US GDP (gross domestic product) per capita is almost five times greater than that of Costa Rica.[22] It also takes about 7.8 global hectares of natural resources to sustain the lifestyle of the average American, which is almost five times greater than the 1.6 global hectares for the average Costa Rican.[23] Interestingly, the self-reported life satisfaction scores for people in the United States (6.72) and Costa Rica (6.96) are similar.[24] The same holds true for life expectancy scores, with the United States at 80.9 years and Costa Rica at 80.3 years.[25] In other words, the average Costa Rican and the average American live equally satisfying lives, even though the average

Costa Rican consumes far fewer resources (21 percent of the average American consumption) and has a lower per capita GDP (20 percent of the average American).

### 5.2.2. Hallmarks of Meaningful Work

**Meaningful work** enhances the meaning of life for those doing the work.[26] Because people spend so much time at work, it becomes a primary source of their purpose, identity, and belonging.[27] For decades, Americans have said that meaningful work is more important to them than income, job security, and promotions.[28] In one study almost two-thirds of millennials said that they would rather earn $50,000 a year in a job they love than $130,000 a year in a job that they find boring.[29]

Meaningful work influences many of the most important outcomes identified in organizational studies, including job performance, job satisfaction, work motivation, engagement, absenteeism, empowerment, stress, organizational commitment and identification, and customer satisfaction.[30] According to the literature, work is more meaningful for people who

- experience a fit between their job and their sense of purpose/true self (i.e., their job is consistent with what they perceive to be the meaning of life);
- believe that their work gives them power and opportunity to make a positive difference in the world; and
- feel valued and a sense of belongingness in their workplace.[31]

Work that is not meaningful may lead to depression, decreased psychological well-being, lower self-esteem, poorer resilience to burnout,[32] and higher risk of suicide.[33] Unfortunately, work-related issues associated with low levels of psychological health are increasing. Depression and anxiety disorders are the leading cause of sickness, absence, and long-term work incapacity in most developed countries.[34] For example, the economic burden due to major depressive disorder in the United States in 2018 was $326 billion (an increase of $90 billion since 2010). On average, this is about $1,000 per person in the United States. The workplace share of these costs increased from about $115 billion in 2010 to $200 billion in 2018 (especially due to absenteeism, with over 300 million lost workdays per year).[35] A 2023 Gallup poll showed that about one-third of workers were somewhat or completely dissatisfied with the stress levels at work.[36] Other

research has found that only 17 percent of the global workforce is actively engaged in their work, with most of the workplace stress being caused by dysfunctional managers.[37]

*Work that is not meaningful may lead to depression, lower psychological well-being, lower self-esteem, poorer resilience to burnout, and higher risk of suicide.*

Even small improvements in well-being can have significant effects.[38] For example, on a well-being scale of 1 to 100, compared to an employee who rates themselves at 70, an employee who rates themselves as a 75 has a 15 percent lower risk of depression or anxiety, 19 percent lower risk of having sleep disorders, 15 percent lower risk of diabetes, and 6 percent lower risk of obesity.[39] Moreover, well-being in the workplace may be contagious, so that high well-being for one member of a work team results in a 20 percent increase in likelihood that another team member will be thriving six months later.[40] This suggests that managers who take care of their own well-being will foster well-being in their co-workers.

*Well-being in the workplace may be contagious.*

### 5.2.3. The FBL Approach to Meaningful Work

FBL management promotes the view that meaning in life is closely connected to individuals and organizations achieving *financial* success. From this perspective, work is seen as meaningful if it increases productivity, sales, and financial well-being, all of which are hallmarks of the FBL approach. Such a message is promoted in mainstream marketing, which, in terms of dollars, costs more than all the money spent on public education on the planet. Because 75 percent of the advertising that consumers see is paid for by the world's 100 largest corporations,[41] it should not come as a surprise that the messages promoted in the mass media have been dominated by four key values that are consistent with the FBL approach:

1. Happiness is found in having things (materialistic source);
2. Get all you can for yourself (individualistic focus);
3. Get it all as quickly as you can (short time horizon); and
4. Win at all costs (competitiveness).[42]

This message seems to have influenced many people. For example, according to a Gallup poll, in 2023 the average American worked about forty-four hours per week (based on adults employed full-time or part-time),[43] and many would like to work more hours. However, while working long hours may lead to short-term benefits and meaning, in the long term overworking results in increased depression, stress, and poor health.[44] It is noteworthy that FBL management is not the first choice of millennial employees, 88 percent of whom disagreed with the statement "money is the best measure of success."[45] When management students were asked in which quadrant in Figure 5.1 they would prefer to be managed, only 7 percent chose the FBL quadrant; 50 percent preferred TBL approaches and 42 percent preferred SET management.[46]

### 5.2.4. The TBL Approach to Meaningful Work

TBL management seeks the financial benefits of providing meaningful work—such as increased performance, motivation, and commitment, and reduced costs due to decreased turnover and stress days—that have been known since the start of the human relations movement (see Chapter 2). As will be described more fully in Chapter 12, TBL management tries to increase meaningful work insofar as it improves an organization's financial well-being by designing jobs that have task significance (the tasks being performed have a positive impact on other peoples' lives or work)[47] and by increasing autonomy, skill variety, and task identity (employees can see how their work fits into a coherent whole). These characteristics have been shown to produce meaningful work and improve performance.

TBL management considers social well-being as one of the three pillars of the triple bottom line. In terms of Figure 5.1, management consistent with the TBLa quadrant does this by empowering members to take more control by participating in shaping their work. For example, whereas FBL management emphasizes top-down job design, where managers develop the jobs that shape members' experience of meaningfulness, TBL management puts greater emphasis on *job crafting*, where members design their own jobs to be meaningful based

on their own experience.[48] Job crafting involves changes to the cognitive meaning of the task (e.g., instead of seeing their job as cleaning up other peoples' messes, hospital janitors see their job as helping to care for and heal patients).[49] Job crafting also includes adding some choice to the job tasks performed (e.g., how much energy and time is spent on specific subtasks) and the people an employee relates to. Management within the TBLa quadrant is also evident when employers provide mindfulness training and similar programs to help employees manage their workplace stress and improve concentration.[50]

*Job crafting involves employees in designing their jobs to make them more personally meaningful.*

Glimpses of the TBLb quadrant are evident when enhanced prosocial holistic dimensions of work increase the perception that the work is meaningful. For example, workers tasked with phoning university alumni to raise funds for scholarships were more productive and found their work to be more meaningful after they had met students who had received such scholarships.[51] The benefits of a prosocial focus are also evident in terms of the overall vision or mission of TBL organizations, which often seek to improve the social well-being of stakeholders. The transformational leadership literature talks about how performance can be enhanced by inviting employees to share the noble vision of an organization (see Chapter 15). The TBLb quadrant also places greater emphasis on group- or team-based interventions to improve meaning; this includes members actively participating in developing shared work-related goals and action planning (see Chapter 16). These practices have been found to be more effective than focusing on individual employees.[52]

## Test Your Knowledge

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### 5.2.5. The SET Approach to Meaningful Work

SET management also supports the value of mindfulness training and job crafting, but the SET approach asks bigger questions about why such stress-reduction is needed in the first place. Rather than instrumentalize mindfulness to serve an organization's financial well-being, a holistic understanding of mindfulness requires rethinking concepts around how and why we work.[53] From a SET perspective, FBL and TBL understandings of meaningful work are inherently flawed because they link it to increasing financial and material success in a finite world. SET management takes seriously the warning given by Max Weber, who characterized managers who follow FBL and TBL practices as "specialists without spirit, sensualists without heart; this nullity imagines that it has attained a level of civilization never before achieved."[54] A SET approach also acknowledges Adam Smith's concern that productivity-maximizing practices such as the division of labor would result in workers becoming "as stupid and ignorant as it is possible for a human creature to become."[55]

SET management turns some of the truisms of the FBL and TBL approaches on their head. For example, the SET approach argues that more meaning comes from giving than from taking (see Chapter 14). While it is true that people find their jobs more satisfying the more help they get from co-workers, SET management underscores the idea that people find their jobs more meaningful the more assistance and support they *give* to others (e.g., finding opportunities to care for, assist, mentor, or support a colleague).[56] Similarly, rather than focusing on meeting the *wants* of customers, SET management promotes meaningful work that serves the *needs* of others.

The SET approach is consistent with the growing voluntary simplicity movement, where meaning comes from deliberately working fewer hours and choosing wholesome places to work. It recognizes that social well-being does not come from having more than enough stuff but rather from doing what is meaningful and earning enough money to live.[57] People are increasingly more interested in the quality of life and a sense of community and social equity, than they are in material and economic rewards, prosperity and control.[58] Voluntary simplicity is associated with well-being,[59] and related to the minimalist movement: 11 percent of Americans consider themselves to be minimalists, and another 26 percent want to be or are actively working to become minimalists.[60]

SET management recognizes that management practices that increase the gap between rich and poor people are problematic.[61] Work is more meaningful if it serves the interests of those with insecure incomes, and especially if it pro-

motes and develops structures that enable people who have been marginalized to work to provide for the needs of their families (evident in Boldr's expansion strategy in South Africa, where it deliberately established operations in communities with high youth unemployment). Even people from relatively wealthy countries are challenging systems they see as unjust, including when those systems serve their own financial self-interests.[62]

Finally, an emphasis on a holistic focus and a transcendent source is evident in the increasing interest in spirituality and religion among management practitioners and scholars.[63] A focus on the material realm is often seen as opposed to a focus on spirituality. Similarly, the self-interested nature of individualism runs counter to the teachings of many religions. Should ideas about spirituality be part of the study of management? The Academy of Management (the world's largest and most prestigious scholarly association of management) seems open to the idea, given that it has a Management, Spirituality, and Religion division.[64] It seems likely that religious and spiritual worldviews have helped to shape management theory and practice, given that over 80 percent of the people in the world espouse and hold such worldviews.[65] Studies published in 2007 found that three of every five (60 percent) business professors think that the spiritual dimension of faculty members' lives has a place in their jobs as academics, and one of three (31 percent) think that colleges should be concerned about facilitating students' spiritual development. Student responses suggest that about two of five that college professors encourage discussion of spirituality (38 percent) and raise questions about the meaning and purpose of life (44 percent).[66]

While these approaches to meaningful work provide a useful framework, it's important to recognize that the reality is often more complex. Managers should be aware of the nuanced nature of meaningful work and tailor their approaches based on individual employee needs and organizational context. This may involve combining elements from different approaches or developing new strategies that go beyond these categories.

## Test Your Knowledge

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## 5.3. Meaningful Relationships

It is noteworthy that when management books or courses talk about interpersonal relationships—be they relationships with co-workers or with suppliers or managers—it is primarily in terms of their instrumental qualities, with an emphasis on how managers can use social skills to increase workers' motivation and productivity, negotiate a lower price from suppliers, or increase customer loyalty. These are called *instrumental* skills because they focus on how we can "use" other people the way we use instruments or mechanisms to accomplished something. In contrast, the purpose of *non-instrumental* relationship skills is to develop and deepen interpersonal connections for their own sake, to share joy and excitement and grief and loss, and to foster love, trust, and mutual acceptance.[67] Surprisingly little discussion or research looks at skills for facilitating non-instrumental friendships with co-workers, suppliers, and customers, whom we encounter in the workplace settings where we spend a large portion of our lives. And yet many people would agree that non-instrumental friendships are crucial to social well-being and a meaningful life.[68]

Awareness of the links between economic activity, friendship, and social well-being dates back to the earliest understandings of economics. For example, Aristotle saw economics as a means to enhance deep happiness (*eudaimonia*) in community; for him it was dysfunctional for economic activity to instrumentalize relationships in order to maximize financial wealth. In more recent history, the science of economics in countries like Italy initially focused on public happiness and only later added a link to financial wealth.[69] Research shows that greater happiness comes from having deep and stable relationships than from consuming luxury goods, because the latter form of pleasure is fleeting and insatiable.[70]

And yet, close friendships are rare not only in the workplace but may be becoming less frequent in social life in general.[71] This leads to loneliness and social ill-being.[72] Instrumental relationships are no substitute; someone can be lonely even if they are never alone thanks to many instrumental relationships. Non-instrumental relationships, however, reduce loneliness.[73]

The importance of nurturing meaningful relationships is confirmed by a growing body of evidence suggesting that de-commodifying relationships and prioritizing people over purely transactional considerations can yield significant benefits for both individuals and organizations. Friendship in the workplace leads to life satisfaction and positive emotions.[74] Non-instrumental friendship is evident when co-workers voluntarily hang out together outside of work hours and do things totally unrelated to work. Non-instrumental relationships grow when you

do something for someone else without expecting anything for yourself (i.e., paying it forward), which can also be a hallmark of meaningful work. In contrast, workplaces that promote instrumental relationships and competition among workers may create mental health issues and decrease mutual problem solving.[75] Even when there is not a clear short-term business case for fostering non-instrumental relationships, the long-term benefits in terms of employee well-being, job satisfaction, and organizational commitment can be substantial.[76]

So why does there seem to be a shortage of non-instrumental relationships? Is it because clever advertisers have convinced us that happiness and meaning can be achieved via financial and material success? If money can buy happiness, then there should not be a qualitative difference in the happiness that comes from, say, going on a date with a friend (non-instrumental) versus with a paid escort (instrumental). Have social media and the digitization of our world contributed to the loss of social skills to form meaningful face-to-face relationships (e.g., the more people use Facebook, the more their mental health deteriorates[77])? There is some irony in observing that at a time in history when we meet more people than ever before, we rely on impersonal dating apps to introduce us to potential long-term meaningful relationships.

Perhaps we shy away from non-instrumental relationships because we have been socialized to avoid non-transactional relationships. When we enter into an instrumental relationship, it is like making a financial investment: we give up something in order to get something in return. And in order to win, we are told to minimize what we give and maximize what we get. This results in a Banker's Paradox: banks prefer to loan money to people who present minimal risk, and thus people who are the neediest often cannot get a loan.[78] Similarly, transactional thinking tells us to invest our time and energy in developing friendships with well-connected people who have the most instrumental benefits to offer us, and thus we are prone to neglect individuals with the greatest need and who are least able to offer something in return in the future. This is illustrated by the mantra of conventional human resource management: hire the best and the brightest (see Chapter 12). However, as ancient wisdom traditions tell us, relationships with people who may have nothing of instrumental value to offer you create inherent value and joy.[79] Moreover, such relationships improve your ability to nurture non-instrumental relationships with everyone. Befriending those with low instrumental value enables you to relate to the whole community in a way that only relating to people with a similar socio-economic background simply cannot. It opens a window to experiencing altruistic mutual benefaction.[80]

*Befriending people who may have nothing of instrumental value to offer you creates inherent value and joy.*

Different ways of encouraging the development of non-instrumental relationships and skills in the workplace are being developed. For example, up to 20 percent of businesses pay workers to do volunteer work, often with chronically underemployed or socio-economically challenged people (e.g., Montreal's Tomasso Corporation, and the U.S. Bank employees who work in soup kitchens).[81] In some business schools, students are asked to engage in service learning projects or are given practicum assignments where they work with people who are chronically unemployed.[82] Boldr illustrates how promoting authentic relationships can be built into an organization's vision and policies and practices, and how relationship building can extend beyond immediate colleagues to include clients, community partners, and even competitors.

### 5.3.1. The FBL Approach to Meaningful Relationships

FBL management places a strong emphasis on developing instrumental relationships and ensuring that they are managed in ways that optimize productivity and financial well-being. When non-instrumental relationships are referred to, the connotation is often negative (e.g., as wasting company time). This negative bias toward non-instrumental relationships is not surprising, given that historically, FBL management offered an antidote to the problems of nepotism and cronyism (i.e., giving jobs to family members or friends without regard for their qualifications).

### 5.3.2. The TBL Approach to Meaningful Relationships

For TBL management, non-instrumental relationships can be positive if they enhance workplace motivation and productivity, such as when an intra-organizational sports league provides friendly competition among team members. Similarly, leaders are encouraged to develop social skills such as emotional intelligence competencies to empathize with others, managing one's own emotions in order to improve communication, and establishing trusting and mutually satisfying relationships, because such skills are associated with financial benefits.[83]

TBL management's embrace of *work-life balance* may be the best example of its recognition of the importance of non-instrumental relationships to enhance an organization's financial well-being.[84] However, note that under the TBL approach, work-life balance is less about creating non-instrumental relationships at work per se and more about recognizing the importance of non-instrumental relationships outside of work.[85] Moreover, work-life balance is justified in TBL management because it is seen as creating a more motivated, loyal, and productive workforce, which in turn enhances financial well-being.

### 5.3.3. The SET Approach to Meaningful Relationships

A SET management approach considers life too short to spend most of it in workplaces where non-instrumental relationships are considered inefficient or a poor use of time. SET management refuses to treat workplace relationships as mere instrumental exchanges between workers, suppliers, and customers, and economic relationships are not seen as impersonal or anonymous commodities but rather as instances of mutual assistance. This means rethinking categories like *goods* and *services* by looking at what makes them truly *good* and genuinely acts of *service*. SET management seeks to re-personalize and de-commodify goods and services, to embrace how they are making the world a better place; what are conventionally viewed as instrumental relationships are (re)infused with non-instrumental meaning. So, for example, a SET financial services firm does not sell as much product as possible in order to maximize its own profits but rather seeks to live up to its name and truly serve the needs of its customers. In SET organizations, co-workers become friends whom you look forward to spending the day with as you work alongside them to serve customers. Co-workers are much more than "human resources" that you negotiate with to get instrumental work accomplished. Even suppliers and competitors can become friends. Consider the following example from the CEO of a successful SET medical supply company in Brazil:

> Many businesses have tried to copy our [beyond instrumental] way of working. Our competitors are shocked by the fact that we are happy to show them how we work—and they try to do the same. They don't manage to copy our way of working, however, because it is not a formula that says, "do this" "do that" . . . it is a way of being, a way of acting.
>
> Last year there was a competitor who tried to attack us on every corner . . . creating a very difficult situation for our business. At a certain point, the law in Brazil changed and it was a very important change. In order to help this other business, we faxed the news to them. The business owner was so struck by our gesture that he not

> only wanted to reestablish his friendship with us, but he offered to help us in areas that we find difficult. It was through him that we had the idea of getting in a consultancy—the best decision that we ever made. That consultant was so impressed by how we run our business that he goes out of his way to help us in whatever way he can. *This all started through responding to the aggression of our competitors with a different attitude*.[86]

Perhaps most importantly, SET management reintroduces values of compassion and altruism into management, which a growing body of research suggests are an inherent part of human nature.[87] **Compassion** means standing alongside people who are suffering and doing what you can to support them. In management terms, it means creating organizational structures and systems that address the needs of people who are disadvantaged, perhaps especially people who may not have much in the way of instrumental resources to offer in return.[88] SET management's emphasis on compassion is consistent with people's values, but often inconsistent with their socially constructed expectations of management. For example, freshman students at Harvard University consistently ranked compassion near the top of their personal values (and power and wealth near the bottom) but ranked compassion near the bottom of what they thought Harvard stood for (and ranked success at the top).[89] What happens when managers are asked to park their compassion at the door?

*What happens when management students expect their education to place little emphasis on compassion?*

A discipline of gratitude can help people to become more content with having enough (not always needing more), which in turn is an important step in ensuring that others have enough and promoting prosocial relationships in the workplace. Managers who set up organizational structures and systems that model and encourage members to express gratefulness (e.g., managers who write notes of appreciation may heighten the likelihood of co-workers expressing thanks to others) will in turn foster values consistent with persistent gratitude (e.g., humility, benevolence), which will in turn foster collective gratitude at an organizational level (e.g., corporate social responsibility).[90] Such practices not only enhance individual well-being but also contribute to a more positive and supportive orga-

nizational culture, leading to increased job satisfaction and reduced turnover intentions.[91]

**Test Your Knowledge**

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## 5.4. Peace and Social Justice

The third pillar of social well-being is related to peace and social justice. This includes addressing issues like bullying in the workplace, unsafe working conditions, conflict within and between organizations, and so on.[92] Unfortunately, many people live in communities and countries where their personal safety is in jeopardy. This may be because they live in the "wrong" part of town—for example, where there are violent gangs and racism—or because they live in the "wrong" part of the world. In 2024, for example, fifty countries were ranked as having extreme, high, or turbulent levels of conflict,[93] with about 120 million people having been forcibly displaced.[94]

A lot of resources are spent keeping the world secure. In 2024, worldwide military spending totaled $2.4 trillion,[95] with about another $1 trillion in policing,[96] plus perhaps another $7 trillion in related costs (e.g., taking care of veterans),[97] in sum costing well over $10 trillion a year. This amounts to at least $1,200 for every person on the planet, and about 10 percent of global world product.[98]

*An estimated $10 trillion is spent every year keeping the world secure.*

### 5.4.1. Types and Sources of War and Peace

There are two basic ways to understand peace: (1) as the presence of freedom and harmony; and (2) as the absence of war and conflict. The first understanding is consistent with ancient ideas like *shalom* and *shanti*, which envision an existence where everyone has enough, and there is mutual understanding and respect within and among communities. Part of the reason that this vision has failed is because humankind has developed an insatiable appetite for more. Again, this is different from how things were for the 100,000 years of human history prior to the agricultural revolution and the advent of money, when people harvested as much food as they needed (not more) and traveled light. By today's standards, it was a largely egalitarian existence.[99] Perhaps the time has come to reconsider how we think about the purpose of business and put peace building at the center.[100]

*There are two basic ways to understand peace: (1) as the presence of freedom and harmony; and (2) as the absence of war and conflict.*

According to the second way of understanding peace—as the absence of war—international peace goes hand in hand with the presence of superpowers. For example, during the time of the Roman Empire, the world enjoyed the Pax Romana (Roman peace): there was much less conflict among states within the empire than before, mainly because everyone came under the rule of the empire, which established institutions of social justice. Of course, the nature of that social justice was based on terms and understandings created by the Roman elite and that served their interests. Thus, subjugated peoples often experienced the Pax Romana as a time of being oppressed by the Romans.[101] Arguably, a similar kind of peace also occurred during the period of colonialism, as illustrated by the British Empire and the territories it governed. And today it may be evident in post-colonial empires, where colonialism and the slave trade are gone but have been replaced by economic powers that often perpetuate income inequality similar to that associated with colonialism.[102] Unfortunately, the stable socio-economic structures and systems that widen income inequality also reduce the world's overall quality of life and have led to conflict.[103]

*Socio-economic structures and systems that widen income inequality also reduce the world's overall quality of life and have led to conflict.*

Perhaps the most important economic factor that has contributed to wars throughout history is related to the human and other energy needed to create society's goods and services. The relative egalitarianism characterizing the hunting and gathering era changed starting about 12,000 years ago, as humankind learned to tame nature via the agricultural revolution. While there had been variations in social status and power within clans during the hunting and gathering era, the growth of settlements made possible by the agricultural revolution led to greater development of hierarchical structures. Instead of small clans of forty or several hundred members, the leaders of settlements might oversee thousands of people, and leaders of regions tens of thousands. The workers near the bottom of these social hierarchies—often slaves—provided the human energy that enabled settlements and civilizations to prosper. The desire for more workers and more land prompted many wars. In the 3,400 years since the advent of money, the world has been entirely at peace for only 268 years, or about 8 percent of recorded history.[104]

As late as 1795, only 4 percent of the population—33 million people of the global population of 775 million—could be considered in a modern sense to be "free."[105] The demand for human slaves changed when humankind started to access fossil fuels to power machinery (in the Industrial Revolution; see Chapter 2). Thanks in large part to the energy provided by fossil fuels, today a much greater portion of the world is free from slave-like working conditions, though as of 2022, half the world was living on less than $7.00 per day.[106] However, just as in the past, when wars were fought in order to acquire more land and more worker energy, today wars are often fought in order to ensure access to oil.[107] Since 1973, between 25% and 50 percent of all wars between nation states have been linked to oil.[108]

### 5.4.2. The FBL Approach to Peace and Social Justice

There is general agreement that international trade facilitates peace among nations. When two countries trade with each other, they become dependent on each other for goods and services, and for jobs related to creating goods and services.[109] As we noted in Chapter 3, FBL management has promoted financial

institutions and the establishment of stable international economic relations. Many of these institutions were set up in the wake of World War II to safeguard the economic prosperity of the victors while enabling the economic development of war-torn and low-income countries. While these policies may have been effective in reducing subsequent wars, they were not as effective as hoped for in enhancing the socio-economic development of low-income countries.[110]

*There is general agreement that international trade facilitates peace among nations.*

Some of the shortcomings may be attributable to the particular ethnocentric orientation associated with FBL management. An **ethnocentric orientation** is evident when managers enter a foreign country with the belief that practices from their home country offer the best way to manage in a foreign country. Such an approach may be especially likely when managers believe that their home country is more advanced or developed than the country they are working in. While each approach to management (FBL, TBL, and SET) can be seen to have elements of an ethnocentric orientation, the form associated with FBL management is particularly interested in doing business in countries whose infrastructure is well-suited to enhance the financial goals of the firm and does not have a primary focus on improving social well-being.[111]

This sort of instrumentally minded ethnocentrism has contributed to major cultural misunderstandings in history and to ongoing social problems that continue to the present day. This is illustrated by what has happened to Indigenous peoples around the world when their land was settled by foreigners. For example, when Europeans first arrived in North America, their understanding of land ownership was dramatically different than the ideas and values of the Indigenous Ojibway people they encountered. For Ojibway, land is something that people can use, and something that they are stewards over for future generations. When the Europeans asked to make trades for property and land treaties, Ojibway saw this as a request to *share* the use of the land. They did not see this as giving up their ownership of the land because in their culture, that sort of ownership never existed in the first place. For them it would be presumptuous to think that a person could own a piece of land, because land was sacred and defied ownership (just like you could not “own” a god).[112]

Today, the dangers of an ethnocentric approach based on FBL management are especially apparent when managers from high-income countries use their economic power to implement practices in other countries without respecting or taking into account local socio-cultural considerations. This is perhaps most evident in the global mining industry.[113]

### 5.4.3. The TBL Approach to Peace and Social Justice

TBL management builds on and elaborates the FBL approach by setting up institutions that seek to improve financial well-being by attending to issues related to social well-being. For example, TBL management supports the United Nations Global Compact, which seeks to facilitate peace by calling on businesses to support human rights laws, eliminate forced or compulsory labor, abolish child labor, eliminate discrimination in the workplace, and work against all forms of corruption. The Global Compact has in turn become a founding member of institutions like the Principles of Responsible Investment and the Sustainable Stock Exchanges.

*The Global Compact seeks to facilitate peace by calling on businesses to support human rights laws, eliminate forced labor, abolish child labor, eliminate discrimination in the workplace, and work against all forms of corruption.*

Like FBL management, TBL management also exhibits its own variation of ethnocentrism, in a form that explicitly recognizes the merit of attending to views of other stakeholders. This is sometimes called a polycentric orientation. **Polycentrism** is evident when managers enter another country recognizing that the best way to manage involves attending to and adapting practices and customs from the host country. Managers with a polycentric orientation believe that the best way to maximize their firm's profits is to adapt to and exploit practices and customs evident in the countries in which they are working.[114]

### 5.4.4. The SET Approach to Peace and Social Justice

SET management believes that businesses should take a proactive role in devel-

oping social justice and peace, and in fostering community. This is consistent with the Caux Round Table (CRT) and its case for moral capitalism:

> Persons survive when their material needs are met; persons thrive when they are given opportunity to live in the full spirit of their inherent human dignity. Such integration of worldly goods and spiritual aspirations is the foundation for human well-being and happiness. To achieve this fundamentally beneficial and requisite integration, we need a moral community in which to live which provides scope and vision for our aspirations and talents. [115]

The CRT goes on to observe that "neither the law nor market forces are sufficient to ensure positive and productive—in every sense of the term—conduct." [116] In other words, as SET management practices, businesses need to go beyond merely obeying the law to actually creating positive social externalities, even if doing so does not maximize profits. This is evident in the CRT's stakeholder management guidelines, which include paying employees a living wage and treating customers with dignity and respect:

> Businesses must promote socially and environmentally responsible behavior with all parties.
>
> Businesses affect public policy and human rights in which they operate. They must do what they can to promote human rights, work with initiatives designed to promote community improvement and sustainable development and support social diversity. [117]

Again, like FBL and TBL management, the SET approach can also be seen to exhibit its own variation of ethnocentrism, but in a form that explicitly recognizes the merit of mutual learning from stakeholders, which can be called egalicentrism.[118] **Egalicentrism** is characterized by two-way, give-and-take communication that fosters mutual understanding and community. SET management does not try to impose a "one size fits all" management style in foreign countries (ethnocentrism), nor does it simply accept that "local managers know best" (polycentrism). Rather, SET management recognizes that international management works best when people from different cultures interact with and learn from one another, resulting in knowledge and practices that neither could imagine on their own.[119] Egalicentrism is not so much picking and choosing the "best of" practices from different cultures as it is developing new approaches by working alongside people who are different.

*Egalicentrism seeks to develop a new approach by working alongside people who are different.*

Coffee for Peace is an organization that exemplifies this approach through its daily operations.[120] It was co-founded in 2008 by current CEO Felicitas "Joji" Pantoja in a low-income region of Philippines, where her job had been to help reduce conflict among different groups living there. Its origins go back to 2006, when Pantoja was mediating a conflict over a land dispute between two parties and noticed that the dialogue improved over a cup of coffee.[121] This observation, coupled with Pantoja's belief that economic security and stability were key to sustaining social well-being and peace, emboldened her to start Coffee for Peace, which uses coffee farming as a tool for peacebuilding and economic development in conflict-affected areas. The enterprise intentionally creates opportunities for Muslims, Christians, and tribal communities to engage in constructive dialogue while working side-by-side in sustainable coffee production, processing, and consumption. For example, its "Peace Hut" in Mindanao allows military and rebel groups to meet without weapons and engage in dialogue over coffee[122].

By working directly with farming communities and eliminating middlemen, Coffee for Peace ensures farmers receive fair compensation for their crops. The enterprise provides extensive training in sustainable farming practices while using coffee as a tool for facilitating dialogue between conflicting groups. This integrated approach has led to measurable impacts: improved livelihoods for farming communities, enhanced environmental stewardship, and the creation of neutral spaces for constructive conversations between groups with a history of conflict.[123]

The organization's impact extends beyond peacebuilding: it has helped farmers increase their income dramatically from 30 to 50 pesos to 250 pesos per kilo of coffee beans, while training over 600 farmers—40 percent of whom are women—across thirteen tribal communities.[124] The organization allocates 25 percent of its annual net profits to support peacebuilding initiatives in Indigenous communities. Through this comprehensive approach combining economic empowerment, cultural preservation, and conflict resolution, Coffee for Peace has created a sustainable model where coffee cultivation becomes a pathway to both prosperity and peace.[125]

## Test Your Knowledge

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## 5.5. Entrepreneurial Implications

This chapter on social well-being and the two preceding it on financial and ecological well-being describe three different kinds of well-being that entrepreneurs can consider when thinking about the purpose of their entrepreneurship. The criteria entrepreneurs use to define effectiveness and success have powerful implications for the results that they produce. It is therefore essential that entrepreneurs clearly understand their reasons for starting an organization. Why do they want to do it? How will they know if it is successful?

As we noted in Chapter 1, outcomes like revenue, profit, and market share typically come to mind as reasons for starting a business. But these factors are not the primary motivations for most entrepreneurs. Instead, the two most frequently mentioned reasons are (1) to gain greater freedom and autonomy and/or more interesting work; and (2) to address social and ecological problems in the world. The first reason focuses on providing meaningful work for the entrepreneur,[126] and the second is related to addressing ethical issues related to ecological and social peace and justice.

### 5.5.1. Personal Well-Being for Entrepreneurs

To better understand how entrepreneurship enhances social well-being from the entrepreneur's perspective, consider research that shows people usually adopt one of three different orientations toward their work.[127] People with a *job orientation* focus on financial rewards rather than achievement or pleasure; their work is not an important part of their lives but is used primarily as a way to earn money for other things that they enjoy. If you know someone who describes themselves as "working to live" and who cannot wait to get away from the office to pursue their true passion, that person likely has a job orientation.

In contrast, people with a *career orientation* focus on advancement; their

work is an important part of their lives and their work-related achievements help to define their identity as individuals. If you know someone who is committed to being the best at what they do, who networks constantly and pursues opportunities for promotion, that person probably has a career orientation.

People with a *calling orientation* focus on the effects of their work; they view their work as a meaningful contribution to the world and it is often the most important thing in their life. If you know someone who feels they were born to do a particular task, that it is their mission in life and it seems to consume most of their time and thinking, that person may have a calling orientation.[128] This calling orientation is powerfully illustrated by entrepreneurs like David Sudolsky of Boldr and Joji Pantoja of Coffee for Peace. The calling orientation was the most common (40 percent) among North American mid-career employees (job orientation was 32 percent, career orientation 28 percent).[129]

The orientation that entrepreneurs have toward their work—job, career, or calling—will likely influence their choice of management approach. Entrepreneurs who have a job or career orientation may be more likely to adopt an FBL or TBL management style, given their concerns with maximizing profit, competition, and professional status. In contrast, entrepreneurs with a calling orientation, with its focus on meaningful work and contribution, may be best served by a SET management approach.[130]

*Being aware of their work orientation can help entrepreneurs in their planning and enhance their personal social well-being.*

Being aware of their work orientation can help entrepreneurs in their planning, and especially in selecting start-up opportunities that will enhance their personal social well-being. Since it is a lot of work to successfully launch and manage a new organization, entrepreneurs may benefit from pursuing opportunities that suit their orientations. If a person becomes an entrepreneur to get rich (job orientation), they will experience greater personal and social well-being in different ventures than those chosen by someone who starts an organization in order to win awards and gain recognition (career orientation) or to change the world (calling orientation). Therefore, when evaluating potential start-up opportunities, entrepreneurs should consider their own work orientation, using it as one of the factors that influence their choices. In particular, if you feel a sense of calling toward an

activity, it is well worth exploring that option, because people who view their work as a calling tend to have greater commitment, work persistence, and job satisfaction.[131] Moreover, pursuing a calling rather than a job or career has the additional advantage of potentially benefiting other stakeholders at the same time that it benefits the entrepreneur, since callings tend to be holistically focused.[132]

### 5.5.2. Ethical Aspects of Entrepreneurship

The second most frequently mentioned motivation for becoming an entrepreneur is to solve problems or make the world a better place. This relatively holistic motivation recognizes that entrepreneurship does not just affect the entrepreneur, it also affects the world. Because entrepreneurship affects others, it is an ethical activity, and entrepreneurs always face potential ethical dilemmas.[133] **Ethics** are the principles one uses to choose the right action, particularly when the action affects others, and **dilemmas** are situations in which one must choose when there is no obvious best choice.[134]

*Because entrepreneurship affects others, it is an ethical activity, and entrepreneurs constantly face potential ethical dilemmas.*

Both the entrepreneurial opportunity that is pursued and how it is pursued have important implications not only for the entrepreneur but for all of the stakeholders who do—and do not—benefit as a result. Recall also that whether or not something is ethical depends on the moral point of view being applied (Chapter 1). Consider this question: Was Sudolsky's decision to pay living wages to his employees globally and to invest 1 percent of quarterly revenue into community development unethical from an FBL consequential utilitarian moral point of view, where maximizing financial well-being is the primary arbiter of right and wrong? Would paying the going rate, instead of a living wage, be unethical from a SET virtue ethics perspective?

Consider also the actions of Boldr and Coffee for Peace in terms of the meaning of life dimensions depicted in Figure 5.1. Along the horizontal dimension, both companies' decisions could be seen as more holistic than individualistic. Their holistic emphasis is evident in Boldr's commitment to ensuring the greater good (including opening operations in poor regions and paying a living

wage), and Coffee for Peace's efforts to provide an opportunity for members of conflicting parties to work together for the common good of their community.

In terms of the vertical dimension of Figure 5.1, Boldr's and Coffee for Peace's actions can be interpreted as more transcendent than materialistic. While both have a grounding in materialism—ensuring fair compensation and economic empowerment—neither is primarily focused on maximizing individual financial gains. Rather, both organizations seek to create transformative change: Boldr by fostering authentic relationships and meaningful employment across cultures; and Coffee for Peace by using coffee as a tool for dialogue and peacebuilding, and by caring for the natural environment.

In sum, whether they realize it or not, entrepreneurs are shaping the world—affecting stakeholders' financial, ecological, and social well-being—when they create and manage their organizations. The things that organizations do, and do not do, reflect the ethics of the entrepreneurs who create them. It is therefore crucial that entrepreneurs think about their ethical assumptions and their motivations when creating their organization.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=608#h5p-33*

## Chapter Summary

1. What someone considers to be meaningful work is related to how they think about a meaningful life, including whether they think the source of meaning is materialistic or transcendent, and whether the focus is individualistic or holistic:
    - FBL management tends to have a materialistic/individualistic understanding of meaningful work, which

it seeks to fulfill via financial pay and getting ahead.

- TBL management tends to have either a transcendent/individualistic or a materialistic/holistic understanding of meaningful work, which it seeks to fulfill via job crafting and emphasizing the prosocial aspects of a job.
- SET management tends to have a transcendent/holistic understanding of meaningful work, which it seeks to fulfill via encouraging generosity and voluntary simplicity.

2. When it comes to nurturing meaningful relationships for organizational members:
    - FBL management promotes instrumental relationships that enable people to maximize financial well-being and get ahead.
    - TBL management promotes work-life balance.
    - SET management promotes putting the person back into what have become instrumental relationships, showing compassion and gratitude in the workplace, and recognizing the importance of non-instrumental relationships.
3. When it comes to ensuring peace and social justice for everyone:
    - FBL management emphasizes initiatives that promote international trade and practices that support financial well-being; it tends to have an ethnocentric orientation that focuses on self-interests and financial well-being.
    - TBL management emphasizes initiatives consistent with the UN Global Compact; it tends to seek optimal financial well-being by attending to others, or polycentricism.
    - SET management emphasizes initiatives consistent with the Caux Round Table for Moral Capitalism and fair trade; it tends to have an orientation based on mutual understanding among all stakeholders, or egalicentrism.
4. Entrepreneurs' orientation to their work—be it a job, a career, or a

calling orientation—will influence the social well-being associated with their organizations.

5. Because it influences the well-being of both entrepreneurs and stakeholders, all entrepreneurial activity has ethical implications, and entrepreneurs would do well to think deeply about the ethics they aspire to.

## Questions for Reflection and Discussion

1. Should management courses engage students in thinking about the meaning of life? Or is that better left to courses in philosophy? What are the default assumptions about the meaning of life likely to be in a business school if the issue is not openly discussed?
2. Ask three people you know if they think their job is meaningful. How do they define meaningfulness? Then ask them how well their work satisfies each of the three criteria for meaningful work that are discussed in this chapter. What have you learned from your friends as they talk about their experiences at work?
3. How important is it to you that you find meaningful work in your career? How important is it to ensure that when you become a manager, the people who report to you find their jobs to be meaningful? Would you prefer a job that is meaningful to you and pays $50,000 a year, or a job that is boring and pays $130,000 a year?
4. Do you think it is realistic for a manager to permit employees (or even encourage them) to invest time in developing non-instrumental relationships at work? Is there a business case for doing so (e.g., reducing turnover, improving productivity, attracting millennials)? What if there isn't a business case? Is de-commodifying relationships with suppliers and customers the right thing to do, even if this compromises the ability for an organization to maximize its financial well-being?
5. How important is it for businesses to nurture peace and security as a positive social externality? When is this best left to the government, or to the military? How big of a role do you think economic factors play in war? How important is energy?

6. How might businesses act as "everyday peace actors" through their routine operations and not just through extraordinary peacebuilding initiatives? Can you think of examples where a company's everyday decisions might have unintended consequences for peace or conflict in their community?
7. This chapter describes many different ways to think about the meaning of life and social well-being. What entrepreneurial opportunities do you see in those ideas? What is a problem you might be able to solve? A solution you could offer? Think of at least five ways an entrepreneur might create value in terms of social well-being.

## Notes

1. This chapter's opening case is based on the following sources: Anon. (2024, September 18). Global outsourcing leader Boldr: Impact report demonstrates payoffs of ethical outsourcing. *PR Newswire*. https://www.prnewswire.com/news-releases/global-outsourcing-leader-boldr-impact-report-demonstrates-payoffs-of-ethical-outsourcing-302251417.html; Boldr. (2022). *Certified B Corporation profile*. B Lab Global. https://www.bcorporation.net/en-us/find-a-b-corp/company/boldr; Boldr. (2023a). *Our impact*. https://boldrimpact.com/impact; Boldr. (2023b). *2023 Impact report*. https://boldrimpact.com/impact-report; Boldr. (2024). *Boldr economics and our theory of change* [Video]. Viewed December 16, 2024, at https://www.youtube.com/watch?v=dDeDmsi9B2o&t=15s&ab_channel=BoldrImpact; Martin, L. (Host). (2023). Building a mission-driven BPO: The story of Boldr Impact. (Interview with David Sudolsky). *The future workforce* [Podcast]. https://www.youtube.com/watch?v=3yRQJK53iUA&ab_channel=TimeDoctor
2. Boldr (2023b).
3. Martin (2023), at 13:00.
4. Boldr (2023b).
5. Note that some of the language used in the podcast may not be appropriate for all listeners.
6. These three dimensions build on three human needs that have featured prominently in the literature: growth (meaningful work), relatedness (meaningful relationships), and existence (secure access to basic essentials like food and shelter). Alderfer, C. P. (1969). An empirical test of a new theory of human needs. *Organizational Behavior and Human Performance*, 4(2): 142–175. https://psycnet.apa.org/doi/10.1016/0030-5073(69)90004-X

7. This framework adapts and builds on several reviews of the literature, including Rosso, B. D., Dekas, K. H., & Wrzesniewski, A. (2010). On the meaning of work: A theoretical integration and review. *Research in Organizational Behavior*, 30(5): 91–127. http://dx.doi.org/10.1016/j.riob.2010.09.001; Michaelson, C., Pratt, M. G., Grant, A. M., & Dunn, C. P. (2014). Meaningful work: Connecting business ethics and organization studies. *Journal of Business Ethics*, 121(1): 77–90. http://dx.doi.org/10.1007/s10551-013-1675-5. It also overlaps with the threefold understanding of well-being consisting of psychological well-being (e.g., meaningful work), social well-being (friendships), and physical well-being (related to physiological health) identified in Grant, A., Christianson, M., & Price, R. (2007). Happiness, health, or relationships: Managerial practices and employee well-being tradeoffs. *Academy of Management Executive*, 21(3): 51–63. http://dx.doi.org/10.5465/AMP.2007.26421238
8. For example, see Needleman, J. (1991). *Money and the meaning of life*. Doubleday.
9. Rosso et al. (2010).
10. Dyck, B. (2015). Spirituality, virtue, and management: Theory and evidence. In Sison, A. J. G. (Ed.), *Handbook of virtue ethics in business and management* (International Handbooks in Business Ethics series). Springer-Verlag.
11. For these data and more like them, see Astin, A. W., Astin, H. S., Lindholm, J. A., Bryant, A. N., Szelényi, K., & Calderone, S. (2005). *The spiritual life of college students: A national study of college students' search for meaning and purpose*. UCLA Higher Education Research Institute, Los Angeles, CA; Astin, A. W., Astin, H., Lindholm, J. A., Bryant, A., Calderone, S., & Szelényi, K. (2006). Spirituality and the professoriate: A national study of faculty beliefs, attitudes, and behaviors. *Spirituality in Higher Education*, 33(2): 64-90. See also Kim, Y. K., Carter, J. L., Rennick, L. A., & Fisher, D. (2023). The relationship between spiritual/religious engagement and affective college outcomes: An analysis by academic disciplines. *Journal of Interdisciplinary Studies in Education*, 12(2): 243–265. https://www.ojed.org/jise/article/view/5530
12. Leung, C. H., & Pong, H. K. (2021). Cross-sectional study of the relationship between the spiritual wellbeing and psychological health among university students. *PLOS One*, 16(4): e0249702. http://dx.doi.org/10.1371/journal.pone.0249702
13. Michaelson et al. (2014).
14. Kohlberg, L. (1969). Stage and sequence: The cognitive development approach to socialization. In D. A. Goslin (Ed.), *Handbook of socialization theory and research* (pp. 347–380). Rand McNally.
15. The following data and specific countries listed are drawn from research by Geert Hofstede, which remains among the most cited studies of cross-cultural differences for management. It is based on data collected between 1967 and 1973 from over 100,000 IBM employees working in sixty countries. Hofstede originally identified five dimensions of national culture: (1) individualism, (2) materialism, (3) time orientation, (4) deference to authority, and (5) uncertainty avoidance. In Figure 5.2, Hofstede's individualism scores were used to categorize countries along the individ-

ualistic vs. holistic continuum: holistic countries are ones where Hofstede's individualism score was from 6 through 26 (number of countries = 18); medium scores were from 27 through 60 (N = 18); and individualistic country scores were from 63 through 91 (N = 17). Hofstede's materialism scores were used to categorize countries along the materialistic vs. transcendent continuum: transcendent countries were ones where Hofstede's materialism score was from 5 through 43 (N = 17); medium scores were from 44 through 58 (N = 18); and materialistic country scores were from 61 through 95 (N = 18).For more information about these dimensions and data, see Hofstede's academic website, at http://www.geert-hofstede.com/; and Hofstede, G. (2003). *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations* (2nd ed.). Sage. See also Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Sage.Note that some of Hofstede's five dimensions have been relabeled. For example, what we call "materialism," others have identified as quantity vs. quality of life (Robbins, S. P., & Coulter, M. [2003]. *Management* [7th ed.]. Prentice-Hall); achievement vs. nurturing orientation (Jones, G. R., & George, J. M. [2003]. *Contemporary management* [3rd ed.]. McGraw-Hill Irwin); aggressive vs. passive goal behavior: (Griffin, R. W. [2002]. *Management* [7th ed.]. Houghton Mifflin); and masculinity/femininity (Hofstede's original label).Even though Hofstede's research is still widely used, we would expect changes to have taken place since he first collected his data. For example, consider the cultural and economic changes over the past few decades in countries like China and South Korea. Also, keep in mind that just as there tend to be differences *between* countries, there is also a lot of variation *within* countries (i.e., not everyone from the same country shares the same cultural values). Of course, there are other international data sets that have been collected since Hofstede assembled his data, including the World Values Survey. See for example Homocianu, D. (2024). Life satisfaction: insights from the World Values Survey. *Societies*, 14(7): 119. https://doi.org/10.3390/soc14070119; and Javidan, M., Dorfman, P. W., de Luque, M. S., & House, R. J. (2006). In the eyes of the beholder: Cross cultural lessons in leadership from Project GLOBE. *Academy of Management Perspectives*, 20(1): 67–90. http://dx.doi.org/10.5465/AMP.2006.19873410

16. A study of female managers in Costa Rica asked them to choose their preferred style among four types of managers: about 15% chose authoritarian (managers make decisions and expect subordinates to implement them) or persuasive (managers make decisions and explain them to subordinates before implemented) types. About 85 % chose either a consultative (managers consult with subordinates before making decisions) or participative style (managers present issues to subordinates and allow them to make decisions). Osland, J. S., Synder, M. M., & Hunter, L. (1998). A comparative study of managerial styles among female executives in Nicaragua and Costa Rica. *International Studies of Management & Organization*, 28(2): 54–73. https://www.proquest.com/docview/224065495?sourcetype=Scholarly Journals#
17. Valenciano-Salazar, J. A., André, F. J., & Martín–de Castro, G. (2022). Sustainability and firms' mission in a developing country: The case of voluntary certifications and

programs in Costa Rica. *Journal of Environmental Planning and Management*, 65(11): 2029–2053. http://dx.doi.org/10.1080/09640568.2021.1950658

18. Costa Rica's approach is being copied by other countries. Higgins, M. (2006, January 22). If it worked for Costa Rica . . . *New York Times*. http://query.nytimes.com/gst/fullpage.html?res=9E02E5DA143FF931A15752C0A9609C8B63&mcubz=0
19. Zbinden, S., & Lee, D. R. (2005). Paying for environmental services: An analysis of participation in Costa Rica's PSA program. *World Development*, 33(2): 255–272. https://doi.org/10.1016/j.worlddev.2004.07.012
20. However, the study's authors point out that it would not be suboptimal in terms of acquisitive economics if greater financial value were given to the "carbon fixing" value of the forests and if Costa Rica's government would receive compensation for this. Bulte, E. H., Joenje, M., & Jansen, H. G. P. (2000). Is there too much or too little natural forest in the Atlantic Zone of Costa Rica? *Canadian Journal of Forest Research*, 30(3): 495–506. https://doi.org/10.1139/x99-225
21. Marks, N., Abdallah, S., Simms A., & Thompson, S. (2006). *The (un)Happy Planet Index: An index of human well-being and environmental impact*. New Economics Foundation. https://www.researchgate.net/publication/312602893_The_unHappy_Planet_Index_An_index_of_human_well-being_and_environmental_impact
22. According to Data Commons, in 2023 GDP/capita in the United States was $ 81,695.19, and in Costa Rica it was 16,595.37. https://datacommons.org/place/country/USA?utm_medium=explore&mprop=amount&popt=EconomicActivity&cpv=activitySource,GrossDomesticProduction&hl=en; and https://datacommons.org/place/country/CRI?utm_medium=explore&mprop=amount&popt=EconomicActivity&cpv=activitySource,GrossDomesticProduction&hl=en
23. See the Global Footprint Network website, where you can find information about any other country and even calculate your own footprint: http://data.footprintnetwork.org/#/
24. For year 2023. Otiz-Ospina, E., & Roser, M. (2024, February). *Happiness and life satisfaction*. Our World in Data. https://ourworldindata.org/happiness-and-life-satisfaction
25. According to Central Intelligence Agency. (2025, February 13). United States. In *The World Factbook*. https://www.cia.gov/the-world-factbook/countries/united-states/; and Central Intelligence Agency. (2025, February 19). Costa Rica. In *The World Factbook*. https://www.cia.gov/the-world-factbook/countries/costa-rica/
26. Allan, B. A., Autin, K. L., & Duffy, R. D. (2016). Self-determination and meaningful work: Exploring socioeconomic constraints. *Frontiers in Psychology*, 7:71. https://doi.org/10.3389/fpsyg.2016.00071. Note that there is variation among workers as to what constitutes meaningful work. Beadle, R., & Knight, K. (2012). Virtue and meaningful work. *Business Ethics Quarterly*, 22(2): 433–450. http://dx.doi.org/10.5840/beq201222219. Meaningful work can be identified by three hallmarks: (1) the worker perceives it to have an identifiable purpose in the organization; (2) it is

consistent with and adds to the meaning of worker's broader personal life; and (3) it is beneficial to others and/or some greater good. Steger, M. F. (2017). Creating meaning and purpose at work. In L. G. Oades, M. F. Steger, A. D. Fave, & J. Passmore (Eds.), *The Wiley Blackwell handbook of the psychology of positivity and strengths-based approaches at work* (pp. 60–81). John Wiley & Sons.

27. Michaelson et al. (2014).
28. Michaelson et al. (2014). Managers need to pay special attention to meaningful work, because it is important to the new cohort of workers entering the workforce. When college students were asked what they valued most in a job, 28% said meaningful work, 25% said contribution to the greater good, 17% said intrinsic interest, and 8% said high anticipated earnings. Cited in Allan, B. A., Owens, R. L., & Duffy, R. D. (2016). Generation me or meaning? Exploring meaningful work in college students and career counselors. *Journal of Career Development* 44(6): 502–515. https://doi.org/10.1177/0894845316667599
29. Unless otherwise noted, all dollar amounts in this chapter are in US currency.The ,000 and 0,000 figures referred to in the text are based on White, J. (2014, March 30). Millennial generation eager to work, "but on their terms." *The Columbus Dispatch*. https://www.dispatch.com/story/business/2014/03/30/millennial-generation-eager-to-work/23887556007/. White's amounts of ,000 and 0,000 have been corrected for inflation (we used a correction factor of about 1.33, based on https://www.in2013dollars.com/us/inflation/2014?amount=1). The original findings are attributed to Jamie Gutfreund of Los Angeles-based Intelligence Group, which studies generational trends, and reported in White (2014). See also Winograd, M., & Hais, M. (2014, May 28). *How millennials could upend Wall Street and corporate America*. Brookings Institution. https://www.brookings.edu/wp-content/uploads/2016/06/Brookings_Winogradfinal.pdf
30. See reviews in Rosso et al. (2010); Berg, J. M., Dutton, J. E., & Wrzesniewski, A. (2013). Job crafting and meaningful work. In B. J. Dik, Z. S. Byrne, & M. F. Steger (Eds.), *Purpose and meaning in the workplace* (pp. 81–104). American Psychological Association; Michaelson et al. (2014); Tan, K.-L., Sim, A. K. S., Yap, S. S.-N., Vithayaporn, S., & Rachmawati, A. W. (2023). A systematic review of meaningful work unifying 20 years of theoretical and substantive contributions (2000–2020). *Journal of Advances in Management Research*, 20(3): 462–512. https://doi.org/10.1108/JAMR-11-2022-0225
31. Rosso et al. (2010).
32. The following studies describe the negative relationship between meaningful work and depression: Allan, B. A., Dexter, C., Kinsey, R., & Parker, S. (2018). Meaningful work and mental health: Job satisfaction as a moderator. *Journal of Mental Health*, 27(1): 38–44. https://doi.org/10.1080/09638237.2016.1244718; Mitra, R., & Buzzanell, P. M. (2016). Communicative tensions of meaningful work: The case of sustainability practitioners. *Human Relations*, 70(5): 519–543. https://doi.org/10.1177/0018726716663288; Schermuly, C. C., & Meyer, B. (2016). Good relationships at work: The effects of leader–member exchange and team–member exchange on psychological empowerment, emotional exhaustion, and depression. *Journal of*

*Organizational Behavior*, 37: 673–691. https://psycnet.apa.org/doi/10.1002/job.2060; Steger, M. F., Frazier, P., Oishi, S., & Kaler, M. (2006). The meaning in life questionnaire: Assessing the presence of and search for meaning in life. *Journal of Counseling Psychology*, 53(1): 80–93. https://doi.org/10.1037/0022-0167.53.1.80; cited in Allan, B. A., Douglass, R. P., Duffy, R. D., & McCarty, R. J. (2016). Meaningful work as a moderator of the relation between work stress and meaning in life. *Journal of Career Assessment*, 24(3): 429–440. https://psycnet.apa.org/doi/10.1177/1069072715599357

33. Howell, K. H., Coffey, J. K., Fosco, G. M., Kracke, K., Nelson, S. K., Rothman, E. F., & Grych, J. H. (2016). Seven reasons to invest in well-being. *Psychology of Violence*, 6(1): 8–14. https://psycnet.apa.org/doi/10.1037/vio0000019
34. Joyce, S., Modini, M., Christensen, H., Mykletun, A., Bryant, R., Mitchell, P. B., & Harvey, S. B. (2016). Workplace interventions for common mental disorders: A systematic meta-review. *Psychological Medicine*, 46(4): 683-697. http://dx.doi.org/10.1017/S0033291715002408
35. Taken from Greenberg, P. E., Fournier, A. A., Sisitsky, T., Simes, M., Berman, R., Koenigsberg, S. H., & Kessler, R. (2021). The economic burden of adults with major depressive disorder in the United States (2010 and 2018). *PharmacoEconomics* 39, 653–665. https://doi.org/10.1007/s40273-021-01019-4; Schermuly & Meyer (2016).
36. About 31% of workers were completely satisfied with their on-the-job stress levels, 37% somewhat satisfied, 19% somewhat dissatisfied, and 13% completely dissatisfied. It seems people have learned to be satisfied with stressful jobs: in terms of their overall job satisfaction that same year, 50% were completely satisfied with their job, 41% somewhat satisfied, 5% somewhat dissatisfied, and only 3% completely dissatisfied. Gallup. (n.d.). *Work and workplace*. http://www.gallup.com/poll/1720/work-work-place.aspx.
37. Page 11 in Burke, R. J. (2017). Work and well-being. In Burke, R. J., & Page, K. M. (Eds.), *Research handbook on work and well-being* (pp. 3–36). Edward Elgar.
38. As used in the Gallup research presented here, we use the term “overall well-being” to encompass career well-being (liking what you do), social well-being (strong relationships and love), financial well-being, physical well-being, and community well-being (engagement with where you live). Robinson, J. (2013). Small shifts in wellbeing have a big impact on performance. *Gallup Business Journal*. http://www.gallup.com/businessjournal/160511/small-shifts-wellbeing-big-impact-performance.aspx. Investing in overall well-being can enhance economic well-being via people being more creative and productive; overall well-being motivates people, improves health and longevity, reduces on-the-job conflict, improves work quality and efficiency, and reduces employee turnover and absenteeism. Howell et al. (2016).
39. Robinson (2013).
40. Robinson (2013). Howell et al. (2016) state: “We have learned from longitudinal studies that people with greater well-being and more positive affect go on to have

greater success in marriage, friendships, and work, earn higher incomes, experience better physical health, and are less likely to abuse substances."

41. Page 131 in Hawken, P. (1993). *The ecology of commerce: A declaration of sustainability*. HarperBusiness.
42. Walsh, D. (1994). *Selling out America's children: How America puts profits before values and what parents can do*. Fairview Press; taken from Batstone, D. (2005, July 20). Mass media are sucking out your kids' brains. *SojoMail*. Batstone presents two additional key values that Walsh identifies: violence is entertaining; and always seek pleasure and avoid boredom. It has also been argued that television plays a significant role in glamorizing affluence and cultivating viewers to become materialists: Shrum, L. J., Burroughs, J. E., & Rindfleisch, A. (2005). Television's cultivation of material values. *Journal of Consumer Research*, 32(3): 473–479, https://psycnet.apa.org/doi/10.1086/497559
43. Gallup. (n.d.). *Work and workplace*.
44. "Increased work hours, then, often provide short-term benefits in a sort of positive feedback loop, until the system becomes radically unstable for the overworked, often resulting in psychological trauma." Cheney, G., Zorn, T. E., Planalp, S., & Lair, D. J. (2008). Meaningful work and personal/social well-being organizational communication engages the meanings of work. *Annals of the International Communication Association*, 32(1): 137–185. http://dx.doi.org/10.1080/23808985.2008.11679077
45. Winograd & Hais (2014).
46. 39% of students preferred TBLa management, and 11% TBLb. Data based on students' in-class preferences collected by one of the authors.
47. Schermuly & Meyer (2016).
48. Berg et al. (2013).
49. Berg et al. (2013).
50. Purser, R. E., & Milillo, J. (2015). Mindfulness revisited: A Buddhist-based conceptualization. *Journal of Management Inquiry*, 24(1): 3–24. http://dx.doi.org/10.1177/1056492614532315
51. Grant, A. M. (2008). The significance of task significance: Job performance effects, relational mechanisms, and boundary conditions. *Journal of Applied Psychology*, 93(1): 108–124; https://psycnet.apa.org/doi/10.1037/0021-9010.93.1.108; Michaelson et al. (2014).
52. Tsutsumi, A., Nagami, M., Yoshikawa, T., Kogi, K., Kawakami, N. (2009). Participatory intervention for workplace improvements on mental health and job performance among blue-collar workers: A cluster randomized controlled trial. *Journal of Occupational and Environmental Medicine*, 51(5): 554–563. https://www.jstor.org/stable/45009501; Tan, L., Wang, M. J., Modini, M., Joyce, S., Mykletun, A., Christensen, H., & Harvey, S. B. (2014). Preventing the development of depression at work: A systematic review and meta-analysis of universal interventions in the workplace. *BMC Medicine*, 12(1): 74. https://doi.org/10.1186/1741-7015-12-74

53. Purser & Milillo (2015).
54. Page 182 in Weber, M. (1958). *The Protestant ethic and the spirit of capitalism* (T. Parsons, Trans.). Scribner's. (Originally published 1904–1905).
55. Page 429 in Smith, A. (1993). *An inquiry into the nature and causes of the wealth of nations* (K. Sutherland, Ed.). Oxford University Press. (Originally published 1776); cited in Michaelson et al. (2014).
56. Colbert, A. E., Bono, J. E., & Purvanova, R. K. (2016). Flourishing via workplace relationships: Moving beyond instrumental support. *Academy of Management Journal*, 59(4): 1199–1223. https://psycnet.apa.org/doi/10.5465/amj.2014.0506
57. According to Gallup, finding value in the non-financial meaningfulness of work seems to have been increasing. Between 1990 and 2010, 58% of respondents said they would continue working even if they won million (36% in their current job, 19% in a different job). Since 2010, 68% said they would continue working (44% in their current job, 23% in different job). This may suggest that many people work for reasons greater than financial well-being. Gallup. (n.d.). *Work and workplace*.
58. According to the literature reviewed by Robert Giacalone, the ratio between those holding primarily materialist values versus those holding these emerging nonmaterialist values changed from 4:1 in 1970 to 4:3 by 1990. Giacalone, R. A. (2004). A transcendent business education for the 21st century. *Academy of Management Learning and Education*, 3(4): 415–420. http://dx.doi.org/10.5465/AMLE.2004.15112547
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61. See Chapter 4.
62. Even so, there is also evidence to suggest that many people continue to see this gap as legitimate, perhaps because these views have become institutionalized. Blount, S., Jost, J. T., Pfeffer, J., & Hunyady, G. (2003). *Fair-market ideology: Its cognitive-motivational underpinnings* (Stanford GSB Research Paper No. 1816). Available at SSRN: http://ssrn.com/abstract=441005, or https://dx.doi.org/10.2139/ssrn.441005
63. Since the 1990s, interest in spirituality has increased significantly, and it is not unusual to find meditation rooms, chapels, prayer circles, and Bible studies in the workplace. Dyck, B., & Neubert, M. (2010). *Management: Current practices and new directions*. Cengage/Houghton Mifflin.
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16(5): 771–806. https://psycnet.apa.org/doi/10.1016/j.leaqua.2005.07.007

66. For these data and more like them, see Astin et al. (2005) and Astin et al. (2006). See also Kim et al. (2023); and anecdotal evidence in Finder, A. (2007, May 2). Matters of faith find a new prominence on campus. *The New York Times*. http://www.nytimes.com/2007/05/02/education/02spirituality.html?mcubz=0
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75. Colbert et al. (2016).
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Beck, T. E., Kulkarni, M., Solansky, S. T., & Travis, D. V. (2007). Radical change accidentally: The emergence and amplification of small change. *Academy of Management Journal*, 50(3): 515–543. https://psycnet.apa.org/doi/10.5465/AMJ.2007.25525647

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82. Along similar lines, a growing number of medical schools recognize the importance of going beyond merely teaching instrumental skills and are requiring medical students to take courses in the humanities that will improve their ability to see their patients as people. Dr. David Muller, the chair of medical education at the Mount Sinai School of Medicine, describes the merits of an art appreciation course for medical students: "To make a better doctor means to me—and I can't speak for everyone—one who sees the person and not just the patient . . . not just an organ system that is screwed up." Similarly, to make a better manager means seeing the person, and not simply the (commodified) customer, supplier, subordinate, or boss. Kennedy, R. (2006, April 17). At some medical schools, humanities join the curriculum. *The New York Times*. http://www.nytimes.com/2006/04/17/arts/design/17sina.html?ex=1146024000&en=6412dcc4b97ef90c&ei=5070&emc=eta1
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100. Bauer, T. (2021). Business for peace: A new paradigm for the theory of the firm. In *Alternative theories of the firm* (pp. 240–279). Routledge.
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102. Di Muzio (2016).
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related to global economic inequality. Ferro, S. (2015, December 1). How economic inequality makes terror attacks more likely. *HuffPost*. http://www.huffingtonpost.ca/entry/thomas-piketty-terrorism_us_565e24d2e4b08e945fed3e38

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105. Di Muzio (2016).
106. Schoch, M., Baah, S. K. T., Lakner, C., and Friedman, J. (2022, December 8). Half of the global population lives on less than US.85 per person per day. *World Bank Blogs*. https://blogs.worldbank.org/en/developmenttalk/half-global-population-lives-less-us685-person-day
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108. Colgan, J. D. (2013). Fueling the fire: Pathways from oil to war. *Quarterly Journal: International Security*, 38(2): 147–180. https://doi.org/10.1162/ISEC_a_00135
109. This observation goes back at least as far as Immanuel Kant (1795). Chatagnier, J. T., & Kavaklı, K. C. (2015). From economic competition to military combat: Export similarity and international conflict. *Journal of Conflict Resolution*, 61(7): 1510–1536. http://dx.doi.org/10.1177/0022002715613565; Kant, I. (1970). *Perpetual peace: A philosophical sketch*. Cambridge University Press. (Originally published 1795).
110. This suggests that removing free trade and international commerce will increase the likelihood of war. That said, just as competition will intensify the more two businesses are competing for the same customers and suppliers, so also wars are more likely when countries rely on the same customers or suppliers. Chatagnier & Kavaklı (2015).
111. These observations about the differences in orientation among the three approaches to management build on Laasch, O., & Conaway, R. (2015). *Principles of responsible management: Global sustainability, responsibility, and ethics*. Cengage Learning; Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, 84(12): 78–92. https://hbr.org/2006/12/strategy-and-society-the-link-between-competitive-advantage-and-corporate-social-responsibility
112. Based on a presentation by R. Miller (1993, March 29) at Asper School of Business, University of Manitoba. See also Stonechild, B. (2017). Recovering ancient spiritual paths. In J. Friesen & S. Heinrichs (Eds.), *Quest for respect* [Special edition of *Intotemak* magazine] (pp. 29–31).
113. Thomas, D. P., & Mitra, S. (2017). Global civil society and resistance to Canadian mining abroad: Building and enhancing the boomerang model. *Studies in Political*

*Economy*, 98(1): 48–70. http://dx.doi.org/10.1080/07078552.2017.1297020; Saunders, S. (2015, September 23). Mining injustice: Will human rights crimes by Canadian resource companies abroad feature in Munk-hosted foreign policy debate? *NOW Magazine*. https://nowtoronto.com/news/mining-injustice/

114. This discussion draws from and builds upon ideas found in Rüsen, J. (2004). How to overcome ethnocentrism: Approaches to a culture of recognition by history in the twenty-first century. *History and Theory*, 43(4): 118–129. https://www.researchgate.net/; Michailova, S., & Nielsen, B. B. (2006). MNCs and knowledge management: A typology and key features. *Journal of Knowledge Management*, 10(1): 44–54. http://dx.doi.org/10.1108/13673270610650094

115. Caux Round Table for Moral Capitalism (n.d.). *The case for moral capitalism*. Retrieved January 24, 2025, from at https://www.cauxroundtable.org/principles/

116. All quotes in the paragraph taken from Caux Round Table for Moral Capitalism (n.d.). *Principles*. Retrieved January 24, 2025, from https://www.cauxroundtable.org/principles/

117. Caux Round Table for Moral Capitalism (n.d.). *Principles*.

118. This discussion on ethnocentrism, polycentrism and egalicentrism draws from and builds upon ideas found in Rüsen (2004); Michailova & Nielsen. (2006); and Dickenson-Jones et al. (2014). See also Dyck & Neubert (2010).

119. Chen, F., Bapuji, H., Dyck, B., & Wang, X. (2012). I learned more than I taught: The hidden dimension of learning in knowledge transfer. *The Learning Organization*, 19(2): 109–120. https://doi.org/10.1108/09696471211201470

120. SET management also recognizes that businesses can play a role in addressing horizontal inequalities and reducing conflict risk through their routine operations, not just through extraordinary peacebuilding initiatives. Firms' relational strategies with stakeholders can significantly impact conflict risk in the broader societal network, especially when there are pre-existing horizontal inequalities between identity groups. Ganson, B., He, T. L., & Henisz, W. J. (2022). Business and peace: The impact of firm-stakeholder relational strategies on conflict risk. *Academy of Management Review*, 47(2): 259–281. https://doi.org/10.5465/amr.2019.0411. This approach views businesses as potential everyday peace actors, acknowledging that even small-scale, local actions can have significant impacts on social well-being and conflict dynamics. SET managers are encouraged to consider how their decisions and relational strategies might affect the structure of relationships between identity groups, and to intentionally work toward fostering inclusive interactions and removing conflict triggers.

121. Tañongon, C. E. (2025). The narrative construction of Coffee for Peace: An intertextual analysis of a social enterprise. In *Encyclopedia of information science and technology* (6th ed., pp. 1–14). IGI Global.

122. Kapdi, S., Huque, S., Mejicano, J. (n.d.). *Creating peace through coffee*. Aim2Flourish. https://aim2flourish.com/innovations/creating-peace-through-coffee

123. Rondubio, R. (n.d.). *Transforming communities, one cup of coffee at a time.* Aim2Flourish. https://aim2flourish.com/innovations/transforming-communities-

one-cup-of-coffee-at-a-time

124. Working closely with Indigenous groups like the Bagobo Tagabawa tribe in the Mt. Apo area, Coffee for Peace demonstrates how businesses can address cultural misunderstandings and land rights issues by incorporating traditional knowledge about companion planting and environmental protection.

125. Rather than imposing external solutions, Coffee for Peace works alongside Indigenous tribes and rural communities, integrating their traditional knowledge and deep connection to ancestral lands with environmentally conscious farming practices. This approach honors cultural heritage and traditional environmental stewardship while fostering economic opportunities and lasting peace through mutual understanding. By bringing people together through both dialogue and shared agricultural work, Coffee for Peace helps bridge historical divides between communities while also ensuring the land itself is protected for future generations.

126. Thus, it is not surprising that most entrepreneurship research and teaching focuses on the individual level of analysis: entrepreneurs are most frequently described in terms of their traits, actions, and outcomes. Ladd, T. (2016). Customer development and effectuation: A review of textbooks to teach a contemporary introduction to entrepreneurship. *Management Teaching Review*, 1: 205–210. http://dx.doi.org/10.1177/2379298116636636

127. Wrzesniewski, A., McCauley, C., Rozin, P., & Schwartz, B. (1997). Jobs, careers, and callings: People's relations to their work. *Journal of Research in Personality*, 31(1): 21–33. https://psycnet.apa.org/doi/10.1006/jrpe.1997.2162

128. While one might assume that some types of jobs are more likely to produce different orientations, this intuition appears to be wrong. Surveys of people doing exactly the same job show relatively equal numbers of each kind of orientation (Wrzesniewski et al., 1997). In other words, two people doing exactly the same task may have very different orientations to that task: one may view it as a job, while the other sees the same task as a calling. Likewise, there are people who feel a calling orientation toward what most would see as bad work, and there are people who have a job orientation toward work that many observers might consider highly meaningful and important. See Dik, B. J., & Duffy, R. D. (2009). Calling and vocation at work: Definitions and prospects for research and practice. *The Counseling Psychologist*, 37(3): 424–450. https://psycnet.apa.org/doi/10.1177/0011000008316430. The causes of work orientations are not well understood, but the orientations appear to be stable individual differences; like different personality traits, each of us appears to have a particular orientation to any given task.

129. Mantler, J., Campbell, B., & Dupré, K. E. (2022). Jobs, careers, and callings: Exploring work orientation at mid-career. *Journal of Career Development*, 49(5): 1152–1167. https://doi.org/10.1177/08948453211022845. In contrast, the three orientations were relatively evenly distributed in a study published thirty-five years earlier, suggesting the calling orientation may be on the rise (Wrzesniewski et al., 1997).

130. Of course, all options are possible. Some FBL entrepreneurs may feel that their cre-

ation of ever-greater profit is a calling and one that contributes to society, just as some SET entrepreneurs may take on tasks in which they see little value in order to make the money to achieve their ultimate goals. However, such cases are likely rare.

131. Duffy, R. D., Dik, B. J., & Steger, M. F. (2011). Calling and work-related outcomes: Career commitment as a mediator. *Journal of Vocational Behavior*, 78(2): 210–218. https://psycnet.apa.org/doi/10.1016/j.jvb.2010.09.013

132. Of course, even without intending to, other work orientations can also lead to the development of entrepreneurial ventures that create positive externalities.

133. Joseph, J., Katsos, J. E., & Van Buren III, H. J. (2022). Entrepreneurship and peace-building: A review and synthesis. *Business & Society*, 62(2): 322–362. https://doi.org/10.1177/00076503221084638

134. For example, imagine that you are choosing an outfit for an exciting date this weekend. You have two equally appealing outfits and cannot decide which one to wear. This choice is a dilemma, because there is no clearly better option, but it is not a particularly ethical dilemma. In contrast, imagine that you have discovered a new drug that can be developed to cure cancer or heart disease. Should you develop the drug? Of course, that decision is not a dilemma. But suppose there is a limited supply of the ingredients you need and no way to get more. Therefore, you can only develop the drug to cure one of the two conditions, either cancer or heart disease, but not both. Which should you develop? That choice is an ethical dilemma: there are very good reasons to choose either option, and whichever one you choose will benefit some people at the expense of others.

# 6. Entrepreneurship


- Learning Goals
- 6.0. Opening Case – MAD Travel: Making a Difference Through Sustainable Tourism
- 6.1. Introduction
- 6.2. The Importance of Entrepreneurship
- 6.3. The Four-Step Entrepreneurial Process
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 6 provides an overview of the benefits of entrepreneurship and the four steps of the entrepreneurial process as summarized in the following table and in the whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Most valued benefits of entrepreneurship** | | | |
| • as new start-up | • economic activity (and jobs and innovation) | • satisfying jobs<br>• (and economic activity and innovation) | • socio-ecological<br>• innovation (and creating meaningful jobs and economic activity) |
| • as small enterprise | • opportunity for<br>• growth/financial<br>• return (and to target specific opportunities) | • opportunity for growth via targeting specific/ narrow triple bottom-line opportunities | • opportunity to create socio-ecological value for a local community (and for growth and specific opportunity) |
| • as family business | • low agency costs | • low agency costs and care for family | • care for humankind |
| **Four steps of the entrepreneurial process** | | | |
| 1. Identify an opportunity | • to seek financial value capture | • to seek financial value capture via reducing negative externalities | • seek value creation through positive socio-ecological externalities |
| 2. Test the idea | • to gather information to test and refine the opportunity | | |
| 3. Develop a plan (business plan and Entrepreneurial Start-Up Plan) | • to convince stakeholders of profit potential | • to justify the profitability of reducing targeted externality | • to engage stakeholders in developing the key aspects of the organization |
| 4. Take action (based on qualities of entrepreneurs and key resources) | • access traditional sources of financing (e.g., banks, venture capitalists); use this to mobilize other resources called for in the plan | • access new and/or traditional sources of financing; use this to mobilize other resources called for in the plan | • consider newer sources of financing (e.g., crowdfunding) to get started; then work with stakeholders to mobilize resources to run the organization |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=80*

## Learning Goals

After reading this chapter, you should be able to:

1. Identify contributions entrepreneurs make to society.
2. Explain how entrepreneurship is similar to and different from running a family business and a small business.
3. Describe the four main steps in the entrepreneurial process and explain its cyclical nature.
4. Identify and describe the elements of a business plan and of an Entrepreneurial Start-Up Plan.

## 6.0. Opening Case – MAD Travel: Making a Difference Through Sustainable Tourism

In 2015, Rafael Ignacio S. Dionisio, then in his twenties, stood at the edge of a barren landscape in Zambales, Philippines, surveying what was once lush forestland.[1] The scene before him represented both a challenge and an opportunity. The degraded land belonged to the Indigenous Aeta community, which had struggled for generations with poverty and food insecurity. However, where others saw desolation, Dionisio envisioned a transformed landscape, one where sustainable tourism could fund reforestation efforts while providing economic opportunities for the marginalized Aeta people.

This vision would eventually become MAD (Make A Difference) Travel, a social enterprise that would demonstrate how tourism could serve as a vehicle for environmental conservation and community development. However, like many entrepreneurial journeys, the path from idea to impact was neither straight nor simple.

The entrepreneurial opportunity became clearer when Dionisio began working closely with the Aeta community in Zambales. He observed that while the area had immense potential for tourism, traditional tourism models often excluded Indigenous communities from meaningful economic participation while

contributing to environmental degradation. This insight led to the development of MAD Travel's innovative approach: immersive restoration tours that would engage visitors in community culture, tree planting, and environmental conservation.

To test his concept, Dionisio started small, organizing pilot tours that brought visitors to the Aeta community. These initial experiments revealed both challenges and opportunities. While visitors were deeply moved by the experience and eager to contribute to reforestation efforts, the logistics of managing tours in remote areas while ensuring consistent quality and community benefit required careful planning. The pilot phase also highlighted the need for comprehensive community training in hospitality, tour guiding, and sustainable agriculture.

Perhaps the most important thing Dionisio demonstrated during the pilot testing was the importance of listening to and learning from Indigenous communities, which lies at the heart of transformation and reconciliation. Dionisio was moved when, after the first tour had visited an Indigenous community, the chieftain rejected the money (the equivalent of about two months' earnings) Dionisio wanted to pay for hosting the tour.

> And he said something I'll never forget. He said: "Look at our ancestral domain. It's 3,000 hectares, but it's empty. If you give me money I might spend it on cellphone credits, I might spend it on three-in-one coffee, or I might spend it on cigarettes which the men like. And that's not sustainable. No one will benefit in the long term."
>
> So, I asked, "What do you want? Because I have to give you something. We're business partners and I brought too many people [to visit you] not to pay you anything." And he said: "Well, if you're coming back maybe you can bring seeds because our land is empty. If you bring seeds, even if someone steals it, they're still going to plant it, and my kids and grandkids can still benefit from that growth." And so, I was really moved by this guy who finished only fourth grade and was really thinking about long-term sustainability over money in the short-term. . . .
>
> We found that we really had to listen to their dreams, and make their dreams ours, before they decided to help us in our dreams. So, it was not us walking in and saying: "Oh, you need this, you need that." *It was us walking in, listening to them, and then together we say, "Maybe we can work on this together." And that's what we did. So, we used this as a model and the plan expanded*.[2]

Building on these experiences, Dionisio developed a comprehensive plan that went beyond simple tourism. MAD Travel would create multiple revenue streams for communities through tourism, product development, and agroforestry. The plan included training fifty-two families in Yangil, Zambales, in various aspects of ecotourism and sustainable agriculture. A particular focus was placed on the

Kasuy ng Kababaihan project, which would eventually plant 20,000 cashew trees, providing a sustainable income source for local women.

Acting on this plan required mobilizing resources and building further partnerships. Dionisio worked to secure support from various stakeholders, including the Department of Tourism, local government units, and environmental organizations. He also developed innovative funding mechanisms, such as tree-planting gift cards and digital courses on social enterprise and design thinking, to sustain the initiative's growth.

The COVID-19 pandemic presented unprecedented challenges to the tourism-based model, but it also sparked innovation. MAD Travel pivoted to launch new initiatives like MAD Market, an online platform connecting urban consumers with Indigenous producers, and MAD Courses, providing online education on social enterprise and sustainability.[3] In a compelling interview on Our Awesome Planet, Dionisio shared the story behind MAD Market's creation and its mission to make a difference through everyday groceries. The podcast reveals how MAD Market became more than just a pandemic pivot—it evolved into a powerful platform for redistributing wealth and value to local farmers, communities, and small businesses across the Philippines. Through this initiative, simple acts like weekly grocery shopping became opportunities for meaningful social impact, allowing urban consumers to support vulnerable sectors while staying safe at home during the lockdown.

https://youtube.com/watch?v=NxLkgrJPEVI%3Fsi%3Doi-jcZwTb6vDzVRDJ

The Story of MAD (Making a Difference). Source: https://www.youtube.com/live/NxLkgrJPEVI?si=pToZXSzbk8WtnI-P

## 6.1. Introduction

While the rest of this book focuses on management issues that are relevant to any type of *existing* organization, this chapter starts with a brief description of entrepreneurial *start-ups*, including small and family-run organizations. We then focus on the four-step entrepreneurial process for creating new organizations. This includes the development of business plans and Entrepreneurial Start-Up Plans (ESUPs), which serve to introduce some key content found in the rest of the

book. As always, we contrast and compare implications for different approaches to management: Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET).

## 6.2. The Importance of Entrepreneurship

Recall from Chapter 1 that an **entrepreneur** is someone who conceives of new or improved goods or services and exhibits the initiative to develop that idea by making plans and mobilizing the necessary resources to convert the idea into reality. The most familiar type of entrepreneurs, and the focus of this chapter, are so-called classic entrepreneurs— those who start new organizations to pursue their ideas.[4]

Almost every organization you know of (e.g., Tesla, Microsoft, FedEx, and the pizza place down the street) had an entrepreneurial beginning, and such new organizations are vitally important, especially in terms of creating new jobs. For example, over the past forty years in the United States, new organizations have *created* an average of three million jobs per year, while existing firms have actually *reduced* the number of jobs by an average of one million jobs per year.[5] In other words, the only reason that the United States has had job growth in the past forty years is because classic entrepreneurs were creating new jobs at a faster rate than existing firms were eliminating them through downsizing and offshoring. The same pattern has been observed all over the world: new businesses are the source of most new jobs.[6]

Entrepreneurial start-ups are also important for the innovations they provide to society. Research shows that as organizations grow older, they are less likely to develop innovative solutions.[7] Radical new solutions are more likely to come from new organizations. In fact, more than half of all innovations—and 95 percent of radical, industry-changing innovations—have come from entrepreneurs.[8] This phenomenon of new entrepreneurial organizations leading the way for older ones may help to explain why young people feel drawn toward entrepreneurship. In a 2014 survey, 70 percent of millennials reported that they expected to work independently to create something new during their careers.[9] Even though entrepreneurs are important sources of innovation, most replicate existing goods and services, using known process and technology.[10]

*More than half of all innovations—and 95 percent of radical, industry-changing innovations—come from entrepreneurs.*

### 6.2.1. Entrepreneurship and Small Business

The terms "entrepreneur" and "small business manager" are often used interchangeably, because most entrepreneurs are also small business managers. Nonetheless, some entrepreneurs manage large businesses (e.g., Tesla, Grameen Bank), and not all small business managers are entrepreneurs (e.g., the manager of the local hardware store who inherited it from their parents may not be an entrepreneur). Entrepreneurial organizations are distinguished by doing something new (including replicating an existing service but for a new region or clientele), whereas small- and medium-sized enterprises (SMEs) are defined by their size, not by whether they have launched something new. Many criteria can be used to judge an organization's size (e.g., revenue, assets, ownership structure), but the most commonly used criterion is the number of employees. Governments such as those in Canada, the United States, and the European Union define a small organization as one with fewer than 100 employees, and a medium-sized organization as having from 100 to 500 employees.

Because of their size, SMEs differ from large organizations in important ways. For one, SMEs have smaller budgets, so their fixed costs of operation tend to be relatively large and thus a greater burden. **Fixed costs** are business expenses that do not vary with the quantity of organizational output (e.g., the rent payments for a coffee shop are the same, no matter how much coffee it sells). As well, SMEs have fewer resources to compete with other organizations, such as high wages and promotion packages to offer employees, or large marketing budgets to attract customers. In addition, SME operations often are not large enough to benefit from economies of scale. **Economies of scale** are cost savings that arise from producing a large volume of output. For example, mass production of automobiles along an assembly line leads to a much lower cost per car than does building individual autos in small numbers. SMEs also have fewer options for buffering economic downturns; their limited internal resources often lead to lower credit ratings and less access to external resources, and their small number of employees and smaller operations mean that SMEs are generally less diverse, both in their operations and in their staff. These differences combine to create two important effects. First, SMEs are far more common in service industries

than in manufacturing. Second, SMEs suffer from the **liability of smallness**, which refers to small organizations' greater chance of failing compared to larger organizations in the same industry or situation.[11]

In addition, entrepreneurs starting small businesses will also suffer from the **liability of newness**, which refers to new organizations' greater chance of failing compared to older organizations in the same industry or situation. Older organizations have established reputations and past successes. Their members have had the chance to develop routines and adjust to their work. All of these features may make older organizations more resilient and better able to secure resources from the environment (though existing businesses that create negative social and ecological resources may not be well suited to attracting resources in a market that increasingly values sustainable business). Indeed, research suggests that 20 percent of new businesses fail within the first year of operation, and 50 percent within the first five years of founding.[12] However, innovative SMEs can overcome these limitations through strategic partnerships and community engagement. MAD Travel, for instance, developed partnerships with organizations like the Hineleban Foundation and celebrity advocates to amplify their impact beyond the limits of their size and newness.

SMEs may be more nimble than large corporations, as was evident when the COVID-19 pandemic demonstrated how innovative SMEs can adapt to severe challenges. When traditional tourism became impossible, MAD Travel was able to launch two new online initiatives, MAD Market and MAD Courses. This adaptability helped sustain community income during the crisis while expanding the organization's impact beyond traditional tourism.[13]

Despite the challenges they face, SMEs are the core of most national economies. In Canada, 98 percent of all businesses have fewer than 100 employees, and those small organizations employ 8.2 million people, which is more than 70 percent of all private (non-government) jobs in the country.[14] SMEs represent over 97 percent of all firms in countries like Australia, Belgium, Canada, Chile, Japan, New Zealand, Thailand, and the United States.

SMEs not only create jobs, they also tend to create jobs that lead to enhanced social well-being. Surveys suggest that employees in SMEs enjoy higher job satisfaction, better working conditions, more control at work, and have less desire to quit.[15] Small businesses also may offer employees the opportunity to develop and use a wider variety of skills, and to see more clearly how their work relates to the organization's mission and outcomes.[16] Both of these opportunities tend to make jobs more satisfying and meaningful.[17]

*Employees in small- and medium-sized businesses enjoy higher job satisfaction, better working conditions, and more meaningful jobs.*

SMEs are also increasingly becoming drivers of sustainable development, with most new entrepreneurs in most countries identifying one of the UN's Sustainable Development Goal as a priority.[18] MAD Travel's experience shows how SMEs can create multiple value streams that benefit both local communities and the environment. Their model of combining tourism revenue with sustainable agriculture and product development enabled their partner communities to increase their resilience and economic stability.

### 6.2.2. Entrepreneurship and Family Business

As with SMEs, the idea of a family business is also sometimes confused with entrepreneurship, because it is not unusual for start-ups to be managed by a family. Nonetheless, family business and entrepreneurship are two distinct ideas. This is illustrated by the fact that many family-controlled organizations are long past the start-up phase (e.g., Samsung, Walmart, Nike, and Mars). A **family business** is an organization controlled by two or more members of a single family, in cooperation or in succession. A **family** is a group of people—typically connected by marriage or kinship ties—who have a shared history, who feel a sense of collective belonging, and who are committed to helping each other build a shared future. For example, if one spouse manages a restaurant while the other handles its accounting and inventory, that restaurant is a family business, as is a firm where an entrepreneur retires and passes control of the organization to their children. Spouses, siblings, and children are the family members most commonly involved, but some family businesses also include in-laws, cousins, and more distant relations.[19]

A hallmark of family business is the strong interpersonal relationships associated with being family members. When making business decisions, family members will think about their family as well as the organization, and issues in the family may influence how members interact. These facts create distinctive advantages and disadvantages.[20]

Family businesses may enjoy at least three advantages. First, family members are often highly motivated to see the organization succeed. They may be willing to stay with a troubled firm or to make sacrifices for its benefit in order to

safeguard the future of their family. Second, being a family firm can help attract customers and partners, as "family owned and operated" advertising is often taken to mean that stakeholders will receive better, kinder treatment from the organization.[21] Third, the higher levels of trust and cooperation in families can simplify management and reduce the financial costs of control. In particular, family firms have lower agency costs than non-family firms.

*Members of a family business may willingly make sacrifices to benefit the firm.*

**Agency costs** refers to the expenses that owners pay to ensure that managers act in the interests of the firm rather than in their own self-interest. Agency theory uses the term **moral hazard** to describe the risk that managers might use the firm's resources to benefit other interests to the detriment of the owners' financial gain. Moral hazard arises when two conditions are met: (1) managers and owners have misaligned incentives such that managers are rewarded for organizational outcomes that the owners do not favor; and (2) there is information asymmetry between managers and owners such that owners have trouble evaluating the performance and choices of managers, because managers know more about organizational operations and can control what information is shared with owners. Since managers in family-owned businesses are often family members, these firms will generally have lower levels of misaligned incentives and information asymmetry, and thus lower agency costs.[22]

However, family businesses also must confront some disadvantages. If success requires sacrifices (e.g., high debt, long hours), members may believe that the business is being placed ahead of the family, decreasing the quality of relationships within the family. Interpersonal conflict in the family may also influence the business. For example, if a married couple starts an organization and then gets divorced, the business may be torn apart. The two brothers who founded the Dassler Brothers Shoe Company, Adi and Rudy, had a serious conflict with each other and their wives did not get along. So the brothers divided their company: Adi started Adidas, and Rudy started Puma. Their continued fighting with each other distracted them from the threat of a then-new start-up named Nike.[23]

Moreover, how one treats family members may not always fit with how one

treats business partners. If a family business includes two children but one of those children is clearly more motivated or more competent, how should rewards be distributed? The issue of rewards and performance reviews is also complicated for non-family employees. It is easy for managers to be biased in favor of their family members, and even when they are not, employees may believe such favoritism exists. And if operations go badly, so that the owner has to choose between firing a child or firing the best salesperson in the firm, either choice can have serious consequences. **Nepotism** refers to preferential treatment of relatives and friends, especially by giving them jobs for which they are not the most qualified. While nepotism is typically not illegal, it is often seen as unfair and is frequently a poor business choice. Nonetheless, nepotism is not unusual in family businesses, and frequently trumps other decision-making criteria.

*If a family business includes two children but one of those children is clearly more motivated or more competent, how should rewards be distributed?*

### 6.2.3. FBL, TBL, and SET Approaches to Entrepreneurship

FBL, TBL, and SET approaches to entrepreneurship have important differences. FBL entrepreneurs are most concerned with financial returns, and so are most likely to be concerned with how new ventures contribute to economic activity and growth. Small businesses may be especially attractive to them because their small budgets can produce relatively high rates of return, especially if they grow quickly. Likewise, with regard to family business, FBL entrepreneurs are likely to value the reduced agency costs, the potential for low labor costs during the early years, and the ability to provide family members with relatively high pay after the firm has become a financial success.

Like FBL entrepreneurs, TBL entrepreneurs seek to create jobs, but in addition they seek to create jobs that are more satisfying and loyalty-inspiring for employees, even when they are paid less than in large firms. The TBL approach is evident in small businesses that target specific ways to profitably reduce negative externalities. For example, Tom Szaky founded TerraCycle after he discovered that he could profitably take waste from the kitchen at the university where he was a student, feed that waste to worms, and sell the worms' excrement in

used soda bottles as plant fertilizer.[24] The TBL view of family business is also similar to that of FBL entrepreneurs, but with more recognition of opportunities to bring family members closer together and to take care of the next generation.[25]

From a SET perspective, perhaps the most important benefit of entrepreneurship is its potential for creating positive socio-ecological innovations. With regard to the advantages of a small business, a SET view shares the FBL and TBL appreciation for low start-up costs and the ability to adopt a narrowly focused strategy, but SET management would also value the greater connection that small businesses often have with their surroundings and the resulting opportunity to build community. If a small business is focused on local stakeholders, it contributes to the local multiplier effect and reduces greenhouse gas–emitting travel. In terms of family business, SET entrepreneurs may often adopt a broader view, focusing on not just their own family, but on humanity or the world as a whole. For example, some SET entrepreneurs have created so-called "universal family firms" that take care of employees and other stakeholders as though they were family members.[26]

## Test Your Knowledge

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*From a SET perspective, perhaps the most important benefit of entrepreneurship is its potential for creating positive socio-ecological innovations.*

## 6.3. The Four-Step Entrepreneurial Process

Progressing from the initial inspiration for a new a product or service all the way through to developing and managing an organization that offers that product or service can be a long, complex, and difficult journey that involves experimentation, learning, and stakeholder engagement. As such, it is useful to think of the

entrepreneurial process as having four basic steps that often flow back and forth between each other.

### 6.3.1. Step 1: Identify an Opportunity

The essential first step in entrepreneurship is to identify an opportunity to pursue. **Opportunity identification** is the process of selecting promising entrepreneurial ideas for further development. Some people mistakenly believe that the biggest challenge of entrepreneurship is coming up with ideas for new products or services, but the greater challenge is actually to identify *good* ideas, that is, ideas that meet a genuine opportunity or need in the marketplace. If you have ever seen a goofy or unsuccessful product in a discount store or on a shopping channel, or watched *Dragons' Den* or *Shark Tank*, then you know that not all entrepreneurial ideas are equally good.

Sometimes the entrepreneurial opportunity involves purchasing an existing organization. This might be a chance to purchase a franchise for a given location, which allows an entrepreneur to acquire everything that is necessary to open an organization affiliated with a larger brand (e.g., McDonald's, Lululemon, One World is Enough[27]). At other times, the entrepreneurial opportunity involves purchasing an organization that is already operating rather than starting from nothing. It can be especially rewarding to purchase an existing business that is underperforming and use one's creativity and energy to make it successful.

However, entrepreneurship usually starts with identifying an opportunity that results in creating an entirely new organization. Having an *entrepreneurial mindset*, which enables entrepreneurs to look at situations in new ways, is one of the most important factors in identifying such opportunities.[28] For example, where others saw degraded land, Dionisio saw an opportunity to create a revolutionary form of sustainable tourism. Consider a simple experiment. One class of schoolchildren is shown a picture of a person in a wheelchair and asked, "Can this person drive a car?" The students all answer "no" and give many reasons why not. But when another class is shown the same picture and asked, "How can this person drive a car?" the students generate many creative ideas to help a person who uses a wheelchair to drive a car.[29]

*An entrepreneurial mindset is a distinct way of seeing and asking questions.*

Entrepreneurs are more likely to consider how something can be accomplished rather than think of reasons why it can't be done. This orientation can be applied on a relatively small scale, such as realizing that a specific market has an unmet need (e.g., there is no fusion restaurant in the neighborhood). Or it can be applied on a large scale, requiring the entrepreneur to create the market as well as the organization. When the founders of Manitoba Harvest Hemp Foods had the idea to sell hemp seed as a health food in North America, there was no demand or supply for their product. They had to lobby the government for permission (growing hemp was previously illegal), source the seeds by teaching and encouraging farmers to grow the plants, develop machinery to extract and process hemp seed, conduct research to show its health benefits, and motivate consumers to buy the product. At one point Manitoba Harvest held 66 percent of the North American hemp seed market.[30]

The sources of opportunities can include changing demographic trends (e.g., an aging population), new technologies (e.g., AI), unexpected events (e.g., COVID-19), known gaps in the market (e.g., how to solve problematic addiction to social media, affluenza), and personal experience (e.g., observations while traveling, visiting with friends, pursuing hobbies). One useful way to identify potential entrepreneurial opportunities is to consider the three types of well-being (described in Chapters 3 to 5) with the goal of creating positive externalities while reducing negative externalities. Today it is common for new entrepreneurs to prioritize good environmental or sustainability practices above economic performance.[31] All entrepreneurs have to consider financial well-being outcomes; FBL and TBL organizations seek to maximize them for the organization, while SET organizations need to at least maintain financial viability. But different management approaches pay differing amounts of attention to social and ecological well-being outcomes. As a result, different types of entrepreneurs will focus on different kinds of opportunities.

#### FBL, TBL, and SET Approaches to Identifying an Opportunity

FBL entrepreneurs are constantly looking for more financially rewarding ways to meet needs and wants. They look for places where they can outperform existing competitors, either by lowering financial costs or by providing unique added value. They look for opportunities to invest resources that will yield a higher financial return than they currently earn. FBL entrepreneurial opportunities may focus on reducing a firm's operating costs, even if it increases negative social or ecological externalities, because such issues do not concern FBL entrepreneurs (they assume that other parties, such as government, are responsible for address-

ing issues related to externalities). For example, FBL entrepreneurs may increase their financial value capture by outsourcing production to low-paying overseas factories, despite job losses locally and the poor working conditions overseas.

TBL entrepreneurs also seek maximum financial return, but with a focus on opportunities to profitably reduce negative social and ecological externalities. TBL opportunities are increasing, thanks to consumers' growing support for organizations that are more socially and ecologically responsible. This is evident in many firms that are making pledges to be "net zero" by a certain date, or that make contributions to important causes. Unfortunately, this also increases the temptation for firms to engage in activities designed to increase their reputation for being socially and ecologically responsible firms but which critics suggest amount to greenwashing (see Chapter 3).[32] Examples of greenwashing include McDonald's introducing paper straws that aren't recyclable, Coca Cola (perhaps the worst plastic polluter in the world) running ads that feature cute cartoon animals singing about fixing the planet and recycling, and the 60 percent of fast fashion brands making misleading sustainability claims.[33]

SET entrepreneurs look for viable opportunities that help to increase social or ecological well-being. MAD Travel illustrates this approach well—while maintaining financial viability, the organization has created multiple positive externalities. These include environmental benefits through the planting of over 45,000 trees, social benefits through significant income increases for partner communities (ranging from 15 percent to over 100 percent), and cultural benefits through the preservation and celebration of Indigenous knowledge and practices.

Another example is BUILD, a company that creates positive societal externalities by hiring chronically unemployed people like ex-convicts. The company also minimizes negative ecological externalities by installing energy-efficient toilets and insulation for homeowners.[34] The SET approach represents a different way of entrepreneurial "seeing" than the FBL and TBL approaches. Also, SET entrepreneurs emphasize opportunities that meet needs, rather than creating or meeting wants. Sometimes SET entrepreneurs even try to eliminate the need for their product or service. For example, the Digger Foundation, a Swiss organization, supports the design of machinery to remove land mines, with the goal of helping eliminate all land mines so that there will be no need for their equipment.[35]

## Test Your Knowledge

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*Sometimes SET entrepreneurs try to eliminate the need for their product or service.*

### 6.3.2. Step 2: Test the Idea

The second step in the entrepreneurial process is to determine whether or not the idea is a viable opportunity. This usually involves talking about your idea with potential customers, employees, suppliers, and other stakeholders, as well as developing a prototype. For example, MAD Travel learned by alternating between hosting tours and learning from stakeholders (tourists, Indigenous hosts, and other organizations). By starting small and gathering feedback from many sources, Dionisio was able to refine his business model before scaling up operations.

The most important feedback for an entrepreneur will come from potential users of the good or service (i.e., future customers), but useful information can also be gained from industry experts, government officials, suppliers, competitors, community members, and potential employees. One of the best ways to get this feedback is by using a preliminary **elevator pitch**, which is a succinct description of the entrepreneur's plan and the value it offers. A good elevator pitch focuses on the potential opportunity—what need you are satisfying, how the need will be met, and the benefits of doing so. The elevator pitch must be brief and focused on the most important details. It should

- identify the problem you propose to address,
- describe your proposed solution (if appropriate, include a prototype or beta version),
- recognize the major challenge or obstacle,

- have a solution for the challenge,
- explain how your plan benefits the customer,
- be thirty to sixty seconds long, and
- be focused, clear, and delivered in a compelling and enthusiastic fashion.[36]

The most effective pitches and ideas will be persuasive, which means they will change the audience's thinking or motivate them to take some action (see also Chapter 17 on how entrepreneurs develop compelling stories to communicate with stakeholders). Therefore, the pitch must have a goal. For example, if you are giving your first pitch to a potential customer, then the goal is them excited and asking for more information. Sharing your pitch with stakeholders will allow you to judge others' reactions and revise your goals accordingly. Talking with customers may help you to identify important product features that you overlooked. Talking to potential employees can identify production issues before they become problems. In MAD Travel's case, early feedback from the Aeta community led it to expand its model beyond simple tourism to include multiple revenue streams through product development and agroforestry, demonstrating how stakeholder input can fundamentally reshape a business model. Entrepreneurs should use an iterative approach in which they give their pitch, listen to the reaction, revise their pitch, and then try it again with another stakeholder.[37] The goal is not to present a refined end product but rather to determine whether your idea has merit and potential.

#### FBL, TBL, and SET Approaches to Testing the Idea

The FBL approach to idea testing focuses on financial data such as the size of the market, price points, and production costs. The TBL approach includes these concerns but also focuses on identifying a particular negative social or ecological externality that can be profitably addressed. The SET approach focuses on soliciting feedback from the widest array of stakeholders and is most likely to welcome input from stakeholders to co-develop the idea. MAD Travel's approach illustrates how financial, social, and ecological aspects can all be evident in the testing phase, by including financial metrics (tourism revenue and income streams for Indigenous communities), environmental indicators (trees planted, carbon sequestration), and social impact measures (cross-cultural relationship-building and understanding). By 2023, this comprehensive approach allowed MAD Travel to demonstrate success across multiple dimensions: income

increases of up to 103 percent for partner communities, 45,000 trees planted, and a sustainable stream of participating tourists and hosts.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=80#h5p-36*

### 6.3.3. Step 3: Develop a Plan

Once an entrepreneurial opportunity has been identified and tested, the next step in the entrepreneurial process is to develop a written plan that provides clear direction by laying out objectives and the strategies that will be used to reach those objectives.[38] Research has shown that entrepreneurs with business plans are more than twice as likely to actually launch their new ventures,[39] and that entrepreneurs are more likely to reach their goals if they have a sound plan.[40] First, the plan ensures that entrepreneurs have taken the time to think through the different aspects of the new venture before they begin. Once a new venture is started, the demands of running the organization leave little time for such reflection. Second, preparing a plan forces entrepreneurs to establish goals and standards for subsequently measuring performance. For example, an entrepreneur may decide that a new venture should generate at least $200,000 in revenue in the first year of operation or have a positive cash flow within two years. If such milestones are not met, then the entrepreneur may leave the venture rather than investing any more resources in it. Finally, perhaps the most important reason to write a well-developed plan is to win the support of other stakeholders, whether financers, suppliers, employees, or customers.

*Perhaps the most important reason to write a well-developed plan is to win the support of other stakeholders, whether they are financers, suppliers, employees, or customers.*

Table 6.1 provides a summary of a generic business plan to describe a potential new organization.[41] A **business plan** is a written document that describes the key features, actions, structure, and systems for a proposed new organization that is designed to take advantage of an entrepreneurial opportunity. As the term is used here, a business plan can be applied to a wide range of new ventures, not only for-profit businesses. The ESUP, introduced in Chapter 1, is a subset of a business plan. An ESUP includes the elements of a business plan that are relevant for general management (especially those covered in the first five parts in Table 6.1) but does not focus on aspects related to specific functional areas like marketing, finance, and operations. This book provides the necessary information to develop an ESUP, but in order to develop a full business plan you will need to find additional sources of information. For example, if you are a student using this book as a text in a management course, then you may gain the additional material from your other courses (e.g., marketing, operations, accounting, finance, etc.). If you are an entrepreneur, you may find other individuals who can bring expertise in areas outside this book to your management team (e.g., a marketer, an accountant).

**Table 6.1. Elements of a generic business plan (including the 5 elements of an ESUP*)**

| Business Plan Element | Content | Discussed in Book Chapter |
|---|---|---|
| **1. Summary** | · Executive summary of the whole plan, highlighting key points and exciting the reader (1 page; related to elevator pitch) | · 6 |
| **2. Description of the new venture*** | · Opportunity being pursued (e.g., relevant trends)<br>· Target customers, size of market<br>· Mission and vision<br>· Business strategy<br>· Legal form | · 3, 4, 5<br>· 6<br>· 8<br>· 8 and 9<br>· 6 |
| **3. Description of the product and competitors*** | · Key features of products/services<br>· Analysis of competition (competing and substitute products/ services, competitive advantage, SWOT analysis, stakeholder maps) | · 6<br>· 8 and 9 |
| **4. Management*** | · Top management team (qualifications, roles)<br>· Organization structure and systems | · 15, 16<br>· 11, 12, 18 |
| **5. Staffing*** | · Details about employees—numbers, required skills, recruiting, training, compensation | · 12, 14, 15, 16, 17 |
| **6. Marketing** | · Total and served available market, target market<br>· Marketing plan, selling approach, customer retention methods, distribution, pricing | · 6 |
| **7. Operations** | · Location, facilities, equipment, methods, quality control, inventory management, suppliers, purchasing | |
| **8. Finances** | · Financial requirements, sources, projected revenues and costs, break-even analysis, cash flow | |
| **9. Timeline and contingency plans** | · Goals and milestones, achievements by dates, insurance, liability considerations | |

Note that the order and components of the plan in Table 6.1 are merely suggestive; it is best to allow specific characteristics of the new venture to help shape the writing of the business plan. Certain organizations may emphasize some elements more than others (e.g., location is essential for a retail shop but less important for an online consulting firm), and different audiences may be more interested in some elements than others (e.g., potential employees may care most about human resource policies). Nonetheless, Table 6.1 provides a checklist of the elements that should be considered for any business plan. We will briefly describe each element in turn.

#### 1. Summary

The summary is your chance to make a positive first impression. Think of the summary as a written version of your elevator pitch. If your summary is bland or dull, potential investors are unlikely to read the rest of your plan. The summary should provide a brief but engaging description of your new venture, the product or service it will provide, a description of the market it will operate in, the key features that are likely to make it succeed, the resources that are already in place, the additional resources that may be needed, and an appraisal of the venture's expected performance (financial, social, and ecological). The summary should be short—no longer than one or two pages—and should be written *after* all the other parts of the plan are complete.

#### 2. Description of the New Venture

This section of the plan introduces readers to the concept of the new venture. It has five components: (i) the opportunity that is being pursued, (ii) the target market, (iii) the mission and vision, (iv) the business strategy, and (v) the legal form of the new organization.

**The opportunity:** This describes the problem or opportunity that the new venture is addressing, and the relevant trends or gaps in the larger environment that have given rise to the opportunity. This includes the elements of economic, social, and ecological well-being described in Chapters 3–5.

**Target market:** The business plan should describe the characteristics and size of your target market (and thus the potential size of the new venture). In this context, a **market** is the group of people or organizations that are or could be interested in using your particular product or service. For example, if you are proposing a new daycare in a specific neighborhood, you would include information on things like the number of children who need but do not have access to daycare, the socio-economic status of parents, the length of waiting lists at other daycares in the neighborhood, and the price parents are willing to pay for daycare. To understand the target market, entrepreneurs can refer to the information they collected in the second step of the entrepreneurial process (testing the idea), as well as gather additional information from potential customers, suppliers, partners, and competitors (see 6. Marketing, below).

**Mission and vision:** As will be discussed in Chapter 8, this part of your business plan describes the ongoing purpose of the organization, as well as your vision of what the organization will look like in five years.

**Business strategy:** As will be discussed Chapters 8 and 9, this identifies

whether the new venture's strategy is primarily based on having low financial costs, distinct features, minimal negative externalities and/or enhanced socio-ecological well-being.

**Legal form:** There are many different legal forms an organization can take, but four basic types are sole proprietorship, partnership, corporation, and co-operative.[42] A **sole proprietorship** is a business that is owned and operated by one entrepreneur who is responsible for all of its debts. Because sole proprieterships are simple to start, most new ventures take this form. A **partnership** is established when two or more entrepreneurs own and operate the firm and are responsible for all of its debts. Partnerships are also simple to start and have the advantage of adding more expertise and resources to a firm. Having a written agreement about ownership, dispute resolution, and related issues prior to starting is highly recommended. A **corporation** is a legal entity separate from its owners that has many of the legal rights of a person and that limits the financial liability of the owners to the amount of their investment in the corporation. Corporations are owned by shareholders, who in turn elect a board of directors who oversee and take legal action for a firm. Corporations are costlier to start and operate due to numerous government regulations, but they offer advantages of limited liability and greater continuity over time. New corporations usually start as private corporations (i.e., where shares cannot generally be bought by the general public). Finally, a **co-operative** is jointly owned and run by its owners, primarily to provide goods and services for their own benefit. In a co-operative ("co-op"), every owner gets one vote to elect the board (i.e., owners can purchase only one share each), and one usually cannot be part of the organization without owning a share. There are co-ops in all industries and fields, including financial services (e.g., credit unions) and housing (e.g., condominium owners' associations). Co-operatives can be owned by employees, customers, suppliers, or residents.

#### 3. Description of the Product and Competitors

This section of the business plan describes the products and services the new venture will offer (including key features and price points), how they compare with competitors, and how they fit into the larger market. **Competitors** are other organizations that offer similar products or services, or that offer products or services that meet the same customer need. Preparing this step can involve drawing stakeholder maps, describing similar products and services being offered in the marketplace, and providing an analysis of the new venture's strengths, weaknesses, opportunities, and threats (see Chapters 8 and 9).

#### 4. Management

This section describes the top management team, the basic management philosophy or approach, and the organizational structure and systems of the new venture. It should convince readers that the necessary management capability to make the venture successful has been assembled. Potential funders of a new venture place great emphasis on the characteristics of the entrepreneurs leading a new start-up, and particularly their ability to work as a cohesive team.[43]

When writing a start-up plan, be sure to provide a clear description of the management team's experience and expertise. Specify which member will do what work (e.g., who will manage areas like finance, accounting, human resources). Identify any gaps and plans to use advisers and consultants to fill those gaps. Provide information about how much time and energy key people will invest in this venture, and how they will be compensated. For example, which members are willing to put in sixty hours a week, and which have other jobs and commitments that will limit their participation?

*A start-up plan should describe the experience, expertise, and philosophy of the management team.*

Information on the organization's basic management philosophy should reflect whether the venture will adopt an FBL, TBL, or SET management approach, and include information about how the management approach and strategy fits with the organization's structure and systems (Chapters 10 and 11).

#### 5. Staffing

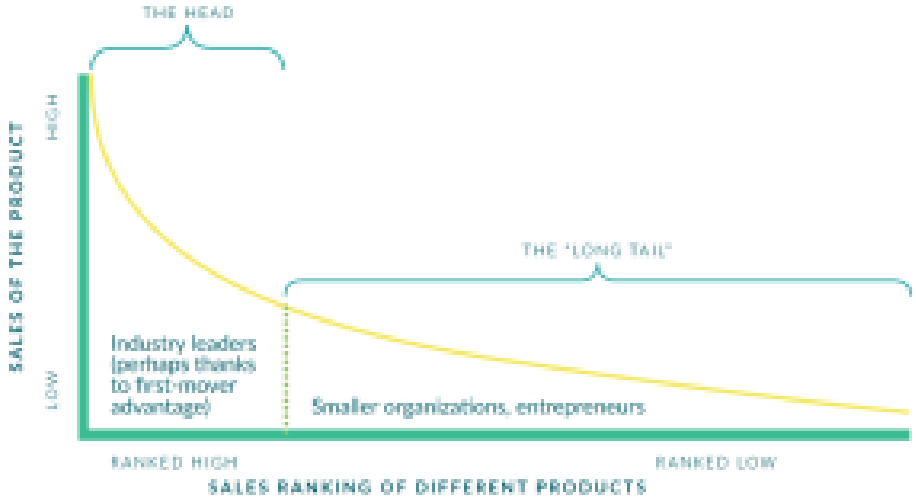
In addition to describing the top management team and organizational structure and systems, the plan should provide additional details about the number of employees needed, the sorts of skills and credentials required inside the organization (and what skills will be outsourced), how employees will be recruited, trained, and compensated, approaches to motivation that will be used, and information about leadership approach and use of groups and teams, and so on (Chapters 12, 14, 15, 16, and 17).

#### 6. Marketing

The marketing section of a business plan provides detailed information about three key components of the market: TAM, SAM, and your target market.[44] The **total available market (TAM)** includes everyone who could potentially benefit from the product or service. The **served available market (SAM)** includes everyone in the TAM who is likely to actually use the product or service. The **target market** includes everyone in the SAM that the organization will intentionally try to make into a customer or client in the near future. For example, if you were planning a new daycare, the TAM might include every household within a one-hour driving distance that has children living there. The SAM would include those households in the TAM that need but do not currently have daycare services. The target market would be the members of the TAM that your specific organization is going to prioritize as customers (full-time vs. part-time care, children of particular ages, etc.).

This section also includes your marketing plan, selling approach, customer retention methods, distribution, pricing strategy, and so on. An important consideration is whether the new venture's products and services may be able to attain a **first-mover advantage**, which is a performance advantage enjoyed by the first organization or product to reach a large portion of the potential market. For example, the QWERTY keyboard is dominant not because it is better than other keyboards but because it was the first to be mass-produced (see Chapter 2). Growth-oriented entrepreneurs will be most concerned with first-mover advantage, because their goal is to create the largest possible organization. In contrast, micropreneurs are less concerned with increasing the size of their business and thus are more likely to focus on what has become known as the "long tail."[45] Many markets are dominated by one or a few large organizations or products, but technology has allowed smaller ventures to reach enough customers to be viable (see Figure 6.1). The few large organizations that control the vast majority of the market are the "head" of the market, but there can still be a large number of organizations in the "tail" that each have a very small portion of the market. For example, J. K. Rowling's *Harry Potter* is the world's best-selling book series, with more than 500 million copies sold.[46] However, publishers consider a fiction author successful if a book sells "merely" ten to fifteen thousand copies.[47] Because current technology allows an entrepreneur to potentially reach customers all over the world, there are opportunities for many organizations in the long tail of the market, not just as large first movers in the head.

**Figure 6.1. The "head" and "long tail" of the market**




#### 7. Operations

This section provides detailed information about the new venture's proposed location, facilities, equipment, methods of transforming inputs into outputs, quality control, inventory management, suppliers, purchasing strategies, and so on. For example, if you are starting a daycare, you need to identify potential sites for the daycare, the available parking facilities, convenience for parents who are picking up and dropping off their children, property taxes, zoning regulations, required liability insurance coverage, whether the site is located close to parks and libraries, the curriculum you will follow, and the supplies and equipment you will need (e.g., crayons, paper, floor mats, outdoor/indoor climbing structures).

#### 8. Finances

A business plan should describe the anticipated sources of financing, financial projections for the first five years, an analysis of expected expenses and revenues, a break-even analysis, and cash-flow statements. The projections should be relatively detailed at first (e.g., quarterly cash-flow projections in the first year) and then become more general over time. An important part of the financial planning for the organization is to identify its sources of financing and specify when these funds are needed. Unless entrepreneurs are self-financed, they usually

need either debt or equity financing. **Debt financing** occurs when entrepreneurs borrow money from a bank, family and friends, or a financial institution that must be paid back at some future date. Collateral such as personal assets or business assets is often required to guarantee a loan. **Equity financing** occurs when investors in a new venture receive shares and become part owners of the organization. Equity financing usually comes from **venture capitalists**, which are companies or individuals that invest money in an organization in exchange for a share of the ownership and profits. Venture capitalists often become quite involved in the operations of the business, sometimes even requiring that they approve major decisions.

#### 9. Timeline and Contingency Plans

This section of the plan describes how resources will be mobilized over time, presents expected performance milestones, and identifies contingency plans that will be put in place in case events do not unfold as planned. In terms of the timeline, the business plan should present a timetable or chart to indicate when each phase of the venture is to be completed. For example, the timeline for a new daycare organization should indicate when a location will be selected, when equipment will be installed, when and what kind of advertising will be done, when different staff members will be recruited and hired, and so on. The timeline should also identify specific milestones designed to help the entrepreneurs and investors know how well they are doing. For instance, if a new daycare needs thirty children to be viable and it has only twenty children after two years of operation, then it may be prudent to close the daycare. The timeline should extend at least five years into the future.

Finally, the plan for the new venture should describe how critical risks will be managed if circumstances change. Competitors might engage in price-cutting, or there could be unexpected delays or cost overruns in product development, or difficulties might arise in acquiring timely inputs from suppliers. A new daycare may unexpectedly find a competitor starting up nearby three months later, or its staff may be accused of inappropriate behavior. Contingency planning helps managers to think beforehand how to handle these situations (see Chapter 9). The plan should also describe insurance mechanisms to deal with liability considerations. For example, the plan for a daycare would describe how it would deal with a parent who sues over an injury to their child.

### The Business Model Canvas: A More Dynamic Variation of the Traditional Business Plan

While it is essential for entrepreneurs to consider all of the issues described above, it has become less common to describe them all in an exhaustive, written business plan.[48] For example, a study of Inc. 500 firms (the 500 fastest-growing private organizations in the United States) found that only 28 percent had completed a prototypical business plan at the start-up stage, and some research has found no relationship between having a detailed new venture plan and future profitability.[49] Research suggests that a detailed business plan tends to produce good outcomes for new initiatives within an established business (i.e., for intrapreneurship), but that new organizations pursuing classic entrepreneurial ends may be better served by a more flexible, open-ended, and partner-oriented approach to business planning.[50]

*The Business Model Canvas offers a more flexible, open-ended, and partner-oriented approach to business planning.*

This more flexible approach, where plans become sort of a living document that changes over time, and where the relationships between key components of a business model can be seen at a glance, is evident in the Business Model Canvas framework. A **business model** describes the inputs and processes an organization uses to create, deliver, and capture value.[51] The Business Model Canvas, depicted in Table 6.2, provides a concise one-page format for entrepreneurs to map out the key components of their proposed venture, such as the value proposition (discussed more fully in Chapter 9), customer segments, revenue streams, and cost structure.[52]

**Table 6.2: Overview of key components and content in Business Model Canvas**

| Key Partners | Key Activities | Value Proposition | Customer Relationships | Target Segments |
|---|---|---|---|---|
| Which partners/ suppliers are crucial for your business model to work? | What critical activities must you perform to deliver your value proposition? | What unique combination of products/services are you offering to solve customer problems or meet their needs? | How will you build and maintain relationships with each customer segment? | Which specific groups of people or organizations are you creating value for? |
| | **Key Resources** What essential assets (physical, intellectual, human, financial) do you need? | | **Distribution Channels** Through what channels will you reach and deliver value to your customers? | |
| **Cost Structure** What are the most significant financial costs inherent in your business model? | | | **Revenue Streams** How will you generate revenues from each customer segment? | |
| **Social and Environmental Costs/ Considerations** What negative externalities might your operations create? | | | **Social and Environmental Benefits** What positive impact will your business model generate for society and environment? | |

Whereas a traditional business plan offers more detailed analyses, the Business Model Canvas has its own advantages. First, by enabling entrepreneurs to view their firm from a holistic vantage point, it helps them to better understand how the different components fit together, and thereby to zero in on the key content associated with each component. Second, as content in one component changes (e.g., a change in the type of customers being catered to, a new partner organization, a change in distribution channels), the implications for other components may come to the foreground more easily and be identified more immediately. Third, a Business Model Canvas lends itself to functioning a living document, where changes and tweaks can be made in real time as an organization learns from its experiences. Rather than being a static document, a Business Model Canvas captures a planning-as-you-go dynamic that gets updated with each iteration. For example, detailed financial projections spanning years, which are common in traditional business plans, are replaced by actionable metrics and repeatable growth models focused on near-term validation.

Table 6.3 illustrates the Business Model Canvas for MAD Travel, whose components have changed over time as the company has tested ideas and incorporated feedback in the entrepreneurial process. MAD Travel's initial value

proposition focused primarily on sustainable tourism, offering immersive restoration tours that combined environmental conservation with cultural experiences. However, through constant testing and learning from experience and stakeholders, particularly within the Aeta community, MAD Travel discovered additional opportunities to create and capture value. As shown on in Table 6.3, over time MAD Travel expanded its value propositions to include the following:

- for communities—economic empowerment through multiple revenue streams, skills development, and economic restoration
- for customers—authentic cultural experiences, direct participation in ecological regeneration, and access to sustainable products and educational opportunities.

**Table 6.3. An example of the Business Model Canvas for MAD Travel**

| Key Partners | Key Activities | Value Proposition | Customer Relationships | Target Segments |
|---|---|---|---|---|
| • Indigenous communities and local farmers<br>• government agencies and academic institutions<br>• environmental organizations and NGOs<br>• strategic corporate and celebrity partners<br>• legal and technical support networks | • organizing immersive restoration tours<br>• community training and development<br>• environmental conservation projects<br>• digital education and e-commerce<br>• product development with communities<br><br>**Key Resources**<br>• community partnerships and trained guides<br>• agricultural land and forest areas<br>• digital platforms and infrastructure<br>• brand reputation and expertise<br>• training materials and facilities | **For Communities**<br>Economic empowerment through (a) sustainable tourism; (b) new related revenue streams; (c) skills development; and (d) environmental restoration<br><br>**For Customers**<br>(a) authentic cultural immersion experiences; (b) direct participation in ecological regeneration; and (c) access to sustainable products and education | • long-term community partnerships<br>• immersive experiences and education<br>• direct producer-consumer connections through social media and word-of-mouth<br><br>**Distribution Channels**<br>• direct website bookings<br>• MAD Market online platform<br>• educational institutions<br>• corporate partners | • eco-conscious travelers<br>• educational institutions<br>• corporate groups<br>• environmental enthusiasts<br>• urban consumers seeking sustainable products |

| Cost Structure | Revenue Streams |
|---|---|
| • community training and development<br>• infrastructure and equipment<br>• digital platform maintenance<br>• staff and operations<br>• marketing and logistics | • tour packages and experiences<br>• product sales through MAD Market<br>• online courses and workshops<br>• tree planting gift cards<br>• consulting services |
| **Social and Environmental Costs/ Considerations** | **Social and Environmental Benefits** |
| • initial community adaptation<br>• resource use and carbon footprint<br>• cultural transition challenges | • increased community income<br>• forest restoration and biodiversity<br>• cultural preservation<br>• sustainable livelihood creation<br>•enhanced environmental education |

To illustrate the dynamic interrelationships among components that the canvas

highlights, consider that when COVID-19 disrupted the distribution channels in its core tourism business (because in-person travel was no longer possible), MAD Travel demonstrated the advantages of having a flexible business model by rapidly introducing two new initiatives:

1. MAD Market—an online platform connecting urban consumers with Indigenous producers, creating a new revenue stream while maintaining community support during the pandemic.
2. MAD Courses—digital education programs on social enterprise and sustainability, expanding the organization's impact beyond physical tourism.

The canvas also shows how MAD Travel built a network of key partnerships that enabled this evolution, from Indigenous communities and government agencies to corporate partners and celebrity advocates. Its revenue model similarly evolved from purely tourism-based income to include

- tour packages and experiences,
- product sales through MAD Market, and
- online courses and workshops.

This diversification demonstrates how using a Business Model Canvas can help entrepreneurs identify and test new revenue opportunities while maintaining alignment with (and growing) their core mission. In MAD Travel's case, each new revenue stream reinforces its commitment to creating positive social and environmental impact.

#### FBL, TBL, and SET Approaches to Developing a Plan

There are important differences in the emphasis FBL, TBL, and SET entrepreneurs place on developing plans for a new venture, as well as in the content of such plans. Highly detailed plans of the sort summarized in Table 6.1 have become less important in modern entrepreneurship,[53] though they continue to be important for some FBL entrepreneurs because they can be used to demonstrate a strong business case for investing.[54] Because the FBL approach prioritizes financial gains, developing a strong business case is crucial for gaining support, and FBL entrepreneurs put considerable effort into providing detailed information about potential customers and comparable firms' operating costs and similar

data. This helps them to make concrete predictions about how much money could be made with the proposed new product or service.[55]

The TBL approach is very much like the FBL approach, but in some ways is even more demanding. Even though the TBL approach is becoming the new norm in the marketplace and there has been a growth in ESG (economic, social, and governance) investing (see Chapter 3), TBL start-ups may face skepticism from traditional banks and investors, because sustainable development has traditionally been seen as a threat to maximizing financial gains. Thus, a TBL entrepreneur must take extra care to reassure potential investors that resources devoted to reducing negative externalities will in fact enhance the organization's financial performance.

In contrast to traditional FBL and TBL plans, which are ultimately judged on whether or not they *optimize* the financial return, a SET organization will be judged on its ability to produce positive social or ecological outcomes in a financially sustainable fashion. Because the SET approach emphasizes multiple forms of well-being for multiple stakeholders through active cooperation with those stakeholders, a SET entrepreneur may be less able to anticipate and define everything in advance. As a result, SET entrepreneurs have often devoted less time to crafting detailed and specific plans. One might say that whereas FBL and TBL entrepreneurs rely on a business plan to convince stakeholders to support them, SET entrepreneurs use stakeholders to develop a convincing plan.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
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*Whereas FBL and TBL entrepreneurs rely on a business plan to convince stakeholders to support them, SET entrepreneurs use stakeholders to develop a convincing plan.*

### 6.3.4. Step 4: Take Action

The final step in the entrepreneurial process may be the most difficult. It is one thing to write an excellent plan; it is another thing to implement the plan and launch a new organization. One study found that even among plans that had won at business plan competitions, only 30 percent of those were put into action.[56] There may be a variety of reasons for this. Perhaps the prize-winners pursued an even better idea for a new start-up. Perhaps they did not have the entrepreneurial qualities called for to put their plans into action. Or, perhaps they were unable to find the necessary financial resources to launch their new organization (venture capitalists fund only 2 percent of the plans they see, and large banks approve about 25 percent of start-up business loan requests).[57] In any case, writing a great business plan and implementing it are two different things. In the remainder of this section, we briefly describe entrepreneurial qualities that make a person more likely to take successful action, as well as differences among FBL, TBL, and SET approaches approaches to the financial issues related to launching a new venture.

#### Qualities of Entrepreneurs

Studies suggest that a variety of qualities distinguish entrepreneurs who launch successful start-ups,[58] including personality characteristics like being conscientious, open to new experiences, extraverted, and emotionally stable.[59] A strong desire for achievement also contributes to entrepreneurial success, as does having a high level of **self-efficacy**, which is the confidence and belief that one can accomplish a task successfully.[60] Enjoying risk makes individuals more likely to start their own organizations, but it does not help them to succeed.[61]

Other important qualities include managerial social skills such as leadership (see Chapter 15), being able to build and maintain a cohesive team (Chapter 16), and the ability to communicate with others (Chapter 17).[62] New venture success increases with the size of the founding management team.[63] Entrepreneurs working alone are far less likely to succeed, because a lone entrepreneur has fewer skills, fewer contacts, and less experience than a team.[64] Most investors consider the management team and their combined qualifications to be an essential criterion for providing financial support.[65] Education is also positively associated with entrepreneurial success,[66] and a lack of education is a primary barrier to acquiring start-up financing.[67] However, industry experience is a more important predictor of success.[68]

*A new venture started by a team of founders is more likely to be successful than one started by a lone entrepreneur.*

An important consideration is the entrepreneur's gender. Even in developed market economies, where we might expect to find fewer social barriers suppressing female entrepreneurship, only 25 percent of businesses are owned and managed by women,[69] though that gap may be decreasing (in 2023, about 45 percent of new businesses globally were started by women[70]). Several reasons may help to explain why women have been less likely to become entrepreneurs. First, women tend to report lower self-efficacy than men[71]—even when they really have equal skill and knowledge[72]—and thus fewer women may choose an entrepreneurial career.[73] Second, investors seem biased in favor of male entrepreneurs.[74] Third, female entrepreneurs tend to choose different industries and locations for their organizations, and those choices are often in lower-profile and more challenging contexts.[75] Nonetheless, women have just as much entrepreneurial potential as men: studies show that when the barriers just mentioned are removed, women are as likely as men to be successful entrepreneurs.[76]

In addition to personal attributes, the life situations of individuals can also influence whether they become entrepreneurs. People are more likely to start a new organization after experiencing a transition in their lives. This includes completing an education or training program, finishing a major project, moving, having a midlife crisis, and being divorced or fired. For example, Boldr was started after the death of the founder's best friend (Chapter 5). And after their start-up was purchased by eBay, the founders of PayPal went on to start other companies, including Tesla, LinkedIn, YouTube, Yelp, and Yammer. People are also more likely to start a new organization if their current job is dissatisfying, or if they have little hope of finding satisfying employment. These necessity-driven entrepreneurs often feel pushed into action. For example, Tom Chappell left his corporate job to "move back to the land" and founded Tom's of Maine (a SET company that sells sustainable personal care products like toothpaste and hand cream). Finally, people may become entrepreneurs to pursue a specific opportunity or because their situation otherwise pulls them toward a new venture. Available resources, mentors, or supports can help a person take the leap into entrepreneurship.

*People are more likely to start a new venture when they have just completed a major project, when frustrated in their current position, or when they see a great opportunity.*

#### FBL, TBL, and SET Approaches to Taking Action

As described throughout this book, an entrepreneur's management approach will have a significant effect on how a new venture is started and managed. Here, we will briefly highlight some differences related to the legal form and financing a start-up might pursue. FBL and TBL entrepreneurs, with their focus on high returns for invested capital, are well positioned to appeal to traditional financial institutions and similarly motivated investors. It often makes sense for such entrepreneurs to start a corporation, with its advantages, because managers of corporations are (in many jurisdictions) legally required to pursue profits for shareholders.[77]

In contrast, SET entrepreneurs do not prioritize the maximization of financial gains and therefore may encounter poor responses and difficulties if they seek financing from sources managed based on an FBL approach. The experience of Ben & Jerry's ice cream illustrates issues that SET entrepreneurs may face when their firm has a fiduciary duty to benefit the owners' financial interests. Ben & Jerry's Homemade Holdings Inc. was founded with a SET mission: to make the world's best ice cream, run a financially successful company, and make the world a better place. The company used local organic inputs, developed chemical-free containers, prioritized fair trade ingredients, and its profits funded a foundation supporting community-oriented projects. But it was also a public corporation, and thus when the European conglomerate Unilever offered to buy the company at a 25 percent profit, the managers of Ben & Jerry's were legally obliged to accept the offer on behalf of shareholders, even though they feared that the firm's SET mission would be abandoned by Unilever.[78]

Lawmakers have made changes that reduce the potential conflict between SET organizations and traditional corporate law. They created a new kind of corporation, called a **benefit corporation**, which is a for-profit corporate entity that has legally defined and recognized social or environmental goals (recall that Greyston Bakery is a benefit corporation, Chapter 1; as is Assiniboine Credit Union, Chapter 3). Whereas shareholders in a traditional corporation may use the law to force managers to pursue profit at the expense of social or ecological outcomes, the shareholders in a benefit corporation may use the law to force man-

agers to pursue social or ecological benefits at the expense of maximizing financial profit.[79]

*Managers in a benefit corporation are legally obliged to consider social or ecological externalities.*

Even with this change, SET entrepreneurs may have trouble financing their organizations, since most debt and equity financing is controlled by FBL-oriented organizations.[80] However, research suggests that up to one-third of retail investors already willingly compromise their need to maximize financial returns in order optimize social and ecological well-being.[81] SET entrepreneurs often do better if they can connect directly with such like-minded investors, and so have contributed to the rise of new financing options. The most important of these is **crowdfunding**, which involves entrepreneurs receiving small amounts of money from a large number of people, often in exchange for a reward (but typically not repayment of the funds or a role in management).[82] In this model, the entrepreneur describes their project and goals—often via a short elevator pitch video—and requests funds from interested and supportive individuals. The specifics of crowdfunding vary. For example, Kickstarter, the largest and best-known organization providing a crowdfunding service, requires the proposed project to have defined start and end dates, to offer rewards to funders, and in the case of physical products, to share information about a prototype. In contrast, Indiegogo has less strict guidelines (e.g., not requiring rewards for funders). Some crowdfunding campaigns set specific goals, and if that goal is not reached, the donors receive their money back and the entrepreneur gets nothing; other campaigns allow the entrepreneur access to whatever funds are offered.

Crowdfunding on a large scale is a relatively new phenomenon and, thanks to communication technology, continues to develop. For example, in 2016, Indiegogo began a trial of a new equity crowdfunding service that allows individuals to receive partial ownership in return for their funds (i.e., they become true investors rather than just donors). Whatever form it takes in the future, crowdfunding has become an important part of entrepreneurial financing. It has been growing at a remarkable pace, from an $880 million activity in 2010 to an estimated $300 billion in 2025.[83]

The remainder of the book will provide much more detailed information of

this fourth phase, “Take action” regarding the management of entrepreneurial start-up organizations, and consider differences between FBL, TBL, and SET entrepreneurs. This will culminate in Chapter 18, which describes the control and information systems called for in managing an organization, and also introduces more discussion of the different business functions (e.g., finance, marketing, operations, and accounting).

## Test Your Knowledge



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## Chapter Summary

1. Entrepreneurship creates the vast majority of radical innovations and new jobs in an economy, and the jobs created by entrepreneurs often foster higher levels of social well-being than those in existing large organizations.
2. Many entrepreneurial ventures are small or family businesses, but not all small or family business are entrepreneurial.
3. The entrepreneurial process is iterative, involving experimentation and stakeholder engagement. The four steps in the entrepreneurial process are
    - (i) identifying an opportunity (a promising idea that meets a need);
    - (ii) testing the idea (developing a prototype, using an elevator pitch to gather feedback);
    - (iii) developing a plan (e.g., a business plan, an Entrepreneurial Start-Up Plan, a Business Model Canvas); and

    - (iv) taking action (mobilizing resources to put your evolving plan into practice).

4. A generic business plan consists of the following nine elements: summary; description of the new venture; description of products and competitors; management; staffing; marketing; operations; finances; and timeline and contingency plans.
5. Entrepreneurial planning is shifting from traditional detailed business plans to more dynamic frameworks like the Business Model Canvas that facilitate and highlight the important work of ongoing testing and learning from experience and stakeholders.
6. Differences in management approaches lead entrepreneurs to formulate different goals and value propositions but can also lead to different organizational forms, sources of financing, and relationships with stakeholders.

## Questions for Reflection and Discussion

1. What are the key benefits of entrepreneurship for society?
2. Identify and describe the four steps of the entrepreneurial process. What are key differences between the FBL, TBL, and SET approaches in each of the four steps?
3. Identify and describe the elements of a business plan for a new venture. How are these elements related to the entrepreneurial process?
4. Describe three key differences between writing a business plan and using a Business Model Canvas for entrepreneurs. Identify at least two relative advantages for each. Which would you be more likely to use, and why?
5. How often do you talk with your friends or family about ideas for starting a new venture? What qualities do you share with entrepreneurs who succeed at putting good ideas into practice? How are you different? What resources would you need to put your ideas into practice? Explain your answer.
6. If you were to start a new venture, what opportunity would you like to pursue? How would you assess its potential for creating economic,

social, and environmental value? What trends, surprises, or gaps have you noticed? What possibilities do they suggest?

7. If you became an entrepreneur, would you adopt an FBL, TBL, or SET approach? Why? What implications does that choice have for how you would develop your organization?
8. Use the information in this chapter regarding the parts of an Entrepreneurial Start-Up Plan (ESUP) to create the framework for a new venture you might pursue. Begin to complete the sections as you are able, especially drawing on your responses to ESUP-related questions presented in previous chapters. Continue to fill in your ESUP as you work your way through the rest of this book.
9. Use the information in this chapter regarding the Business Model Canvas to describe a new venture you might pursue. Begin to fill in the sections as you are able.

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79. In 2024 there were over 8,000 B Corps in operating in 96 countries and 162 industries and employing over 750,000 people. B Lab Global. (2024, March 1). *B Corps show "this way forward" to better business this B Corp Month* [Press release]. https://www.bcorporation.net/en-us/news/press/b-corps-show-this-way-forward-to-better-business/. Benefit corporations began in 2010, when the State of Maryland changed its corporate law to provide legal support for SET entrepreneurs and managers who do not want to pursue maximum profit in their organizations. The more

that such laws spread, the easier it will be for SET entrepreneurs to acquire funding from traditional sources such as equity financing. The B Lab is an American non-profit organization that offers a review and audit service examining how socially and ecologically responsible an organization's practices are. Organizations that meet B Lab's standards for accountability, transparency, and socio-environmental performance are certified as B Corporations (often shortened to B Corps). The first B Corp certifications were given in 2007. See Kim, S., Karlesky, M. J., Myers, C. G. & Schifeling, T. (2016, June 17). Why companies are becoming B Corporations. *Harvard Business Review*. https://hbr.org/2016/06/why-companies-are-becoming-b-corporations. B Corp status is voluntary and has no legal authority, but it has become an important part of many organizations' identities (e.g., Ben & Jerry's is a B Corp) as a signal of their commitment to a TBL or SET approach. Even more importantly, it is beginning to have an effect on legal structures.

80. However, there are specialist networks to help sustainable organizations find venture capital. Examples include Cleantech Venture Network, Investor's Circle, and World Resources Institute's New Ventures. Similarly, organizations like Ashoka look for social entrepreneurs to invest in when no one else will. Ashoka works in over ninety countries with over 3,000 social entrepreneurs. In addition, its Youth Venture program has helped about 5,000 teams launch a community-serving organization. See Ashoka website at https://www.ashoka.org/en

81. A study by Morgan Stanley found that 52% of investors adopt "sustainable investing activities" (p. 10). This is noteworthy, given that the study also found that 79% of investors cited "concerns about investment performance" as a reason *against* sustainable investing, and that 64% of all investors (and 77% of millennials) agreed that "investors much choose between financial gains and sustainability." In other words, 52% of investors engage in sustainable investing activities even though (only) 21% do not have concerns about financial performance, and (only) 36% (= 100% - 64%) of investors do not think there is a compromise between financial gains and sustainability. Taken together, this suggests that at least 16% and up to 31% or more of investors engage in sustainable investing even though they think it will lower their financial performance. Data from page 10 in Morgan Stanley. (2019). *Sustainable signals: Individual investor interest driven by impact, conviction and choice*. Morgan Stanley Institute for Sustainable Investing. https://www.morganstanley.com/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf

82. Crowdfunding is not limited to entrepreneurs, of course. In fact, some crowdfunding organizations are specifically for non-organizational projects. For example, GoFundMe is a platform that allows individuals to raise money for life events or charitable causes. However, the focus of the discussion here is on entrepreneurial uses of crowdfunding. And crowdfunding is also not limited to SET uses; entrepreneurs of all kinds are using it as other kinds of funding becomes harder to acquire. Entrepreneurs and other SMEs suffered much higher than normal rates of bankruptcy and failure all around the world for seven years following the global recession of 2008, which caused venture capital investment to move away from small startups. OECD (2017).

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# Part 2: Planning

# 7. The Decision-Making Process


- Learning Goals
- 7.0. Opening Case – Can Rational Management Decisions Be Immoral?
- 7.1. Introduction
- 7.2. Step 1: Identify the Need for a Decision
- 7.3. Step 2: Develop Alternative Responses
- 7.4. Step 3: Choose the Appropriate Alternative
- 7.5. Step 4: Implement and Monitor the Choice
- 7.6. Entrepreneurial Implications
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 7 provides an overview of the four steps of decision-making, as summarized in the following table and in the whiteboard animation video.*

| Decision-Making Process | FBL | TBL | SET |
|---|---|---|---|
| **1. Identify the need for a decision** (e.g., a problem to solve or an opportunity to seize) | Managers identify problems or opportunities to improve the financial bottom line. | Managers and stakeholders identify problems or opportunities to improve the financial bottom line by reducing socio-ecological externalities. | Managers and stakeholders identify problems or opportunities to improve various forms of socio-ecological well-being. |
| **2. Develop alternative responses:**<br>(i) do nothing<br>(ii) programmed<br>(iii) non-programmed | Ensure that financial benefits outweigh financial costs. | Ensure that financial benefits outweigh total costs. | Ensure that overall well-being of stakeholders is enhanced. |
| **3. Choose appropriate alternative**<br>• Based on available knowledge<br>• Agreement on aims and means | • Emphasize explicit knowledge and idea that certainty is possible<br>• Seek conformity | • Balance tacit knowledge and explicit knowledge<br>• Seek conformity, with some variation | • Celebrate diversity<br>• Balance tacit knowledge and explicit knowledge |
| **4. Implement choice**<br>• Overcome resistance<br>• Get feedback | • Via selective participation<br>• Potentially escalate commitment | • Via moderate participation<br>• Accept experimentation | • Via extensive participation<br>• Embrace experimentation |
| **Entrepreneurship implications** | The four-step decision-making model and transaction cost theory can help entrepreneurs decide in make-or-buy choices. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=150*

## Learning Goals

After reading this chapter, you should be able to:

1. List and explain the four steps of the decision-making process.
2. Describe the key differences between FBL, TBL, and SET approaches to decision-making.
3. Differentiate between programmed and non-programmed decisions.
4. Explain how two factors—the level of agreement on aims and means, and available knowledge—influence the decision-making process.
5. Recognize how organizational scripts influence the decision-making process.
6. Explain what escalation of commitment is and why it occurs.
7. Explain what entrepreneurs should consider when deciding which goods and services their organization will make, and which they will buy from suppliers.

## 7.0. Opening Case – Can Rational Management Decisions Be Immoral?

Have you ever found yourself in a situation where you had to decide between doing the "right thing" versus doing what you thought your employer wanted you to do? Have you ever been so taken up by the rewards of business as usual that you found yourself acting against your morals? How does this happen? A classic example involves a manager named Dennis Gioia and his experience working at the Ford Motor Company over fifty years ago.[1]

In the early 1970s, the Ford Motor Company introduced its $2,000 Pinto car to compete against the low-priced Volkswagen Beetle. To reduce costs, the Pinto engineers decided to locate its fuel tank over the rear axle. Unfortunately, this decision proved problematic. After several years, the data suggested that the fuel tank's placement made the Pinto prone to explosions when the car was hit from behind.

Imagine that you are Ford's Field recall coordinator and these data have been brought to your attention. You immediately recognize that a decision needs to be made, and you consider two options. The first option is to recall all 12.5 million Pintos on the road and install an $11 safety bladder. The estimated total cost of this option is $137.5 million. The second option is not to recall the vehicles and instead pay the damages that arise from lawsuits. Using data provided by the US National Highway Traffic Safety Transportation Administration, you esti-

mate that the total lawsuit costs would be $49.5 million ($200,000 for each of the 180 anticipated burn deaths, $67,000 for each of the 180 anticipated burn injuries, and $700 for each of the 2,100 anticipated burned vehicles). The numbers are clear and compelling, so you choose and implement the second option, which will save Ford $88 million compared to the first option.[2]

Unfortunately, this account is based on a true story: managers at Ford made the decision to not recall the Pinto. When the general public found out, it was outraged. In February 1978, a California jury was so upset by Ford's cost-benefit analysis that it awarded one accident victim $125 million in punitive damages.[3]

How is it that managers' so-called rational decision-making processes can result in a decision that many people find morally offensive? People tend to blame the individual manager(s) who make such decisions. But it turns out that many people facing a similar situation would likely make the same decision. Consider what happened to Dennis Gioia, the manager who worked as Ford's recall coordinator on the Pinto file. Prior to joining Ford, when he was still an MBA student, Gioia was often critical of the conduct of profit-maximizing businesses:

> To me the typical stance of business seemed to be one of disdain for, rather than responsibility toward, the society of which they were prominent members. I wanted something to change. Accordingly, I cultivated my social awareness; I held my principles high; I espoused my intention to help a troubled world.[4]

Gioia's MBA classmates were dumbstruck when he accepted a job offer from Ford, because doing so seemed to go against his values:

> I countered that it [working at Ford] was an ideal strategy, arguing that I would have a greater chance of influencing social change in businesses if I worked behind the scenes on the inside, rather than as a strident voice on the outside. It was clear to me that somebody needed to prod these staid companies into socially responsible action. I certainly planned to do my part. Besides, I liked cars.[5]

When he joined Ford, Gioia was definitely not a typical FBL manager, and probably the last person in his graduating class that anyone expected to choose money over lives.[6] So what happened? Gioia describes how he was resocialized at Ford while competing for attention with other MBAs who had recently joined Ford: "The psychic rewards of working and succeeding in a major corporation

proved unexpectedly seductive." Soon the basic routines at Ford—the "scripts" that managers learned and followed—and the company's normal ways of doing things became second nature to Gioia. His job was intense and involved overseeing about 100 active recall campaigns. Routines were important aids in managing the heavy caseload and making decisions.[7]

In his early days on the job, Gioia took very seriously the fact that his job literally involved life-and-death decisions, but

> that soon faded . . . and of necessity the consideration of people's lives became a fairly removed, dispassionate process. To do the job "well" there was little room for emotion. Allowing it to surface was potentially paralyzing and prevented rational analysis about which cases to recommend for recall. On moral grounds I knew that I could recommend most of the vehicles on my safety tracking list for recall (and risk the label of a "bleeding heart"). On practical grounds, I recognized that people implicitly accept risk in cars.[8]

The routines that he inherited in his position seemed practical and rational (from an FBL perspective). They provided Gioia with ways of behaving and making decisions. As well, he lacked well-developed scripts to enact his alternate values.

> In retrospect I know that in the context of the times my actions were legal (they were all well within the framework of the law); they were probably also ethical according to most prevailing definitions (they were in accord with accepted professional standards and codes of conduct); the major concern for me was whether they were moral (in the sense of adhering to some higher standards of inner conscience about the "right" actions to take).[9]

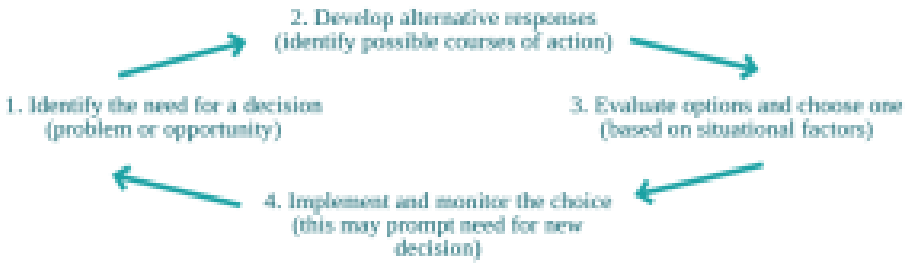
In short, scripts and routines have a powerful effect on how decisions are made. Unless managers are mindful when making decisions, they will default to the scripts they are given.[10] Decisions that are appropriate according to an FBL or TBL perspective may seem immoral from a SET perspective, and vice versa. For example, from an FBL moral point of view, recalling the Pintos might have been considered unethical because $88 million of "extra" costs would have been imposed on shareholders. In contrast, a SET perspective would agree with the general public's sentiment that Ford had a responsibility to issue the recall.

## 7.1. Introduction

Managers must make many important decisions in carrying out each of Fayol's four functions of management (see Chapter 1). A **decision** is a choice that is made among a number of available alternatives to address a problem or opportunity. Decisions must be made about what goals, plans, and strategies to pursue (planning); what sorts of organizational structures and systems to design and implement (organizing); how to motivate and communicate with others (leading); and the values and meaning that will provide guidance to organizational members (controlling).

Because everyone makes multiple personal and professional decisions every day, it is helpful to develop a better understanding of how decisions are made and how the decision-making process can be improved. In this chapter, we examine in detail each of the four steps of the decision-making process (see Figure 7.1), describing differences between a Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) perspective.

**Figure 7.1. The four-step decision-making process**




## 7.2. Step 1: Identify the Need for a Decision

The first step of the decision-making process involves identifying the *need* for a decision to be made. A decision is often necessary if a problem is detected in some current activity, or if there is an opportunity to engage in a new activity. Since managers are constantly confronted with both problems and opportunities,

they must constantly make decisions. To avoid being overwhelmed, managers filter problems and opportunities to determine which ones require a decision now and which can be delayed or even ignored. For example, a decision is more likely to be seen as necessary if the viability of the organization is at stake, or if previous similar events have always prompted a decision.

Managers, like all people, use cognitive scripts when they make decisions, akin to the way actors use scripts to know what to do and say in specific scenes.[11] People have scripts for a variety of settings, from knowing what to do and say when meeting strangers, to proper table manners and etiquette, to driving a car. For example, drivers read road signs, follow routines to determine if it is safe to change lanes, and adjust their speed for weather and traffic. Disastrous outcomes may occur if drivers have limited experience in recognizing potential dangers or are distracted from their scripts by their phones.

*Managers, like all people, use scripts when they make decisions.*

Managers use learned scripts to recognize (or fail to recognize) whether a situation requires a decision. They learn to pay attention to key financial reports, productivity data, consumer trends, and so on. As illustrated in this chapter's opening case, scripts help managers recognize the need for a decision, but they may also cause managers to make inappropriate decisions.

Just as there are different genres of movie scripts—action, comedy, romance, horror, and so on—so also there are different generic scripts for FBL, TBL, and SET management (see Table 7.1). The scripts for FBL management focus on financial well-being and tend to be oriented toward an individual company's situation. Managers focus on solving problems and seizing opportunities that will increase a firm's revenues or reduce its financial costs, usually with little regard to whether a decision creates positive or negative socio-ecological externalities. Those involved in the Ford recall decision in the opening case followed an FBL script and did not have TBL or SET scripts to draw upon.

**Table 7.1. Relative emphases in scripts for identifying the need for a decision**

| Emphasis | FBL approach | TBL approach | SET approach |
|---|---|---|---|
| Maximize financial well-being | High | High | Low |
| Reduce negative externalities | Low | Medium | High |
| Attend to external stakeholders | Low | Medium | High |
| Enhance positive externalities | Low | Low | High |

TBL scripts are similar to FBL scripts in terms of enhancing financial well-being, but TBL scripts differ in two ways. First, they are much more attuned to finding ways to reduce existing negative socio-ecological externalities when it enhances the firm's financial well-being. Second, they are more likely to be prompted by external stakeholders. Therefore, a comparatively wider set of concerns can trigger the decision-making process for TBL managers. Compared to FBL managers, TBL managers are more sensitive to the needs of other stakeholders and are committed to putting those needs on the decision-making agenda.[12] For example, in light of exploitive working conditions in low-income countries, managers in a growing number of organizations have voluntarily chosen to adopt an international standard of social accountability (SA8000), where adherents agree to pay wages that are adequate to cover basic needs and not just the legislated minimums.[13] These organizations also refuse to employ children under fifteen years of age and do not use forced labor. Knowing that adopting these higher standards could reduce the risk of a negative brand image, large TBL retailers have committed themselves to choosing suppliers that follow these standards, even if they are not offering the lowest price. For example, the large retailer Inditex committed to stop dealing with its Myanmar suppliers when managers discovered labor rights violations following political changes in the country.[14]

SET management scripts share and extend the emphasis that TBL scripts place on attending to external stakeholders and reducing negative socio-ecological externalities, but SET scripts differ from TBL scripts in two additional ways. First, SET scripts place a greater emphasis on enhancing positive externalities by seeking out and trying to address society's vexing problems. Second, unlike FBL and TBL approaches, SET scripts may lead to decisions that enhance certain non-financial benefits (e.g., employee satisfaction), even if doing so does not yield financial or productivity benefits. For example, AT&T manager Robert Greenleaf

noticed that the decision-making scripts used in recruitment and promotion at his company were resulting in women being under-represented in its workforce, and in African American employees being promoted at a slower rate than their white co-workers. Because issues like these were not perceived to be associated with AT&T's financial well-being at the time, a manager with an FBL or TBL perspective would not have identified them as problems or opportunities. However, because of his SET approach to management, Greenleaf recognized them as issues calling for decisions to be made, and this prompted him to work with others to develop new scripts to address them. These new scripts eventually became the new norms and guidelines that informed subsequent decision-making at AT&T.[15]

Recognition that there is a need for a decision in a particular situation is influenced by whether a manager is using scripts based on the FBL, TBL, or SET approach. Suppose a manager receives information that a very profitable product the company is selling is potentially dangerous to the health of customers (e.g., the Ford Pinto). An FBL manager may not feel a decision is necessary because the situation is only "potentially" dangerous, whereas a SET manager who is confronted with the same information would likely decide to start the decision-making process to reduce the potential for harm to customers. Managers in companies that sell carbonated soft drinks and/or fast food face a similar dilemma of attending to the financial well-being of their company versus the health of their customers, since both products have been implicated in childhood obesity.[16]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=150#h5p-39*

*Managers who sell carbonated soft drinks face a similar dilemma as the recall coordinator of the Ford Pinto did.*

## 7.3. Step 2: Develop Alternative Responses

Once the need for a decision has been established, the next step is to *develop alternatives* for addressing the problem or opportunity that has been identified. In the most general sense, managers can respond in one of three ways:

1. Do nothing;
2. Apply an existing routine (i.e., make a programmed decision); or
3. Develop a new routine (i.e., make a non-programmed decision).

The first approach—"do nothing"—is the appropriate response in situations where action is not worth the effort or the cost. For example, doing nothing might be the appropriate response if someone arrives late at work on account of an unexpected traffic jam.

The second approach involves following an existing script or routine. Doing so results in making programmed decisions (also called routine decisions). In a **programmed decision**, the response to an organizational problem or opportunity is chosen from a set of standard alternatives. For example, organizations have numerous routines for things like reordering office supplies, responding to employees who arrive late for work, dealing with irate customers who do not receive their order on time, and so on. These decision rules and policies have been developed to simplify the handling of situations that recur frequently.

Sometimes managers may be tempted to use the *easiest* script instead of choosing the most *appropriate* script. This may happen if using the most appropriate script requires extra time and effort. For example, if an employee arrives late for work, the easiest response is to "do nothing" or to follow a simple script to "dock the employee's pay." However, if someone arrives late for work repeatedly, the manager is well-advised to find out what is causing the behavior (perhaps the employee's child is sick, or the employee is fearful of a conflict with a co-worker, or the employee is simply irresponsible). A different script may be appropriate in each case.

*Managers may be tempted to use the easiest rather than the most appropriate script.*

The third approach is to make a non-programmed decision. A **non-programmed decision** involves developing and choosing a new way of dealing with a problem or opportunity. The quality of non-programmed decisions often depends on the time and resources a manager is willing to invest in developing them.[17] The amount of time and resources invested in making non-programmed decisions increases with the perceived *importance* and *newness* of the decision, and decreases with the *urgency* of the decision. Increased time is needed for strategic decisions such as responding to a new competitor, coping with changes in legal regulations, or deciding whether or not to go ahead with a major expansion. Some non-programmed decisions may be developed for a one-of-a-kind situation (for example, where to locate a new company headquarters), whereas other non-programmed decisions will become new scripts to be used in future programmed decisions. When smartphones first became commonplace in organizations, guidelines were needed on issues like whether employees were expected to respond to business emails during evenings and weekends, whether employees could use a company phone for personal matters, and so on. Once these non-programmed decisions were made, they became the new norm for programmed decisions in subsequent years.[18]

Consider how the three possible responses (do nothing, make a programmed decision, or make a non-programmed decision) played out in a situation that confronted Nils Vik, the owner of a small café called Parlour Coffee in inner-city Winnipeg. One evening the police called to tell Vik that his business had been broken into. His first reaction was to do nothing, since he was at home with his young children, and didn't want to go to the shop to clean up the mess (of course, the do nothing option wasn't realistic in the long term; he eventually needed to go to the shop and address the mess). His second response was more along the lines of a programmed response that you might expect from any shop owner in his situation: he installed an alarm system. But after installing the alarm, he started thinking about the situation facing the person(s) who had broken into his shop: "I couldn't help but think . . . man, you have to be in pretty rough shape that you think the best means of acquiring some income is to break in somewhere in the middle of the night." Upon further reflection he realized that installing his alarm system only addressed a *symptom* of the problem by shifting the potential for break-ins to someone else's business. "So if we want to try and make any lasting change, we have to prevent these things from happening at the root cause. Clearly it has to do with inequality and income disparity and poverty. Those things an alarm system can't fix." Eventually Vik decided to donate a percentage of his sales for the rest of the year to a not-for-profit agency that provides support

and shelter for homeless people in his neighborhood.[19] Thus, his third action involved making a non-programmed decision.

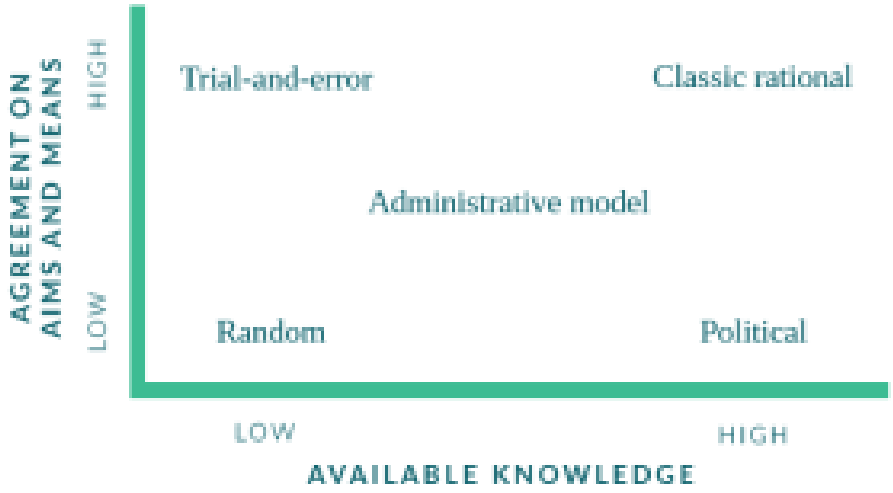
**Test Your Knowledge**

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*https://pressbooks.openedmb.ca/management/?p=150#h5p-40*

## 7.4. Step 3: Choose the Appropriate Alternative

The third step—choosing the best alternative—lies at the heart of the decision-making process. This step has two highly interrelated sub-steps, namely evaluating the different alternatives developed in step 2, and then selecting the best alternative. A systematic evaluation of the relative merits of the alternatives is particularly important for strategic and non-programmed decisions. *How* a choice is made depends on two key factors: (1) the quality of knowledge available to decision-makers about the outcomes that are likely to result with each of the alternatives; and (2) the level of agreement among decision-makers regarding an organization's aims and the best means to achieve those aims. These two factors can be combined to form the two-dimensional framework shown in Figure 7.2. The figure also shows five general approaches decision-makers use as they choose among possible alternatives. We first explain the two dimensions of the figure, and then describe each of the five general approaches.

**Figure 7.2. Five approaches for evaluating options and choosing one**




### 7.4.1. Available knowledge

As shown along the horizontal dimension of Figure 7.2, the decision-making process is influenced by the knowledge that is available to decision-makers. Three factors are important regarding the available knowledge:

1. Is it possible to identify an optimal choice?
2. Do decision-makers have good knowledge about the likelihood and payoffs of each possible outcome? and
3. Is the knowledge explicit or tacit?

We will examine each of these questions in turn.

#### Is it possible to identify an optimal choice?

Many decisions are *dilemmas*, meaning that no optimal choice can be made because there are both positive and negative aspects associated with each alternative, and the resulting trade-offs are complex and defy complete analysis.[20] Examples like choosing the best strategy to implement, the best idea for a new start-up, the best romantic partner, the best neighborhood to live in, and the best

career to pursue are all dilemmas. In *partial* dilemmas, decision-makers have enough knowledge to make informed decisions (i.e., decision-makers may not know which is the best idea for a start-up, but they do have enough experience in the industry to discern between better and worse ideas). In *total* dilemmas, decision-makers do not have enough information to predict with any confidence which choices might be better than others.

#### Do decision-makers have good knowledge about the likelihood and payoffs of each possible outcome?

Unless they are facing a total dilemma, decision-makers usually have some knowledge about the risks associated with a choice. Managers make decisions in situations that range from uncertain to certain (see Figure 7.3). **Certainty** exists when managers know exactly what outcomes are associated with each alternative they are choosing among, the possible payoffs associated with each possible outcome for each alternative, and the probability that each payoff will occur. This situation is obviously rare in business decisions. At the other extreme, **uncertainty** exists when managers do not know what outcomes are associated with each alternative they are choosing among, do not know the possible payoffs associated with each possible outcome for each alternative, and do not know the probability that each payoff will occur. This type of situation is also uncommon, but more common than certainty. Some new start-ups, for example, may face an extreme amount of uncertainty. In between certainty and uncertainty is a wide area of risk. **Risk** is evident when decision-makers have at least some knowledge about the likelihood of the different possible outcomes that might occur if they choose to implement a particular alternative, and the payoffs associated with each outcome.[21] Risk involves decisions where managers are able to develop some (but not all) alternatives, estimate (but not know for certain) payoffs for each alternative, and estimate (but not know for certain) the probabilities of the payoffs. Thus, there is no way to guarantee that choosing a particular alternative will lead to a particular outcome or payoff. This is obviously the situation faced by most business most of the time.

**Figure 7.3. Continuum of uncertainty, risk, and certainty in decision-making**




To illustrate these ideas in a business setting, imagine that you work for an investment firm, and that you must decide which one of five entrepreneurial business plans to invest in. Which venture you choose will be based on your best attempt to answer a host of questions, including the following: Will there be sufficient demand for the firm's goods and services? Has the product been fully developed? What sort of marketing strategy is best? What management and technical skills does the new start-up require? How profitable will it be? What kind of socio-ecological externalities will it generate and address?[22] You will likely not have full knowledge about any of these matters, but you may be reasonably confident about the answers to some of these questions. In the end there may not be one clear best choice to make, especially if you invoke multiple measures of performance. Your decision is a dilemma characterized by a moderate amount of risk.

Scripts are important for understanding how decision-makers interpret and perceive the knowledge that is available to them. For example, in the 1950s, Ford spent ten years and more than $250 million in production and marketing costs (the equivalent of over $2 billion in today's dollars) in order to develop a car called the Edsel (named after the owner's son). As the manager of market research noted: "History had never witnessed anything like it before. More money was spent in its launching than any other previous product offered upon the consumer market anywhere. It was to be the most perfectly conceived automobile the world had ever seen, with every part of its planning guided by public opinion polls, motivational research, Science."[23] Despite this great attention to optimizing certainty and reducing risk, the Edsel was a failure. Why? Because Ford managers took all this available knowledge and interpreted it using their pre-existing scripts, "ignoring data in order to support their worldview and their position within managerial career hierarchies."[24] In other words, available knowledge may be ignored or perceived as irrelevant.

A modern example of this knowledge limitation is found in the use of artificial intelligence (AI) in decision-making. AI is able to find patterns in huge volumes of data, but it is limited by the scripts and systemic biases embedded in those data and the scripts used to interpret them.[25] For example, when Amazon found that a hiring algorithm favored applications that included words like "cap-

tured" or "executed" (which were most common on men's resumes), it stopped using that algorithm.[26]

*Pre-existing scripts can cause managers to ignore relevant information.*

The scripts used by FBL, TBL, and SET management may influence whether a decision is perceived to have an optimal solution, and what risks and uncertainties it includes. The FBL script in the Ford Pinto case focused on the financial costs associated with each option but did not take into account possible damage to the company's brand image (which may have been included in a TBL script), or the trauma of victims (which may have been included in a SET script).

#### Is the available knowledge tacit or explicit?

In addition to the *amount* of knowledge available, the decision-making process is also influenced by the *nature* of the knowledge and whether the knowledge is tacit or explicit. **Explicit knowledge** is information that can be codified or articulated. Explicit knowledge includes data found in financial statements, manuals on how to operate technology, and an organization's business plan. Programmed decisions are often related to the availability of extensive explicit knowledge. For example, a firm's programmed decisions related to bookkeeping and accounting practices are based on explicit knowledge drawn from generally accepted accounting principles, and these decisions in turn create a lot of explicit knowledge embedded in financial statements. This sort of explicit knowledge allows decision-makers to reduce uncertainties and understand the risks associated with both major decisions (e.g., expansion overseas, dropping an existing product line, purchasing another company) and minor decisions (can we afford to purchase new computers, which computer supplier offers the best prices and warranties).

**Tacit knowledge** is information or insight people have that is difficult to codify or articulate. Intuition is an example of how tacit knowledge may be used. Following one's **intuition** refers to making decisions based on tacit knowledge, which can be based on experience, hunches, or "gut feel." Experienced managers and experts are valued for their tacit knowledge. Instances of intuitive decision-making are especially striking when they counter explicit available knowledge. For example, Ray Kroc's accountant advised him against purchasing McDon-

ald's, but Kroc had a "gut feel" that this investment would turn out to be a winner.[27] Similarly, the owner of Parlour Coffee felt that donating a portion of sales revenues to an agency that helps homeless people was the right thing to do. Decision-makers are more likely to rely on tacit knowledge when explicit knowledge is not available, and when making non-programmed decisions. Programmed decisions are often based on explicit knowledge and create explicit knowledge that perpetuates those decisions, but non-programmed decisions often involve choices that decision-makers have little explicit knowledge about.

FBL, TBL, and SET decision-makers all draw on both explicit and tacit knowledge. However, there are two reasons why SET decision-makers may be more likely to rely more heavily on tacit knowledge. First, because FBL and TBL approaches have been popular for quite a while, there has been more opportunity to develop the sorts of explicit knowledge that they use. Second, FBL and TBL approaches tend to place a greater emphasis on things that can be measured, in contrast to the more holistic SET approach, which places greater value on more difficult-to-codify ideas such as meaningful work and treating the environment with care.

*SET management may rely more on tacit knowledge.*

### 7.4.2. Agreement on Aims and Means

As shown in Figure 7.2, the level of agreement on organizational aims and means that exists among decision-makers is the second key dimension to understanding how decision-makers choose among various alternatives. **Agreement on aims and means** refers to the level of consensus among decision-makers about the goals of an organization and the best way to achieve those goals.[28] **Goals** are the objectives or desired results that members in an organization are pursuing, and means are similar to **plans**, which describe the steps and actions that are required to achieve goals. Low agreement on aims and means indicates that there is considerable debate about what the aims should be and/or about the best means to achieve those aims. These disagreements may exist because different members identify problems or opportunities an organization is facing in different ways (step 1 of the process). For example, even among FBL and TBL managers who agree that maximizing shareholder financial well-being is the ultimate aim, there

may be considerable disagreement about the best means of doing so. This was the case with the famous *Saturday Evening Post* magazine, where some managers wanted to maximize sales revenue, others to reduce costs, others to optimize the profit margin, and others to invest in research and development.[29] Such disagreements, and a failure to understand how these sub-aims were related to each other, contributed to the demise of the 150-year old publication in 1969.[30]

FBL and TBL approaches generally share a high level of agreement that aims should improve financial well-being, but there is less agreement about means, particularly with the TBL approach because it includes factors related to social and ecological well-being, and this creates added complexity. Whereas FBL managers may give little thought to reducing greenhouse gas (GHG) emissions, TBL managers may want to reduce those emissions *and* may also have debates about whether the best way to do that is to purchase a fleet of electric vehicles or to develop wind or solar power sources.

On the face of it, we might expect the SET approach to have the lowest level of agreement in terms of both aims and means. In its aims, SET management seeks to enhance both social and ecological well-being, which can be considerably more complex than focusing on enhancing financial well-being (as in FBL and TBL approaches). A similar situation is evident in terms of means, where the potential for disagreement is likely higher with the SET approach simply because of the added complexity that develops when an organization seeks to reduce negative externalities *and* enhance positive externalities.

This problem may be reduced to some degree, since SET managers are more willing to accept and even embrace disagreements (see Chapter 16). Whereas FBL and TBL approaches make an implicit assumption that it is *ideal* to have complete agreement on aims and means (even if this ideal is seldom realized), this assumption does not hold in the SET approach, where decision-makers accept that the world is simply too complex for there to be one "best" set of aims and means.

*SET management recognizes the world is too complex for there to be one best set of aims and means.*

To elaborate, a SET approach suggests that embracing *diversity* in aims and means will contribute to overall organizational performance, while the traditional

FBL and TBL approaches indicate that *uniformity* in aims and means will enhance an organization's financial performance. It turns out that research provides some empirical support for SET as well as for FBL and TBL views on the effect of disagreement about aims and means.[31] Consistent with the SET view, the level of agreement is negatively related to *organizational* performance measures (including how well the organization performs its main function). However, consistent with FBL and TBL approaches, the level of agreement is positively related to *individual*-based measures of performance (including their financial contributions).

### 7.4.3. Five Approaches to Decision-Making

Now that we have discussed the two dimensions of Figure 7.2—available knowledge, and level of agreement on aims and means—we can take a closer look at each of the five general approaches to decision-making that are used by managers: classical, political, trial and error, random, and administrative.

#### Classical Rational (High Agreement, High Knowledge)

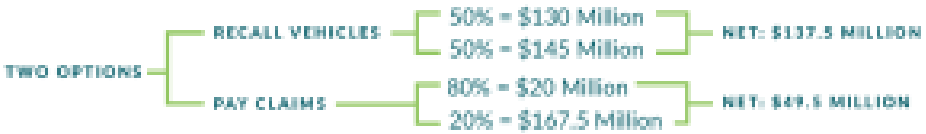
The *classical rational decision-making approach* involves listing all possible options, determining the costs and benefits associated with each, and then choosing the best option.[32] This method tends to assume that decisions are made in conditions of certainty, that there is a best choice to be made, and that explicit knowledge is more valuable than tacit knowledge.[33] The classical rational method has traditionally been a favorite of FBL management, but it has been criticized for its unrealistic assumption that there can be agreement on aims and means, complete information, and the ability to compute and analyze all of the information.[34] That said, management practices are arguably getting better at facilitating agreement,[35] and improvements in information systems and technologies—particularly AI and machine learning systems—are getting better at providing increasing amounts of data and data processing capacities.[36] AI's ability to process large amounts of information can significantly enhance decision-making effectiveness and automation, especially when managers are able to balance machine efficiency with human judgment through sequential and aggregated decision-making processes.[37] Nonetheless, even with improvements related to AI, research shows that organizations still face important barriers to using it, including transparency concerns, regulatory challenges, and the need to maintain human social dynamics.[38]

Over the years a wide variety of tools have been developed for managers

who want to use the classical approach to decision-making, including decision trees, break-even analysis, inventory and supply chain management models, and various techniques in the field of management science, to name just a few. Sometimes such tools developed for the classical rational approach are adapted and used in other decision-making quadrants.

We can use the opening case to briefly highlight decision trees as an example of how this approach might be used. Imagine that in the case of the Ford Pinto, managers did not know exactly how many customers would bring in their car if the company decided to offer a recall (and thus how costly the recall would be). But based on information about previous recalls, the managers predicted that there was a 50 percent chance the recall costs would be $130 million and a 50 percent chance the costs would be $145 million. As shown in Figure 7.4, the expected costs would be $137.5 million (0.50 × $130 0.50 × $145). Similarly, let's assume the decision-makers did not know for certain how many people would have an accident because of the design flaw, nor did they know what the actual costs of lawsuit claims would be. But based on past experience, they predicted that there was an 80 percent chance that total claims would be $20 million and a 20 percent chance that claims would cost 167.5 million. The expected cost would therefore be $49.5 million (0.80 × $20 million) (0.20 × $167.5 million). Based on strictly financial considerations, they would choose to pay the expected claims, because $49.5 million is a lot less than $137.5 million.

**Figure 7.4. Example of a simple decision tree**




Finally, even with the new information processing technologies, full-fledged rational decision-making techniques are evident in only a minority of managerial decisions.[39] In particular, it is rare to find situations where managers have complete information at their disposal and where no dilemmas are evident. Even as AI systems advance in their ability to process data and support decision-making,[40] the fundamental challenges of incomplete information and bounded rationality persist. Moreover, as illustrated in the opening case and the case of the Ford Edsel, poor decisions may be made even in situations where managers think

that they have all the information they require to make a rational decision. Given the increased complexity associated with socio-ecological externalities, and the reality that many decisions faced by SET organizations do not have one best answer, this method may be least likely in SET management (and most likely in FBL management).

#### Political (Low Agreement, High Knowledge)

The *political decision-making approach* involves negotiations about which means and ends to pursue, identifying costs and benefits associated with various options, with the final choice often reflecting a compromise that partially satisfies the competing interests of those involved. In this method, disagreement among decision-makers can be intense, even when there is agreement that the overarching goal is to maximize the financial interests of shareholders. For example, suppose there are three ways—increasing sales revenues, reducing production costs, and developing more technologically advanced products—that are expected to be equally effective in increasing shareholder value by 10 percent. It is likely that marketing managers will prefer the option that focuses on increasing sales revenue, that manufacturing managers will prefer the option that focuses on reducing production costs, and that research and development managers will prefer to develop the most technologically advanced product. Often these competing alternatives will be mutually exclusive, or the organization will lack the resources to pursue all of them at the same time.

Such situations often lead to a politicized decision where a variety of tactics may be used as different managers try to achieve their own preferred outcomes. These tactics include (but are not limited to) the following:

- *networking* (ensuring that one has many friends in positions of influence)
- *compromise* (giving in on an unimportant issue in order to gain an ally who will support you when an issue that is important to you comes up)
- *image building* (engaging in activities that are designed to improve one's image)
- *selective use of information* (using certain information to further one's career)
- *scapegoating* (ensuring that someone else is blamed for a failure)
- *trading favors* (such as when a marketing manager agrees to support

the manufacturing manager this year but expects a favor in return next year)

- *forming alliances* (agreeing with key people that a certain course of action should be taken)[41]

The political decision-making method may be especially likely when decision-makers are seeking to enhance their own power, status, and financial interests. This is often assumed to be the case in traditional FBL and TBL management, since these approaches assume that individuals are motivated by self-interest.[42] When employees perceive managers to be acting politically, anxiety increases, job satisfaction decreases, and managers are judged as being ineffective.[43]

In SET organizations, it is more likely that managers are willing to forgo their own gain in order to enhance positive social and ecological externalities, and debate with other decision-makers about the best ways of doing so. Decision-makers in such organizations may still participate in trading favors, forming coalitions, and building alliances, but the nature of this political behavior is qualitatively different because it is not as self-serving. Rather than politicking to enhance their own interests, though that will still happen in SET organizations, decision-makers are politicking on behalf of others and developing a more well-rounded understanding of externalities in the process.[44]

#### Trial and Error (High Agreement, Low Knowledge)

The *trial and error decision-making approach* involves listing possible options to choose from, attempting to determine the costs and benefits associated with each, and then choosing the option that offers the greatest opportunity for improvement with the lowest chance of making a mistake. For example, managers may agree that they want to increase the sales of their key product via advertising but may not agree on whether to use television, radio, print, or social media because they lack knowledge about the relative effectiveness of these different media for their product. As a marketing manager once said, "I know that half my advertising expenditures have no effect on sales; the trouble is, I don't know which half."

In this case, managers often opt for an incremental approach, which could include making small changes or running pilot tests in various regional markets or with a small group of employees or customers. **Continuous improvement** refers to making many small, incremental improvements with regard to how things are done in an organization. Continuous improvement (often called *kaizen*) has been a pillar of success for companies like Toyota, where it helps members to be open to new ideas and to build high quality automobiles. This method works

best in a stable environment, and over the course of time, even incremental changes can result in major change within an organization.[45] Finally, note that because decision-makers in this quadrant have little knowledge available, especially for non-incremental decisions, when making such decisions managers must be more open to speculation and guessing.[46]

#### Random (Low Agreement, Low Knowledge)

The *random decision-making approach* involves negotiations among decision-makers about which means and ends to pursue, and then making a choice even though decision-makers are unable to determine the costs and benefits associated with possible options. This is chaotic decision-making. Often decision-makers in this quadrant do not fully understand the problems and opportunities their organization is facing and thus simply choose to address the problem of the day with an idea they recently heard about. Choosing a solution (step 3) often precedes identifying the problem (step 1). In other words, decision-makers in this quadrant recognize a possible strength and implement it in the hope that it solves some problem. For example, a manufacturer that thinks 3D printers are the wave of the future might purchase several without knowing how they might be used. An accounting firm may recognize that it has several accountants skilled at auditing non-profit organizations, and so sets up a new department focused on non-profit auditing even though it currently has no non-profit clients.

#### Administrative Model (Medium Agreement and Knowledge)

Because managers usually have at least *some* knowledge and at least *partial* agreement on aims and means, they often use some aspects of all of the decision-making models mentioned so far. The administrative approach is characterized by **satisficing**, which is evident when decision-makers do not attempt to develop an optimal solution to a problem but rather collect enough information and develop enough alternatives until they feel they are able to choose one that provides an adequate solution. Satisficing is the result of *bounded rationality*, which explains that individuals make suboptimal decisions because they lack complete information and have limited abilities to process information (see Chapter 2).[47]

Satisficing means making adequate choices rather than the best ones possible, which suggests that this approach falls short of what constitutes optimal decision-making. However, satisficing also has a great and compelling strength: it reduces the time decision-makers must spend when they are developing and evaluating alternatives. Of course, there is still the challenge of stipulating what

constitutes an "adequate" analysis and/or solution. If managers view satisficing as an interim solution rather than a cast-in-stone decision, if they are willing to learn from their mistakes, and if they are willing to undo former decisions based on what they have learned, satisficing contributes to an *ongoing* learning process. This brings us to final step in the decision-making process.

**Test Your Knowledge**



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*Satisficing means making adequate rather than optimal decisions*

## 7.5. Step 4: Implement and Monitor the Choice

The fourth step involves implementing and monitoring the chosen alternative. After implementation, the four-phase cycle starts over again at the first step, as the outcome is monitored to see if it has solved the problem or perhaps unintentionally created a new problem. Managers face two key challenges in this step: (1) overcoming resistance to implementing a decision (i.e., resistance to change); and (2) overcoming resistance to recognizing and admitting decision mistakes. We will look at each in turn.

### 7.5.1. Overcoming Resistance to Implementing a Decision

Obviously, some decisions require more effort to implement than others. Generally, a routine programmed decision will be easier to implement than a non-programmed decision. For example, buying a new copying machine will be easier than acquiring another company. The most difficult decisions to implement are the ones that challenge an organization's entrenched scripts and ways of operating. Even a technically brilliant decision will fail if it is not implemented in a

way that members will embrace. Chapter 13 deals at length with the change implementation process, so at this point we will simply describe how the earlier steps in the decision-making process can be helpful in reducing resistance to change.

Perhaps the most fundamental way that managers can increase the likelihood that decisions will be implemented is to involve members in the decision-making process at the outset. Such involvement can be financially costly and is not necessary for many decisions, but it may be cost-effective and *critical* for some decisions.[48] A manager is encouraged to involve members in the decision-making process when the manager lacks information to make the decision, when members can be trusted because their goals align with the manager's, when commitment from others is critical to success, and when there is ample time to make the decision.[49] FBL and TBL approaches are inclined to limit employee participation in order to reduce financial costs,[50] but they encourage participative decision-making when it serves the organization's financial interests.[51] SET managers are more likely to welcome participative decision-making because they recognize its inherent value in involving others and thereby increasing social well-being. As a result, SET managers are likely to meet less resistance during step 4 and are more likely to respect any resistance they do experience.[52]

*Participants in the decision-making process are less likely to resist implementing decisions.*

Managers must not naively assume that participation will always lead to unanimity. The fact is that there will often be people who would rather not implement a particular decision. One way to deal with this reality is to make implementation invitational rather than required. SET managers may allow members who oppose a decision to not implement it. For example, when Robert Greenleaf made managers at AT&T aware of the problem of low promotion rates for African American employees (step 1 of the decision-making process), a number of alternatives were developed (step 2), and two were chosen for implementation (step 3) on an invitational and experimental basis (step 4). In the first experiment, Greenleaf worked with those who were agreeable to deliberately recruiting African American employees for AT&T management training programs. The second experiment involved offering African American technical specialists a broader range of

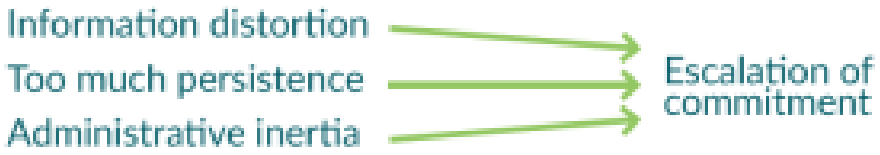
job experiences in order to better prepare them for managerial positions. Initially some managers opted out of both experiments, but over time these became the new normal scripts and eventually helped to increase the proportion of African American managers at AT&T almost tenfold (addressing issues in step 1).[53]

### 7.5.2. Overcoming Resistance to Recognizing a Mistake

Once a decision has been implemented, the decision-making process goes back again to step 1, where managers monitor its outcomes. If a decision has resolved the original issue, managers can continue to support the decision. However, research suggests that about half of all non-routine decisions fail.[54] In such cases, where the decision has failed to resolve a problem or may have created unanticipated additional problems, the key for managers is to learn from their mistakes and to transform them into knowledge-creating events that can be used in future decision-making processes. As the great inventor Thomas Edison put it: "I have not failed. I have just found ten thousand ways that won't work."[55] In fact, CEOs from corporations like Netflix, Amazon, and Coca-Cola have worried when their firms' new projects do not fail often enough, suggesting that it means they're not bold enough and not getting enough chances to learn from their failures.[56]

Unfortunately, many poor decisions persist for longer than they should because managers are reluctant to admit that they made a mistake. This persistence leads to **escalation of commitment**, which occurs when a manager perseveres with implementing a poor decision in spite of evidence that it is not working. Figure 7.5 shows three specific reasons why escalation of commitment occurs, but the most fundamental reason is that managers refuse to admit that they made a poor decision. First, escalation of commitment often occurs in tandem with **information distortion**, which refers to the tendency to overlook or downplay feedback that makes a decision look bad and instead focus on feedback that makes the decision look good. For example, one study found that despite rising mortality rates in the pediatric cardiac surgery program at Bristol Royal Infirmary in England, key decision-makers in the hospital (in particular, the CEO and surgeons) chose to ignore indicators of poor performance and negative feedback, and instead developed norms and routines that limited the likelihood they would abandon their bad decisions and learn from their failing practices (see also Chapter 17 on managers' reluctance to accept feedback).[57]

**Figure 7.5. Factors that contribute to escalation of commitment**




Second, escalation of commitment can also be caused by too much **persistence**, which refers to remaining committed to a course of action despite obstacles. Persistence can be expressed as "When the going gets tough, the tough get going." When asked about the key secret to his success, Facebook CEO and cofounder Mark Zuckerberg said: "Don't give up."[58] This tendency is reinforced by stories about managers who refused to admit failure despite early negative feedback and were subsequently treated as heroes when their decision turned out to be right. For example, an engineer named Chuck House at Hewlett-Packard received a "Medal of Defiance" because even though Dave Packard himself had told him to quit working on a particular project, he persisted in using organizational resources to develop what eventually became a highly successful new product.[59] In this case, not listening to the boss garnered a positive response, but in many other cases it will garner a certificate of a different sort (i.e., a "pink slip" indicating termination of employment). The challenge of knowing when to persist and when to abandon and learn from a mistaken decision is especially relevant for entrepreneurs operating in a context with a high level of uncertainty. For example, there have been many occasions where software game developers invested too many resources into games that were never released.[60]

Third, escalation of commitment can also occur because of administrative inertia. **Administrative inertia** *happens when existing structures and systems persist simply because they are already in place.* Administrative inertia is related to the concept of sunk costs, which suggests that once investments have been made in a project, managers are more likely to persist with that project even when it is not going well. Inertia is a particularly salient for the decision-makers who made the decision in the first place. If millions of dollars have been spent on a merger that is of questionable value, once that merger has become part of the organization's new structure, managers will be reluctant to undo that decision even though it has led to poor organizational performance.[61]

What can be done to reduce the likelihood that escalation of commitment will occur? One option is to make decisions in groups rather than give decision-

making responsibility to a specific manager, because groups may feel less threatened when admitting a decision mistake.[62] Another tactic is to set specific criteria or performance milestones when the decision is made regarding what will constitute unacceptable performance outcomes. Software game developer Steve Fawkner describes how even though a project was failing to meet milestone performance targets, his company persisted in working on the project for an additional six months, by which time "our studio had been ruined, and we were down to three employees."[63]

Rather than view decisions as a legacy to be maintained, managers should ask themselves what they have learned from their decisions that can improve future decisions. In particular, managers must be bold enough to take what they have learned and undo poor decisions. Recognizing a previous faulty decision is often easier for new managers than for the managers who originally made the poor decision. For example, new managers are 100 times more likely to sell a business unit that was acquired as a result of a poor decision than the managers who made the acquisition decision in the first place.[64]

*Rather than view decisions as a legacy to be maintained, managers should see them as learning opportunities.*

Managers who regularly challenge the status quo, as SET managers may be more likely to do than FBL and TBL managers, may find it easier to avoid escalation of commitment because they are more likely to see decisions as "experiments" that can be improved via subsequent feedback and participation. More generally, managers who are predisposed to *improving* decisions for the overall good rather than *defending* their own narrow agendas or values are more likely to be open to change.[65] This reduces the likelihood of escalation of commitment, information distortion, inappropriate persistence, and administrative inertia. It also increases the likelihood that managers will learn from poor decisions.

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## 7.6. Entrepreneurial Implications

The four-step decision-making process is particularly helpful for entrepreneurs, because they make a high proportion of non-programmed decisions when they start a new venture. Of the many decisions classic entrepreneurs make, among the most important are "make-or-buy" decisions. In essence, entrepreneurs need to decide what sorts of goods and services to make within their start-up, and which goods and services they can buy as inputs from suppliers. The Tall Grass Prairie Bread Company, which is owned and operated in Winnipeg, Canada, by Tabitha Langel and several others, offers a good example of how the four-step decision-making process can be used to determine whether to make or buy.[66]

*In addition to deciding what to sell, entrepreneurs must decide what to make and what to buy.*

Tall Grass was started in the early 1990s, when Langel and her friends identified a significant problem and recognized an opportunity it presented—the first step in the decision-making process. Small-scale local farmers were suffering financially, and even dying of suicide, owing to a lack of opportunities to sell their grains at viable prices. Moreover, they realized that there was nowhere in their city where people could purchase wholesome, fresh-baked bread made from local organic ingredients. The founders believed that it was important to make such bread available for others to buy, because this would support local farmers, take better care of ecological resources (e.g., soil), and foster community.

This problem, opportunity, and belief led to the second step, which was to consider the various make-or-buy alternatives for starting such a bakery. For example, should the bakery buy its building and equipment, or lease it? Should it bake bread and have a storefront selling directly to customers, or should it sell

bread through grocery stores? Should the bakery hire its own accounting or marketing personnel, or should it outsource those tasks? An especially important matter was how to turn local organic wheat into flour. Should the bakery ask farmers to do this, contract with a flour mill to do this, or purchase a flour mill and do this in-house at the bakery?

For the third step of the decision-making process—choosing an alternative—it is helpful to draw from transaction cost theory to help understand and inform make-or-buy decisions.[67] **Transaction costs** are expenses that do not contribute directly to producing an organizational output but exist only to reduce threats from opportunism and uncertainty. Transaction cost theory suggests that in a perfect world, "buying" is usually better than "making." In our example, it is more efficient for one organization (a farm) to grow organic wheat, for another organization (a flour mill) to turn the wheat into flour, and for another (a bakery) to turn the organic flour into bread.

However, transaction cost theory notes that the world is often imperfect for two reasons: people are opportunistic, and they have limited cognitive capacity. First, people sometimes behave *opportunistically*, meaning that they cheat or mislead others to achieve their own self-interests. Because we can't trust everyone all the time, we must develop safeguards to ensure that people keep their part of an exchange. For example, a farmer may be tempted to sell regular grain at a premium price, claiming it has been organically grown, or perhaps a flour mill will be tempted to take regular flour and sell it at a higher price, claiming it is made from organic wheat.[68] One way to deal with this is to hire a third party to inspect and certify the flour or flour mill. Another way is for a bakery to ensure that it has the organic wheat it requires by growing its own wheat and purchasing its own mill.

Second, transaction cost theory suggests that the make-or-buy decision is informed by people's limited cognitive capacity, which creates *uncertainty* when buying needed items. Entrepreneurs can't think of all the possible things that might go wrong and add them into a contract when purchasing supplies. At a more basic level, will the farmer supplier know how to grow organic wheat, especially in unexpected weather conditions? Will the mill have enough flour on hand at the predetermined price when the bakery wants to buy it?

Safeguarding against opportunism and uncertainties can take a variety of forms, such as writing contracts that address as many uncertainties as possible, implementing monitoring systems, or conducting quality tests and spot checks. Doing any of these things takes time and incurs transaction costs. For example, a baker who is worried about being sold low-quality flour may pay to have an independent third party to certify the flour and its production. This expense won't

contribute directly to the quality of baked goods, but is an additional cost that must be incurred to ensure high quality. The higher the transaction costs, the more likely a bakery will be to make rather than buy its flour.

*Transaction costs reduce threats of opportunism and uncertainty*

From a transaction cost theory perspective, the best make-or-buy choice is the one that is the most financially efficient. Although typically it is more efficient for a bakery to buy its ingredients, this may not be the case for a specialty product like local organic flour, where it may be more economical for a bakery to mill its own. Milling its own flour also incurs extra costs for the bakery beyond simply milling flour, such as the cost of buying and servicing a flour mill, hiring and monitoring a part-time mill operator, paying employee benefits, and so on. But if these costs are lower than the costs and uncertainty associated with buying organic flour, then it is better for the bakery to process its own flour.

In the case of Tall Grass, once it had established that there were customers who wanted to buy its organic bread, it made an agreement with a local farmer to grow and supply organic wheat and bought its own small (about 2-horsepower) flour mill to make its own organic flour in the bakery. Even if it had been able to purchase imported organic flour for a lower financial cost, having a local supplier was important to the bakery's overall vision of promoting socio-ecological well-being.

The fourth step in the decision-making process is to implement and monitor the decision. As it happened, the make-or-buy decisions that Tall Grass made worked out very well.[69] In particular, having farmers come to the bakery to deliver their grain was an opportunity to build community (which is priceless):

> The first time that [a particular farmer] brought in a shipment of grain and I was baking, I introduced him. There were about 5 or 6 customers, so I introduced them. And he was a big burly farmer. Everybody spontaneously just started cheering. And he just started crying. He said, "I always feel so unwelcome in the city, because it's not for us. It's the first time I've ever experienced [this feeling]." (Tabitha Langel, owner)[70]

In more instrumental terms, there was a marketing benefit for customers to

be able to meet the farmers who grew the wheat, and this interpersonal relationship increased trust and reduced the likelihood of opportunism. Another marketing benefit was that the bakery came to be known as operating the largest commercial flour mill in its region.[71] However, as the larger market for organic flour grew, more suppliers entered the market, and Tall Grass eventually decided to buy organic flour from suppliers.

All organizations need to make similar decisions about whether to make or to buy the inputs that they need. These make-or-buy decisions are an important source of entrepreneurial opportunities, because when a large firm decides to outsource work, that decision creates a need that an entrepreneur may fill. Many firms outsource services such as payroll and health benefits, leading to a demand that another organization can satisfy (see Boldr, opening case in Chapter 5). All business-to-business entrepreneurs are trying to gain from another organization's decision to buy rather than make some good or service.

Finally, transaction cost theory not only offers entrepreneurs guidance in making decisions about which *inputs* to make or buy (e.g., by calculating transaction costs) but also offers insight in terms of *outputs*. On the output side, the entrepreneur should think about the transaction problem from the perspective of the customer. The new organization should be created to offer goods and services that enable customers to minimize their transaction costs. In the case of Tall Grass, having generous return policies for their products can reduce customer uncertainty about buying their bread. Both establishing personal relationships and offering transparency in operations help to reduce the customer's worry about opportunism. The staff at Tall Grass are known for their friendliness, and customers at the counter are able to see the ovens and other equipment being used by the bakers.

## Test Your Knowledge

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## Chapter Summary

1. FBL, TBL, and SET managers follow the same basic four-step decision-making process, but the process unfolds differently based on general scripts used in each approach.
2. The first step is to identify the need for a decision (e.g., by noting a problem that needs to be solved or an opportunity that can be seized).

*FBL managers tend to place the highest attention on problems and opportunities that can maximize the organization's financial well-being, and pay relatively little attention to socio-ecological externalities and external stakeholders.*

*TBL managers also focus on problems and opportunities that can maximize the organization's financial well-being, but are more likely to enhance profits by reducing negative socio-ecological externalities and attending to external stakeholders.*

*SET managers place the least attention on maximizing the organization's financial well-being, and focus most on reducing negative and enhancing positive socio-ecological externalities and attending to external stakeholders.*

3. The second step is to consider alternative responses to choose from (do nothing, programmed response, or non-programmed response).

*FBL managers are most likely to "do nothing" (since they face fewer socio-ecological prompts to make decisions), while SET managers may be most likely to develop non-programmed responses (since programmed SET practices are relatively new to management). The responses of TBL managers will fall somewhere between those of FBL and SET managers.*

4. The third step is to choose the appropriate alternative (influenced by the level of agreement on aims and means, and by the amount of relevant knowledge available to decision-makers).

*FBL managers are the most likely to expect agreement on aims and means, the least likely to focus on socio-ecological risk and uncertainty, and the most reluctant to rely on tacit knowledge. SET managers are least likely to expect agreement on aims and means, most likely to focus on socio-ecological risk and uncertainty, and most open to tacit knowledge. The responses of TBL managers will fall between FBL and SET managers.*

5. The fourth step involves implementing and monitoring the chosen alternative.

*FBL managers may be the least inclined to use participative decision-making processes and therefore less likely to learn from decision mistakes. SET managers are most inclined to use participative decision-making processes and most open to learning from decision mistakes. The actions of TBL managers will fall between FBL and SET managers.*

6. When entrepreneurs consider make-or-buy decisions, they should seek to reduce opportunism and overcome shortcomings associated with cognitive limits.

## Questions for Reflection and Discussion

1. Identify and briefly describe each of the four steps of the decision-making process.
2. Which of the four steps do you think is the most challenging for managers? Why do you think so?
3. Which of the decision-making approaches in Figure 7.2 would you find most helpful? Why?
4. How important are workplace politics in organizations? Explain how politics influences management decision-making. What is the best way to deal with politics?
5. Based on the content of this chapter, what advice might you have for colleagues in your class to help them avoid what happened to Dennis Gioia in the opening case?
6. Explain how you made the decision regarding which post-secondary school to attend or which major to study. Did your decision-making process follow the four-step process described in the chapter? Which steps were most important in your decision? Why?
7. Think about a good or service that many organizations are currently making in-house but which they might prefer to buy from a supplier. Can you think of an entrepreneurial start-up that could offer that good or service at a low enough cost to entice those organizations to outsource from it?

## Notes

1. This case is drawn from the following sources: Gioia, D. (1992). Pinto fires and personal ethics: A script analysis of missed opportunities. *Journal of Business Ethics*, 11: 379–389. https://doi.org/10.1007/BF00870550; Davis, R. (2017, January 18). When lives are cheaper than financial losses: Ford Pinto's chilling lesson. *Daily Maverick*. https://www.dailymaverick.co.za/article/2017-01-18-when-lives-are-cheaper-than-financial-losses-ford-pintos-chilling-lesson/#.Wm9SXGYZNBw; Nutt, P. C. (2002). *Why decisions fail: Avoiding blunders and traps that lead to debacles*. Berret-Kohler Publishers; Birsch, D., & Fielder, J. H. (Eds.). (1994). *The Ford Pinto case: A study in applied ethics, business, and technology*. State University of New York Press; Ming, X., Bai, X., Fu, J., & Yang, J. (2025). Decreasing workplace unethical behavior through mindfulness: A study based on the dual-system theory of ethical decision-making. *Journal of Business Ethics*, 196(1): 189–207. https://doi.org/10.1007/s10551-024-05709-9
2. Note that the scripts at Ford may have been influenced by a court decision in 1919 that ruled against Henry Ford's intent at the time to improve the lives of employees and society by increasing wages and creating jobs, because this subordinated the financial interests of stakeholders See Giroux, G. (2017). *Accounting fraud: Maneuvering and manipulation, past and present* (2nd ed.). Business Expert Press.
3. This amount was eventually reduced to .5 million by the judge. Needless to say, this new knowledge about the financial costs of not recalling the car subsequently served to change Ford's decision calculus, and in 1978 Ford upgraded the integrity of Pinto's fuel system. It stopped producing the Pinto in 1980. Some observers view this incident as the beginning of a new emphasis on making managers more accountable for socio-ecological externalities of their decisions.
4. Gioia (1992: 379).
5. Gioia (1992: 379–380).
6. Gioia served as Ford's recall coordinator from 1973 to 1975. When he started in 1973, he inherited the oversight of about 100 active recall campaigns and had additional files of incoming safety problems, one of which included reports of Pintos "lighting up." Important stories in the public media on Pinto problems were published in 1976 and 1977. After three teenage girls died in a Pinto fire, a grand jury took the unprecedented step of indicting Ford on charges of reckless homicide (Gioia, 1992).
7. The Pinto case was one of the files on Gioia's desk, and though he was no longer the recall coordinator in 1978, had he acted earlier and ordered a recall, the future damage could have been avoided.
8. Gioia (1992: 382).
9. Gioia (1992: 384).
10. Ming et al. (2025).
11. Recall from Chapter 2 that scripts are learned guidelines or procedures that help people interpret and respond to what is happening around them. See also idea of "cog-

nitive scripts" in Eikeland, T. B., & Saevi, T. (2017). Beyond rational order: Shifting the meaning of trust in organizational research. *Human Studies*, 40(4): 603–636. https://doi.org/10.1007/s10746-017-9428-6; and "action scripts" in Calabretta, G., Gemser, G., & Wijnberg, N. M. (2017). The interplay between intuition and rationality in strategic decision-making: A paradox perspective. *Organization Studies*, 38(3–4): 365–401. https://doi.org/10.1177/0170840616655483; Dyck, B. (1991). *Prescription, description and inscription: A script theoretic leadership model* [Presentation]. Organization and Management Theory Interest Group, Administrative Sciences Association of Canada, Niagara Falls, Ontario.

12. Dyck, B., & Weber, M. (2006). Conventional versus radical moral agents: An exploratory look at Weber's moral-points-of-view and virtues. *Organization Studies*, 27(3): 429–450. https://doi.org/10.1177/0170840606062430
13. Turzo, T., Montrone, A., & Chirieleison, C. (2024). Social accountability 8000: A quarter century review. *Journal of Cleaner Production*, 441: 140960. https://doi.org/10.1016/j.jclepro.2024.140960
14. Reid, H., & Pons, C. (2023, July 27). Zara owner Inditex says it will stop buying clothes from Myanmar. *Reuters*. https://www.reuters.com/business/retail-consumer/zara-owner-inditex-stop-sourcing-myanmar-2023-07-27/
15. The ongoing example of Robert Greenleaf in this chapter builds on material found in Nielsen, R. P. (1998). Quaker foundations for Greenleaf's servant-leadership and "friendly disentangling" method. In L. C. Spears (Ed.), *Insights on Leadership* (pp. 126–144). John Wiley & Sons. Greenleaf joined AT&T in 1929 as a laborer's assistant and retired in 1964 after having served as corporate human resources vice president and as director of management development and research. Greenleaf was inspired by John Woolman, who had been similarly motivated by larger issues of social justice when he invested time and money into abolishing slavery in the United States.
16. For example, see Jo, H., & Na, H. (2012). Does CSR reduce firm risk? Evidence from controversial industry sectors. *Journal of Business Ethics*, 110(4): 441–456. https://doi.org/10.1007/s10551-012-1492-2
17. Dawes, R. (1988). *Rational choice in an uncertain world*.: Harcourt Brace Jovanovich.
18. And these norms will change as new cohorts of employees enter the workforce. Janssen, D., & Carradini, S. (2021). Generation Z workplace communication habits and expectations. *IEEE Transactions on Professional Communication*, 64(2): 137–153. https://doi.org/10.1109/TPC.2021.3069288
19. Winnipeg coffee shop responds to break-in by donating part of sales to homeless shelter (2018, February 2). *CBC News Manitoba*. http://www.cbc.ca/beta/news/canada/manitoba/parlour-coffee-break-in-main-street-project-1.4515471
20. Bruch, E., & Feinberg, F. (2017). Decision-making processes in social contexts. *Annual Review of Sociology*, 43: 207–227. https://doi.org/10.1146/annurev-soc-060116-053622. What we describe here as a dilemma, Bruch & Feinberg call "obscurity."

21. Our definitions of risk and uncertainty build from the following: Shou, Y., & Olney, J. (2021). Attitudes toward risk and uncertainty: The role of subjective knowledge and affect. *Journal of Behavioral Decision Making*, 34(3): 393–404. https://doi.org/10.1002/bdm.2217; Bruch & Feinberg (2017); Burns, B. L., Barney, J. B., Angus, R. W., & Herrick, H. N. (2016). Enrolling stakeholders under conditions of risk and uncertainty. *Strategic Entrepreneurship Journal*, 10(1): 97–106. https://doi.org/10.1002/sej.1209; Merigó, J. M. (2015). Decision-making under risk and uncertainty and its application in strategic management. *Journal of Business Economics & Management*, 16(1): 93–116. https://doi.org/10.3846/16111699.2012.661758; Scholten, K., & Fynes, B. (2017). Risk and uncertainty management for sustainable supply chains. In Y. Bouchery, C. J. Corbett, J. C. Fransoo, T. Tan (Eds.), *Sustainable supply chains* (pp. 413–436). Springer International. http://doi.org/10.1007/978-3-319-29791-0_19. Our definitions are not entirely consistent with the classic distinction between risk and uncertainty associated with the economist Frank Knight; see Knight, F. H. (1921). *Risk, uncertainty, and profit.* Hart, Schaffner & Marx, Houghton Mifflin.
22. Burns et al. (2016).
23. Wallace, D. (1975). Naming the Edsel. *Automobile Quarterly*, 13(2): 182–191. Cited in Schwarzkopf, S. (2015, July). Data overflow and sacred ignorance: An agnotological account of organizing in the market and consumer research industry [Presentation]. EGOS Conference, Athens. http://doi.org/10.13140/RG.2.1.4694.3849
24. According to analysis in Schwarzkopf (2015).
25. Varsha, P. S. (2023). How can we manage biases in artificial intelligence systems—A systematic literature review. *International Journal of Information Management Data Insights*, 3(1): 100165. https://doi.org/10.1016/j.jjimei.2023.100165; Lytton, C. (2024, February 16). AI hiring tools may be filtering out the best job applicants. *BBC.* https://www.bbc.com/worklife/article/20240214-ai-recruiting-hiring-software-bias-discrimination
26. IBM Data and AI Team. (2023, October 16). *Shedding light on AI bias with real world examples*. IBM. https://www.ibm.com/think/topics/shedding-light-on-ai-bias-with-real-world-examples
27. Miller, C. C., & Ireland, R. D. (2005). Intuition in strategic decision-making: Friend or foe in the fast-paced 21st century? *Academy of Management Perspectives* (was *Academy of Management Executive*), 19(1): 19–30. https://doi.org/10.5465/ame.2005.15841948. One researcher asked managers to guess random ten-digit computer-generated numbers, and found that successful businesspeople were significantly better at guessing the numbers than those with average ability in the business world. Dean, E. D., Mihalasky, J., Ostrander, S., & Schroeder, L. (1974). *Executive ESP.* Prentice-Hall.
28. In Chapter 8, we will look more closely at how goals are set, but for now we will concentrate on whether or not there is agreement on aims and means.
29. Hall, R. I. (1976). A system pathology of an organization: The rise and fall of the old *Saturday Evening Post*. *Administrative Science Quarterly*, 21(2): 185–211.

http://doi.org/10.2307/2392042

30. When *The Saturday Evening Post* was revived two years later, in 1971, it was published four times a year instead of weekly. In 1982 it became a non-profit with a focus on content about medicine, health, and volunteering. And in 2013 it reinvented itself again. For more about its history, see *History of The Saturday Evening Post* at https://www.saturdayeveningpost.com/history-saturday-evening-post/
31. For example, see Dyck, B., Bruning, S., & Driedger, L. (1996). Potential conflict, conflict stimulus, and organizational performance: An empirical test. *International Journal of Conflict Management*, 7(4): 295–313. https://doi.org/10.1108/eb022785
32. See Bruch & Feinberg (2017: 208).
33. Daft, R. (2001). *Organization theory* (7th ed.). South-Western College Publishing.
34. Jones, G. R. (2013). *Organizational theory, design, and change.* Pearson.
35. This may be a result, for example, of CEOs who are trained to become better transformational leaders. See page 43 in Barling, J. (2014). *The science of leadership: Lessons from research for organizational leaders*. Oxford University Press.
36. Kumar, A., Sah, B., Singh, A. R., Deng, Y., He, X., Kumar, P., & Bansal, R. C. (2017). A review of multi criteria decision making (MCDM) towards sustainable renewable energy development. *Renewable & Sustainable Energy Reviews*, 69: 596–609. https://doi.org/10.1016/j.rser.2016.11.191
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39. Bazerman, M. (1998). *Judgment in managerial decision-making* (4th ed.). John Wiley & Sons; Miller & Ireland (2005). Even the best management decision-making process is limited by a lack of complete information and limited cognitive ability when processing information (see Chapter 2 on bounded rationality): Simon, H. A. (1947). *Administrative behavior*. MacMillan; Simon, H. A. (1957). *Models of man.* Wiley; March, J. G., and Simon, H. A. (1958). *Organizations.* Wiley; Simon, H. A. (1960). *The new science of management decision.* Harper & Row; Simon, H. A. (1987). Making management decisions: The role of intuition and emotion. *Academy of Management Executive*, 1(1): 57–64. https://www.jstor.org/stable/4164720
40. Rajagopal et al. (2022).
41. Starke, F. A., & Sexty, R. W. (1995). *Contemporary management in Canada* (2nd ed.). Prentice-Hall.
42. Starke & Sexty (1995).
43. Kacmar, K. M., Bozeman, D. P., Carlson, D. S., & Anthony, W. P. (1999). An examination of the perceptions of organizational politics model: Replication and exten-

sion. *Human Relations*, 52(3): 383–416. https://doi.org/10.1177/001872679905200305

44. Sassenberg, K., Ellemers, N., & Scheepers, D. (2012). The attraction of social power: The influence of construing power as opportunity versus responsibility. *Journal of Experimental Social Psychology*, 48(2): 550–555. https://doi.org/10.1016/j.jesp.2011.11.008. The authors speculate that givers may become more motivated to seek power if they see the power as an opportunity to serve the needs of the relatively powerless.

45. Mintzberg, H., Raisinghani, D., & Théoret, A. (1976). The structure of "unstructured" decision processes. *Administrative Science Quarterly*, 21: 246–275. https://doi.org/10.2307/2392045; cited in Daft (2001).

46. Burke, L. A., & Miller, M. K. (1999). Taking the mystery out of intuitive decision-making. *Academy of Management Perspectives* (was *Academy of Management Executive*), 13(4): 91–99. https://doi.org/10.5465/ame.1999.2570557. See also Sadler-Smith, E., & Shefy, E. (2004). The intuitive executive: Understanding and applying "gut feel" in decision-making. *Academy of Management Perspectives* (*Executive*), 18(4): 76–91. https://doi.org/10.5465/ame.2004.15268692

47. Simon (1947); Simon (1957); March & Simon (1958); Simon (1960); Simon (1987: 57–63); Schwarz, G., Christensen, T., & Zhu, X. (2022). Bounded rationality, satisficing, artificial intelligence, and decision-making in public organizations: The contributions of Herbert Simon. *Public Administration Review*, 82(5): 902–904. https://doi.org/10.1111/puar.13540

48. Researchers have developed a model to identify situations where implementation is improved by involving members in the steps of the decision-making process. The model recommends different levels of employee involvement depending on the situation. See Vroom, V. H. (2000). Leadership and the decision-making process. *Organizational Dynamics*, 28(4): 82–94. https://doi.org/10.1016/S0090-2616(00)00003-6; Vroom, V. H., & Yetton. P. W. (1973). *Leadership and decision-making*. University of Pittsburgh Press. The highest level of pre-implementation participation, recommended for about 7% of situations described in the model, involves managers *delegating* decisions. Here managers do not play a direct role in the decision-making process except to provide encouragement and resources and to set prescribed limits within which group members are permitted to identify and diagnose the problem (step 1), develop alternatives (step 2), and choose which alternative to implement (step 3). In an additional 9% of the situations described in the model, it is recommended that managers use a *facilitative* approach, in which a manager presents to a group the problem and the boundaries within which it is to be solved, respects each group member's ideas without regard to their hierarchical position, and tries to get everyone to agree on a decision. In the remaining conditions, representing over 80% of the situations in the model, managers are supposed to make the decisions either alone (56%: no participation), after consulting with others individually (16%: limited participation), or after consulting with others in groups (11%). These percentages are calculated based on the fact the model has a combined total of 128 possible ways to rate each of the seven questions as "high" or

"low" (that is, 27 = 128). In a different variation of the model, which focuses on *developing* employees rather than on *minimizing* time and costs, the recommendation is that (a) 19% of the decisions are to be *delegated*; (b) 9% are to be *facilitated*; (c) and for over 70% of the situations in the model managers are advised to make the decisions, either alone (38%) or after consulting with others in groups (35%). See Vroom, V. H. (2003). Educating managers for decision-making and leadership. *Management Decision*, 41(10): 968–978. https://doi.org/10.1108/00251740310509490

49. Vroom (2003).
50. Participative decision-making decreases when firms seek to save time and financial costs (Vroom, 2003).
51. Vroom (2003).
52. SET managers' use of participation in the decision-making process serves to inform and give other stakeholders input and ownership regarding the kinds of decisions that are considered (step 1), the kinds of alternatives that are developed (step 2), the alternatives that are chosen (step 3), and thus decrease the likelihood of resistance during implementation (step 4).
53. The increase in the proportion of African American managers at AT&T increased from about 0.5% to 4.5%. This voluntary improvement—achieved in a time when there were no orders from top management to increase the number of African American employees being promoted, no timetables, no quotas, no performance reviews tied to promoting African American managers, and so on—was especially impressive in contrast to the subsequent increases achieved at AT&T with much acrimony and struggle via the legislated Civil Rights Act (Nielsen, 1998).
54. Moreover, almost all failures are due to actions of the decision-maker, not inherent in the situation itself. Nutt, P. C. (2004). Expanding the search for alternatives during strategic decision-making. *The Academy of Management Perspectives* (was *Academy of Management Executive*), 18(4): 13–28. https://doi.org/10.5465/ame.2004.15268668
55. Tugend, A. (2007, November 24). The many errors in thinking about mistakes. *The New York Times*. https://www.nytimes.com/2007/11/24/business/24shortcuts.html
56. Taylor, B. (2017, November 19). How Coca-Cola, Netflix, and Amazon learn from failure. *Harvard Business Review*. https://hbr.org/2017/11/how-coca-cola-netflix-and-amazon-learn-from-failure. See also Rhaiem, K., & Amara, N. (2021). Learning from innovation failures: A systematic review of the literature and research agenda. *Review of Managerial Science*, 15: 189–234. https://doi.org/10.1007/s11846-019-00339-2
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58. Quoted in Sleesman et al. (2018: 178); citing Bort, J. (2015). Mark Zuckerberg shared some simple advice for success: Don't give up. *Business Insider*. http://www.businessinsider.com/zuckerberg-shared-advice-for-success-2015-4

59. Simurda, S. J. (1996, November/December). There's a word for it: Intrapreneurism. *Worldbusiness Magazine*; Guarnaccia, S. (1998, March). The truth is, the truth hurts. *Fast Company*, 14: 93.

60. Moss, R. (2017, November 17). The sunk cost fallacy: Devs describe how it almost destroyed them. *Gamasutra*.

61. For example, the business press publishes more stories about business mergers and acquisitions than about companies selling off business, even though one study showed that 61% of the largest mergers and acquisitions over a two-year period actually destroyed shareholder wealth, and only 17% created positive returns. See Shimizu, K., & Hitt, M. A. (2005). What constrains or facilitates divestitures of formerly acquired firms? The effects of organizational inertia. *Journal of Management*, 31(1): 50–72. http://doi.org/10.1177/0149206304271381. More recent research shows this pattern continues—even though companies spend trillions of dollars each year buying other companies, the companies doing the buying usually end up performing worse than similar companies that didn't buy other firms, especially when they purchase publicly traded companies. Renneboog, L., & Vansteenkiste, C. (2019). Failure and success in mergers and acquisitions. *Journal of Corporate Finance*, 58: 650–699. https://doi.org/10.1016/j.jcorpfin.2019.07.010

62. Sleesman et al. (2018).

63. Moss (2017).

64. Shimizu & Hitt (2004).

65. Sleesman et al. (2018).

66. The following is a very simplified story of the bakery's start-up, which is currently owned by Kathy and Lyle Barkman, Tabitha and Paul Langel, Loïc Perrot, and Ryan Stoesz. For a far more interesting version than we can include here, see Vagianos, S. (2022*). Social and ecological thought: A case study of Tall Grass Prairie Bread Co*. [MSc thesis], University of Manitoba; or visit the company website at https://www.tallgrassbakery.ca/history.html. For a documentary in which Tall Grass is featured, see Ridley, N. (Producer). (2024, June 12). *Beyond Profit: Seeking Sustainability* [Video]. https://www.youtube.com/watch?v=xzkn9Mm1X84

67. Transaction cost theory can help entrepreneurs (and all managers) to better understand and manage make-or-buy decisions. Ideas in this section draw from Barney, J. B., & Hesterly, W. (2006). Organizational economics: Understanding the relationship between organizations and economic analysis. In S. R. Clegg, C. Hardy, T. B. Lawrence, & W. R. Nord (Eds.), *The SAGE handbook of organization studies* (2nd ed., pp. 111–148). SAGE. See also Klein, P. G. (2005). The make-or-buy decision: Lessons from empirical studies. In C. Menard & M. M. Shirley (Eds.), *Handbook of new institutional economics* (pp. 435–464). Springer.

68. For example, a bakery in British Columbia "falsely labelled breads as organic for three years when it did not use organic flour." Kubinec, V.-L., & Clancy, B. (2014,

January 9). Winnipeg baker wants people penalized for false organic labels. *CBC News*. http://www.cbc.ca/news/canada/manitoba/winnipeg-baker-wants-people-penalized-for-false-organic-labels-1.2489687

69. According to Langel, "The secret I think goes back to the farm and the grain. . . . They are made from fresh ground organic flour which is the original prairie wheat, it's nutty and it's tasty. . . . It's not just the flavour Winnipeggers are choosing to support, it's the connection to the land because here they get to meet the farmer. . . . The farmer brings the flax and wheat here." Cuciz, S. (2015, December 2). The secret behind Tall Grass Prairie's renowned cinnamon buns. *Global News.* https://globalnews.ca/news/2374668/the-secret-behind-tall-grass-prairies-renowned-cinnamon-buns/

70. Page 42 in Vagianos (2022). See also Dyck, B., Vagianos, S., and Shourkaei, M. (2025**).** How a "Mother Tree" firm fosters a sustainable firm-level community: An exploratory empirical study [Working paper]. University of Manitoba.

71. Tall Grass Prairie Bread Company is located in Manitoba, a Canadian province where a lot of wheat is grown but the vast majority is sent to the United States to mill into flour. This is another example of transaction cost theory at play, because milling in the United States is the most financially efficient way to turn Manitoba wheat into flour.

# 8. Formulating Strategy


- Learning Goals
- 8.0. Opening Case – ECHOstore: A Resounding Social and Ecological Success
- 8.1. Introduction
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- 8.3. Step 2: Analyze Internal Strengths and Weakness
- 8.4. Step 3: Analyze External Opportunities and Threats
- 8.5. Step 4: Choose and Develop the Strategy
- 8.6. Entrepreneurial Mission and Vision
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 8 provides an overview of the four steps for formulating strategy, as summarized in the following table and in the whiteboard animation video.*

| Four steps of formulating strategy | FBL | TBL | SET |
|---|---|---|---|
| **1. Establish the organization's mission and vision** | • financial well-being<br>• acquisitive economics<br>• competitiveness<br>• top-down process | | • socio-ecological well-being<br>• sustenance economics<br>• collaborativeness<br>• multi-stakeholder input |
| **2. Analyze internal strengths and weakness**<br>• **v**aluable<br>• **r**are<br>• **i**nimitable<br>• **n**on-substitutable | Prefer resources that enable organizations to enhance<br>• financial well-being<br>• revenue<br>• monopoly power<br>• competitiveness | | Prefer resources that enable organizations to enhance<br>• socio-ecological well-being<br>• opportunities to help others<br>• opportunities to teach others<br>• collaboration |
| **3. Analyze external opportunities and threats**<br>• supplier power<br>• customer power<br>• substitutes<br>• threat of entrants<br>• intensity of rivalry | Prefer industries where the firms have<br>• power over suppliers<br>• power over customer<br>• no substitutes<br>• high entry barriers<br>• no competitors | The TBL approach is consistent with FBL practices, unless there is a business case that supports adopting SET practices. | Prefer industries where firms have opportunities to<br>• empower suppliers<br>• empower customers<br>• promote holistic substitutes<br>• lower entry barriers for SET<br>• collaborate with others |
| **4. Choose and develop strategy**<br>• generic strategies<br>• strategies for diversified organizations | • cost leader vs. differentiator<br>• star, cash cow, question mark, pet | | • minimizer vs. transformer<br>• sustainability hero, fragile player, innocent bystander, lavish actor |
| **Entrepreneurial mission and vision** | Establish organizations with a primary mission to enhance financial well-being. | | Establish organizations with a primary mission to enhance social and ecological well-being. |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=92*

## Learning Goals

After reading this chapter, you should be able to:

1. Describe the four-step process for formulating strategy.
2. Describe differences between FBL, TBL, and SET approaches with regard to establishing organizational mission and vision statements.
3. Describe differences between FBL, TBL, and SET approaches to analyzing an organization's internal strengths and weaknesses.
4. Describe differences between FBL, TBL, and SET approaches to analyzing an organization's external opportunities and threats.
5. Describe differences between cost leader, differentiator, minimizer, and transformer generic strategies.
6. Explain what a strategic business unit (SBU) is and how a diversified organization comprises a variety of SBUs.
7. Describe how managers of diversified firms decide which SBUs to add and remove from their portfolio.
8. Describe how entrepreneurial decisions regarding the three dimensions of well-being (financial, social, and ecological) result in eighteen potential types of organizational missions.

## 8.0. Opening Case – ECHOstore: A Resounding Social and Ecological Success

Imagine a retail store that sells products that are truly good for you, for the community, and for the environment. Would you shop at such a store? Would you know how to formulate a strategy to start such a business? That was the challenge facing the three co-founders of the ECHOstore Sustainable Lifestyle in 2008: Pacita "Chit" Juan, Reena Francisco, and Jeannie Javelosa. The name ECHO—an acronym for Environment, Community, Hope, Organization—encapsulates the company's multi-stakeholder approach to business.[1]

ECHOstore opened in the heart of Metro Manila's bustling shopping district

as a pioneering green retail store quietly setting out to change how people think. Its business model centers on curating and retailing a diverse range of eco-friendly, organic, and fair trade products sourced from local farmers, artisans, and community groups across the Philippines. Their product range includes organic or natural food and body products, non-toxic home cleaning products, and staples such as organic rice and coconut sugar. The store showcases indigenous crops and products, from heirloom rice varieties to cacao products and coffee, helping consumers better understand and share the stories behind these sustainable crops.

ECHOstore has established an impressive array of internal resources, most notably its network of relationships with its suppliers and buyers. As a pioneer in the sustainable lifestyle market, the company built these relationships from the ground up. Key to doing so was the founders' diverse backgrounds and shared passion for sustainability. Jeannie Javelosa's development work exposed her to the challenges that rural producers face in accessing viable markets. Reena Francisco brought extensive corporate retail experience, recognizing a growing appetite for eco-ethical consumption. And Chit Juan's entrepreneurial drive provided the catalyst to turn their vision into reality. ECHOstore's founders personally visit farms across the country that supply their products to ensure they are sustainably sourced, non-harmful, and have minimal environmental impact. All products carried by ECHOstore are either third-party certified (e.g., fair trade) or personally vetted by the founders.

Juan, Francisco, and Javelosa took advantage of a combination of two key external opportunities related to demand and supply. First, they realized there was unmet demand for a store like the one they envisioned. Second, they recognized that there were many rural suppliers who would be interested in and benefit from accessing a larger market for their sustainable products. The challenge was to develop the networks and organization to connect these suppliers with the unmet demand.

ECHOstore saw the benefit of strengthening the capacity of suppliers in under-resourced communities, not merely to ensure consistent deliveries and high quality but also because it was the right thing to do. In this matter, ECHO has particularly focused on female suppliers, recognizing the multiple barriers to economic participation they face. A key aspect of this work has been developing partnerships and collaborating with like-minded organizations—from local governments to international development agencies—that provide complementary resources that benefit suppliers. Through its ECHOsi Foundation, the company provides its suppliers with training programs in product design, quality control, packaging, and entrepreneurial skills. By nurturing its suppliers' capabilities, ECHOstore fosters a more resilient and sustainable supply chain. The company

also leverages its industry relationships to connect community enterprises with wider markets. Partnerships with local governments, development agencies, and other retail channels help extend the reach of these small-scale producers.

ECHOstore's strategy focuses on sustainable development and restoration. By removing barriers faced by producers, especially women, in under-resourced communities and by sourcing organic products that respect and enhance ecological well-being, their strategy seeks to nurture and sustain the following three dimensions: "The self, through a holistic lifestyle that integrates body-mind-spirit wellness; the community, through conscious consumerism, promoting fair trade and poverty alleviation programs; and the planet, through eco-friendly purchases."[2]

ECHOstore illustrates the potential for social enterprises to generate sustainable economic, social, and environmental value. The company has achieved profitability and growth, with a loyal customer base supporting its premium, purpose-driven brand. But ECHOstore's impact extends far beyond its balance sheet. The company has generated opportunities for hundreds of small-scale producers, many of them women and suppliers from Indigenous communities. It has helped preserve traditional crafts and sustainable agricultural practices, protecting cultural heritage and biodiversity. And it has brought the message of conscious consumption to a mainstream audience, seeding a shift towards more mindful lifestyle choices.[3]

https://youtube.com/watch?v=isyFVrfDZYs%3Fsi%3DsBDT0haF_0J7O5Gr

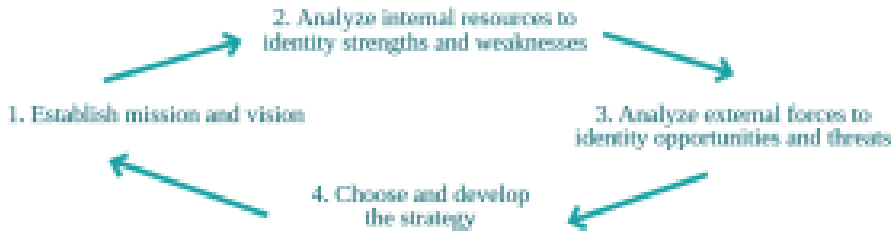
ECHOstore: The Business of Sustainable Living (https://www.youtube.com/watch?v=isyFVrfDZYs).

## 8.1. Introduction

Following the previous chapter, which looked at the decision-making process, this is the first of two chapters that will examine some of the most important decisions made in an organization: those involved with formulating (Chapter 8) and implementing (Chapter 9) its strategy. **Strategy** refers to the combination of goals, plans, and actions that are designed to accomplish an organization's mission. **Strategic management** refers to the analysis and decisions that are necessary to formulate and implement strategy. Formulating strategy can be described as unfolding in a four-step process, as depicted in Figure 8.1, which will guide

the organization of this chapter. While this is a useful way to think about formulating strategy, the four steps are not as neatly laid out or linear in real life, and in fact, as Chapter 9 will describe, some of the most important strategy formulation happens concurrently with strategy implementation. As usual, we will highlight the differences between Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) approaches to formulating strategy.

**Figure 8.1. Four steps of strategy formulation**




## 8.2. Step 1: Establish the Organization's Mission and Vision

The first step in formulating strategy is to establish the organization's reason for being (its mission or purpose plan) and define what the organization aspires to become (its vision or long-term goal). A **mission statement** identifies the fundamental purpose of an organization, and often describes what an organization does, whom it serves, and how it differs from similar organizations. A mission statement can help to provide social legitimacy and a sense of identity for the members of an organization. Approximately 90 percent of companies have a written mission statement.[4] Here is a sample of mission statements from a variety of organizations:

**Tesla**: "Accelerating the world's transition to sustainable energy."[5]

**Walmart**: "To save people money so they can live better."[6]

**Google**: "To organize the world's information and make it universally accessible and useful."[7]

**Patagonia**: "We're in business to save our home planet."[8]

Table 8.1 lists nine ideas commonly mentioned in mission statements, with examples of what a mission statement might say about each.[9] Very few mission

statements refer to all nine items. Instead, the content of an organization's mission statement is greatly influenced by the industry it's in. For example, one study found that more than 60 percent of banks mention "employees" in their mission statement (e.g., "we value our employees"), but less than 25 percent of computer hardware firms do so. Similarly, about 50 percent of banks' mission statements mention the philosophy of the firm (e.g., "we believe in quality"), but philosophy is included in less than 25 percent of computer software or hardware organizations.[10]

**Table 8.1. Nine common ideas in mission statements**

| Ideas | Examples of what mission statement might say |
|---|---|
| Product, services offered | banking services, game apps, fresh vegetables |
| Customers served | university students, seniors, millennials, basketball fans |
| Self-concept | a distinctive competency or competitive edge, such as safest, fastest, environmentally friendliest |
| Survival, growth, profitability targets | stable, rapid, cautious |
| Employees | go-getters, diverse, engineers, long-term, treated with dignity |
| Markets and regions of operation | local community, city, region, national, global |
| Philosophy and values | customer is always right, shareholder is #1, triple bottom line, social justice, ecological well-being |
| Technology used | high-tech, low-tech, hands-on, affordable |
| Public image | socially responsible, environmentally friendly, local, leader in international marketplace |

The organization's mission statement is often accompanied by a more aspirational and change-oriented **vision statement**, which describes what an organization is striving to become and thus provides guidance to organizational members. Typically, a vision statement describes goals that an organization hopes to achieve five or more years into the future.[11] For example, the *mission* of a university is to teach students, engage in research, and provide service to the community. The *vision* of a university may be to become a world leader in medical research, to maximize diversity in the classroom, or to foster a sense of global citizenship. A tourist destination may have a *mission* to provide local employ-

ment and to be friendly to tourists, with a *vision* of becoming the honeymoon capital of the world. Here are some vision statements from leading global companies:

**Tesla**: "To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles."[12]

**Walmart**: "Be THE destination for customers to save money, no matter how they want to shop."[13]

**Google**: "To remain a place of incredible creativity and innovation that uses our technical expertise to tackle big problems and invest in moonshots like artificial intelligence research and quantum computing."[14]

**Patagonia**: "Build the best product, cause no unnecessary harm, and use business to inspire and implement solutions to the environmental crisis."[15]

Table 8.2 provides an overview of six recommended features to include when developing a vision statement.[16] As with its mission statement, an organization's context also influences its vision statement. For example, the performance of government service agencies vision statements may recognize the need for strong interpersonal relationships among their members (e.g., "we will provide best-in-field working conditions and service"), whereas the growth of entrepreneurial businesses may favor vision statements that express a desire for growth (e.g., "we will be #1 in our industry").[17]

**Table 8.2. Six recommended hallmarks of vision statements**

| Hallmark | Example/Description |
|---|---|
| Future oriented | By 2030, we will be . . . |
| Inspiring, idealistic | We will be the world leader, most-admired . . . |
| Challenging | Grow tenfold, reduce GHG emissions by 90 percent from 2018 levels |
| Brief | Preferably no more than thirty words |
| Clear | Can be understood without rereading |
| Stable | Does not need to be changed or updated annually |

Although we have described the conceptual difference between mission and vision statements, these differences are often not so clear in practice. An organization's vision statement may include elements of its mission, such as its guiding philosophy, purpose, and core beliefs.[18] In many cases there is considerable overlap between vision and mission statements, and sometimes the two can even be

interchanged with each other. *The important thing is that managers develop an understanding of their organization's overarching purpose (mission) and its long-term aspirations (vision).*

### 8.2.1. FBL, TBL, and SET Approaches to Mission and Vision

When it comes to establishing mission and vision statements, the three approaches to management will have differences in (1) the content of the statements, (2) the strategic orientation underpinning the statements, and (3) the process and people involved in developing the statements. These differences, which are evident in each stage of the strategy formulation process, are summarized in Table 8.3 and described below.

**Table 8.3. Three management approaches to mission and vision statements**

| | FBL | TBL | SET |
|---|---|---|---|
| Emphasis in content of statements | financial bottom line; acquisitive economics | triple bottom line; mostly acquisitive economics | socio-ecological well-being; sustenance economics |
| Strategic orientation | competitive | mostly competitive | collaborative |
| Process for developing statements; key participants | top-down; top management team | mostly top-down; key stakeholders | broad participation; many stakeholders |

#### Content

In the FBL approach, mission and vision statements are grounded in an emphasis on acquisitive economics and factors that contribute to an organization's financial performance. The TBL approach adds a consideration of social and ecological well-being initiatives that enhance the organization's financial well-being; acquisitive economics is also emphasized but with some sustenance economics if it serves the organization's financial interests. The SET approach focuses on ecological and/or social factors based on sustenance economic assumptions, as illustrated by Mother Earth Recycling, whose mission is **"**to provide meaningful training and employment opportunities to the urban Indigenous community

through environmentally sustainable initiatives as well do our part in the Indigenous tradition of being "stewards of the land" through recycling.[19]

#### Strategic Orientation

Each of the three management approaches places a different emphasis on competitveness in its mission statement. An FBL approach generally stresses maximizing competitive advantage, which assumes that success depends on outperforming other organizations that offer similar goods and services. From an FBL perspective, competitiveness is good for society because it motivates people and organizations to do their best. It encourages organizations to continuously improve, promotes efficiency, and reduces opportunities to take advantage of consumers. Indeed, the merit of business competition has become so widely accepted that it seems natural and obvious.

Like FBL management, the TBL approach also emphasizes a competitive strategic orientation but at the same time recognizes that in some instances a collaborative strategic orientation may better serve an organization's financial interests. In addition to sharing FBL management's concern for shareholder well-being, the TBL approach is interested in mutually beneficial cooperation and the well-being of multiple stakeholders so long as they contribute to greater profit.[20]

SET management embraces a collaborative strategic orientation, recognizing that a singular emphasis on competitiveness may be dysfunctional, as is evident when people cheat in order to win. A "win at any cost" mentality can bring out the worst in people,[21] such as when athletes take illegal performance-enhancing drugs, when politicians launch personal attacks on other candidates during election campaigns, or when managers engage in illegal or unethical behavior. In contrast, a generic SET mission statement might say: "Working together with stakeholders, we will create socio-ecological and financial well-being," which would characterize companies like Boldr (Chapter 5) and MAD Travel (Chapter 6). The SET approach challenges the assumption that the desire to compete will bring out the best in humankind and instead assumes that the desire to collaborate, to share, to eradicate poverty, to truly live sustainably on the planet, or to ensure that everyone is treated with dignity is much more likely to genuinely bring out the best in us. For example, the mission statement for Velo Renovation (see Chapter 9) could be "(1) Friends are more important than money; (2) Changing the way that people think about building."[22]

*A "win at any cost" mentality can bring out the worst in people.*

#### Developing the Vision and Mission Statements

When it comes to developing mission and vision statements, FBL management emphasizes the input of the organization's top management team, while TBL management includes other stakeholders inside and outside of the organization who can benefit the triple bottom line. The SET approach typically involves even more stakeholders, including those who are more distant from the financial success of the organization.[23] For example, a SET approach is the most likely to consider the ecological environment as a stakeholder,[24] as evident in MAD Travel's commitment to environmental restoration.

The advantage of the FBL approach to formulating vision and mission statements is that it takes the least amount of time and is completed by the people who are likely to have the best overall understanding of an organization's internal and external factors related to financial well-being. TBL management involves more stakeholders and thus creating these statements requires more time, but the resulting deeper understanding and participation of key stakeholders facilitates broader support and commitment. The SET approach invites the most stakeholders to participate in the process of setting mission and vision statements, which takes even more time. However, when an organization's mission and vision consider the needs of the socio-economic and ecological environments, organizational members may find their work to be more meaningful and motivating.[25]

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## 8.3. Step 2: Analyze Internal Strengths and Weakness

Managers must be aware of the available resources in their organization in order

to understand its strengths and weaknesses. **Strengths** refer to valuable or unique resources that an organization has or any activities that it does particularly well. A strength is a positive internal characteristic of the organization that can help managers achieve their strategic objectives. **Weaknesses** refer to a lack of specific resources or abilities that an organization needs in order for it to do well. A weakness is a negative internal characteristic of the organization that hinders its ability to achieve its strategic objectives.

*Managers must be aware of the available resources in their organization in order to understand its strengths and weaknesses.*

### 8.3.1. Three Types of Internal Resources

The best-known theory in strategy that looks at an organization's internal resources is called the resource-based view (RBV).[26] **Resources** are assets, capabilities, processes, attributes, and information that are controlled by an organization and that enable it to formulate and implement a strategy.[27] It is helpful for managers to look at three different types of internal resources: physical, human, and intangible.[28] *Physical resources* refers to material assets an organization owns or has access to, such as its factories and equipment, its financial assets (e.g., cash), its real estate, and its inventory. Some physical resources represent tremendous strengths that other organizations may not have, such as large financial resources. Other physical resources are strategically less important, including readily available assets that are necessary simply to participate in an industry, such as buildings, office furniture, organizational websites, or vehicles.

*Human resources* refers to specific competencies held by an organization's members. These include things like formal training (e.g., some members have valuable education or highly valued professional designations) and informal experience (e.g., tacit knowledge, networks, and "street smarts" that come from many years of experience). Organizations have human resource strengths if they have particularly gifted or experienced members, and weaknesses if their members lack the required experience or training. Examples of strengths include a sports team that has an outstanding athlete, a law firm with a retired judge, and a university that has a Nobel Prize winner. Weaknesses would be a sports team that

lacks adequately skilled players in some positions, a law firm whose members lack expertise in important legal areas, and a university with poor teachers.

*Intangible resources* refers to an organization's structures and systems. Included in this category are the organization's formal and informal planning processes and control systems, the nature of informal relationships among group members, the level of trust and teamwork, and other aspects of the organizational culture. For example, a key intangible resource that has helped Walmart is its logistics system that allows it to distribute goods to its stores much more efficiently than its rivals. Similarly, ECHOstore's intangible resources include its supplier development system through the ECHOsi Foundation, and its deep relationships with local governments, development agencies, and other stakeholders.

### 8.3.2. Four Characteristics of Strategic Resources

Managers assess physical, human, and intangible resources to identify the organization's strengths and weaknesses. They then use this information to develop strategies to take advantage of strengths and minimize the impact of weaknesses as they seize opportunities and neutralize threats in the external environment.

Not all strengths and weaknesses are equally important. A flower shop may own a powerful computer, but this is of little importance if managers do not take advantage of its power to, say, develop an information system about its customer base. Organizations require core competencies to survive, and distinctive competencies to thrive. **Core competency** refers to a resource or ability that is essential for the achievement of organizational goals, such as when the flower shop has staff (human resources) who are knowledgeable about floral arranging. A **distinctive competency** is a competency that an organization has that is superior to that to its competitors. For example, the flower shop may have a prize-winning member who arranges flowers, or perhaps the flower shop's location is close to a hospital, wedding chapel, or funeral home. These represent distinct advantages compared to other flower shops that have less accomplished staff or less favorable locations.

*Not all strengths and weaknesses are equally important.*

According to the RBV, the key to developing effective and sustainable strategies

is to identify resources that, on their own or bundled together in a group, display four characteristics: they must be valuable, relatively rare, inimitable, and non-substitutable (VRIN).[29]

**Valuable resources** are those that managers can use to neutralize threats or to exploit opportunities to meet their organization's mission in light of conditions in the external environment. From an RBV perspective, an organization's resources are not inherently valuable; rather, they are valuable only to the degree to which they enable an organization to improve its competitive position.[30] Whereas FBL and TBL approaches generally equate the value of a resource to its eventual contribution to the financial bottom-line of the organization, SET management is more likely to find resources valuable if they satisfy genuine human needs beyond maximizing finances.

**Rare resources** are those that few other organizations have. Common examples of rare and valuable human resources might include celebrity endorsement contracts and CEOs with an excellent track record. Whereas rare resources are valuable to FBL and TBL managers because they can help to generate higher revenues, SET managers see rarity as increasing the need to act responsibly. For example, the Earth may be the rarest thing in the universe.[31] We know of only one planet that can sustain human life, therefore we must manage this rare resource responsibly. SET managers recognize that rare resources that are valuable to humankind should not be seen merely as an opportunity to maximize financial gain.

*Whereas rare resources are valuable to FBL and TBL managers because they can generate higher revenues, SET managers see rarity as increasing the need to act responsibly.*

**Inimitable resources** cannot be copied or developed by other organizations, or it is costly or difficult to do so. FBL managers value resources that are inimitable because this enhances their opportunity to enjoy a kind of monopoly in the marketplace. This includes patents that have generated fortunes, as illustrated by Alexander Graham Bell's telephone and more recently Apple's iPhone.[32] It can also include things like an organization's unique customer-friendly culture, or its ability to learn and adapt.[33] Not all inimitable resources are valuable; for example, there are patented products for which there is no market. TBL management

welcomes inimitable resources that enhance socio-ecological well-being while simultaneously optimizing financial well-being. For example, the Lincoln Electric Company has a difficult-to-copy culture with a profit-sharing program that enables both employees and owners to achieve higher-than-average financial outcomes (see Chapter 10).[34] Finally, unlike FBL and TBL managers who guard their inimitable resources, SET managers will often voluntarily share resources that they could have kept inimitable. For example, ECHOstore freely shares information about its suppliers with other firms that might want to source from them. And pioneers in the microfinancing movement, like Muhammad Yunus and Grameen Bank (see Chapter 13), have been eager to share best practices with other banks and non-profit organizations who wish to provide credit to micropreneurs.[35]

**Non-substitutable resources** cannot be easily substituted with other resources. Substitutes are different resources (or bundles of resources) that can be used to achieve an equivalent strategic outcome, even though the substitutes may not be rare or inimitable. This can include a firm's organizational policies and procedures that enable it to exploit its valuable, rare, and inimitable resources.[36] For example, one organization may have a very clear vision of the future thanks to a particularly gifted CEO, while another firm has an equally clear vision thanks to a well-designed and well-functioning formal planning system. In this example, which can apply to all three approaches to management, the planning system substitutes for a gifted CEO, and vice versa.[37]

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*https://pressbooks.openedmb.ca/management/?p=92#h5p-44*

## 8.4. Step 3: Analyze External Opportunities and Threats

As is evident in a number of chapters in this book, an important part of a manager's job is to monitor and respond to the organization's technological, political, social, and ecological environments. Managers must pay particular attention to the environment and stakeholders in their organization's industry. As used here,

the term **industry** refers to all organizations that are active in the same sector of social, political, and/or economic activity.[38] For example, the automobile industry is different from the education industry, which is different from the healthcare industry.

When formulating strategy, managers look for opportunities and threats in their industry. **Opportunities** are conditions in the external environment that have the potential to help managers meet or exceed organizational goals. Sometimes recognition of opportunities will prompt managers to revise goals, such as when Rafael Dionisio revised the goals of MAD Travel based on insights from an Indigenous elder. **Threats** are conditions in the external environment that have the potential to prevent managers from meeting organizational goals. Threats could include changed government regulations, new competitors, and pandemics like COVID-19. Although we have separated steps 2 and 3 in formulating a strategy, they are often combined to influence one another in a larger process called a *SWOT analysis*, where managers simultaneously analyze strengths, weaknesses, opportunities and threats.

***SWOT** analysis examines an organization's **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats.*

The Five Forces Model is the best-known framework to help managers think about the external aspects of a SWOT analysis: key opportunities and threats.[39] This model was initially developed by Michael Porter—perhaps the world's most-cited strategy scholar—at a time when FBL management was the dominant approach, but the model is robust enough to also be useful for TBL and SET management approaches. Although the Five Forces Model was developed to compare the relative attractiveness of different industries, it has also been used to help managers make strategic decisions within the industry where their organization operates. We will consider each of the five forces in the model: supplier power, customer power, the power of substitutes, threat of new entrants, and intensity of rivalry.

### 8.4.1. Supplier Power

**Supplier power** describes how much influence suppliers have over an organiza-

tion. Supplier power generally decreases as the number of suppliers increases. For example, if there are many different suppliers of commodities like paper and pens, then managers are more likely to be able to negotiate low prices when purchasing basic office supplies.[40]

FBL managers prefer industries where an organization's suppliers lack power over it. FBL managers focus on optimizing their firm's competitive position and relative power, so they prefer situations where there are many suppliers, thereby minimizing the need to become dependent upon one (or a few) suppliers. This enables managers to choose from many potential competing suppliers and easily switch to the one offering the lowest price.[41]

TBL management resembles the FBL approach, except that TBL management may be less focused on optimizing relative power over suppliers and more likely to look for opportunities to reduce socio-ecological externalities by entering long-term win-win relationships with suppliers if this enhances financial well-being. For example, Costco has actively worked to increase the number of suppliers of organically grown produce and is happy to enter mutually beneficial long-term relationships with specific suppliers.[42]

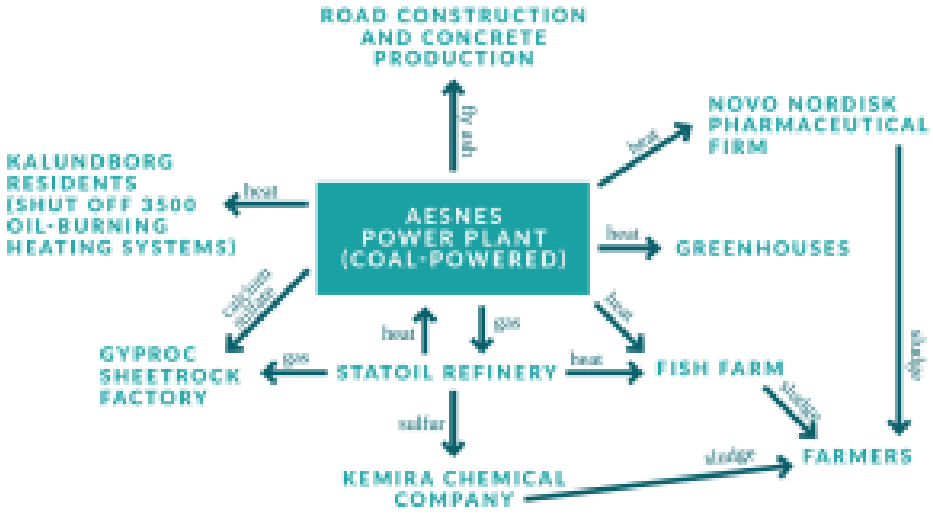
The SET approach is even more committed to collaborative relationships with suppliers to develop mutually beneficial opportunities, especially to enhance positive externalities. From a SET perspective, suppliers are seen as partners, and empowering and strengthening partners is desired, as is evident in ECHOstore's programs to train and support suppliers.

A community of TBL and SET organizations in Kalundborg, Denmark, where firms work collaboratively to reduce negative ecological externalities, provides a helpful example of several of the Five Forces in practice. Although these firms operate in a variety of industries, they belong to the same place-based ecological community. Managers in this community take the so-called waste that is produced by one organization and change it into inputs that are valued by a different organization (see Figure 8.2). It began when the coal-fired Aesnes power plant stopped pouring its "waste steam" heat as condensed water into a nearby fjord. Instead, managers at Aesnes began to sell that heat directly to two other organizations in the community at the time: the Statoil refinery and the Novo Nordisk pharmaceutical firm.[43] Not long after this, the Statoil refinery installed a process that removed sulfur from its "wasted" gas. Statoil then sold the extracted sulfur to the Kemira chemical company and sold the cleaner-burning gas to the Gyproc sheetrock factory and to Aesnes (which thereby saved about 30,000 tonnes of coal). When Aesnes began to remove the sulfur from its smokestacks it produced calcium sulfate, which it sold to Gyproc to use in place of mined gypsum. "Waste" fly ash from Aesnes coal generation is used for road construction

and concrete production. In time, Aesnes began to provide surplus heat to residents of the town (who were then able to shut off 3,500 oil-burning heating systems), to greenhouses, and to a fish farm. Soon "waste" heat from Statoil also went to the fish farm, helping to produce about 200 tonnes of turbot and trout sold in the French market. Sludge from the fish farm is used as fertilizer by farmers, who also receive sludge from the Kemira chemical company. All these relationships happened spontaneously without direct government regulation, and they were often motivated primarily by acquisitive economics and have yielded financial benefits (FBL and TBL approaches). Over time some initiatives have been motivated largely by ecological reasons, without optimizing financial payoffs (SET management).[44]

*Businesses in Denmark have formed a place-based ecological community where they take the so-called waste produced by one organization and use it as valued inputs in another.*

**Figure 8.2. Transfer of previous "waste" within a community of organizations**




Whereas FBL management is concerned with minimizing dependence on suppliers, the example above shows that TBL and SET firms may welcome some dependence on new (trustworthy) suppliers who reduce negative externalities by transforming their underutilized resource outputs ("waste") into materials for inputs.

### 8.4.2. Customer Power

**Customer power** describes how much influence customers have on an organization. Customer power generally decreases as the number of customers increases. For example, the consumer goods manufacturer Procter & Gamble had a lot of power to set prices for its products when its customers were many locally run department stores. However, with the growth of large retailers like Walmart and Target, Procter & Gamble's main customers were fewer and larger, leaving it much less power to set the prices for the products it sold to retailers.

Firms with an FBL perspective prefer industries where customers have little power to negotiate for lower prices, where customer demand exceeds the amount of product they can supply, and where sales are not dependent on a handful of large customers. TBL managers also do not to want to become dependent on customers, though they are more willing to do so than FBL managers if it reduces overall negative externalities in a way that enhances their organization's financial

interests. In the example from Kalundborg, Statoil is happy to depend on Kemira to purchase its excess sulfur, especially if that increases Statoil's profits.

SET managers are even more willing than TBL managers to become dependent on specific customers in order to nurture collaboration and convert waste into something useful. In the example above, Novo Nordisk's primary motive to transform its waste sludge was not to increase its power over the customers (farmers) who purchased the sludge but rather to help farmers meet their needs for fertilizer and simultaneously enhance positive ecological externalities. Instead of the sludge being wasted, it is transformed into nutrients to grow food.[45]

### 8.4.3. Power of Substitutes

In the Five Forces Model, the term **substitutes** refers to products or services that are similar or that meet the same needs of a customer but come from a different industry. It is important to distinguish between this use of "substitutes" and its meaning in a SWOT analysis. In a SWOT analysis, substitutability refers to how one organization's *resources* can be substituted by different resources in a second organization (e.g., one firm's gifted CEO can be substituted by another firm's formal strategic planning process). In contrast, in the Five Forces Model, substitutes refer to how the *goods and services* of one industry can be substituted by the goods and services of another. For example, when managers in the airline industry try to attract customers who are traveling from one city to another, those customers can also find substitute travel options on trains or buses, or use services like Zoom that eliminate their need to travel altogether. Any product or service from another industry that fulfills the customer's' need is a substitute.

FBL and TBL approaches to management usually seek to suppress or minimize possible substitutes. These suppression attempts may or may not be successful. For example, whereas major automobile manufacturers have made plans to phase out gasoline-powered cars and switch to electric,[46] several decades ago leading businesses in the automobile industry tried to suppress the development of electric cars, arguing that they were unsafe. Moreover, at that time it was much more profitable to sell trucks than it would have been to develop electric cars, and it was not in the industry's short- to medium-term financial interest to question the environmental sustainability of its mainstay products (i.e., vehicles powered by fossil fuels).[47] TBL management is also likely to restrict substitutes, except when substitutes offer an opportunity to optimize financial performance via socio-ecological means.

SET management is the most likely to embrace substitutes that create net

positive externalities. For example, the retailer Patagonia is famous for asking customers to think twice before purchasing a new product and encouraging them to get items repaired instead (see Chapter 3).[48] And Tall Grass Prairie Bakery (Chapter 7) fosters substitutes by sharing its sourdough starter so customers can bake bread at home, and by sharing its supplier list with other bakeries in its neighborhood.

### 8.4.4. Threat of New Entrants

**Threat of new entrants** refers to the extent to which conditions make it easy for other organizations to enter or compete in a particular industry. The higher the barriers to entry—that is, factors that make it difficult for an organization to enter an industry—the lower the threat of new entrants. Government regulations can serve as barriers to entry. For example, federal licenses are required to start a new television station. Another barrier is the start-up costs to enter a new industry. The cost to open an income tax service is much lower than the cost to build an oil refinery, and therefore we would expect more new competitors in the income tax service industry than in oil refining. *Economies of scale* (Chapter 6) are a barrier that can prevent small firms from entering an industry with established large firms, such as the automobile industry.

*FBL management prefers industries with high barriers to entry.*

FBL management prefers operating in industries with high barriers to entry, which make it difficult for potential competitors to join, thereby enhancing opportunities to maximize financial value capture. The FBL approach encourages firms to gain economies of scale, differentiate their products, and lobby the government to regulate entry. For example, Canadian telecoms have benefited from Canada's having the highest foreign entry restrictions among high-income countries.[49]

Like FBL management, TBL management is also interested in reducing the threat of entry, unless the new entrants enable a firm to increase its profits while addressing socio-ecological issues. For example, firms in the Alberta oil sands supported and welcomed new entrants with new technologies that would help

them reduce the negative ecological externalities that exist in the process of turning bitumen into oil.[50]

The SET approach is the most likely to welcome new entrants that can improve overall socio-ecological well-being. For example, as the first green retail store of its kind in the Philippines, ECHOstore could have tried to protect its first-mover advantage. Instead, the company actively works to build the entire ecosystem of sustainable business. Through its foundation and partnerships with government agencies like the Philippine Commission on Women, ECHOstore helps develop new entrepreneurs and businesses in the sustainable products space. The company's licensing model allows other retailers to adopt its sustainable business practices, viewing new entrants as partners and collaborators in expanding the positive impact of sustainable commerce rather than as threats to its market position.

### 8.4.5. Intensity of Rivalry

**Intensity of rivalry** refers to the extent or strength of competition among the organizations in an industry. The intensity of rivalry increases when:

1. an organization has many competitors seeking similar customers;
2. the industry growth rate slows down or declines, so that there are fewer customers for each competitor;
3. the industry has intermittent overcapacity (such as post-Christmas sales of gift wrapping paper, or sale of farm produce during bumper harvests);
4. brand identity and switching costs are low (customers can shop based only on price because having a long-term relationship with a buyer is not relevant);
5. an organization's fixed costs are high and cannot be easily converted to a new industry or product (e.g., rivalry in the airline industry is intense because it is difficult to convert airplanes and workers to purposes other than flying passengers); or
6. there is little ability to differentiate the product or service being offered (e.g., rivalry in the airline industry is intense because the service is very similar across competing airlines).

FBL management prefers low levels of rivalry intensity and seeks conditions

where their firm essentially has a monopoly (e.g., few competitors, few substitutes, high switching costs).[51] TBL management takes the same view as FBL management, except that rivals might cooperate to enhance profits and reduce negative socio-ecological externalities. Finally, rather than seek to limit rivalry intensity per se, SET management is concerned with increasing mutually beneficial collaboration across organizations, which involves reconsidering the six factors that contribute to the intensity of rivalry. In particular, SET management welcomes

1. more collaborators seeking to optimize the creation of net positive externalities;
2. sustainable industries, where there is greater emphasis on creating and sustaining positive externalities than on pursuing financial growth for its own sake (e.g., SET management welcomes a decline in industries with net negative externalities, such as the conventional beef industry[52]);
3. more balanced supply and demand so that everyone has enough with minimal excess or waste;
4. all organizations collaborating to optimize sustainability;
5. reduced fixed costs so that resources can be used as flexibly as possible to deliver a variety of goods and services in a socio-ecologically sustainable way; and
6. increased ability to integrate products and services, providing optimal choices to consumers.

Collaboration is evident in the cooperation of Statoil and Aesnes to provide their "waste" heat for a fish farm, which in turn willingly provides fertilizer for farmers. It was also illustrated when three rivals in the green office buildings market—Delos, Overbury, and Morgan Lovell—formed a **strategic alliance**, pooling their organizational resources and know-how to share the risks and rewards for developing their market.[53] Strategic alliances will differ within FBL, TBL, and SET approaches, depending on the rewards they are designed to create.

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## 8.5. Step 4: Choose and Develop the Strategy

Managers formulate strategies at two levels: (1) for organizations operating in a specific industry (generic strategies), and (2) for organizations operating in a variety of industries. We will look at each in turn.

### 8.5.1. Generic Strategies

When most people think about organizational strategy, they usually think about a **business-level strategy**, which describes the combination of goals, plans, and actions that an organization in a specific industry uses to accomplish its mission. For example, a trucking company like Reimer Express uses a business-level strategy to compete in the transportation industry. Business-level strategies are also used by managers of non-business organizations, such as a thrift store operated by the Salvation Army. While each organization will have its own distinct strategy, there are several "generic" strategies that managers may adopt and adapt for use in their organization.

#### The FBL Approach to Generic Strategies

Michael Porter named the two best-known generic business-level strategies: cost leadership and differentiation.[54] A **cost leadership strategy** is evident when an organization has lower financial costs than rivals do for similar products, so that it can capture more profit and/or a higher market share via lower prices. When cost leaders offer a portion of their financial cost savings to buyers, this can increase the cost leader's market share and allow it to achieve further cost savings as a result of greater economies of scale. Paying attention to production and distribution efficiencies is crucial if a cost leadership strategy is adopted. Walmart became the leading retailer on the planet, thanks to using a cost leadership strategy. Internally, Walmart has a world-class inventory management system to lower financial costs. Externally, Walmart's volume purchases give it such great buyer power that it can purchase products from suppliers at lower prices than its

competitors can. As a result, Walmart can have higher profit margins on its products while at the same time pricing its products lower than its competitors do, resulting in increasing market share and high revenues to finance further growth.

A **differentiation strategy** is evident when an organization offers products or services with unique features that cost less for it to provide than the extra price that customers are willing to pay for the features. There are numerous ways an organization might differentiate its product or service from that of its rivals, such as exceptionally high quality, extraordinary service, creative design, unique technical features, and generous warranties. The differentiation must be significant enough that customers are willing to pay a higher price. A good example of differentiation is the lifetime service guarantee on Patek Philippe watches, which are built according to standards that go beyond even the strict specifications of the Geneva Seal. The firm's reputation enables it to charge tens of thousands of dollars for its watches.[55]

Porter also notes that it is important for managers to decide whether their strategy will have a narrow or a broad focus. **Focus strategy** describes the portion of an overall market that an organization is targeting to serve. A narrow focus strategy means choosing a small segment of the overall market, such as a specific geographic area or a specific kind of customer. For example, managers of a local pizza restaurant must decide whether to distribute flyers throughout the city or only in their neighborhood, whether to create an ambiance that appeals to a broad cross section of customers or to a particular sub-group (e.g., families vs. college students), which items to offer on the menu (e.g., pizza made from organic-only products), and so on. The focus strategy may be combined with either differentiation or cost leadership.

A **dual strategy** is evident when an organization combines both a cost leadership and a differentiation strategy. Although Porter is skeptical about the wisdom of such a strategy, others have argued that it is entirely possible to achieve. Indeed, even one of Porter's own examples of a cost leader strategy, Ivory soap, also has elements of a differentiation strategy (Ivory soap is 99.44 percent pure).[56]

#### The TBL Approach to Generic Strategies

Generic strategies like cost leadership and differentiation may help to optimize an organization's financial bottom line, but they do little to optimize its social and ecological performance. Moreover, when an FBL organization uses a cost leadership strategy, it may find that it can reduce its financial costs by *creating* negative socio-ecological externalities. Michael Porter has recognized this problem and

tweaked his approach to encourage practitioners to adopt an approach consistent with TBL management that seeks to create shared value that addresses the socio-ecological crises facing humankind.[57]

*Generic strategies like cost leadership and differentiation may help to optimize an organization's financial bottom line, but they do little to optimize its social and ecological performance.*

A **TBL cost leadership strategy** is evident when an organization has lower financial costs than its rivals, thanks to reductions in its ecological and/or social negative externalities, thereby contributing to its financial well-being. In recent years, Walmart has adopted a TBL cost leadership strategy by reducing its use of fossil fuels (e.g., by using a more fuel-efficient fleet of trucks, using LED lighting in its stores) and minimizing packaging; these actions reduce both its financial costs and its negative ecological externalities. Going further still, Costco—which employs a similar TBL cost leadership strategy in terms of reducing packaging materials and using solar energy—is the only member of the 180 major US companies that comes close to paying its workers a living wage.[58] As former Costco CEO Craig Jelinek observed: "I just think people need to make a living wage with health benefits . . . It also puts more money back into the economy and creates a healthier country. It's really that simple."[59]

A **TBL differentiation strategy** is evident when an organization offers products or services with socio-ecological benefits that cost less for it to provide than the extra price that customers are willing to pay for them. For example, thanks to a being able to charge a higher markup for their produce, organic farmers are generally more profitable than conventional farmers.[60] Whole Foods became a leading grocer by offering organic foods to consumers, and helped to grow the larger organic eco-system.[61] TBL generic strategies can have a broad or a narrow focus, and it is possible to pursue a dual TBL strategy that combines TBL cost leader and TBL differentiation.

#### The SET Approach to Generic Strategies

The SET approach uses two qualitatively different generic strategies: minimizer and transformer.[62] A **minimizer strategy** is evident when an organization mini-

mizes negative socio-ecological externalities while ensuring that it remains financially viable. A minimizer strategy is evident at Seventh Generation, a founding B Corporation. Seventh Generation provides "cleaner and greener" products for household and personal care (ranging from laundry detergent and household cleaners to feminine care products). Founder Jeffrey Hollender is passionate about reducing the negative socio-ecological externalities created by business. The desire to minimize externalities is evident in the firm's product development standards, ingredients, and transportation choices. It reduces waste, greenhouse gas (GHG) emissions, and has eliminated the use of toxic materials.[63]

Glimpses of a minimizer strategy are often evident in the TBL cost leadership strategy. However, unlike the TBL cost leadership strategy, the minimizer strategy is not limited to reducing only negative externalities where that would enhance an organization's financial well-being. Consider the explanation Bill Gates gave for why millions of children have died of diseases even when medication costs less than one dollar per person. He suggested that it is not in the financial interest of FBL and TBL companies to do anything to save the children: "The market did not reward saving the lives of these children, and governments did not subsidize it."[64] In other words, firms can make more money doing other things than helping these children. The increased flexibility that SET organizations enjoy precisely because they do not need to *maximize* profits gives them greater latitude to enhance value creation in areas of ecological and social well-being (e.g., helping the socially marginalized) that would not be considered profitable enough by FBL and TBL firms.

*According to Bill Gates, millions of children have died of diseases even when medication costs less than one dollar per person: "The market did not reward saving the lives of these children, and governments did not subsidize it."*

A **transformer strategy** is evident when an organization creates positive externalities, often by adding value to resources that were previously underappreciated or wasted. A transformer strategy is apparent, for example, in an organization that recycles tires and uses them to make rubber mats, stepping stones, parking curbs, and rubber mulch.[65] A transformer strategy is also evident in volunteer agencies that encourage senior citizens to volunteer in after-school programs that

help children with reading difficulties. And it is evident when businesses like ECHOstore and Coffee for Peace (Chapter 5) transform undervalued human and natural resources into vehicles for empowerment, economic security, and peace.

A **compounder strategy** is evident when an organization simultaneously follows both a minimizer and a transformer strategy, both reducing negative externalities and enhancing positive externalities.[66] In fact, many organizations that have primarily a minimizer or a transformer strategy will also have elements of the other. A compounder strategy is evident in an organization like Habitat for Humanity, which transforms construction waste via its ReStores and transform lives by working with people who otherwise would not be able to afford it build or renovate their own homes (see Chapter 11). Another example is Greyston Bakery (Chapter 1), which hires and trains chronically unemployable people such as the homeless and ex-convicts, thereby enabling them to become valued contributors to society.[67] And it uses fair trade ingredients—including chocolate, vanilla, and sugar—to ensure that producers of these ingredients earn a living wage and use ecologically responsible agricultural practices that enhance the well-being of the soil. Firms can work together in community to implement a compounder strategy; this allows them to create value together that they would not be able to create independently.[68] Glimpses of this can also be seen in the industrial ecological community in Kalundborg, as highlighted in Figure 8.2, where different organizations transform each other's "waste" into valuable inputs, significantly minimizing waste and converting it into valued resources.[69]

### 8.5.2. Strategies for Diversified Organizations

Our analysis thus far has looked at individual organizations that operate in a single industry. When such organizations are owned and governed by a larger, diversified parent organization they are called strategic business units. A **diversified organization** competes in more than one industry or sector, or serves customers in several different product, service, or geographic sectors. Often each separate division in a diversified company is treated as a **strategic business unit** (SBU) *that has its own mission statement, industry, products and services, business-level strategy, and financial statements*. For example, the Clorox company has about $7.5 billion in revenues from forty different brands in its "family" in a variety of industries, including Brita (water filters), Hidden Valley (food), and Kingsford (barbecues).[70] **Corporate-level strategy** determines the combination of industries in which a diversified organization will have an SBU.

*A small organization can also be active in a variety of industries.*

While large corporations often diversify their operations to compete in a number of different industries, smaller organizations may face similar issues. For example, a small-scale vegetable farm may sell fresh produce at a farmers' market, provide specialty produce to local grocery stores, sell farm-fresh salsa via the internet, provide a consulting service to other farmers or consumers, and rent out equipment and services to neighboring farms. The farm might also decide to enter industries that offer year-round income (e.g., jams and pickled watermelon) to offset the seasonality of fresh produce. As another example, Habitat for Humanity has a division to build homes, another to operate its ReStores, another to purchase land, and another to manage mortgage payments. Each of these divisions operates as a separate SBU.

In deciding what sort of diversification they want, managers can choose between two basic types of strategies: (1) related, and (2) unrelated. **Related diversification** means expanding an organization's activity into industries that are related to its current activities. ECHOstore illustrates related diversification in its tri-concept model, which integrates retail (ECHOstore), food service (ECHOcafe), and sustainable agriculture (ECHOmarket). This integrated approach allows the company to create multiple revenue streams while maintaining consistency with its core mission of promoting sustainable lifestyles. Related diversification can be further divided into two types: horizontal integration and vertical integration. **Horizontal integration** is evident when an organization's services or product lines are expanded or offered in new markets. This happens when a firm buys competitors in the same or similar markets that operate at the same level of distribution (i.e., retail level or manufacturing level). For example, Bauer Performance Sports, a manufacturer of hockey sticks, horizontally integrated by acquiring Easton, which manufactures baseballs.

**Vertical integration** occurs when an organization produces its own inputs (upward integration) or sells its own outputs (downward integration). Managers facing strong supplier power may purchase a supplier (upward integration), while managers facing strong buyer power may purchase the buyer (downward integration). Major oil companies, for example, have grown through upward integration by getting involved in oil exploration, extraction, transportation, and refining operations. They have also grown through downward integration by operating retail gas stations.

The second type of diversification strategy, **unrelated diversification**, occurs when an organization grows by investing in or establishing SBUs in an industry unrelated to its current activities, as Clorox has done. Sometimes an unrelated diversification strategy is chosen to reduce a threat identified by a SWOT analysis. For example, managers may diversify if they believe that their current industry is in danger of declining, or if they believe diversification is critical to sustain growth. With the purchase of Burt's Bees (a company whose personal care products are environmentally friendly), Clorox gained opportunity to learn about sustainable business practices while offsetting its image of being a company that promotes use of bleach, which can be ecologically harmful.[71]

Of course, sometimes diversified organizations choose to reduce their involvement in some industries, which is called *retrenchment*. **Divestment** refers to the process of decreasing the number of industries in which a diversified firm operates an SBU. Portfolio management tools have been developed to help managers of **conglomerates**—diversified organizations with SBUs in unrelated industries—to develop their corporate-level strategy and decide which industries to remain active in, which to enter, and which to divest from. Similar to individual investors who seek to diversify their personal financial investments, managers in conglomerates look for an optimal mix of types of SBUs and industries in which to operate. Consider the following two portfolio matrices, one associated with FBL management, and the other more relevant for TBL and SET approaches.[72]

#### Conventional Portfolio Matrix Based on FBL Management

Perhaps the best-known FBL tool for business portfolio planning was developed by the Boston Consulting Group and is called the **BCG matrix**, which classifies each SBU according to (a) its market share, and (b) the rate at which its industry is growing (see Figure 8.3).[73]

**Figure 8.3. BCG portfolio matrix for managing diversified organizations**




*Market share* refers to the proportional sales a particular SBU has relative to the entire industry. An SBU that enjoys a 10 percent or greater share of the market in its industry is rated as being high.[74] The *market growth rate* refers to whether the size of a particular market is increasing, decreasing, or stable. This is an indicator of an industry's strength and future potential. An annual growth rate of 15 percent or more is considered high.

Dichotomizing each of the two basic dimensions of the BCG matrix yields four types of organizations. A **star** enjoys a high market share in a rapidly growing industry.[75] Like movie stars, such businesses generate a lot of cash but also need a lot of cash to add the additional capacity required to keep growing. A star has a high profile and promises to generate profits and positive cash flows even after the growth of the industry stabilizes. Within the portfolio of Apple, iPhones have long been a star, enjoying a strong market share in what has been a growing industry.[76] However, as the industry growth levels off, the iPhone will turn into a cash cow.

A **cash cow** enjoys a high market share in a low growth or mature industry. Within Apple's portfolio, the iTunes Store can be considered a cash cow, thanks to occupying 60 percent of the market share in its industry, but the industry itself has not been growing.[77] BCG suggests that cash cows should be "milked" and the profits invested in other SBUs within the portfolio that are stars or question marks.

A **question mark** has a low market share but operates in a rapidly growing industry. A question mark presents a difficult decision for management, as the risk of no return on the investment is very real. In the end, only those question

marks with the most likely chance of success should be invested in. For example, Apple's attempt at introducing a product like Apple TV, while enjoying some level of success, is still a question mark in terms of whether it will become a star in the growing market of alternative television service providers.

Finally, a **pet** has a low market share in a low growth industry. Pets typically produce little or no profit and have little potential to improve in the future.[78] Pets should be sold off if a turnaround is not possible, unless the pet offers synergies with other products. **Synergy** *occurs when the performance gain that results from two or more units working together—such as two or more organizations, departments, or people—is greater than the simple sum of their individual contributions*. The owner of a large vegetable farm may not earn much profit operating a stand in a farmers' market but may continue to do so if this helps to gather information about consumer purchasing trends. In Apple's portfolio, the iPod ran the full cycle in the BCG, starting off as a question mark, becoming a star, then a cash cow, and then a pet before being discontinued in 2022.

The strength of the BCG matrix is that it helps managers make strategic decisions by focusing on two important and practical dimensions. It also offers a simple conceptual framework to think about portfolio decisions for managers, about which industries or product lines to enter and to exit, and about how to transfer profits earned by a product or SBU in one quadrant (e.g., a cash cow) into another SBU in a different quadrant (e.g., a star or a question mark).[79]

*The BCG matrix ignores issues of socio-ecological well-being.*

#### An Alternative Portfolio Matrix Based on TBL and SET Management

From a TBL or SET perspective, a significant weakness of the BCG portfolio matrix is its total disregard of issues related to socio-ecological well-being. This shortcoming can be addressed by developing a parallel framework that is relevant for TBL and SET managers (see Figure 8.4).[80] The vertical dimension is *sustainable development*, which assesses how effectively an industry reduces its socio-ecological negative externalities. Negative externalities are reduced when car manufacturers transition from gasoline to electric cars, and when travel agencies transition from promoting overseas travel to staycations.

**Figure 8.4. A TBL/SET approach to a corporate strategy portfolio matrix**




The horizontal dimension, *restorativeness*, considers how effectively an industry creates positive socio-ecological externalities. A high level of restorativeness is evident in industries where organizations enhance the socio-ecological well-being of their stakeholders. For example, an industry will score high in ecological restorativeness if it takes carbon out of the atmosphere and uses it to enrich the soil (e.g., conservation agriculture). An industry scores high in social restorativeness if it enhances mental health (e.g., Big Brother/Sister organizations, national parks, and retreat centers).

Dichotomizing these two dimensions—sustainable development and restorativeness—yields four types of organizations. A **sustainability hero** minimizes negative externalities (high sustainable development) and enhances positive externalities (high restorativeness). An example of an *ecological* sustainability hero is an organization that provides curbside composting services. Rather than organic waste being thrown into landfills, where it may contribute to methane gas release, the waste is composted and returned to the soil, where it provides nutrients to grow healthy food. An example of a *social* sustainability hero is a seniors' center where retired people (who are looking for meaningful things to do) can participate in physical activities and adult education, or in after-school programs that help young children with reading difficulties. Such industries should be encouraged and receive investment, and the lessons learned and practices developed in these industries transferred to others.

An **innocent bystander** has high sustainable development but low restorativeness. For example, industries related to renewable energy or electric cars are designed to reduce GHG emissions but may do little to restore existing waste. However, restorativeness could be added if, for example, a source of electricity or an automobile engine were developed that was powered by carbon dioxide (mimicking photosynthesis). Managing to add restorativeness to an innocent bystander can transform it into a sustainability hero.

A **fragile player** creates both positive and negative externalities. For example, the Children's Wish Foundation provides trips to Disneyland for children with life-threatening illnesses. This provides positive social externalities (joy and respite for the families) but also creates a negative ecological externality (the pollution that is generated by the air travel). Managers could try to create substitute products and services (possibly from other industries) that create similar positive externalities but reduce negative externalities. For example, rather than fly a family to Disneyland, they could be treated at a local resort or amusement park. Managing to increase sustainable development in a fragile player can transform it into a becoming sustainability hero.

Finally, **lavish actors** *are low on both sustainability and restorativeness*. Lavish actors represent great opportunities for positive change, either from within or by being rendered. For example, like other firms in its industry, the Statoil oil refinery in Kalundborg at one time created negative ecological externalities while doing little to transform the waste of others. Then managers at the refinery started to utilize "waste" steam from the coal plant. They also improved their refinery's filtering process to emit less wasteful sulfur gas and instead provided sulfur inputs valued by neighboring companies. However, it might be even better if the oil refinery were made obsolete by using its profits to invest in advances in, say, solar energy.

Using an alternative matrix like this—instead of the conventional BCG portfolio matrix—provides a very different frame of reference for choosing which industries to enter, how to move funds from an SBU in one quadrant to an SBU in another, and what sorts of products to invest in or bring to market. This matrix can also be used in non-business organizations. For example, imagine what would happen if governments used the matrix—with its explicit attention on sustainable development and restorativeness—to make decisions about social procurement and the services they provide with respect to waste removal, caring for seniors, education, health care, and so on. That could unleash powerful forces to increase the sustainability of how we live.

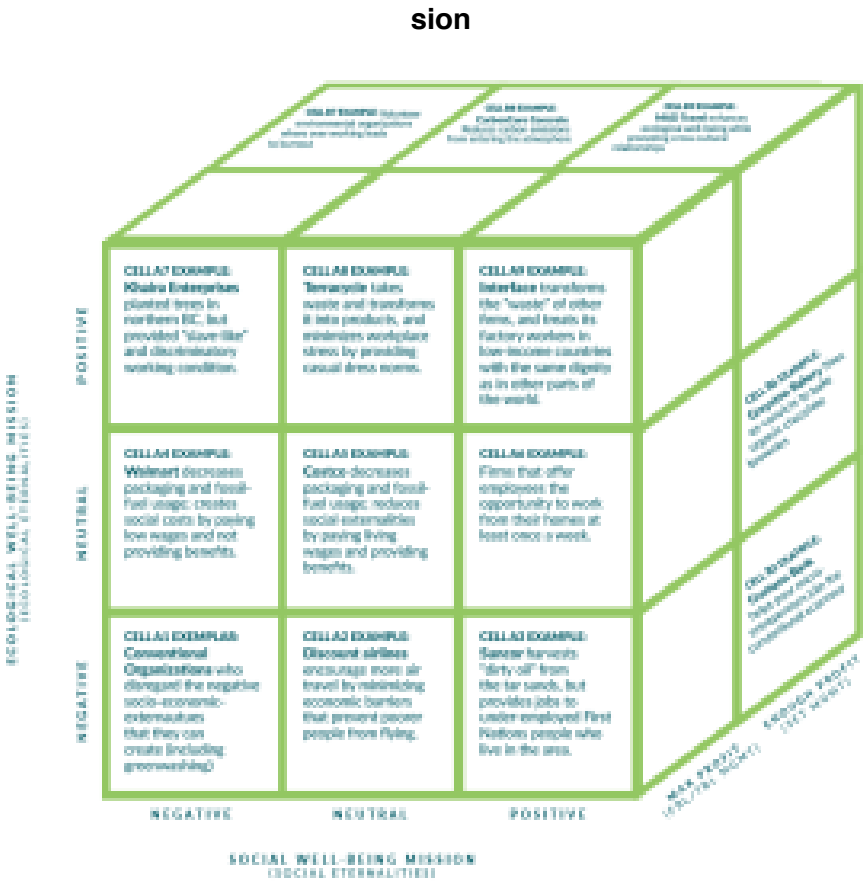
## Test Your Knowledge

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*https://pressbooks.openedmb.ca/management/?p=92#h5p-46*

## 8.6. Entrepreneurial Mission and Vision

When it comes to formulating a strategy, the first step and perhaps most important decision facing entrepreneurs is related to the start-up's mission and vision. As shown in Figure 8.5, we can think of about eighteen potential types of entrepreneurial start-ups based on how their mission relates to financial, social, and ecological well-being. Taking the time to think about the mission and vision of their start-up in financial, social, and ecological terms—and in particular how these matters align with the entrepreneurs' own personal values and beliefs and reasons for being an entrepreneur—can help entrepreneurs to develop the kind of organizations that will heighten their sense of motivation and satisfaction. We will briefly discuss each of the three dimensions in Figure 8.5.

**Figure 8.5. Eighteen types of organizations, based on their mis-**




### 8.6.1. Financial Well-Being

Consistent with the difference between acquisitive economic goals (FBL and TBL entrepreneurs) versus sustenance economic goals (SET entrepreneurs), an organization's mission can be described in terms of how it approaches financial well-being. This difference is shown in the "depth" dimension of Figure 8.5, which contrasts those organizations whose mission is to *maximize* financial well-being in the front part of the figure (associated with FBL and TBL approaches) with organizations that seek to make *enough* profit (SET approach). (Note that cells B1, B2, B4 and B5 are not shown in Figure 8.5).

### 8.6.2. Ecological Well-Being

The vertical dimension describes an organization's mission regarding ecological well-being, which can be negative, neutral, or positive. Of course, no organization would specifically set a goal to damage the environment, but *negative* ecological value creation nonetheless occurs when the environmental costs that an organization creates (e.g., clean-up costs associated with its waste and pollution) are not reflected in its planning or calculations. Managers may be tempted to sacrifice ecological well-being when other types of well-being are considered more important. For example, recall that the world's 1,200 largest businesses created about $5 trillion of negative ecological externalities in 2018, largely because they prioritize financial well-being (Chapter 1). Likewise, some of the businesses operated by micropreneurs who receive microcredit from financial institutions like the Grameen Bank may create pollution and thus have a negative effect on ecological well-being (but a positive effect on social well-being).[81]

*Managers may be tempted to sacrifice ecological well-being if doing so can maximize profits.*

*Neutral* ecological value creation involves situations where harm to ecological well-being is reduced or eliminated, though nothing is done to improve ecological well-being. This type of mission may be pursued by two kinds of organizations. The first are TBL organizations that strive to become "less bad" by decreasing the ecological damage they create through "sustainable development." Examples include firms such as Walmart's and Costco's efforts to decrease pollution through solar panels and reduced packaging use (cells A4 and A5 in Figure 8.5). The second type of organization in this category would be SET organizations that prioritize social well-being more highly than ecological well-being. Consistent with their SET management approach, these organizations recognize the importance of the natural environment and therefore avoid damaging it; however, most of their effort is devoted to addressing social outcomes rather than increasing ecological well-being. For example, Velo Renovation (opening case, Chapter 9; cell B6 in Figure 8.5) has some initiatives that reduce ecological externalities, but most of the positive externalities it creates involve social well-being.

Finally, *positive* ecological value creation arises from firms that make enhancing ecological well-being part of their mission. ECHOstore (cell B9) demonstrates this commitment to positive ecological value creation through multiple initiatives. Its careful curation of eco-friendly and organic products, support for sustainable farming practices, and promotion of transformer circular economy principles through its integrated farm operations all contribute to environmental enhancement rather than just harm reduction. Interface Industries is also well-known for its mission to generate net-positive ecological externalities, a challenge its late CEO Ray Anderson likened to climbing higher than Mt. Everest (opening case, Chapter 13; cell B9). For example, Interface has paid villagers in the Philippines to collect, clean, and bale over 100 tonnes of discarded fishing nets to be recycled into new carpet fiber.[82]

### 8.6.3. Social Well-Being

The horizontal dimension of Figure 8.5 considers an organization's mission regarding social well-being. Along this dimension, *negative* social value creation results when the organization's activities worsen social well-being. As with negative ecological value creation, this harm is typically not intentional, but the lack of intention does not reduce the harm. For example, negative social externalities arise when businesses in high-income countries seek to minimize their financial costs by choosing suppliers in low-income countries based only on price, without regard for the working conditions in those suppliers. Negative social externalities can also arise when an organization seeks to maximize profit at the expense of workers or communities. Likewise, some organizations may pursue financial and ecological well-being with such zeal that a social cost is created. Khaira Enterprises, a tree-planting business in British Columbia, is an example of how a firm can enhance ecological well-being but produce negative social externalities (Figure 8.5, cell A7). Khaira was ordered to pay $700,000 in damages for the abusive, discriminatory, and "slave-like" working conditions it forced on its workers.[83]

*Neutral* social value creation results when firms succeed at being less bad but do not focus on being better. For example, organizations may seek to reduce negative aspects of social well-being either internally (e.g., designing jobs that cause less stress or reduce physical hardship for employees) or externally (e.g., making their goods available to more people). But they may still pay less than a living wage, and they may be increasing indebtedness of consumers.

*Entrepreneurs gain meaning when their start-up and personal missions align.*

Firms that aspire to create *positive* social externalities are often associated with SET management. This might happen, for example, when a firm hires ex-convicts in order to provide them the opportunity to become better contributors to society and thereby increases the likelihood that these employees stay out of prison (e.g., Greyston Bakery, cell B9).

Once entrepreneurs have thought deeply about the mission and vision of their start-up, they will have gone a long way toward identifying what sorts of strengths are needed, what sorts of opportunities should be pursued, and what sort of strategies are most relevant.

## Test Your Knowledge



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## Chapter Summary

1. Managers follow a four-step process to formulate strategies:
    - (i) establish the organization's mission and vision;
    - (ii) identify the strengths and weaknesses of the organization's resources;
    - (iii) identify key opportunities and threats in the external environment; and
    - (iv) develop the chosen strategy.

2. When establishing the organization's mission and vision,
    - FBL managers focus on financial well-being and a competitive strategy, using a top-down process;
    - TBL managers focus on the triple bottom line and a competitive strategy, using a mostly top-down process;
    - SET managers focus on socio-ecological well-being and a collaborative strategy, using broad participation among a variety of stakeholders.
3. When analyzing internal resources to identify strengths and weakness, managers pay attention to the resources' value, rarity, inimitability, and non-substitutability (VRIN).
4. When analyzing external factors to identify opportunities and threats, managers pay attention to the following five forces: supplier power, customer power, substitutes, threat of new entrants, and intensity of rivalry.
5. When developing generic strategies for competing within an industry,
    - FBL managers choose a cost leadership or differentiation strategy;
    - TBL managers choose a TBL cost leadership or TBL differentiation strategy;
    - SET managers choose a minimizer or transformer strategy.
6. When managers of diversified organizations consider portfolio matrices, FBL managers consider market growth and market share, TBL managers are more concerned about sustainable development, and SET managers are most likely to consider restorativeness.
7. Entrepreneurs can choose from eighteen different types of missions, depending on their priorities in terms of financial well-being (maximum profit vs. enough profit), social well-being (negative, neutral, positive), and ecological well-being (negative, social, positive).

## Questions for Reflection and Discussion

1. Go online and find the mission and vision statements of three organizations, including one that seems to be managed from an FBL approach, another from a TBL approach, and a third from a SET approach. How consistent (or inconsistent) are these mission and vision statements compared to the nine elements described in this chapter (Table 8.1)? How do they compare to each other?
2. Choose an organization you are familiar with (e.g., your current employer, or where you would like to work in the future) and analyze its mission and vision statements in light of the material covered in this chapter. Identify their strengths and weaknesses, and suggest how they could be improved.
3. Think of an industry where most of the leading firms take an FBL approach to management. Imagine that you prefer a TBL approach. Use concepts from this chapter to think about how you would go about developing a strategy to enter this industry.
4. Develop a new alternative portfolio matrix that has two dimensions that you personally feel are important but are different from the dimensions presented in this chapter (i.e., your matrix should differ from those shown in Figures 8.3 and 8.4). Try to find examples of organizations in each quadrant of your new matrix.
5. Now that you have read the chapter, use the concepts you have learned to analyze the opening case. Based on what you have learned, what advice would you have for the managers? If you were asked to suggest a formal mission statement and a formal vision statement for ECHOstore, what would you suggest?
6. Write a mission and a vision statement for your *professional* life. What is your ongoing mission, and what is your vision for five or ten years from now?
7. Write a mission and a vision statement for your *personal* life. How much overlap is there between your professional and personal statements? Which set of statements has more influence over the kind manager you want to become?
8. Of the various organizational types based on their mission statement, depicted in Figure 8.5, which type do you think would be the easiest for a new entrepreneurial start-up to pursue? Which one is closest to your own values and aspirations? Which type of organization would

you start if you were to become an entrepreneur? Explain.

9. Write a mission and a vision statement for an organization you might want to start. How does it compare with your professional and personal statements? Is the organization you are designing a good one for you to work in? Will it help you to achieve your goals? If so, how? If not, what can you change to increase alignment?
10. Which generic business strategy would you choose for your organization? Why? What does that choice mean for your plans?

## Notes

1. This case was developed based on several sources, including Coloma, S. (2024, June 12). ECHO Store: Uplifting farmers by tapping into Diwa-Kapwa values. *Manila Bulletin*. https://mb.com.ph/2024/6/12/echo-store-uplifting-farmers-by-tapping-into-diwa-kapwa-values; Enriquez, M. C. (2012, August 19). Echostore combines good cause with commerce. *Philippine Daily Inquirer*. https://business.inquirer.net/77608/echostore-combines-good-cause-with-commerce; Alimurung, M. (Host). (2016, February 1). ECHOstore (Episode 15). On *Bright ideas* [TV series]. Viewed December 20, 2024, on Bloomberg TV Philippines. https://youtube/ZQizqXbEamA?si=W4OvKYva-kYakuJb; Arambulo, A. (2021, April 21). I am her: Jeannie Javelosa on turning empowering visions into a reality [Interview]. *The BeauLife*. https://thebeaulife.co/empowerment-interviews/jeannie-javelosa-echostore-great-women-interview-i-am-her; ECHOstore (2024). *About us*. Retrieved December 21, 2024, from https://echostore.ph/pages/about-us
2. Castro, P. A. (2012, May 4). ECHOstore: Making sustainable lifestyle happen. *Zest Magazine*. https://zestmag.com/online/echostore-making-sustainable-lifestyle-happen/
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4. Cited in Peyrefitte, J., & David, F. R. (2006). A content analysis of the mission statements of United States firms in four industries. *International Journal of Management*, 23(2): 296–310.
5. Rowland, C. (2024, November 3). *Tesla's mission statement & vision statement (an analysis*). Panmore Institute. https://panmore.com/tesla-motors-inc-vision-statement-mission-statement-analysis
6. Ferguson, E. (2024, October 22). *Walmart's mission statement, vision statement & strategies*. Panmore Institute. https://panmore.com/walmart-vision-mission-statement-intensive-generic-strategies. "Walmart's vision statement is '***Be THE destination for customers to save money, no matter how they want to shop***.' The company's previous vision statement was '*To be the best retailer in the hearts and*

*minds of consumers and employees*.' . . . Considering Michael Porter's model for generic strategies for competitive advantage, Walmart Inc. uses the ***cost leadership*** generic strategy" [emphasis in original].

7. Thompson, A. (2024, November 15). *Google's (Alphabet's) mission statement & vision statement: An analysis*. Panmore Institute. http://panmore.com/google-vision-statement-mission-statement
8. Tyler, L. (2023, September 11). *Patagonia: A purpose-driven brand built on action*. Designstripe. https://designstripe.com/blog/patagonias-brand-impact
9. For more on this, see Peyrefitte & David (2006).
10. Peyrefitte & David (2006).
11. Not all organizations have vision statements. A recent study found that there were five categories of vision statements: "1) Uncommunicated, 2) Unstated yet Implemented, 3) Formally Stated, 4) Refined, and 5) Re-examined." Kirkpatrick, S. A. (2017). Toward a grounded theory: A qualitative study of vision statement development. *Journal of Management Policy & Practice*, 18(1): 87–101.
12. Rowland (2024).
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21. O'Boyle, T. F. (1998). *At any cost: Jack Welch, General Electric, and the pursuit of profit*. Alfred A. Knopf.

22. These are not formal mission statements, but rather the two that Nathaniel de Avila (founder) mentioned in response to an interview question on September 25, 2020.
23. Nguyen & Kanbach (2024).
24. Indeed, in some countries businesses may face lawsuits if they fail to recognize the legal rights of nature. For example, in 2008 Ecuador included the Rights of Nature (RoN) in its constitution, becoming the first country in the world to do so. The RoN is presented as a tool for enhancing sustainability that promotes living in harmony with nature (based on the Indigenous Andean concept of *sumak kawsay*). Kauffman, C. M., & Martin, P. L. (2016). Can rights of nature make development more sustainable? Why some Ecuadorian lawsuits succeed and others fail. *World Development*, 92: 130–142. http://doi.org/10.1016/j.worlddev.2016.11.017
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26. Three different variations of the RBV have been developed in the literature, each of which generally corresponds to one of the three management approaches. Conventional RBV aligns with FBL management, Natural RBV aligns with TBL management, and Radical RBV aligns with SET management. Conventional RBV is described in Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99–120. https://doi.org/10.1177/014920639101700108. Natural RBV is described in Hart, S. L. (1995). A natural-resource-based view of the firm. *Academy of Management Review*, 20(4): 986–1014. https://doi.org/10.2307/258963. Radical RBV is described in Bell, G. G., & Dyck, B. (2011). Conventional resource-based theory and its radical alternative: A less materialist-individualist approach to strategy. *Journal of Business Ethics*, 99(1): 121–130. http://doi.org/10.1007/s10551-011-1159-4
27. See Barney (1991: 106). The definition of resources from a resource-based view is simultaneously very broad and yet may be narrowly related to the idea of acquisitive economics: resources include "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (Barney, 1991: 101).
28. We use the term "intangible" resources to refer to Barney's (1991) third category, which he calls "organizational resources"—we found it awkward to talk about an organization's organizational resources.
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36. Indeed, instead of calling these non-substitutable resources, they are called "organizational" resources in Barney & Hesterly (2008).
37. Barney (1991: 111).
38. The term "industry" often refers to the subset of business organizations that are active in the same branch of the economy (e.g., the automobile industry, the fast food industry). Since strategic management is also important for managers in non-business organizations, we will use the term more generally. Examples of non-business industries include much of the education sector and the social services sector.
39. Porter, M. E. (1980). *Competitive strategy: Techniques for analyzing industries and competitors*. Free Press; Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. Free Press.
40. The oil industry is an interesting example of how supplier power may decline over time. Cartels such as OPEC traditionally had a lot of power because there were relatively few places where companies like Exxon and Mobil could purchase oil. But with the increase in the supply of fossil fuels in recent years due to new technological developments like fracking, fossil fuel companies now have more alternatives suppliers to choose from.
41. This is consistent with the contractual basis of acquisitive economics.
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43. Note that as of 2018, Statoil was merged under the company Equinor ASA. *Statoil to change name to Equinor*. (2018, March 15). Equinor. https://www.equinor.com/news/archive/15mar2018-statoil
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*biosis: Successful case and role in ValueWaste*. (2019). Available from European Union at https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5c8dadfe3&appId=PPGMS. The summary presented in this chapter is taken from Dyck & Neubert (2010) and also found in Neubert, M., & Dyck, B. (2014). *Organizational behavior*. John Wiley & Sons. The example was originally taken from Hawken, P. (1993). *The ecology of commerce: A declaration of sustainability*. HarperBusiness (see especially pp. 62–63); Gibbs, D., & Deutz, P. (2007). Reflections on implementing industrial ecology through eco-industrial park development. *Journal of Cleaner Production*, 15(17): 1683–1695. https://doi.org/10.1016/j.jclepro.2007.02.003; Tudor, T., Adam, E., & Bates, M. (2006). Drivers and limitations for the successful development and functioning of EIPs (eco-industrial parks): A literature review. *Ecological Economics*, 61(2–3): 199–207. https://doi.org/10.1016/j.ecolecon.2006.10.010. See also Valero, A., Uson, S., & Costa, J. (2012). Exergy analysis of the industrial symbiosis model in Kalundborg. In *Proceedings of ECOS 2012*. (2012). 25th International Conference on Efficiency, Cost, Optimization, Simulation and Environmental Impact of Energy Systems, June 26–29, 2012, Perugia, Italy.

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premium is needed to break even. True, organic farmers spend more on labor—7–13% more according to the study. They use hands-on pest control methods, for example, like introducing a predator insect to get rid of a pest species, instead of pesticides applied en masse. But farmers offset those costs by skipping the expense of synthetic fertilizers and pesticides." Shaker, D. (2015, June 9). Organic farming can actually be more profitable than using fertilizers and pesticides. *Quartz*. https://qz.com/423777/organic-farming-can-actually-be-more-profitable-than-using-fertilizers-and-pesticides/. Another study that highlighted a dozen businesses with a TBL differentiation strategy in low-income countries found that that they consistently generated above-average profit margins and growth rates. Haanaes, K., Michael, D., Jurgens, J., & Rangan, S. (2013). Making sustainability profitable. *Harvard Business Review*, 91(3): 110–115. https://hbr.org/2013/03/making-sustainability-profitable

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# 9. Implementing Strategy


- Learning Goals
- 9.0. Opening Case – A Business Where Employees Choose Their Own Hours and Pay
- 9.1. Introduction
- 9.2. Step 1: Develop Operational Goals
- 9.3. Step 2: Develop Operational Plans
- 9.4. Step 3: Implement and Monitor Goals and Plans
- 9.5. Step 4: Learn from the Strategy in Action
- 9.6. Entrepreneurial Implications: Stakeholder Maps
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 9 provides an overview of the four steps of implementing organizational strategy, as summarized in the following table and in the whiteboard animation video.*

| Four Steps to Implement Strategy | FBL (Financial Bottom Line) | TBL (Triple Bottom Line) | SET (Social and Ecological Thought) |
|---|---|---|---|
| **1. Develop operational goals** | SMART goals:<br>**S**pecific<br>**M**easurable<br>**A**chievable<br>**R**esults based<br>**T**ime specific | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | SMART 2.0 goals:<br>**S**ignificant<br>**M**eaningful<br>**A**greed upon<br>**R**elevant<br>**T**imely |
| **2. Develop operational plans** | • Developed by managers<br>• Ignore externalities | | • Involve all stakeholders<br>• Incorporate externalities |
| **3. Implement and monitor goals/plans** | Managers ensure that plans are followed, goals are met, and scripts are functional. | | Managers work with stakeholders to ensure that plans are followed, goals are met, and scripts are functional. |
| **4. Learn from the strategy in action** | • Tendency to emphasize top-down learning | | • Tendency to emphasize bottom-up learning |
| **Entrepreneurship implications** | Stakeholder mapping can help entrepreneurs to better understand and navigate the changing relationships with their stakeholders over time. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=682*

## Learning Goals

After reading this chapter, you should be able to:

1. Describe the four steps to implement strategy, including the differences between FBL, TBL, and SET approaches.
2. Explain the difference between SMART and SMART 2.0 goals.
3. Describe the five steps in making operational plans.

4. Describe the hallmarks of strategic learning.
5. Describe how stakeholder mapping can help entrepreneurs to formulate, implement, and reformulate strategy.

## 9.0. Opening Case – A Business Where Employees Choose Their Own Hours and Pay

When COVID-19 restrictions were imposed in 2020, prompting many businesses to close down, Nathaniel De Avila began to develop a strategy for a new start-up based in Winnipeg.[1] He envisioned a home renovation company that would enhance social and ecological well-being. In contrast to firms in the construction industry known for creating a lot of waste and for treating entry-level employees poorly, De Avila's vision was to provide meaningful work, especially for people facing barriers to employment, to help homeowners who value sustainable practices, and to collaborate with other sustainability-minded companies. In short, he wanted his firm to pursue elements of the *minimizer* (reducing waste, greenhouse gases or GHGs) and *transformer* (providing life-giving work for unemployed people and treating them with dignity) strategies, and thereby become a *sustainability hero* (see Chapter 8).

Of course, formulating an ambitious strategy is quite different from implementing it. The first step in implementation is to develop specific goals that support the overall strategy. De Avila set four key goals. First, to reduce GHG emissions caused by driving trucks, he set the goal of having co-workers cycle to work year-round (even in winter, when temperatures reach –20° Celsius or lower). This goal is reflected in the name he chose for the company, Velo Renovation (*velo* is the French word for bicycle). Second, he set a goal to find meaningful renovation projects to work on, which meant encouraging customers to recycle materials, reducing the use of new materials, and purchasing environmentally friendly products (e.g., linseed instead of acrylic paint). The third goal was to treat employees with dignity, leading to policies that allowed workers to choose their own hours and their own pay. Fourth, he set a goal to hire marginalized people, even when doing so would increase the need for training.

Because his strategy and goals were quite bold, De Avila was not confi-

dent that they could be achieved. He chose to view Velo as an experiment and not to worry that it might fail. This orientation allowed him to be flexible in developing and implementing his plans. For example, he sought to hire people who needed a job, preferably people with barriers to entry (e.g., BIPOC, those negatively affected by COVID-19, someone facing a mental health issue), and personally provided on-the-job training as required. This sometimes meant hiring people who needed a job, even when not specifically recruiting for someone (such as happened when De Avila's friend met someone in the neighborhood who asked for a job but lacked qualifications).

Velo's flexibility is also evident many other ways. For example, during the period that government provided grants to firms like Velo to help pay for the extra hardships caused by COVID-19, Velo did not need those funds to cover operational costs, so De Avila happily shared them with co-workers. Likewise, ensuring co-workers do not fear losing their jobs if they make mistakes is more important at Velo than doing work exactly as planned. Finally, De Avila ensures that employees and other stakeholders are involved in making plans and are provided the information to make them (e.g., the company's financial information is available to all employees).

One of De Avila's early goals, namely to step away from the company's leadership role and pass it to others within six months, still hadn't been fulfilled after four years of being in business. This failure was not because of a lack of effort. For example, De Avila was out of the country for months at a time on several occasions and left the management of daily operations to co-workers, hoping that they would gain the confidence, skills, and interest to take over. Co-workers were happy to help out when De Avila was gone but preferred to stay in their previous roles in the long term. As a result, and as an example of learning from its strategy in action, Velo became more deliberate in recruiting people to take over De Avila's role. Another example of strategic learning was evident when the renovation industry was hurting as a result of higher interest rates, which reduced homeowners' budgets for such work. In response, Velo tweaked the way it paid people and moved toward a profit-sharing model.

Like many small firms, Velo faces an uncertain future. De Avila remains unconvinced about the financial viability of its unusual strategy, but some employees are more optimistic. In any case, De Avila is ready to pass on the baton of leadership and curious to see what further lessons and changes await Velo.

https://youtube.com/watch?v=WbNAWXGdzgM%3Fsi%3Da9JMJSPbz-TUsFxyn

A short video that features Velo Renovation (https://youtu.be/WbNAWXGdzgM).

## 9.1. Introduction

The previous chapter described the four steps associated with formulating strategy: establish the mission and vision (step 1), complete a SWOT analysis of strengths and weaknesses, opportunities and threats (steps 2 and 3), and then select and develop an appropriate strategy. Formulating strategy is important, but a well-formulated strategy that is not implemented is of little value to organizations. It is one thing to come up with ideas about what could be done, and something quite different to get them done. In fact, only 15 percent of major strategic change attempts are successfully implemented.[2]

Whereas the previous chapter looked at the *content* of formulating strategy, this chapter looks at the *process* of implementing strategy. This involves everyone in the organization, including stakeholders. As shown in Figure 9.1, this chapter examines how managers put strategies into action via the ongoing process of setting operational goals (step 1) and making operational plans (step 2), implementing and monitoring those operational goals and plans (step 3), and learning from this process to reformulate strategy (step 4). As in other chapters, we will highlight the differences between the Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) approaches to formulating strategy.

**Figure 9.1. Four steps of strategy implementation**



## 9.2. Step 1: Develop Operational Goals

Once a strategy has been formulated, the first step in implementing it is to develop operational goals. **Operational goals** *are outcomes to be achieved by an organizational department, workgroup, or individual member*. Operational goals serve to spell out the practical implications of strategic goals. The time horizon of operational goals is typically one year or less, and they can be seen as the building blocks of longer-term strategic goals (which tend to require one to five years), which in turn are expressions of even longer-term vision statements (which tend to last five years or longer). People are usually able to focus on three to seven operational goals at a time, depending on how complex the goals are and how much time is available to reach them.[3]

Although we will use the term "goals" throughout this section, other words can be used to describe operational goals. For example, Microsoft has preferred the word "commitments" to "goals." The "commitment" terminology came from managers who believed that it would make members more accountable and more likely to meet the goals.[4] "Standards" is another term that is sometimes used instead of "goals." Some goals serve as **performance standards**, *which are metrics used to determine how well a particular employee, department, or organization is doing its work*.

### 9.2.1. The FBL Approach to Operational Goals

Under the FBL perspective, operational goals are typically set by mid- and lower-level managers and supervisors. Goal-setting research has found that financial performance is maximized when goals have certain characteristics. The acronym SMART draws attention to the characteristics that a goal should have (see Table 9.1). It might seem like these characteristics are simply common sense and easy to implement. However, managers need to ensure that they are developed and implemented properly. For example, after an audit was done on SMART goals at Microsoft, managers discovered that about 25 percent of members' goals were not specific and that over 50 percent were not measurable.[5]

**Table 9.1. Five characteristics of SMART goals (associated with FBL management)**

| Characteristic | Description |
|---|---|
| **S**pecific | The goal is precise regarding what is to be accomplished. |
| **M**easurable | The goal's accomplishment can be assessed objectively. |
| **A**chievable | The goal is challenging but within reach. |
| **R**esults-Based | The goal has clear, demonstrable outcomes. |
| **T**ime-Specific | The goal has a time by which it is to be accomplished. |

First, SMART goals are *specific*. Having a specific goal clarifies expectations and improves performance.[6] For example, rather than simply trying to increase sales revenue, managers at Microsoft could set a specific goal to increase the sales of Microsoft Office software by targeting business customers in the United Kingdom. The more specific the goal is, the more likely it is to be accomplished.

Second, SMART goals are *measurable*. Managers must be able to measure whether goals are being met. Doing so may mean using existing data (for example, total sales revenue of Microsoft Office software in the United Kingdom) or setting up systems to collect the desired data (for example, determining the size of businesses that purchase Office software). Measurable goals provide feedback so people can evaluate whether their behavior is serving to meet the goal or whether their actions should change.

Third, SMART goals are *achievable*. It should be possible to reach the goal, but the goal should not be easy. Research suggests that people perform better when they are given challenging goals rather than easy goals or told to "do your best."[7] For example, a C student who sets the goal of reaching a C is likely to succeed (the goal is a little bit challenging, but readily achievable). Likewise, a C student who sets a goal of reaching a B grade is also likely to succeed (more challenging, yet still attainable). However, a C student who sets the goal of getting an A may quit halfway through a course upon realizing that an A is too challenging and not attainable.[8]

Fourth, SMART goals are *results based*. Goals should focus on specific *outcomes*, not simply on performing *activities*. This was a major concern at Microsoft, where an emphasis on activities without including results was an important contributor to its lack of SMART goals. The following example

describes how a shift from activity-based to results-based goals led to improved performance.[9] A senior vice-president (VP) met with the recruiting manager from the human resources department to request that more people be recruited for the VP's work unit in the coming year. Prior to this meeting, the recruiting manager had been told by her own boss, "Whatever he says, do *not* agree to a specific number of new hires for next year." In other words, the recruiting manager was to agree to recruit people for the VP's work unit (activity), but she was not to set any target (results). As predicted, the senior VP kept pushing for a target, but none was forthcoming. Finally, he said, "If you won't give me a number, then I'm going to give you one," and gave a goal that was twice the number from the previous year, and much higher than the recruiting team thought possible. The senior VP also promised that if the target was achieved, he would throw a big party for the recruiting team at his home. The goal was achieved and surpassed by a third, and they partied. This example illustrates the importance of adding a results-based target to relevant activities. It also points to the importance of rewarding members for achieving targeted results. However, safeguards must be put in place to ensure members don't "cheat" to achieve their results and rewards (e.g., members may be tempted to reduce quality in order to meet quantity goals, or to ignore long-term maintenance needs in order to meet short-term production goals).[10] For these and other reasons, it is important for supervisors who assign multiple goals to indicate which goals and results have the highest priority (e.g., that quality is more important than quantity).[11]

Finally, SMART goals are *time specific*. Having a deadline provides a sense of urgency for members to reach their goals, and also helps managers to reconsider goals on a regular basis. To go back to our example of Microsoft Office software, it would make a big difference whether the deadline to achieve a 30 percent increase in sales was set at six months or at six years. An example of a SMART goal would be "To increase sales of Microsoft Office software by 30 percent in the United Kingdom within six months."

### 9.2.2. The SET Approach to Operational Goals

SMART goals can be used to improve productivity and are consistent with FBL management. Although SET managers also value productivity, they are more likely to use a parallel process that develops SMART 2.0 goals (see Table 9.2). TBL managers tend to use SMART goals unless SMART 2.0 goals help to improve financial well-being. Some of the characteristics of SMART 2.0 goals are consistent with SMART goals, including setting achievable goals that are also

challenging. However, SET managers do not fully embrace several of the other SMART criteria. Most notably, SET managers are concerned that a single-minded focus on measurable goals may cause managers to ignore significant outcomes that are more difficult to measure. For example, while a focus on measurable goals increases productivity, at the same time it decreases important behaviors that are often not measured or that may be more difficult to measure, such as treating people with dignity, helping co-workers, or creating positive social and ecological externalities.[12] This change in behavior is an example of **goal displacement**, *which happens when people become so focused on specific goals that they lose sight of other, more important goals.*

**Table 9.2. Five characteristics of SMART 2.0 goals (SET management)**

| Characteristic | Description |
|---|---|
| **S**ignificant | The goal is challenging and engaging. |
| **M**eaningful | The goal has meaning beyond simply maximizing productivity. |
| **A**greed-upon | Members participate in developing their own goals. |
| **R**elevant | The goal is linked to important issues for a variety of stakeholders. |
| **T**ime-Specific | The goal is appropriate for the times and situation. |

First, SMART 2.0 goals are *significant* in terms of being both challenging and motivating to members. The idea of goals that are challenging is consistent with SMART goals that are challenging yet attainable. For example, LEGO is committed to using sustainable materials to manufacture all of its core products by 2030.[13]

Second, SMART 2.0 goals are *meaningful* in that they go beyond simply maximizing productivity or financial well-being. Meaningful goals enable employees to connect their job to their personal sense of purpose, to make a positive difference in the world, and to feel more valued and have a sense of belonging in their workplace.[14] Employees at Velo find it meaningful to help clients renovate their homes in sustainable ways (see opening case).

Third, SMART 2.0 goals are *agreed upon* by the people who are expected to implement them. Whereas the FBL approach favors top-down assignment of goals, a SET approach is much more open to bottom-up involvement. While the

FBL approach advocates participation in goal setting in some circumstances (such as when participation can help to resolve conflict among multiple goals[15]), the SET approach welcomes participation even if it does not provide cost savings to the organization.[16] This participation can take place between a member and a manager, or in larger meetings where members develop group goals and plans. Group participation makes members even more aware of the resources and responsibilities of each member, and because the goals and plans are connected, members will be more sensitive to the need for changing or fine-tuning goals and plans. For example, managers at Eliza Jennings Group—a nonprofit organization that provides a range of services for older adults—involve stakeholders to develop and agree upon goals. The stakeholders include employees as well as patients and their families. As a result, each feels a greater ownership of the goals and an improved appreciation for the contribution of other stakeholders.[17]

Fourth, SMART 2.0 goals are *relevant*, both to the organization's mission and vision and to the aspirations of members and other stakeholders. Of course, FBL goals are also relevant, with a primary focus on goals related to productivity and financial well-being. In a SET approach, in addition to attending to financial well-being, goals are also relevant to social and ecological well-being. Because SET managers are concerned about a variety of forms of well-being and stakeholders, they may have socio-ecological goals that are not relevant for FBL managers. This is evident in the emphasis at Tall Grass Prairie Bread Company on treating all stakeholders with respect: "Respect, I think, is at the heart of it. Respect the people who grow [suppliers], respect the land itself [nature], respect the people who work [employees], and respect the customers. Respect all through the circle." Because of this participatively developed goal of respect, Tall Grass pays farmers more than twice the market rate for local organic flour and pays employees at least a living wage. The owners do not even consider copying other bakeries that pay less in order to increase profits.[18]

Finally, SMART 2.0 goals are *timely*. Given the social and ecological issues facing humankind (Chapters 4, 5), there is great need and opportunity for innovative thinking and goals that are consistent with the SET perspective.[19] SET firms often place greater emphasis on goals that enhance the sustainability of current operations (e.g., improve sustainability in their supply chain, enhance working conditions, minimize post-consumer waste) than on goals to grow or scale up (e.g., maximize sales, revenue, growth).[20]

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## 9.3. Step 2: Develop Operational Plans

Once operational goals have been set, they serve as the basis and impetus for making operational plans. **Operational plans** *specify what activities will be used to meet a goal, when they should be accomplished (in light of existing commitments and constraints), and how the required resources will be acquired.* Table 9.3 provides a helpful checklist for developing multi-step operational plans that describe how each operational goal will be achieved. Such plans include identifying key dependencies and resources required to achieve the goal, and key milestones that describe what must be accomplished by when.

**Table 9.3. Checklist for making a plan**

| Steps |
|---|
| 1. Describe exactly what steps and actions are necessary to meet your goal(s). |
| 2. Identify possible constraints and factors that may make it difficult to put your plan into action. |
| 3. Identify what resources (e.g., material, financial, time) are necessary to perform the activities. |
| 4. Ensure that the required resources are available (this includes acquiring resources you don't already have). |
| 5. Determine the order, timing, and milestones for each action to be performed. |

Table 9.4 shows what the five items on the planning checklist might include if, for example, you work in an ice cream shop and your goal is to introduce a new flavor of ice cream. This goal might be consistent with a differentiation strategy and a vision to have more ice cream flavors than any other shop in the region. Or it be might consistent with a sustainability hero strategy and a

vision to offer the healthiest locally made ice cream in the region. In either case, there are some key steps and actions you must perform to meet your goal, including experimenting with different recipes and combinations of ingredients (requires access to a kitchen); conducting taste tests with customers (requires access to a sample of people willing to try new flavors); thinking of a name for your new flavor (requires creativity and marketing skills); standardizing the recipe for making it in bulk (requires access to a kitchen and trial runs); acquiring ingredients (requires suppliers); and making the product in appropriate quantities (requires production facilities).

**Table 9.4. Checklist for making a plan to develop a new ice cream flavor**

| 1. Required steps and actions | 2. Possible constraints and challenges | 3. Required resources | 4. Steps to ensure availability of resources | 5. Order and timing of steps |
|---|---|---|---|---|
| Develop recipes to create new flavors | Lack of necessary ingredients to make new (tasty) flavors | Gain access to required ingredients a kitchen | Use money to buy new ingredients; reserve a time in the kitchen | Step 3: Assume this will take 2 weeks |
| Do taste tests with public to choose the new flavor | Unpopular flavors may tarnish firm's reputation | Find people willing to be taste testers | Rent a "taste test table" at a public event | Step 2: May need to arrange a month or more ahead of time |
| Find name for new flavor | Someone else owns patent to the name | Do a patent check | Organize a "Name That Flavor" contest and offer a prize | Step 1: Announce contest 2 months in advance to build anticipation |
| Standardize recipe for making in bulk | Recipe may require several variations, in case some ingredients are unavailable year-round | Schedule kitchen time to make large batches | Ensure proper equipment is available (e.g., for cooling, stirring, storing) | Step 5: Assume that this step will take 1 week |
| Access ingredients in bulk | Some ingredients may not be available in bulk | Find the best suppliers | Ensure all ingredients are in stock | Step 4: Ensure 3 weeks' lead time to account for delivery time |
| Make appropriate quantities | Possible short shelf life and low demand | Acquire containers, freezer space | Ensure proper equipment is available | Step 6: Enjoy! |

### 9.3.1. Standing Plans

While many operational plans are intended for single use only, some are intended for repeated or ongoing use. **Standing plans** *are operational plans for activities that are performed repeatedly*. Standing plans share similarities with programmed decision-making as described in Chapter 7. For example, an organization may develop a unique single-use plan to launch a particular product but will have a standing plan for annual performance evaluations of staff. Standing plans can be further subdivided as follows:

- standard operating procedures
- policies
- rules and regulations.

**Standard operating procedures** *outline specific steps that must be taken when performing recurring tasks.* For example, Velo has standard operating procedures regarding the basic steps to transport ladders via bikes, and McDonald's has standard operating procedures on how to assemble a Big Mac (what ingredients are used, and in what order they are assembled). **Policies** *provide guidelines for making decisions and taking action in various situations.* For example, retail stores have return policies that describe the conditions under which a customer can receive a full refund for a purchase, and universities have policies that describe the conditions when it may be possible to waive the prerequisites to register for specific courses or programs. **Rules and regulations** *are prescribed patterns of behavior that guide work tasks.* They tell people what can and cannot be done. For example, food preparation workers may be required to wear hairnets and wash their hands regularly; grocery store clerks may be required to wear their name tag at all times. Standard operating procedures, policies, and rules and regulations are all used to make programmed decisions (Chapter 7).

### 9.3.2. Contingency Planning

Sometimes managers develop operational goals and plans that they hope will never need to be implemented. **Contingency plans**, *sometimes called scenarios, describe in advance how managers will respond to possible future events that could disrupt existing plans.* For example, managers may determine what the effect of a sudden 10 percent decrease (or increase) in sales would be, and then

develop plans to handle the situation. Similarly, organizations and cities are wise to develop contingency plans for responding to extreme weather events like hurricanes, tornadoes, floods, and droughts.[21] An important part of contingency planning is to think about the various things that could lead to a crisis.

**Crises** *are events that have a major effect on the ability of an organization's members to carry on their daily tasks.* There are three things managers can do to limit the impact of crises. First, they can do *preventive* work to avoid or minimize the effect of a crisis. For example, developing trusting relationships with employees may make a labor strike less likely, since workers enjoy a good working relationship with management.

Second, managers can *prepare* for a crisis by assembling information and defining responsibilities and procedures that will be helpful in a time of crisis. This includes things like designating a spokesperson to be the public face of the organization during the crisis, and deciding on the location from which the crisis will be managed. This location may be a specific room where the relevant information is stored and where access to communication systems is assured.

*Managers can prepare for a crisis by assembling information and defining responsibilities and procedures that will be helpful in a time of crisis.*

Third, managers can *contain* the crisis by making timely responses. This can help to minimize the damage, get the truth out, and meet safety and emotional needs. For example, if there is a fire in a factory, managers should call the fire department, inform neighbors of any potential dangers, contact family members of the factory workers, provide access to counseling services as needed, and phone key customers and suppliers to explain the implications of the fire.

### 9.3.3. FBL, TBL, and SET Approaches to Operational Planning

FBL, TBL, and SET approaches follow similar checklists to develop plans, but there are notable differences in how plans are formulated. First, FBL managers tend to develop plans on their own, whereas planning in SET organizations is more likely to include other employees and stakeholders. TBL managers follow a SET approach if doing so enhances financial well-being. TBL and SET approaches are more likely to involve employees not only in order to increase

their social well-being but also because they believe the variety of input will make for better plans. In addition to being more likely to seek the advice and participation of others, SET and TBL managers are more likely to consider a wider range of non-financial issues, thus making for a more holistic plan.

Because there are more factors to consider in planning from a SET perspective (i.e., factors related to a wider range of financial, social, and ecological goals), such operational plans often need to be more complex and emergent.[22] For instance, in the example of introducing a new flavor of ice cream, an FBL approach may focus on the tastiness and cost of ingredients in a recipe, but from a SET perspective the range of factors may be expanded to developing recipes using local, organic, and/or nutritious ingredients, or even introducing vegan ice cream![23] This complexity may also require SET plans to be more flexible and fluid, though the relative simplicity of FBL plans also facilitates quick adaptations.

Finally, when it comes to identifying constraints and preventing negative externalities, SET managers are more likely to consider the effects of their actions on the ecological environment and on other stakeholders. The operational plan for the person developing the new ice cream flavor in a SET organization may include collecting feedback not only from customers and suppliers but also from health professionals and from neighbors living near the ice cream shop (who may complain about customers leaving behind refuse that attracts wasps). After following this plan, the decision may be made to introduce a new ice cream flavor that has nutritional and ecological benefits and is only available in edible ice cream cones or biodegradable packaging that has no hard-to-reach crevices, thus minimizing the amount of wasted ice cream.

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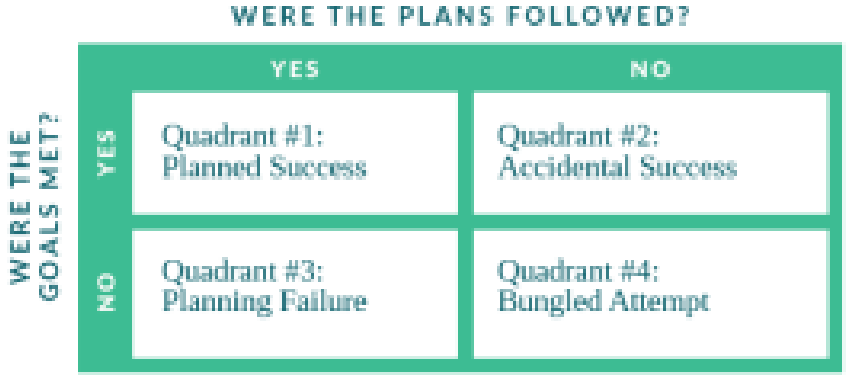
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## 9.4. Step 3: Implement and Monitor Goals and Plans

As shown in Figure 9.2, as plans are put into action there are four possible outcomes, depending on whether the plan is followed and whether the goal is met. We will discuss each possible outcome in turn.

The most desirable outcome is Quadrant 1—where the plan is followed and the goal is met—which suggests that the process of setting goals and making plans has worked as intended (planned success). Achieving this quadrant is especially important for standing plans in order to have a smooth-running organization. For example, if an ongoing goal is to pay employees on time, then it is important to develop standard operating procedures to allow this to occur. Note also that sometimes achieving goals may trigger the need to set new goals and make new plans. A classic example is the March of Dimes organization, whose mission was to eradicate polio. When this was achieved, the organization changed its mission to reducing birth defects.

**Figure 9.2. Possible outcomes of implementing plans to achieve set goals**




The second-best outcome, Quadrant 2, results when the goal is met even though the plan is not followed (accidental success). In this case there may be an opportunity to learn from mistakes, based on what elements of the plan did and did not work. Because of the uncertainty of the planning process, it can be more

important to learn from mistakes than to try to develop the perfect plan at the start (see the Honda motorcycle case example described in step 4 below).

Quadrant 3, where goals are not met even though plans are followed (planning failure), is troublesome because it suggests that the goal may be too challenging, and/or the organization lacks competence in developing and implementing appropriate plans. Such situations call for investing time and resources to confirm whether a particular goal is reasonable, and investing time and resources into developing a better plan. As in Quadrant 2, members should be especially open to changing the plan as they learn about better ways to do things. A classic example of planning failure is a sports team that follows the coach's game plan but loses the game.

Quadrant 4, where goals are not met and plans are not followed (bungled attempt), is the worst quadrant. At best, this is an opportunity to learn from the experience and develop a new and improved plan. It may also be time to reconsider the original goal or to invest more resources or training in the goal-setting and planning processes.

Finally, in anticipation of step 4 in implementing strategy, it is important to note that whether or not a goal is met may be independent of whether the plans are followed. For example, achieving a goal to increase sales of home-based power generators by 50 percent may be met thanks to power outages in the region following a hurricane, and this may have little to do with whether the plan was to advertise in print media versus on television. At the same time, even the best plans to improve productivity will fail if a factory gets hit by a hurricane. In any case, it is helpful to treat the operational goals and plans developed in steps 1 and 2 as "living documents," which means that they are open to being revised when they are revisited at regular intervals (e.g., every three months or less). This revisiting usually takes place within the workgroup but can also include stakeholders outside of the workgroup. It involves asking questions like: Do plans need to be revised in the face of contingencies? Are there unexpected events in organizational sub-units that need to be considered? Is there a danger of goal displacement occurring? In sum, goals and plans should be revised as appropriate. This brings us to the final step.

*Goals and plans should be revised as appropriate.*

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## 9.5. Step 4: Learn from the Strategy in Action

The final step in implementing strategy is to take the lessons learned while carrying out operational goals and plans and use them to fine-tune the goals and plans, and in particular to fine-tune or re-reformulate strategy as appropriate. **Strategic learning** *refers to using insights from an organization's actual strategy to improve its intended strategy.* In order to understand the importance of strategic learning, it is helpful start with the example of a famous case study (published by the Harvard Business School) that described the successful entry of Honda motorcycles into the US market in the 1960s.[24] According to the case, Honda's story confirms the importance of following the steps for formulating and implementing strategy as described thus far in Chapters 8 and 9. This description of how following these steps represents the recipe for success is shown in the left column of Table 9.5; we'll get to the alternate interpretation shown in the right column in a bit.

**Table 9.5. Case studies describing Honda's success in the US motorcycle market**

| As described in Harvard Business School case (consistent with the content school) | As described by the managers from Honda involved in entering the US market (consistent with the process school) |
|---|---|
| **Establish vision:** The vision of Honda's top management team was to be #1 in the US market. | **Establish vision:** The managers who oversaw the process said that Honda's goal at that time was to "sell something" in the US market. |
| **Perform SWOT analysis:** Honda's competitors were focusing on the "black-leather-jacket" market; in contrast, Honda saw an opportunity to target "everyday Americans" via its smaller motorcycle sold in Japan, which offered economies of scale in production (a strength). | **Perform SWOT analysis:** Honda had enjoyed success winning motorcycle races (strength), and managers thought there was an opportunity to compete against the large muscle bikes in the US market. A threat was that the market already had established competitors. A weakness became evident when Honda's big bikes initially broke down in the United States (from being driven over much longer distances than in Japan), a problem eventually solved by its engineers (a strength). |
| **Choose strategy:** Honda managers adopted a cost leadership strategy that took advantage of Honda's lower costs and economies of scale in making smaller bikes, and chose to focus this strategy on the untapped market of "everyday Americans." | **Choose strategy:** Honda's intended strategy was to compete head-to-head with Harley-Davidson by selling large bikes to black-leather-jacket customers. When the retailer Sears expressed interest in selling the smaller bikes that Honda employees had brought along for their own travel, Honda said it wasn't interested (it didn't want to tarnish its reputation among black-leather-jacket riders by placing such a small bike on the market). |
| **Implement:** With a well-designed strategy, Honda developed appropriate operational goals and plans, and became the industry leader within four years of entering the US market. During that same period, Harley-Davidson fell from #1 to #4. | **Implement:** Honda's original strategy failed badly owing to its big bikes breaking down, bike shops not embracing the Honda product, and lack of interest among American black-leather-jacket bikers. Desperate to generate sales and cash flow, Honda's salespeople began to sell the smaller lightweight bikes. Seeing the potential in this emergent strategy, Honda adopted the slogan "You meet the nicest people on a Honda" on the advice of its US team (even though the president of Honda was personally opposed to the idea) (see Pascale 1984). |

The lesson from the Harvard Business School case study of Honda's success is that strategy makers who have a compelling vision, who perform a careful SWOT analysis, and who choose an appropriate generic strategy and then implement it will achieve competitive advantage and prosper. This version of Honda's story is consistent with what has been called the content school approach to strategy. The **content school** *emphasizes the rational-analytic, top-down, and linear aspects of strategy formulation.* From a content school perspective, strategic management is a science that students can learn in business schools.

In contrast, the Honda managers who were actually involved in the case tell a very different story (see the right column in Table 9.5). The firsthand experiences of the managers are more consistent with the **process school**, *which*

*emphasizes that strategy formulation and implementation are ongoing and iterative, where one aspect influences the other.* The lesson of the process school version of the Honda story—which differs sharply from that of the content school—is that success awaits managers who are able to learn from their mistakes and from unplanned ideas that emerge in the everyday operations of an organization. The process approach places much more emphasis on the art or craft of management rather than on the analytical science of management.[25] From a process school perspective, the most important work of strategic management is not mastering analytical tools to formulate a strategy (hallmarks of the content school) but rather developing skills in strategic learning, especially during the strategy implementation stage. The key to strategic management is learning from other stakeholders and identifying the emerging patterns in the "stream of actions" that make up organizational life.

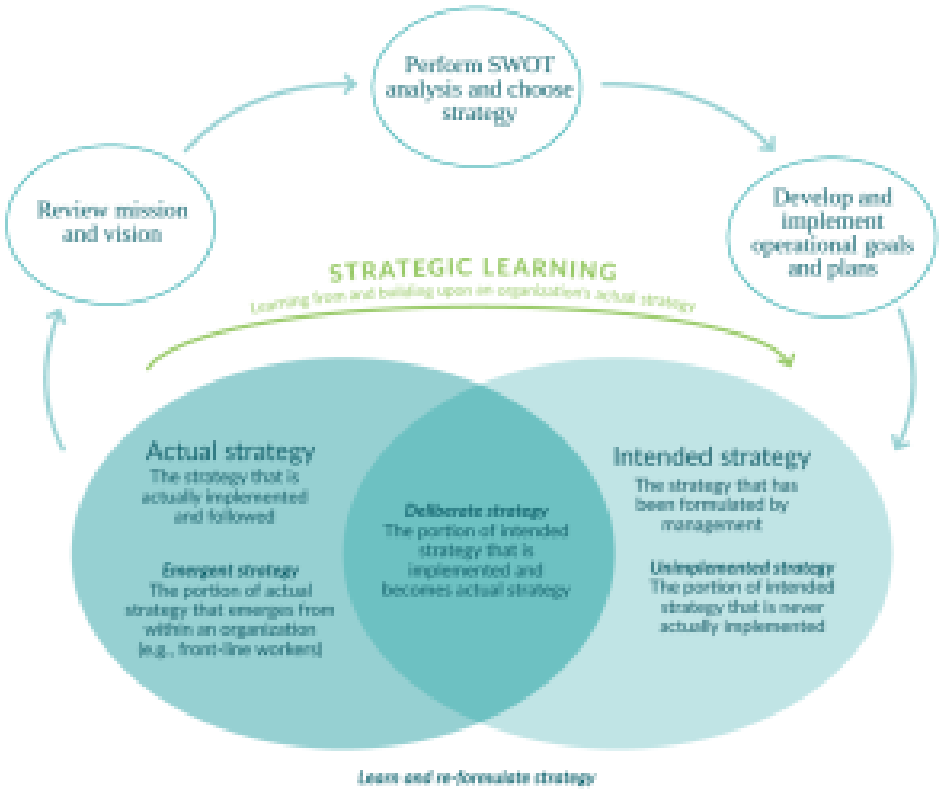
*The key to strategic management is learning from other stakeholders and identifying the emerging patterns in the "stream of actions" that make up organizational life.*

### 9.5.1. Strategy Implementation as Strategic Learning

The conceptual framework depicted in Figure 9.3 shows how strategic learning fits within the various steps of the strategy formulation and implementation process.[26] In order to understand strategic learning, it is important to recognize the difference between an organization's *intended strategy* (what managers plan to do) and its *actual strategy* (the strategy that is actually implemented and followed). The content school focuses on the science of formulating well-supported, intended strategies, while the process school is more inclined to learn from actual strategies. The *deliberate strategy* refers to parts of the intended strategy that are implemented, whereas the *unimplemented strategy* refers to aspects of this intended strategy that never get put into practice. The deliberate strategy is only one part of an organization's actual strategy. The other part is called the *emergent strategy*, which refers to actions taken by organizational members that were not anticipated at the outset by managers. The emergent strategy captures the idea that an organization's actual strategy depends in part on the bottom-up actions of frontline organizational members, and on how they respond to other stakeholders

in the implementation stage.[27] In the Honda example, the emergent strategy was to sell smaller lightweight bikes and target everyday Americans, ideas that Honda's top management was initially opposed to (and to ideas that were foreign to other competitors in the US motorcycle market).

**Figure 9.3. Strategy formulation and implementation, with focus on strategic learning**




Strategic learning demands focusing on three things. First, managers must try to understand *why* some of their original intended strategy was not implemented. In the Honda example, this meant sending motorcycles back to Japan in order to improve the technology required for driving the longer distances that were common in the United States (and not common in Japan).

Second, managers need to identify elements of the (unintended) emer-

gent strategy that have positive outcomes for the organization. Sometimes emergent strategies are very visible and hard to miss. Often, though, emergent strategies will be difficult to see simply because they are not expected. As illustrated by Honda's slogan, "You meet the nicest people on a Honda,"[28] frequently the strategy will be formulated or initiated by frontline members and then subsequently approved by top managers. Organizational members further down the hierarchy often have a more direct knowledge of the issues at hand.

Third, managers must determine the implications of this analysis for the organization's subsequent intended strategy. In particular, if the initial intended strategy is not working, then it is important to reconsider the information and assumptions underlying the original SWOT analysis. This may be difficult because it involves challenging assumptions and strongly held worldviews in an industry. For example, selling motorcycles to everyday Americans was hard to imagine in the 1960s until Honda did it, just as providing loans to impoverished Bangladeshi micropreneurs was inconceivable to banks in the 1970s until the Grameen Bank did it (see opening case, Chapter 6). From a process school perspective, strategic management is not like a brain that performs rational scientific analysis and then *tells* the rest of the members in the organizational body what to do. Rather, strategic management is more like a brain that is the focal point of the central nervous system and which *listens to and learns from* the (often unexpected) signals that it receives from throughout the organizational body. Thus, strategic managers are not smarter than other members in the organization. Rather, thanks to their unique position at the top of the organization, strategic managers have access to a comprehensive bundle of information that they must use responsibly.[29]

*Strategic management requires listening to and learning from the often unexpected signals that come from stakeholders.*

Taken together, this suggests that strategic management walks on two feet, one deliberate (content school) and the other emergent (process school).[30] Both the content and process schools are relevant for all three approaches to management, and there will be considerable variation in the relative emphasis each school is given within and among the three approaches. Even so, generally speaking FBL management tends to place greater emphasis on a deliberate top-

down (content) approach,[31] and SET management tends to place greater emphasis on the emergent bottom-up (process) approach, and includes learning from members as well as from external stakeholders.[32] In contrast, TBL management seeks to balance a deliberate top-down approach with an emergent bottom-up approach, with a particular emphasis on learning from members lower down in the hierarchy.

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## 9.6. Entrepreneurial Implications: Stakeholder Maps

Entrepreneurs can use stakeholder maps to help manage the interplay between formulating and implementing strategies. A **stakeholder map** *is a description of the organizational resources a new start-up has (and needs) to manage the key forces in its industry, and the key relationships it needs to establish and maintain.* Recall that stakeholders are parties that have an interest in what an organization does because they contribute resources to the organization and/or are affected by its operations. A stakeholder map, as depicted in Figure 9.4, provides a helpful depiction of the key stakeholders that entrepreneurs need to keep in mind as they formulate, implement, and reformulate their strategy over time. We will look at each component of the map in turn, but first note that a distinct feature of the stakeholder map is the two-directional arrows connecting the start-up with its key stakeholders: suppliers, rivals, customers, and others. Just as stakeholders can and do exert force over a new entrant (represented by the heavier arrows in the figure), so also can new entrants influence external stakeholders (represented by the lighter arrows in the figure). This latter observation may be especially true when considering externalities where organizations may have a greater influence on stakeholders than vice versa. This bidirectional influence between a start-up and other stakeholders lies at the core of the dynamism and change that entrepreneurship offers society as it creates value. Note also that whereas FBL manage-

ment presents this bidirectionality in competitive terms (i.e., as a power contest among stakeholders), SET management sees it in collaborative terms (i.e., as an opportunity to establish mutually beneficial relationships among stakeholders).

**Figure 9.4. Dynamic stakeholder map for entrepreneurial strategic management**




To help visualize and discuss what a stakeholder map might look like in practice, and how it can be used by entrepreneurs, Figure 9.5 provides a simple stakeholder map for a new pizza restaurant located adjacent to a university campus. In this example, the restaurant is the first in the neighborhood to offer pizza made from local and organic ingredients, and is being managed by entrepreneurs following a SET management approach. Even this simple description of the restaurant already helps to identify what industry it is operating in, what kinds of basic organizational resources it will need, and who might be its key stakeholders in terms of suppliers, rivals, customers, and others. Of course, the reverse is also true. Knowing what organizational resources and suppliers are available and identifying potential rivals and customers will influence an organization's mission and vision statements.

**Figure 9.5. Example of a simple stakeholder map for start-up pizza restaurant**




### 9.6.1. How to Draw a Simple Stakeholder Map for a Start-up Organization

The place to start drawing a stakeholder map is in the central part of Figure 9.4, namely by describing the start-up's mission and vision, organizational resources, and key internal stakeholders.

#### Mission and Vision

Developing its mission and vision statements helps a start-up to identify what value it will create,[33] what industry it will operate in, and what approach to management it will follow (FBL, TBL or SET) (see Chapter 8).[34] Mission and vision statements also provide the basis for developing the start-up's value proposition. A **value proposition** *is a statement of why a customer should choose the organi-*

*zation's specific product or service.* A value proposition explains what the organization does that is desired by the customer. Value propositions are often stated explicitly in a form that combines aspects of vision and mission statements as well as strategy. Toward this end, an organization might use a template like this one: "Our [product/service] helps [target customer] to [target's need/goal] by [organizational contribution]."[35] For example, the value proposition of the new pizza restaurant described in Figure 9.5 might be: "Our organic pizza helps students get an affordable, tasty, healthy, and convenient meal that has been prepared in a socio-ecologically responsible manner."

*An organization's value proposition states why a customer should choose the organization's specific product or service.*

In any case, it is expected that the mission, vision, and value proposition may change and become more nuanced as the start-up unfolds and as entrepreneurs interact with and improve their knowledge about their key stakeholders. For example, Velo's understanding of its value proposition became clearer as it discovered more about the sorts of clients it attracted, what sorts of employees were hired, and how the industry operated.

#### Organizational Resources

Entrepreneurs need to think deeply about and spell out what resources the organization needs, and they must identify a set of valuable, rare, inimitable and non-substitutable (VRIN) resources (see Chapter 8). Does the organization have a novel idea or new patent that distinguishes it from existing organizations? Does it possess human resources with a particular or unique skill set? Does it have a particularly great location, or a noteworthy relationship with other organizations (e.g., exclusive distribution rights)? Does it enjoy tax advantages, or a funder with deep pockets? These resources should be listed and described.

In addition to identifying a start-up's distinctive core competencies, entrepreneurs also need to identify the generic competencies required to operate in the industry. Many of these competencies will become clearer while analyzing an industry and its stakeholders, and after operations have begun and entrepreneurs learn about their actual strategy. For example, key core competencies for

Velo are Nathaniel De Avila's knowledge and ability to train others, and perhaps having employees who are willing and able to cycle to work. Access to other resources—like paintbrushes and hammers—is important and necessary but not part of Velo's distinctive core competencies.

Furthermore, as new entrants in an industry, entrepreneurs need to become aware of the resources required to overcome barriers to entry. What licenses does the start-up need to operate in an industry? Are there regulations that limit what the entrepreneur can do? It is not unusual for entrepreneurs to start a new business, only to learn about the various regulations that they must comply with when they are well into the process. One entrepreneur likened starting a new organization to jumping into a pool with the goal of swimming to the other side, and halfway across being told he needs to tie weights to his legs and can swim with only one hand: "If I knew at the start what I found out six months in, I wouldn't have jumped in in the first place."[36]

*It is not unusual for entrepreneurs to start a new business, only to learn about the various regulations that they must comply with when they are well into the process.*

Because SET entrepreneurs are more deliberately aware of and grounded in the larger community, they may become aware of regulatory and other barriers to entry earlier on. And because there are more stakeholders who benefit from SET start-ups (e.g., because SET management enhances socio-ecological externalities), there will be more people providing help and counsel. In contrast, FBL entrepreneurs have a narrower agenda—maximizing their own financial self-interests—and will likely get less support from the larger community. TBL entrepreneurs will be somewhere between the two.

In the example in Figure 9.5, the pizza restaurant needs all the facilities and resources associated with any restaurant: a physical location, a properly outfitted kitchen, an eating area with furniture and dishes and cutlery, kitchen staff who prepare the food, staff who serve the food, a manager who can administer the business, and so on. Key resources for the restaurant include its excellent location (next to campus) and a chef with training and experience in baking organic pizzas.

### Internal Stakeholders

In addition to recognizing the key resources in the firm, entrepreneurs must also be aware of the internal stakeholders who control those resources. The most important internal stakeholders are the entrepreneurs themselves. In start-ups by a lone entrepreneur, it is helpful for the entrepreneur to reflect on what she or he wants out of the new venture, both personally and professionally (see Chapters 1, 5, 6). The same is true when a new venture is led by a group of entrepreneurs or by a family. Members should sit down and discuss with each other what they want, and also how they will handle disagreements. One of the founding owners at Tall Grass Prairie Bread Company said that this was the most valuable piece of advice she received when the firm was being started, and that having a plan for handling disagreements and conflict allowed the firm to take bolder decisions in the direction of SET practices, because owners knew they could resolve conflicts that might arise.[37]

*Founders should sit down and discuss with each other what each wants from a start-up, and also how they will handle disagreements.*

Other key internal stakeholders are staff with distinctive and strategic competencies. Especially when those skills are indispensable to the operation of the organization, entrepreneurs should begin to establish training or succession plans so that if the key stakeholder suddenly leaves, they can be replaced. For example, at Westward Industries (opening case, Chapter 18), a craftsman whose skills were deemed indispensable for building the firm's main product was reluctant to teach others how to do his job, because he knew this would decrease his power within the firm. However, managers convinced him to train others, and when he later suffered a heart attack the firm was able to continue operate smoothly.[38] Often the key competencies and internal resources are provided by entrepreneur(s), but for some skills they may be dependent on employees. What are the contingency plans if these key members leave the organization?

In our example in Figure 9.5, the pizza restaurant is a family firm, and so family members are key internal stakeholders. This includes members who are actively involved in the start-up (one parent and the oldest offspring) but also includes members who are passively involved (siblings who know that their

inheritance will be affected by how the restaurant performs). In this case the oldest offspring is the only one with previous experience managing a restaurant, and thus she is a particularly important stakeholder. And the chef, a non-family member, is a key stakeholder because if he leaves, the restaurant could flounder. He is one of two chefs in the community with experience and education in organic pizza making.

Once the start-up's mission and vision, organizational resources, and key internal stakeholders have been described, the other components on the stakeholder map can be filled in, starting with suppliers.

#### Suppliers

New ventures obviously can't create everything on their own, so they need to buy inputs from others (Chapter 7). It is valuable for entrepreneurs to list all the supplies they require and identify potential suppliers who can meet those requirements. They should be aware of each supplier's relative power, price offerings, reputation, and approach to management (it is often easier to deal with suppliers who have the same approach as the entrepreneurs).

Establishing relationships with suppliers can be more challenging than it might first appear. Potential suppliers may perceive a new start-up to be risky and be hesitant to sell it supplies, wondering if they will ever get repaid. Or suppliers may be hesitant if they believe a new start-up might tarnish their reputation. For example, a high-quality brand would not want to supply a dollar store. Moreover, since new ventures typically order relatively low quantities of goods from suppliers, they are not likely to be able to negotiate for low prices or special deals. Especially important suppliers are banks that supply start-up loans and ongoing lines of credit. Often a well-developed business plan can help entrepreneurs to gain the confidence of banks and other suppliers (Chapter 6).

*A well-developed business plan can help entrepreneurs to gain the confidence of banks and other suppliers.*

How entrepreneurs think about and manage suppliers varies by management approach. FBL entrepreneurs think of suppliers in financial terms, expressed colloquially as "buy low, sell high." This puts start-ups at a disadvan-

tage against large incumbents like Walmart, with its huge purchasing power and economies of scale. But FBL entrepreneurs have several strategies they can adopt. They could sell goods whose sales volume is lower than what would be carried by large competitors (e.g., custom goods in a niche market, focusing on the long tail of the market described in Chapter 6). Or, they could buy from suppliers whose quality and safety standards are not acceptable to large FBL competitors. They could purchase raw materials and component parts from low-priced overseas factories that have questionable labor and safety practices, and sell them at a dollar store. Or they could offer services by outsourcing jobs to underpaid service providers (e.g., Uber drivers, staff in some inexpensive restaurants). Of course, some of these strategies would be unacceptable to TBL and SET entrepreneurs.

TBL entrepreneurs may be able to find opportunities to compete with incumbents by choosing suppliers that help the start-up to offer customers a value proposition that they are willing to pay extra for. This was the genius behind the growth of Whole Foods, which Amazon bought in 2017 for US$13 billion as part of Amazon's own intrapreneurial foray into the food industry.[39] Whole Foods enjoyed a competitive advantage over conventional supermarkets by developing a supplier network that enabled it to sell organic foods. Now that organic foods have become mainstream, this window of opportunity is closed for future entrepreneurs, but there may still be an opportunity for a "100-mile grocery store" that sells local and organic groceries. TBL entrepreneurs have an incentive to find and develop suppliers who will help them achieve a positive reputation. For example, in order to ensure that their suppliers' employees are paid a living wage and do not work with toxic chemicals, companies like Starbucks help coffee growers to create fair trade co-operatives, and companies like Walmart create incentives for suppliers to provide organic cotton or foods.

Both FBL and TBL entrepreneurs seek to have power over suppliers, but SET entrepreneurs are open to being influenced by suppliers and other stakeholders. Moreover, the definition of a supplier encompasses a wider scope for the SET entrepreneur than it does for the other two approaches. In addition to direct suppliers of inputs, SET entrepreneurs pay attention to socio-ecological externalities associated with a supplier's suppliers. For example, rather than purchase fair trade goods from a wholesaler, Ten Thousand Villages has sought to purchase directly from producers because this helps to establish a direct relationship valued by consumers.[40]

In our example in Figure 9.5, local organic farmers are key suppliers for the pizza restaurant. It may be a challenge to find all the suppliers for all of the

ingredients a chef wants. It is especially important to establish and maintain ties with one-of-a-kind suppliers of specialty items, for example, a firm that makes sausages with local herbs and spices and grass-fed beef. The key is to ensure that both parties are satisfied, which includes setting a price that is fair to both. Ideally farmers will be accredited as organic by an accreditation agency. The pizza restaurant might decide to help pay for such accreditation if that opens up access to supplies that it needs. Sometimes suppliers cannot be found, and the company will need to make a product it intended to buy (e.g., when Tall Grass Prairie Bread Company purchased its own flour mill, Chapter 7). Other times the lack of suppliers may be the mother of invention, such as when lack of a local supplier of yeast might result in a pizza restaurant serving sourdough crust, and this becomes an unexpected treat and health benefit for customers.

#### Rivals (Competitors)

Finally, entrepreneurs need to be very aware of their rivals (which could be seen as competitors or as collaborators). Rivals set constraints on what entrepreneurs can and cannot do. For example, entrepreneurs must consider rivals' prices and product lines when choosing their own organization's prices and product lines. The FBL approach assesses such constraints in financial terms. Because the FBL approach assumes a win-or-lose competition for relatively scarce customer dollars, managers need to keep up with competitors. If other organizations release new or improved products and services, the FBL entrepreneur must find a way to respond.

Similar dynamics are at work in TBL firms that do not welcome new competitors into their trading areas and who take advantage of their own strengths to defeat them. Walmart can charge its customers lower prices than its competitors can because thanks to its huge purchasing power, Walmart can demand lower prices from suppliers.[41] Indeed, Walmart has been accused of entering geographic trading areas and driving its pre-existing smaller local competitors out of business.[42]

By their nature, SET entrepreneurs often do not compete directly with FBL and TBL firms. Rather, SET entrepreneurs offer a different value proposition. If a SET entrepreneur sells coffee and chocolate, it is likely to be fair trade and organically grown. And in contrast to TBL firms like Walmart, in SET firms the retail employees are more likely to be paid a living wage. If you live in Garden Hill First Nation, you can buy chicken at the Northern Store or at Meechim Inc., but the latter product is raised locally and provides much-needed jobs in the community. In this sense SET organizations are clearly different from their FBL and

TBL competitors. Moreover, SET entrepreneurs do not like the language of competition, preferring to think of organizations similar to them as collaborators rather than as competitors.[43]

*By their nature, SET entrepreneurs often do not compete directly with FBL and TBL firms.*

In our example in Figure 9.5, the pizza restaurant may find that it is perceived to be a competitor by the hamburger restaurant next door. Because the sales at the burger place are declining, the pizza place may expect fierce price competition. The on-campus cafeteria, which is closer to students' dorm rooms and offers the convenience of prepaid meals, may be another potential competitor. In light of this, the pizza restaurant may offer similar "meal cards," where students can show their student card and purchase eleven meals for the price of ten. After the restaurant is in business for a while, it may realize that an alternative is the grocery store down the street selling frozen pizza, which students and young families purchase and bake at home. In response, the pizza restaurant may offer its own healthier frozen pizzas and even consider becoming a supplier for the grocery chain.

#### Buyers (Customers)

Paying customers are essential to business organizations because they provide the revenues needed to pay salaries to members, to purchase inputs from suppliers, and to provide financial returns to owners. In non-business organizations, other terms are used in place of "customers." For example, soup kitchens have patrons, hospitals have patients, and schools have students. But whatever you call them, customers are the focal point of an organization's product and service outputs.

Customers are key stakeholders for a start-up, and entrepreneurs should think deeply about their customers. First, entrepreneurs must decide which customers to target, and what their wants and needs are (see Chapter 6). Customers clearly have a lot of power over start-ups, but entrepreneurs also have opportunities to influence customers.

*Customers clearly have a lot of power over start-ups, but entrepreneurs also have opportunities to influence customers.*

Entrepreneurs obviously want customers to choose their product or service. FBL entrepreneurs are primarily concerned with customers as a source of revenue, and tend to assume that customers are primarily concerned about their own economic well-being. Therefore, FBL entrepreneurs focus on convincing customers that their start-up is offering products or services that satisfy the customer's desires in the most convenient and affordable way.

The TBL approach is similar but distinguishes itself by emphasizing how products and services simultaneously satisfy customer desires and reduce negative socio-ecological externalities. For example, many consumers choose to shop at Whole Foods and willingly pay higher prices because it sells organic groceries and promises to pay employees a living wage.

SET entrepreneurs also need customer support, but take a somewhat different approach to developing it.[44] In particular, SET entrepreneurs emphasize building relationships, often inviting customers to be involved in the design of goods and services. Likewise, the prices in a SET firm are not set to simply maximize profit. SET entrepreneurs want to enhance global social and ecological well-being, and assume that customers do as well. For example, when talking to potential clients, Velo encourages then to reuse existing materials if possible and to choose new materials that are sustainable. This sometimes means decreasing its own profits, and sometimes means not accepting profitable work that it considers inadvisable. Rather than win customers through conventional marketing or offering the lowest price, SET-managed organizations attract like-minded customers with their reputation for ethical conduct and social responsibility.

*Rather than win customers through conventional marketing or offering the lowest price, SET-managed organizations attract like-minded customers with their reputation for socio-ecological responsibility.*

In our example in Figure 9.5, the pizza restaurant has chosen to target university students, taking advantage of its location next to campus. In order to

understand this target market, the entrepreneurs did some surveys and taste tests at sporting events on campus. They learned that students want affordable and fast food, and are open to but not very aware of the benefits of local and organic food. So the entrepreneurs decided to offer "fact sheets" at the restaurant and on the company website, and even painted some "Did you know that . . . ?" statements on the restaurant walls to educate customers and try to increase their loyalty. Over time it might emerge that the restaurant is also popular with young families, and so the restaurant might include a special kids' menu and offer coloring books featuring scenes from local farms that supply the ingredients.

#### Other Stakeholders

Finally, the stakeholder map in Figure 9.4 explicitly identifies other stakeholders associated with an organization's financial, social, and ecological externalities (see Chapters 3, 4 and 5). For example, does the organization pay a living wage so that its employees' families can have adequate food, shelter, and education? What about its GHG emissions and those of its suppliers? Do its practices contribute to increasing income inequality?

As discussed throughout the book, FBL management typically does not focus on externalities because, by definition, they are external to an organization's operations. TBL managers are likely to address negative externalities if doing so can improve the firm's profits. Thus, a TBL manager is happy to take better care of the planet (a key stakeholder) by using solar power if doing so also enhances the financial bottom line. Or, TBL managers will make jobs less stressful and thereby also reduce stress among employees' children (an external stakeholder), if doing so also reduces the firm's financial costs related to turnover and absenteeism.[45] Finally, SET management is more deliberate in considering external stakeholders and trying to enhance socio-ecological well-being, even if this does not enhance profits. This is evident, for example, when firms make anonymous donations to agencies serving the marginalized.

Both TBL and SET entrepreneurs recognize that working with stakeholders to address socio-ecological externalities provides their start-ups with increased social legitimacy. Indeed, SET firms often include positions on their boards for members of groups like non-governmental organizations. A **non-governmental organization** (NGO) *is a non-profit organization whose primary mission is to model and advocate for social, cultural, legal, or environmental change.* Along similar lines, when TBL fast-food giant McDonald's was facing heavy criticism for using packaging that had a lot of negative ecological externalities, it formed a task force with an NGO called Environmental Defense Fund,

and together they worked to develop a forty-two-step waste-reduction plan.[46] NGOs that work together with businesses in this way can help to increase socio-ecologically responsible choices available to customers, and businesses can benefit from the counsel and credibility of the NGOs.

In the example in Figure 9.5, the pizza restaurant is deliberately benefiting at least three different external stakeholders. First, by using only local and organic ingredients, the restaurant is helping the planet (organic practices restore carbon to the soil). The restaurant also benefits the planet by composting its waste and using low-energy LED lighting. Second, sourcing its ingredients locally helps the local economy (local multiplier effect) and may help to reduce income inequality (the restaurant and its suppliers are not part of large chains). Third, in cooperating with a local NGO that helps to find jobs and training for chronically underemployed people, the pizza restaurant serves to benefit to that group.

#### Map Dynamics

A key feature of the stakeholder map is that it is relevant for both strategy formulation and implementation, with its bidirectional arrows helping to see how a strategy emerges over time. As illustrated by our example in Figure 9.5, the inability to find a supplier can change an organization's value proposition or product line (e.g., inability to find a local yeast supplier may prompt the idea of sourdough crust pizza), insights about rivals and substitutes can create a new distribution channel (e.g., the idea to offer frozen organic pizza), observing customers can change delivery (e.g., kids' menu, meal cards), and awareness of externalities can benefit stakeholders who are suffering (e.g., the planet). It is when the relationships with stakeholders are put into practice that strategic learning can begin. And it is at this time that entrepreneurs have positive (or negative) influences on key stakeholders, such as increasing the size of the market for organic farmers' goods, getting college students to eat healthier food, providing new options for grocery stores, hastening the demise of unhealthy fast-food restaurants, and providing jobs for the chronically underemployed.

*Stakeholder maps are relevant for both strategy formulation and implementation.*

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=682#h5p-6*

## Chapter Summary

1. The four steps of the strategy implementation process are (a) developing operational goals, (b) developing operational plans, (c) implementing and monitoring the goals and plans, and (d) engaging in strategic learning.
2. With regards to making operational goals:
    - FBL managers focus on SMART goals (specific, measurable, achievable, results based, and time specific).
    - SET managers focus on SMART 2.0 goals (significant, meaningful, agreed upon, relevant and timely).
3. Operational plans range from single-use to standing plans. FBL plans tend to be developed by managers and ignore externalities, while the development of SET plans tends to involve all stakeholders and consider externalities.
4. When it comes to making operational plans—both single-use and standing—all three management approaches consider the following five factors:
    - exactly what steps and actions are necessary to meet the goal(s),
    - possible constraints that may make it difficult to put the plan into action,
    - resources that are necessary to perform the activities,

- availability of required resources, and
- the order, timing, and milestones for each action to be performed.

5. When put into practice, (a) plans may or may not be followed, (b) goals may or may not be met, and (c) scripts may or may not help to develop subsequent goals and plans that enhance performance.
6. With regard to strategic learning:
    - FBL management emphasizes top-down deliberate strategy, the content school, and sees strategic management as analytical science.
    - SET management emphasizes bottom-up emergent strategy, the process school, and sees strategic management as a craft.
7. Stakeholder mapping can help managers to consider the transfer of resources and interplay among key stakeholders over time.

## Questions for Reflection and Discussion

1. Identify the four steps in implementing strategy. What are the key differences in the content, orientation, and process of the steps from FBL, TBL, and SET perspectives?
2. From an FBL perspective, which of the four steps of implementing strategy do you think is the most challenging? Answer the same question from a TBL and from a SET perspective. Are there differences in your answers for the three types of management? Explain.
3. What are the key similarities and differences between SMART goals and SMART 2.0 goals?
4. Do you think that developing operational plans plays a more central role in the FBL, the TBL, or in the SET approach? Which approach is most difficult to put into practice? Explain your answer.

5. Briefly describe the differences between the content and process school analyses of how Honda motorcycles became #1 in the US market. The process school description, which is based on interviews with the managers involved, may be the more accurate portrayal of what *actually* happened, but do you think the content school description is more valuable for teaching purposes? Put differently, if Honda *had* completed the SWOT analyses and had chosen the correct strategy *prior* to entering the United States (as consistent with the content school approach), then it could have saved a lot of time and money and avoided floundering around after it arrived. However, perhaps doing the rational analysis up front would not have resulted in the successful strategy it eventually developed, and perhaps the real key to Honda's success was that managers engaged in strategic learning during times of floundering. Which approach do you think should be taught in business schools? Defend your answer. Would it be better to teach that one approach, or to teach both?
6. Complete a stakeholder map for an organization you would like to start up.

## Notes

1. Based on a series of over twenty interviews with members of Velo Renovation as part of a larger SET research program undertaken by Bruno Dyck and his colleagues at the Asper School of Business of the University of Manitoba.
2. Dyck, B. (1997). Understanding configuration and transformation through a multiple rationalities approach. *Journal of Management Studies*, 34: 793–823. See also Flyvbjerg, B., & Gardner, D. (2023). *How big things get done: The surprising factors that determine the fate of every project, from home renovations to space exploration and everything in between*. Crown Currency.
3. Page 132 in Locke, E. A. (2004). Linking goals to monetary incentives. *Academy of Management Executive*, 18(4): 130–133.
4. Shaw, K. N. (2004). Changing the goal-setting process at Microsoft. *Academy of Management Executive*, 18(4): 139–142.
5. Shaw (2004). For examples of setting SMART goals, see Sumar, S. (2024, July 18). *SMART goals for HR professionals—A quick review with examples*. Vantage Circle. https://www.vantagecircle.com/en/blog/smart-goals-for-hr-professionals/
6. Latham, G. P. (2004). The motivational benefits of goal-setting. *Academy of Management Executive*, 18(4): 126–129.
7. Wei, X., & Zhu, L. (2024). Developing a project-expectancy inventory for the con-

struction industry from the owner's perspective. *Sustainability*, 16(7): 2675. https://doi.org/10.3390/su16072675

8. Gary Latham uses the example of independent loggers working in the southern United States, where pulpwood crew supervisors used goal-setting theory to give workers specific high-production goals and provided tally meters so that the loggers could count the number of trees that they cut down. Productivity soared due to "the psychological outcomes of setting and attaining high goals include enhanced task interest, pride in performance, a heightened sense of personal effectiveness, and, in most cases, many practical life benefits such as better jobs and higher pay." Note that there was no productivity change among loggers who were simply told to do their best (i.e., not given a SMART goal) (Latham, 2004: 126).
9. Example and quotes taken from Shaw (2004: 139). Note that we follow Shaw (2004) in our use of the acronym SMART, where "R" refers to "results-based." In other presentations of SMART the "R" refers to relevance. See for example Ebert, R. J., Griffin, R. W., Starke, F. A., & Dracopoulos, G. (2015). *Business essentials* (8th Canadian ed). Pearson.
10. Locke (2004).
11. Latham (2004).
12. Wright, P. M., George, J. M., Farnsworth, S. R., & McMahan, G. C. (1993). Productivity and extra-role behavior: The effects of goals and incentives on spontaneous helping. *Journal of Applied Psychology*, 78(3): 374–381.
13. Upshaw, T. (2021, September 17). Your CSR strategy needs to be goal driven, achievable, and authentic. *Harvard Business Review*. https://hbr.org/2021/09/your-csr-strategy-needs-to-be-goal-driven-achievable-and-authentic
14. Rosso, B. D., Dekas, K. H., & Wrzesniewski, A. (2010). On the meaning of work: A theoretical integration and review. *Research in Organizational Behavior*, 30: 91–127.
15. Latham (2004: 129). Sockbeson, C. E. S., Hartman, L. R., & Shaw, J. C. (2023). Lessons from The Office: Mismanaged motivation. *Management Teaching Review*, 9(4):382–402. https://doi.org/10.1177/2379298123116329
16. Koukoumpliakos, I., Giannarakis, G., Sdrolias, L., Kalogiannidis, S., & Syndoukas, D. (2024). Stressing corporate social responsibility for business sustainability: Empirical analysis of CSR practices, motivations and growth impacts in post-crisis Greece. *Journal of System and Management Sciences*, 14(7): 301–325. For example, managers at Reell Precision Manufacturing are committed to "do what is right, even when it does not seem profitable, expedient, or conventional." See page 137 in Benefiel, M. (2005). *Soul at work: Spiritual leadership in organization*. New York: Seabury Books.
17. See the Eliza Jennings website: https://elizajennings.org/about. See also Wong-Ming Ji, D. J., & Neubert, M. J. (2001). *Voices in visioning: Multiple stakeholder participation in strategic visioning* [Presentation]. Academy of Management Meetings, Washington, DC.

18. For more on Tall Grass Prairie Bread Company, see Vagianos, S. (2022). *Social and ecological thought: A case study of Tall Grass Prairie Bread Co.* [Unpublished master's thesis]. Asper School of Business, University of Manitoba. See also the documentary by Ridley, N. (director). (2024, June 12). *Beyond profit: Seeking sustainability*. https://www.youtube.com/watch?v=xzkn9Mm1X84
19. Gunster, S. (2017). This changes everything: Capitalism vs the climate, by N. Klein [Book review]. *Environmental Communication*, 11(1): 136–138.
20. Shourkaei, M. M., & Dyck., B. (2023). *Making sense of "growth" in post-growth businesses: An empirical study* [Working paper]. University of Manitoba.
21. Ekengren, M. (2024). Why are we surprised by extreme weather, pandemics and migration crises when we know they will happen? Exploring the added value of contingency thinking. *Journal of Contingencies and Crisis Management*, 32(1): e12515.
22. And with this increased emphasis on emergence, some have argued that this requires goals from a SET approach to be more innovative: Neugebauer, F., Figge, F., & Hahn, T. (2016). Planned or emergent strategy making? Exploring the formation of corporate sustainability strategies. *Business Strategy and the Environment*, 25(5): 323–336. See also differences in the three approaches related to the development of business plans, described in Chapter 6.
23. Pauls, K. (2023, August 27). A centuries-old bean is making a comeback in the form of vegan ice cream. CBC News. https://www.cbc.ca/news/canada/manitoba/lupin-bean-plant-based-foods-1.6945048
24. Adapted from Pascale, R. T. (1984). Perspectives on strategy: The real story behind Honda's success. *California Management Review*, 26: 47–72. Pascale does not cite Harvard Business Review case but cites the report it drew from: Boston Consulting Group (1975, July 30). *Strategic Alternatives for the British Motorcycle Industry*. Her Majesty's Stationary Office, London. For a more recent article on the pros and cons of whether firms entering in an established industry should (a) compete directly with industry leaders, or (b) offer alternative products, see Chen, Y., & Sun, S. L. (2023). Leapfrogging and partial recapitulation as latecomer strategies. *Journal of Open Innovation: Technology, Market, and Complexity*, 9(3): 100099.
25. Mintzberg, H. (1987). Crafting strategy. Harvard Business Review, July–August: 66–75. For a more recent article that describes how strategy is crafted in four different types of organizations (foreshadowing Chapter 11 on organization design), see Mintzberg, H. (2024). Four forms that fit most organizations. *California Management Review*, 66(2): 30–43.
26. This figure is adapted from Mintzberg, H. & Waters, J. A. (1985). Of strategies, deliberate, and emergent. *Strategic Management Journal*, 6: 257–272.
27. For a discussion of ten activities that middle managers engage in to: (a) implement intended strategies, and (b) implement unintended strategies, see Christie, A., & Tippmann, E. (2024). Intended or unintended strategy? The activities of middle managers in strategy implementation. *Long Range Planning*, 57(1): 102410.
28. The slogan was developed by a marketing student for an assignment.

29. This is the kind of "brain" described by Durkheim, E. (1958). *Professional ethics and civic morals* (C. Brookfield, Trans.). Free Press. Extending this metaphor even further, an FBL approach is akin to the brain deciding that the body should run a marathon and then is surprised when the body is unable. A TBL/SET approach is more sensitive to the needs and capacity of the body and to developing them appropriately, before running any marathon.
30. "Our conclusion is that strategy formation walks on two feet, one deliberate, the other emergent" (Mintzberg & Waters, 1985: 271).
31. For a series of articles characterizing the debate between the process school and the design school, see Mintzberg, H., Pascale, R., Goold, M., and Rumelt, R. (1996). The "Honda Effect" Revisited. *California Management Review*, 38(4): 78–117. These include Mintzberg, H. Introduction (pp. 78–79); Mintzberg, H. Learning 1, Planning 0 (pp. 92–93); Goold, M. Design, learning and planning: A further observation on the design school debate (pp. 94–95); Mintzberg, H. Reply to Michael Goold (pp. 96–99); Goold, M. Learning, planning, and strategy: Extra time (pp. 100–102); Rumelt, R. P. The many faces of Honda (pp. 103–111); Pascale, R. T. Reflection on Honda (pp. 112–117). For a more recent take on process vs. content schools, see Takagi, T., & Takahashi, M. (2023). Rationality bias of strategy theory: Strategy as leverage of local institutions. *The Journal of Organization and Discourse*, 3: 20–25.
32. See empirical data reported in Dyck, B. (2007). Competing rationalities in management practice and management education [Presentation]. Academy of Management, Philadelphia. See also Dyck, B. (2020). The integral common good: Implications for Mele's seven key practices of humanistic management. *Humanistic Management Journal*, 5(1): 7–23.
33. The distinction between *creating* value and *capturing* value is an important consideration. Capturing value potentially can be done without creating much new value, as illustrated by a hypothetical entrepreneur stealing the market share of a competitor's cash cow, or by the quadrillion-dollar global derivatives market.
34. Because of their different priorities, SET entrepreneurs likely have more opportunities available to them. One does not have to look very hard to identify significant social or ecological problems, and any of these problems can be the basis of a SET or TBL entrepreneurial start-up, which can adopt a minimizer strategy that improves on current FBL methods to reduce externalities, or a transformer strategy that taps a previously overlooked resource to create positive outcomes. SET entrepreneurs in particular do not need to worry maximizing financial well-being; they only need to make enough money to operate sustainably.
35. Based on advice in Osterwalder, A., Pigneur, Y. Bernarda, G. & Smith, A. (2014). *Value proposition design*. John Wiley & Sons.
36. Personal interview with lead author.
37. Vagianos (2022).
38. Starke, F., Dyck, B., & Mauws, M. (2003). Coping with the sudden loss of an indispensable employee: An exploratory case study. *Journal Applied Behavioral Sci-*

*ence*, 39(2): 208–228.

39. Thompson, D. (2017, June 16). Why Amazon bought Whole Foods. *The Atlantic*. https://www.theatlantic.com/business/archive/2017/06/why-amazon-bought-whole-foods/530652/. Regarding the sale of Whole Foods to Amazon, see Jeff Berman's interview of John Mackey (2024, June 12). Why Whole Foods sold to Amazon (with Co-founder John Mackey). *Masters of scale*. https://www.youtube.com/watch?v=NF2xd-cDzXE
40. See also Kim, E. (2023). Sustainable new product development for Ten Thousand Villages, a fair-trade social enterprise: Empowering women and economic development through problem-based service learning. *Sustainability*, 15(8): 6452.
41. When large organizations are unable to find satisfactory suppliers, they may start or purchase an existing supplier. This is called backward integration, and is discussed in Chapter 8.
42. Gunther, M. (2006). The green machine. *Fortune*, 154 (3): 42–46, 48, 52.
43. Dyck, B., & Vagianos, S. (2023). An exploratory study of Stewardship and Universal Family firms: The importance of universal care and benefaction. *Humanistic Management Journal*, 8: 29–48.
44. Dyck, B., & Manchanda, R. (2021). Sustainable marketing based on virtue ethics: Addressing socio-ecological challenges facing humankind. *Academy of Marketing Science Review*, 11: 115–132.
45. Thanks to Robert Giacalone for the observation that the more stressful the job is for an employee, the more likely that employee's child will die by suicide.
46. Stafford, E. R., & Hartman, C. L. (1996). Green alliances: Strategic relations between business and environmental groups. *Business Horizons*, 39(2): 50–60.

# Part 3: Organizing

# 10. Fundamentals of Organizing


- Learning Goals
- 10.0. Opening Case – Organizing at Semco
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*This chapter describes four fundamentals of organizing and their implications for entrepreneurship, as summarized in the following table and in the whiteboard animation video. This chapter marks the transition from our discussion of the planning function of management (Chapters 7–9) to examining the organizing function (Chapters 10–13).*

| | FBL | TBL | SET |
|---|---|---|---|
| **Organizing**<br>Ensuring that tasks have been assigned and a structure of relationships created that facilitates meeting organizational goals | Emphasizes<br>• the content of organizing<br>• rational competencies<br>• the individual level of analysis<br>• stakeholders inside the organization | Emphasizes<br>• the content (sometimes process) of organizing<br>• rational (sometimes relational) competencies<br>• the individual (sometimes group) level<br>• stakeholders inside the organization (and sometimes external) | Emphasizes<br>• the process of organizing<br>• relational competencies<br>• the team/group level of analysis<br>• including external stakeholders |
| **Fundamental 1**<br>Ensure work activities are designed to be completed in the best way for the organization | **Standardization**<br>Determining the extent of uniform practices for organizational members to follow in doing their job | **Enlightened standardization**<br>Standardization, coupled with experimentation when it is profitable | **Experimentation**<br>Implementing new and possibly better ways of performing tasks on an ongoing trial basis |
| **Fundamental 2**<br>Ensure tasks assigned to members are the ones required to fulfill the work of the organization | **Specialization**<br>Selecting subsets of standardized organizational tasks and allocating them into separate jobs | **Enlightened specialization**<br>Specialization, coupled with sensitization when it is profitable | **Sensitization**<br>Attending to and improving how tasks fit with those of co-workers and others |
| **Fundamental 3**<br>Ensure orderly deference among members | **Centralization**<br>Determining the extent to which decision-making authority is atop the hierarchy | **Enlightened centralization**<br>Centralization, coupled with dignification when it is profitable | **Dignification**<br>Treating everyone with dignity and respect in community |
| **Fundamental 4**<br>Ensure members work together harmoniously | **Departmentalization**<br>Determining how members and resources are grouped together to achieve the work of the larger organization | **Enlightened departmentalization**<br>Departmentalization, coupled with participation when it is profitable | **Participation**<br>Emphasizing mutual discernment; giving stakeholders a voice in the organization and how jobs are performed |
| **Entrepreneurial implications** | The uncertain nature of start-ups tends to make them less developed in terms of an FBL approach, and more likely to adopt a SET approach. | | |

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## Learning Goals

After reading this chapter, you should be able to:

1. Identify the four fundamental components of organizing.
2. Describe how FBL, TBL, and SET managements differ in their approaches to organizing.
3. Identify the key feature of each of the four fundamentals of organizing, and how each is operationalized in FBL, TBL, and SET approaches.
4. Explain how entrepreneurial start-ups with few resources tend to manage the four fundamentals of organizing.

## 10.0. Opening Case – Organizing at Semco

When twenty-one-year-old Ricardo Semler took over his father's company, Semco, in the early 1980s, it employed about one hundred people and generated $4 million in annual revenue.[1] Semco produced marine pumps for Brazil's shipping industry, and at the time its organizational structures and systems were developed fully enough for the senior Semler to hand over the reins of power to his relatively young son: the company had well-designed operating standards, formal rules, detailed job descriptions, and a well-developed hierarchy and departmental structure.

Ricardo Semler, however, was not fond of the way things were organized at Semco. He had previously worked for a summer in Semco's purchasing department and had asked himself: "How can I spend the rest of my life doing this? How can I stomach years of babysitting people to make sure they clock in on time? Why is this worth doing?"[2] He spent the next four decades implementing and refining a people-centric, radical way of organizing, which helped propel the company to unprecedented success and attracted admiration among his peers: Semler has been named business leader of the year several times in a poll of over 50,000 Brazilian executives. He has since left the position of CEO at Semco to focus on teaching other companies about his approach to organizing.[3]

When he first took over Semco, Semler threw out the books of rules and

regulations that had been the result of years of *standardization* and formalization. Even after he helped Semco grow to over 3,000 employees and $200 million in annual revenues, its manual was still a mere twenty pages, complete with cartoons. Semler doesn't believe in written mission statements or even in taking minutes at meetings, because once things get written down they can constrain future *experimentation*. Semler preferred Semco's standards to be fluid and constantly (re)constructed by its members.

Semler also downplayed *specialization* at Semco: imagine working in a firm with 3,000 employees and no job descriptions. Instead, Semco instituted a "Lost in Space" program that assumes young new hires often don't know what they want to do with their lives. The program allows them to roam through the company for a year, moving to a different unit whenever they want to. Semler himself spent little time at work—he didn't even have his own office—preferring instead to learn and get input from a wide variety of stimuli, thereby modeling an approach that encouraged everyone to be *sensitized* to needs and opportunities that might otherwise be overlooked.

Semler also de-emphasized the *centralization* of authority. Even after Semco's growth and diversification, it had only three levels of hierarchy. Semler himself was one of six "counselors" (top management) who took turns leading the company for six months at a time. Workers set their own salaries, set their own work hours, and chose their managers. As Semler put it: "Most of our programs [at Semco] are based on the notion of giving employees control over their own lives. In a word, we hire adults, and then we treat them like adults."[4] Semler wanted managers to trust workers and treat them with *dignity*. At one point the company held a party marking ten years since the last time Semler had made a decision.

Regarding *departmentalization*, instead of large divisions, Semler preferred smaller, more autonomous units of 150 or fewer members where each person knows that their *participation* matters. The heavy emphasis on participation is consistent with Semler's commitment to democracy, a watchword at Semco. He notes that we send our children around the world to die for democracy, but we lack democracy in our workplaces.

Semler's embrace of a SET approach to organizing coincided with an outstanding growth rate of about 20 percent per year, and with company interests in businesses worth about $10 billion.[5] Even so, Semler was very clear that growth and profits were not his primary goals:

> I can honestly say that our growth, profit, and the number of people we employ are secondary concerns. Outsiders clamor to know these things because they want to

> quantify our business. These are the yardsticks they turn to first. That's one reason we're still privately held. I don't want Semco to be burdened with the ninety-day mindset of most stock market analysts. It would undermine our solidity and force us to dance to the tune we don't really want to hear—a Wall Street waltz that starts each day with an opening bell and ends with the thump of the closing gavel.[6]
>
> Profit beyond the minimum is not essential for survival. In any event, an organization doesn't really need profit beyond what is vital for working capital and the small growth that is essential for keeping up with the customers and competition. Excess profit only creates another imbalance. To be sure, it enables the owner or CEO to commission a yacht. But then employees will wonder why they should work so the owner can buy a boat.[7]

Semler's example demonstrates that businesses can thrive when you treat people with dignity, foster trust and participation, value experimentation and learning, and are sensitive to the larger needs and opportunities around you. For him, these are the genuine *fundamentals* of organizing.

## 10.1. Introduction

As we learned in Chapter 1, the management function of *organizing* ensures that tasks have been assigned and a structure of relationships created that facilitates the achievement of organizational goals. Although humankind has had a long history of organizing, many contemporary ways of organizing have only come into existence during the last century or so (Chapter 2). We live in a time when ideas like industry analyses, generic strategies, division of labor, and economies of scale are taken for granted, and we no longer marvel at the productivity and wealth that they help to create.

While it may sound simple, the idea of organizing is inherently complex.[8] It's a bit like riding a bike. Even if you know how to ride a bike, it can still be challenging to identify the key principles that describe how to ride a bike, or how riding a bike is even possible. The same is true for organizing. Fortunately for us, Max s—one of the most influential thinkers in management and organization theory—broke down the essence of managing the organizing function into four fundamental components.[9] Managers need to ensure the following:

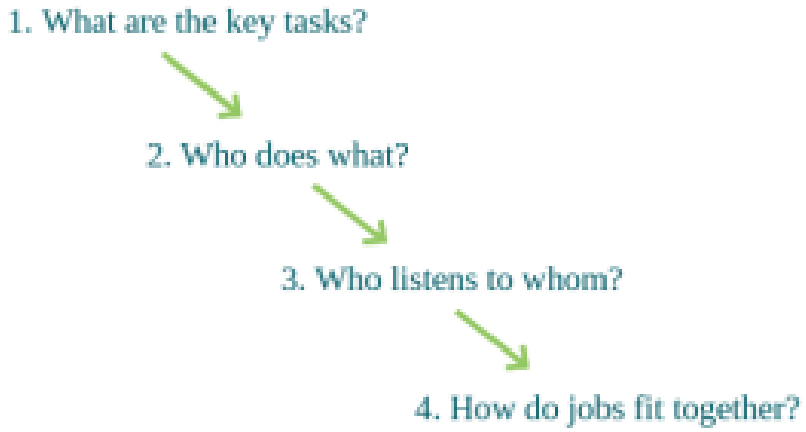
1. **Work activities are designed to be completed in the best way to accomplish the overall work of the organization.** This component involves understanding the overall mission and strategy of the organi-

zation and breaking it down into smaller steps and specific activities that, taken together, can help accomplish the overall work of the organization.[10]

2. **The tasks assigned to members are the ones required to fulfill the overall work of the organization.** This component entails taking all the specific activities that need to be performed and assigning them to specific organization members to make sure the activities are completed.[11]
3. **There is orderly deference among members.** This component consists of ensuring that members know who makes which decisions, who assigns tasks, and who should be listened to in which situations.[12]
4. **Members work together harmoniously.** This component pulls everything together, ensuring that the different pieces of the organizational puzzle are working together as desired.[13]

These four components can also be framed as four fundamental questions, shown in Figure 10.1.

**Figure 10.1. Four fundamental questions of organizing**




Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) management styles each have their own way of

addressing these four questions. Over the past century, management scholars and practitioners have been greatly influenced by the FBL approach and its assumptions about the best way to fulfill the fundamentals of organizing. When we take for granted the assumptions and ideas that FBL management emphasizes about organizational structures, we forget how they influence us, just as we forget that we are influenced by the everyday physical structures in our everyday lives. For example, the floor plan of your home and your office shapes whom you interact with and how you interact with them (e.g., is the setting formal or informal?). The famous architect Frank Lloyd Wright once said that he could design a home that would cause newlyweds to get divorced within a few months. Along the same lines, Winston Churchill observed that "we shape our buildings, and hereafter our buildings shape us."[14] Similarly, we design our organizational structures, and thereafter those structures shape us.

*We design our organizational structures, and thereafter those structures shape us.*

It is instructive to develop this architectural metaphor further. Architecture theory goes back at least 2,000 years to Roman times, when the three fundamentals of architecture were identified as firmness, utility, and beauty.[15] Different schools of thought or approaches to architecture will deal with these three fundamentals with different emphases, but a variation of each fundamental will be evident in each approach. For example, one approach to architecture might place a priority on keeping the financial costs of a building as low as possible. This might result in buildings that are built to last forty years (firmness), are designed to have multipurpose rooms (utility), and create a sense of beauty via minimalist design or inexpensive features like faux-marble countertops (beauty). A different approach that values ecological sustainability might result in buildings constructed out of locally available natural materials with extra insulation to last 100 years (firmness), have rooms designed to connect people to each other and to nature (utility), and whose aesthetic appeal comes from fitting into their natural and sociocultural environment (beauty). Of course, these two approaches to architecture are not mutually exclusive, and in the final analysis all architects must take both cost and sustainability into consideration.

*FBL management applies different emphases to the four fundamentals of organizing than SET management does. But these two approaches are not mutually exclusive.*

Just as there are clear differences in how buildings are designed and how they operate (depending on the approach of the architect), so also there are clear differences in how organizations are designed and how they operate (depending on the approach of their managers).[16] These differences are often a matter of relative emphasis. For example, as we shall see, all three approaches recognize the importance of written rules, but these receive greater emphasis in the FBL approach compared to the SET approach. Overall FBL organizing focuses on efficiency, productivity, and financial well-being. TBL seeks to optimize efficiency, productivity, and profits while seeking opportunities to reduce negative socio-ecological externalities. SET organizing is based on principles designed to enhance positive socio-ecological externalities in a way that maintains adequate levels of efficiency, productivity, and profits.

In general, FBL management focuses more on the *content* of organizing, on *rational* competencies, and on breaking things down to an *individual* level of analysis. In contrast, SET management places relatively more emphasis on the *process* of organizing, on *relational* competencies, and on the *team* and *group* level of analysis. SET management has a relatively fluid orientation to organizing, whereas FBL management is more static.[17] TBL management lies somewhere between the two, often leaning toward FBL management but following SET principles when doing so reduces negative socio-ecological externalities while enhancing an organization's financial well-being.

## 10.2. Fundamental 1: Ensure Work Activities are Completed in the Best Way

The first fundamental of organizing involves understanding the overall work of an organization and then breaking it down into smaller tasks or steps (this can be thought of as an extension of the process of making plans described in Chapter 9). For example, even after a bike has been designed, there are many ways to organize the work of building it. The first fundamental involves identifying the

best ways to bend the handlebars, to weld pieces together, to apply paint, and so on, so that in the end a well-built bike emerges.

**Table 10.1. Three management approaches to ensuring work activities are completed in the best way**

| FBL | TBL | SET |
|---|---|---|
| **Standardization:** Developing uniform practices for organizational members to follow in doing their jobs | **Enlightened standardization:** A variation of FBL standardization that embraces SET experimentation when it profitably reduces negative socio-ecological externalities | **Experimentation:** Members' ongoing voluntary implementation of new and possibly better ways of performing tasks on a trial basis |

Each of the three management approaches place some emphasis on both standardization and experimentation. The key difference is in their relative emphasis on each.

### 10.2.1. Standardization

To address the first fundamental of organizing, FBL managers emphasize **standardization**, which refers to developing uniform practices for organizational members to follow in doing their jobs. The level of standardization in a firm can vary along a continuum from many clear standards (prescribed) to relatively few standards (non-prescribed). FBL managers focus on specifying the *optimal* level of standardization—such as procedures organizational members must follow when they perform their tasks—as they try to maximize organizational efficiency, productivity, and financial well-being.[18] Standardization is often related to the degree of formalization in an organization. **Formalization** refers to the written documentation in an organization. While formal standards are clearly important, so are informal standards that govern and give meaning to members' behavior (e.g., see discussion of culture in Chapter 11).[19]

*Both formal and informal standards are important.*

When we say that FBL managers emphasize standardization, it does not mean that FBL managers favor many prescribed standards (though in some cases they may). Rather, it means that managers expend a lot of effort trying to find the correct standards and level of standardization. In doing so, FBL managers sometimes develop multiple standards and at other times only a few. For example, prior to Frederick Taylor's time and motion studies (see Chapter 2), workers who shoveled pig iron or coal into train cars would bring their own shovels from home, and every worker might have a different-sized shovel. There were no standards regarding what size of shovel was best for each task. However, after Taylor performed a series of experiments to determine what size of shovel was best for maximizing productivity for each task, the company introduced standards in line with his findings.

### 10.2.2. Experimentation

SET managers also use standards to addresses the first fundamental of organizing but instead of starting with standardization, SET managers tend to emphasize **experimentation**, which refers to members' ongoing voluntary implementation of new and possibly better ways of performing tasks on a trial basis. SET experimentation seeks to improve socio-ecological well-being while maintaining (but not necessarily maximizing) financial well-being. SET experimentation differs from FBL standardization in several important ways. First, FBL standardization has a top-down focus (managers determine the appropriate level of standards), while SET experimentation is bottom-up (members experiment with different ways of performing tasks). Second, the FBL approach has a static nature (e.g., following tried and true standards wherever possible), while SET experimentation is more dynamic (experimentation is ongoing, constantly trying new ways of performing tasks). Third, FBL standardization tries to find the "one best way" to do things, while SET experimentation recognizes that the best way to do things is constantly changing, both inside and outside the organization. A SET approach to experimentation emphasizes the importance of discussing ideas in a group setting and benefiting from others' input and refinement. One reason minutes were not taken during meetings at Semco is because they thought writing things down might stifle experimentation.

Lincoln Electric, founded in 1895, has become one of the most successful manufacturing companies in the world, thanks to an emphasis on experimentation that has helped it achieve significantly lower production costs than its competitors in a highly standardized context.[20] At the heart of its success are two

policies built into its organization structure. One policy guarantees employment for its workers even in down times, and the other guarantees that the standard rates for piecework will not be changed simply because employee earnings are deemed to be too high. The resulting structure provides workers with plenty of incentive to increase efficiency (piecework rates will not be changed due to their improvements) and no disincentives (jobs will not be lost due to increased efficiency). Average wages at Lincoln Electric are about twice the going rate for similar work in other firms. The merit of this approach was demonstrated during World War II, when the US government asked all welding equipment manufacturers to add capacity. At that point, the CEO of Lincoln Electric went to Washington to explain that the nation's existing capacity would be sufficient if it were used as efficiently as it was at Lincoln Electric. He then proceeded to provide proprietary knowledge about standards and techniques that would improve industry-wide productivity. When these were introduced by other manufacturers, industry output increased. For a period of time, competitors reduced their costs to about the same level as those at Lincoln, but soon Lincoln's continuing emphasis on experimentation allowed it to once again outperform its competitors (who continued with their relative emphasis on standardization).

Of course, sometimes SET-based experiments will fail, in which case organizational members may revert back to the previous practices, but even then the organization will have gained new knowledge from the experiment. In other cases an experiment may be a rousing success, and other members of the organization can benefit from and adopt the lessons learned. For example, Semco's "Lost in Space" program meant that lessons learned in one department traveled with employees when they moved to other departments.

*Even experiments that fail enhance organizational knowledge.*

TBL management's approach to the first fundamental of organizing might be best described as **enlightened standardization**, which is a variation of FBL standardization that embraces SET experimentation when it profitably reduces negative socio-ecological externalities. In the business world, McDonald's hamburgers and French fries have long been seen as examples of high FBL standardization. McDonald's has invested a lot of resources into developing highly formalized procedures and manuals to ensure that the quality and taste of its food is consis-

tent over time and across locations.[21] More recently, McDonald's expanded the criteria that it uses to develop standards and now has new standards that reduce negative externalities by experimenting with ways to reduce packaging and the use of fossil fuel.[22]

Remember that the key difference between the three approaches to management is in terms of their *relative* emphasis. All approaches pay attention to both standardization and experimentation, but FBL managers emphasize standardization more than SET managers do, and SET managers emphasize experimentation more than FBL managers do. As we have seen, Semco has standards (e.g., do not take minutes at meetings), but the emphasis is on experimentation. Similarly, medical doctors follow standards, but doctors at a SET-oriented teaching hospital are more likely to follow them with an eye toward improving practices in the next round than are doctors in an FBL-oriented hospital that seeks to process as many patients as possible.

**Test Your Knowledge**



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*All approaches to management pay attention to both standardization and experimentation; the key difference is in their relative emphasis on each.*

## 10.3. Fundamental 2: Ensure Appropriate Tasks are Assigned to Members

The second fundamental involves taking all the specific activities that need to be performed (identified in fundamental 1) and dividing them among organization members to make sure the activities are completed. The merit of giving this careful thought is illustrated by Adam Smith's example of the division of labor in a

pin factory: productivity was 1,000 times greater when workers were assigned specialized tasks rather than performing all of the different tasks necessary to make a pin (see Chapter 2).

**Table 10.2. Three management approaches to second fundamental of organizing: Ensuring appropriate tasks are assigned to members**

| FBL | TBL | SET |
|---|---|---|
| **Specialization:** Selecting subsets of standardized organizational tasks and allocating them to separate jobs. | **Enlightened specialization:** A variation of FBL specialization that embraces SET sensitization in instances where it profitably reduces negative socio-ecological externalities. | **Sensitization:** Members actively being aware of how their work fits with co-workers and others and improving practices via experiments that take advantage of opportunities of address needs. |

Note that each of the three approaches to management has some emphasis on both *specialization* and *sensitization*; the key difference is in their *relative emphasis* on each.

### 10.3.1. Specialization and Sensitization

FBL management addresses the second fundamental of organizing by placing relative importance on **specialization**, which involves selecting subsets of standardized organizational tasks and allocating them to separate jobs. Job specialization can be *narrow* (which means the tasks that members perform are fairly limited and focused) or *broad* (which means that members perform a wide range of tasks). Specialization plays a central role in the remarkable account of how Henry Ford revolutionized productivity in the automobile industry when he pioneered the assembly line: individual members worked on one step of building a car (narrow specialization) rather than trying to assemble an entire car (broad specialization). Typically, the specialized knowledge, skills, abilities, and other characteristics (KSAOs) required to perform each job are spelled out in job descriptions, which also may describe the formal qualifications required for jobholders (see Chapter 12). For example, an accounting firm might require a staff accountant to pass the CPA (Chartered Professional Accountant) exam before being promoted. This is comparable to university requirements that students have

certain qualifications in order to enroll in courses, such as having a high school diploma and having completed any prerequisites for the course.

SET managers also use specialization to address the second fundamental of organizing but place greater emphasis on **sensitization**, which refers to members' active awareness of how their work fits with that of co-workers and others, with an eye toward improving practices via experiments that take advantage of opportunities or address needs. Just as FBL specialization helps to identify which standardized tasks should be performed by whom, so SET sensitization helps to identify what kinds of experiments should be performed by whom. Rather than focusing on ensuring that organizational members conform to specific job descriptions (specialization), the SET approach's hallmark is to encourage members to continuously adapt to their context and improve how they do their jobs in harmony with others around them. The focus is on the dynamic process of organizing (being sensitive to new needs and opportunities) rather than on the static outcome of organizing (having the KSAOs to perform tasks listed in a job description). Sensitization includes being responsive to stakeholders' physical, social, ecological, and spiritual needs.[23] Patagonia exemplifies this through its "4-fold" approach to making supply chain decisions, where environmental and social responsibility teams have equal decision-making power to that of traditional sourcing and quality teams. This ensures that all members are aware of both business and broader societal impacts of their decisions.

Sensitization is illustrated by how rather than assigning a desk to each of its (specialized) office workers, Semco encouraged them to move from one desk to another each week. Not even CEO Ricardo Semler had his own office. This created plentiful opportunities to get to know how the various jobs at Semco fit together, and this increased sensitization can in turn inform experimentation. It is interesting that when similar ideas (called "hot desking") are implemented in FBL organizations for cost-saving reasons—rather than in a spirit of SET sensitization and experimentation—they are often not well-received by employees.[24]

The TBL approach to the second fundamental of organizing is **enlightened specialization**, which is a variation of FBL specialization that embraces SET sensitization in instances where it profitably reduces negative socio-ecological externalities. For example, TBL organizations may have "sustainability officers" whose job is to learn about different operations throughout the organization, and who also attend meetings with external sustainability-oriented stakeholders to hear about new ideas that can reduce negative socio-ecological externalities while maintaining or enhancing profits.[25] Frank O'Brien-Bernini, the first chief sustainability officer at Owens Corning, describes a two-year effort to develop a major wind farm to provide a renewable source of energy for his firm: "When-

ever tensions rose with our finance team, I would remind us all of that 'very special day' when our 'all-business' controller, typically leaning back with her arms and legs crossed, suddenly leaned forward and smiled when she realized this deal actually might generate profits."[26]

*Again, each management approach places some emphasis on both specialization and on sensitization, but they differ in terms of their relative emphasis.*

Finally, note again that the key difference between FBL, TBL, and SET approaches is in terms of *relative* emphasis. All management approaches pay attention to specialization and to sensitization. FBL management strives to ensure that organizations have specialists with expertise in job design and recruitment, with upper-level managers who monitor opportunities to increase profits. TBL management is similar, but in addition, middle- and upper-level managers explicitly seek opportunities to increase financial well-being by reducing negative socio-ecological externalities. SET management believes that all members should be sensitive to opportunities to enhance overall performance, and recognizes that there is need for appropriate specialization to achieve this end.

**Test Your Knowledge**

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## 10.4. Fundamental 3: Ensure Orderly Deference Among Members

The third fundamental component of organizing draws attention to the need for members of an organization to respect and submit to one another in an orderly

way. This deals with questions such as who should be listened to, how decisions are made, and how people treat one another. All three approaches to management use both centralization and dignification to address the third fundamental of organizing, but FBL management emphasizes centralization more than SET management does, and SET management emphasizes dignification more than FBL management does.

**Table 10.3. Three management approaches to ensuring orderly deference among members**

| FBL | TBL | SET |
|---|---|---|
| **Centralization:** The extent to which decision-making authority resides atop the organization's hierarchy. | **Englightened centralization:** Variation of FBL centralization that embraces SET dignification on a piecemeal basis when it profitably reduces negative socio-ecological externalities. | **Dignification:** Treating everyone with dignity and respect in community. |

Note that each of the three approaches to management has some emphasis on both *centralization* and *dignification*; the key difference is in their *relative emphasis* on each.

### 10.4.1. Centralization

From an FBL perspective, authority—and the degree of its centralization—is key to ensuring orderly deference among organizational members. **Centralization** *refers to the extent to which decision-making authority resides atop the organization's hierarchy.* **Authority** *refers to the formal power given to specific members (usually managers) to arrange resources and/or to assign tasks and direct the activities of other members in ways that help to achieve organizational goals.* Organizational members are expected to defer to the people who have authority over them. Managers can use their authority to reward behavior that is consistent with organizational goals and plans, and to punish behavior that is inconsistent (Chapter 14).

An organization's authority ranges from being concentrated to being diffused. It is concentrated, or centralized, when authority rests with top managers, and it is diffused (or decentralized) when authority is dispersed throughout an organization. An organization's overall authority may be very concentrated (e.g., authority for most decisions is retained in the CEO's office), while any particular

subunit within that organization may be relatively diffused (e.g., what little decision-making authority that resides in, say, the finance department is dispersed widely throughout that department).[27] Organizations with diffused authority have a "flat" structure, where managers have a wide **span of control**, which refers to the number of members that report directly to a given manager. As described later in this chapter, AES is an example of a very flat structure when it had 40,000 employees but only three levels of hierarchy.

There are two subtypes of authority. **Line authority** refers to the formal power to direct and control immediate subordinates, while **staff authority** refers to the formal power to advise and provide technical support for others but not to tell them what to do. For example, human resource managers have staff authority to provide expert advice to managers of other departments, but they also have line authority over other members within their own department. Staff managers provide advice, and line managers make decisions.

**Delegation** refers to the process of giving authority to a person or group to make decisions in a specified sphere of activity. In a democracy, authority is granted to managers via citizens who elect government officials, who in turn establish the rules by which organizations are governed by their owners who in turn delegate authority to managers to act on behalf of the owners. By signing a contract to accept a job in an organization, a new member agrees to accept that managers have authority to assign them tasks to perform in exchange for payment. A similar thing happens when someone joins a voluntary organization: they agree to abide by the rules and authority structures of the organization.

*The authority that managers have, and which they can subsequently delegate to others, was initially delegated to them by organizational members and by society.*

When members accept authority to make decisions in a certain domain of organizational operations, they also accept responsibility for the decisions that they make (or fail to make), and they accept accountability for their actions. **Responsibility** refers to the obligation or duty of members to perform assigned tasks. Problems arise when someone is given responsibility without being given the required authority to meet that responsibility. Suppose a new marketing manager has the responsibility to increase sales by 10 percent. That manager will be very

frustrated if they are not also given the authority to do the things that are necessary to reach the goal (e.g., to hire competent salespeople and remove incompetent salespeople). **Accountability** refers to the expectation that a member is able to provide compelling reasons for the decisions that they make. If a member is unable to provide a good explanation for a decision gone awry, they may be given professional training and development, have authority taken away from them, or be removed from their position.

### 10.4.2. Dignification

SET managers also use centralization to addresses the third fundamental of organizing but place greater emphasis on **dignification**, which refers to treating everyone with dignity and respect in community. Dignification assumes everyone in an organizational community has a voice that deserves to be listened to,[28] in contrast to FBL centralization, which places greater relative emphasis on listening to members in positions of authority. Whereas FBL authority-based relationships tend to be somewhat static and linear (e.g., a manager has authority over their subordinate), SET dignity-based relationships tend to be dynamic and holistic (e.g., members use their authority to enhance overall community well-being rather than merely try to maximize an organization's financial well-being). To state this in Martin Buber's terms, rather than set up authority structures that treat others as faceless "its" in the name of utilitarian outcomes, dignification seeks to treat others as "thous" who are listened to and respected in their own right, not merely because they have formal authority or power.[29]

As one SET CEO said about having employees make decisions: "Sometimes it's been shown that their way is better than mine would've been. And even when it isn't, just allowing them the freedom to do that [make decisions], I think, is worthwhile."[30] People who participate in setting their own work standards are more productive and satisfied than when the identical standard is imposed on them by a manager.[31] For SET managers, creating ways of organizing that distribute dignity throughout the organization is better than developing and fine-tuning authority structures. Research suggests that when people gain status working in egalitarian organizations, versus in firms with high power differences, they are more likely to act in pro-social ways.[32]

Unlike authority, which is usually seen as a limited resource that must be parceled out sparingly, dignity is an unlimited resource that can be distributed generously; everyone has inherent worth that should be recognized.[33] Consider the dignity that was evident when Nathaniel De Avila (see opening case, Chapter

9) and Ricardo Semler gave their employees the authority to set their own salaries. According to Semler:

> Arguably, Semco's most controversial initiative is to let employees set their own salaries. Pundits are quick to bring up their dim view of human nature, on the assumption that people will obviously set their salaries much higher than feasible. It's the same argument we hear about people setting their own work schedules in a seven-day weekend mode. The first thing that leaps to mind is that people will come as late or little as possible—this has never been our experience.[34]

*Unlike authority, which is usually seen as a limited resource that must be parceled out sparingly, dignity is an unlimited resource that can be distributed generously; everyone has inherent worth that should be recognized.*

Treating people with dignity also means providing them with the information they require to make decisions responsibly. Semler describes five pieces of information that help employees determine how to set an appropriate salary for themselves. Managers provide employees with (1) market surveys about what others earn who do similar work at competing organizations; (2) what everyone else in the company earns (all the way from Semler to the janitors); and (3) open discussion of the company's profits and future prospects in order to provide a sense of whether the current market conditions allow above- or below-average salaries. The remaining two items are things that employees know but managers do not: (4) how much employees would like to be earning at this point in their career, keeping in mind how happy they are with their job and work-life balance; and (5) how much their spouses, neighbors, former schoolmates, and other significant "comparison others" are earning. Very seldom has this system been abused, perhaps because employees know that if they request too large a salary, they run the risk of annoying their colleagues and suffering the stress that comes from making a decision that they themselves know is unjust and undignified.

To meet the third fundamental of organizing (ensuring orderly deference), TBL management is characterized by **enlightened centralization**, which is a variation of FBL centralization that embraces SET dignification on a piecemeal basis when it profitably reduces negative socio-ecological externalities. Consider the example of Dennis Bakke, co-founder of AES, a global energy giant with 40,000 employees in thirty-one countries and annual revenues of more than $8

billion.[35] As the CEO, Bakke was committed to a SET approach, and so AES avoided written job descriptions, official organization charts, and tall hierarchies (three layers were enough). Bakke also refused to place primary emphasis on quantifiable financial goals. Instead, he argued that what he called "joy at work" can be found when the SET fundamentals of organizing are evident. For example, sensitization was facilitated at AES because performance was explicitly evaluated based on AES principles that took externalities into account and transcended economic goals. Dignification was evident because Bakke saw himself as serving his employees rather than as using his authority to command people and resources. The default at AES was to make decisions in community by members at the lowest practicable organizational level, not at the level that was deemed most efficient based on an authority structure. AES members and external stakeholders were invited to participate in AES's decision-making process, annual reports acknowledged the contributions of ordinary employees, and people were not fired for making mistakes.

Unfortunately, at one point employees falsified the results of water testing at an AES plant in Oklahoma. Even though no ecological damage resulted from this deception, the price of AES stock dropped 40 percent on the day it released a letter that both acknowledged the falsification and recommitted itself to being an organization based on integrity. Soon Bakke's job was on the line:

> Several of our most senior people and board members raised the possibility that our [SET-based] approach to operations was a major part of the problem. It was as if the entire company were on the verge of ruin. They jumped to the conclusion that our radical decentralization, lack of organizational layers, and unorthodox operating style had caused "economic" collapse. There was, of course, no *real* economic collapse. Only the stock price declined. . . .
>
> All of this put an enormous strain on the relationship between Roger [Sant, AES co-founder] and me. The board had lost confidence in me and my leadership approach. (I believe Roger had, too.) Should we split the company? Should one of us quit? He wasn't having fun, and neither was I. I told him I wanted to stay and make the company work. . . .
>
> The breach by our Oklahoma group was minor relative to similar missteps by dozens of large, conventionally managed organizations. There was nothing to suggest that the company operating in a more conventional [FBL] manner would have protected AES from such mistakes.[36]

What would you have advised Bakke to do? Although he and AES had been admired for emphasizing SET organizational principles, when facing the crises and economic downturns that are inevitable for *any* organization, he faced enormous pressure to revert to tried and true, conventional FBL methods. If Bakke

had been a TBL manager, he likely would have given in to such pressures from his board. However, Bakke remained committed to SET fundamentals of organizing, and AES's performance improved. Bakke believes that there was nothing inherent in his SET approach that would have made AES more vulnerable to missteps than if the company had followed a conventional FBL approach. In fact, a SET approach might decrease likelihood of such problems.[37]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
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*TBL organizations are often admired when they adopt SET practices (even on a piecemeal basis). But when they face the crises and economic downturns that are inevitable for any organization, TBL firms often give in to pressure to revert to tried and true, conventional FBL methods.*

## 10.5. Fundamental 4: Ensure members work together harmoniously

The fourth fundamental of organizing deals with how members work together. The goal is to ensure that all of the tasks performed by organizational members fit together and contribute to a larger whole. As organizations grow in size, this will mean deciding where and with whom each member performs their respective tasks. All three approaches to management use departmentalization and participation to address the fourth fundamental of organizing, but FBL managers emphasize departmentalization more than SET managers do, and SET managers emphasize participation more than FBL managers do.

**Table 10.4. Three management approaches to ensuring members work together harmoniously**

| FBL | TBL | SET |
|---|---|---|
| **Departmentalization:** How members and resources are grouped together to achieve the work of the larger organization. | **Enlightened departmentalization:** A variation of FBL departmentalization that embraces SET participation when it profitably reduces negative socio-ecological externalities. | **Participation:** Mutual discernment and giving stakeholders a voice in how the organization is managed and how jobs are performed. |

Note that each of the three approaches to management has some emphasis on both *departmentalization* and *participation*; the key difference is in their *relative emphasis* on each.

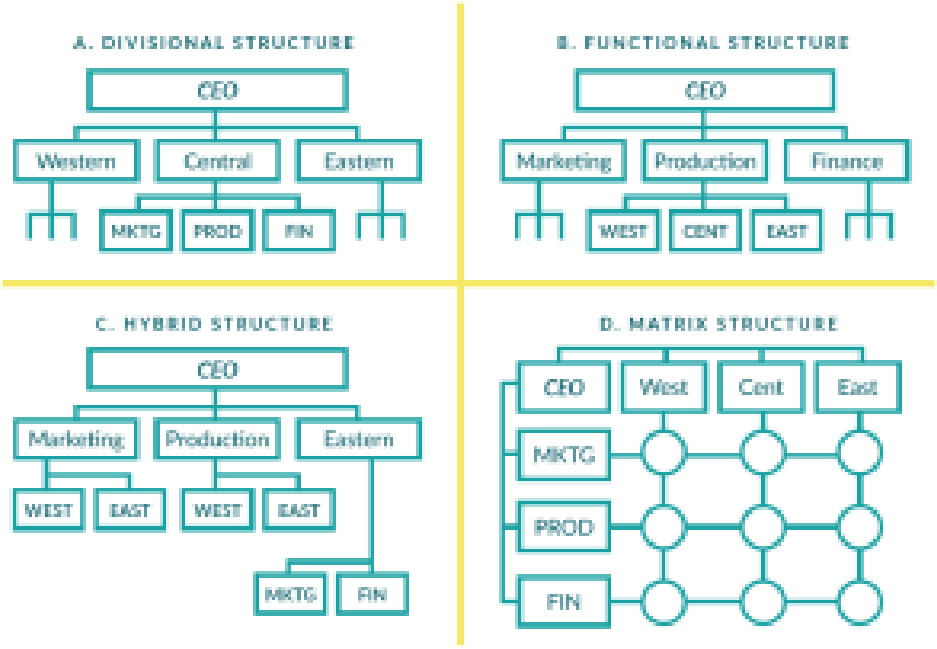
### 10.5.1. Departmentalization

**Departmentalization** refers to how members and resources are grouped together to achieve the work of the larger organization. Departmentalization has two key dimensions. The first is *departmental focus*, which has to do with the relative emphasis an organization places on internal efficiency versus on external adaptiveness. The second is *departmental membership*, which looks at whether membership in the department is permanent versus short-term. Departmental focus is concerned with the content of the tasks each department is assigned to perform, whereas departmental membership looks at whether members are permanent and whether they come from within the organization's boundaries. We will look at each in turn.

**Departmental focus.** The departmental focus dimension describes the basis upon which an organization is divided into smaller, more manageable subgroups. Four basic departmental structures commonly found in organizations are divisional, functional, hybrid, and matrix. A **divisional structure** is evident where members work together as a subunit that provides a specific kind of product or service, serves similar customers, or operates in the same geographic region. Quadrant A in Figure 10.2 shows a geographically based divisional structure with a western division, a central division, and an eastern division. A product-based divisional structure for a computer manufacturer would have a desktop division, a laptop division, and a handheld division, whereas a customer-based divisional structure might have a consumer division, a business division, and an educational institution division.[38] The key point is that each of these divisions are

autonomous; that is, they operate like separate businesses or like a strategic business unit (see Chapter 8). To operate as an essentially separate business, each division needs to organize its own hierarchy around key functions like marketing, production, and finance. Divisions generally have functional departments.

**Figure 10.2. Four basic types of departmental structures**




A **functional structure** places members in the same department based on their having similar technical skills and using similar resources to perform their tasks. For example, as illustrated in Quadrant B of Figure 10.2, a furniture manufacturing firm might have marketing, production, and finance functions at the top level of the organization. Other bases of departmentalization may also be used at lower levels in the hierarchy—the production department in Quadrant B is further organized into geographically based sub-departments. And those regional sub-departments may be further organized in sub-sub-departments, based on the types of products they manufacture (e.g., chairs vs. tables vs. shelving units). In a

functional structure, the top management team must coordinate the work of the various functions because none of the functional departments on their own can do all the things that are necessary to achieve corporate objectives.

The relative strengths and weaknesses of the divisional and functional structures are mirror images of each other. An automobile manufacturer that has a functional structure at the top level of the hierarchy and has just one large production department will be more efficient than a competitor with ten divisions, each with its own production department. The former company will achieve large economies of scale (i.e., the per unit financial cost to produce 10,000 cars on one assembly line is far less than the per unit cost to produce 1,000 cars on each of ten separate assembly lines). The functional approach also offers opportunities for in-depth skill development in each specialization. For example, one legal department with ten lawyers may have specialists in commercial, labor, patent, and international trade law, whereas having one lawyer in each of ten different divisions means that the lawyers will need to be generalists. A functional structure also permits increased spans of control and lower management costs, because it is easier to manage people with similar training and backgrounds (e.g., ten lawyers in one department) than for a divisional manager to manage people from a variety of functional areas.

*The relative strengths and weaknesses of the divisional and functional structures are mirror images of each other.*

A divisional structure offers different strengths relative to the functional structure. First, in a divisional structure, decision-making authority is closer to the organization's customers. For example, rather than having a single production department produce all the goods for an organization, a different production department in each region or for each customer group reduces the distance between consumers and producers. This helps managers adapt to changing consumer preferences and accommodate for differences across regions or customer groups. Second, the source of profits may be somewhat unclear in a functional structure (e.g., should credit be given to vice-president of the research and development department, the production department, or the marketing department?). But in a divisional structure, each division is accountable to make a profit, so it easier to recognize the financial performance of top managers in specific divi-

sions. Third, compared to managing a functional department, division managers who coordinate the work of members from a variety of different functional areas are likely to develop more well-rounded management skills (which may be an advantage for managers seeking to get promoted to the CEO level).

Divisional and functional structures influence how members see their organization, much like lenses shape our vision. Some lenses are designed to help us to see in the distance, while other lenses help us to see close-up. So it is with different approaches to departmentalization. Functional departments help us to see close-up within the organization. They help to maximize efficiency and to fine-tune skills and expertise in specific functional areas. Divisional departments are better at seeing far distances beyond the borders of the organization. They are more connected and attuned to the most relevant customers, and thus better able to see shifts in customer preferences, in emerging technologies, in changing government legislation, and so on. However, divisional departments are not as good at paying attention to and optimizing internal efficiencies resulting from, for example, reduced economies of scale. In some divisional structures, two different divisions can be working on the same problem and not even be aware of the unnecessary duplication of effort.

Hybrid organizations are like bifocal lenses. A **hybrid structure** seeks the advantages of the functional structure (by achieving internal efficiencies and developing internal expertise in some areas) and the advantages of the divisional structure (by being able to adapt to changes in a dynamic external environment). Hybrid organizations have both functions and divisions simultaneously at the same hierarchical level. Quadrant C of Figure 10.2 provides an example of a hybrid organization that has a marketing department, a finance department, and an eastern division. In this firm the eastern division, perhaps because represents the majority of an organization's activity, has its own marketing and finance departments.

**Matrix departmentalization** occurs when an organization has both divisional and functional departments, and members are simultaneously assigned to both. Instead of bifocals, the matrix structure is more like having a lens for seeing close with one eye, and a lens for seeing far with the other eye. Just as such eyeglasses would take some getting used to and would probably cause some headaches as users learn to close one eye or the other as needed, so also matrix structures can be quite challenging to manage and work in. This is because, as we can see in Quadrant D of Figure 10.2, a matrix structure breaks the unity of command rule. In a matrix structure, members (represented by the circles) are responsible to two or more managers. Thus, matrix structures demand more time be spent in meetings to ensure that the amount of work being assigned to members

is reasonable.[39] A matrix structure is not unlike the situation where university students are simultaneously enrolled in different courses with different professors. It can be stressful if more than one instructor coincidentally schedules an exam or report due on the same day. One of the most famous examples of a matrix structure was ABB, a global electrotechnical company, which at one time had over 200,000 employees in 150 countries who were divided into 5,000 profit centers (i.e., managers of each of these 5,000 divisions or strategic business units were expected to show a profit) and whose managers would report to both a country manager as well as to at least one of thirty-five business area managers.[40]

*A matrix structure is not unlike the situation facing university students who are simultaneously enrolled in different courses with different professors, and must deal with the stress that comes when more than one instructor happens to schedule an exam or quiz on the same day.*

**Departmental membership.** Membership, the second dimension of departmentalization, has become increasingly relevant in the past couple of decades. Indeed, even the meaning of what it means to be a "member" of an organization has changed. Does it include part-time workers, temporary workers, people working on commission, consultants, or people hired on a one-time basis to perform a task (e.g., to copyedit a document?). As little as a generation ago it was simply assumed that an organization's departments were composed of organizational members who had fairly permanent and well-defined individual jobs in a firm. There are still many organizations that have permanent membership, but this is changing.

*Not so long ago it was simply assumed that an organization's departments were composed of organizational members who had fairly permanent and well-defined individual jobs in a firm.*

Sometimes organizational members work together in teams. A **team** is a collec-

tion of three or more people who share task-oriented goals, work toward those goals interdependently, and are accountable to one another to achieve those goals (see Chapter 15). Recently there has been greater emphasis on having members work in **task forces**, which are teams that disband when their work has been completed, with members "floating" from one task force to the next as the need arises. This increased fluidity has allowed organizations to be more flexible and adaptable. For example, software programming is often done on a project basis, with specific programmers and other staff assigned to a specific project as needed. When that project is completed (e.g., the software is shipped), the programmers move to various other projects rather than all staying together and moving to work on a different project.

There are also increasing opportunities for managers to take what were once permanent jobs or departments within an organization and outsource them. **Outsourcing** refers to using contracts to transfer some of an organization's recurring internal activities and decision-making rights to outsiders (e.g., see Chapter 7 on "make-or-buy" decisions). For example, a new start-up may not have the money to hire its own accountant or graphics designer; it therefore outsources these tasks to other organizations that manage the start-up's payroll and its website homepage (recall the example of Boldr, opening case, Chapter 5). These outsourced workers are doing the work that used to be performed by permanent members. Along the same lines, a **network structure** is evident when an organization enters fairly stable and complex relationships with a variety of other organizations that provide essential services, including manufacturing and distribution. Nike is famous for its network structure and use of outsourcing in becoming the world's largest athletic footwear and apparel company, with more than 1 million workers producing its products in over 500 factories, while Nike itself has less than 40,000 employees.[41] The core staff in its network structure resides in the company's Beaverton, Oregon, headquarters and designs the prototypes. However, the actual production, transportation, and retail sale of its shoes and apparel is outsourced to overseas factories and retailers.

In a **virtual organization**, work is done by people who come and go on an as-needed basis and who are networked together with an information technology architecture that enables them to synchronize their activities. Virtual organizations allow for people to be hired for short (or long) periods of time, often on a contract basis, from anywhere around the world. These workers may never see each other, and they may have no ongoing commitment to the organization. They are hired to do a specific job, and when that job is completed their connection to the organization may be over. Some organizations in the so-called sharing econ-

omy—such as Uber and Airbnb—have characteristics associated with virtual organizations.

*Some organizations in the sharing economy—such as Uber and Airbnb—have characteristics associated with virtual organizations.*

### 10.5.2. Participation

SET managers also use departmentalization to address the fourth fundamental of organizing. However, compared to FBL and TBL managers, SET managers place greater relative emphasis on the idea of **participation**, which refers to mutual decision-making that gives stakeholders a voice in how the organization is managed and how jobs are performed. SET participative structures can include permanent members and external stakeholders such as suppliers and customers, and they can span issues related to internal efficiency and external effectiveness as needed. Participative structures value stakeholders' input on decisions, as well as their input for setting the agenda on which issues that require decisions. Compared to the SET approach, FBL and TBL approaches place relatively less emphasis on participation, both in amount and in breadth of involvement. SET management uses participative structures to complement the two generic dimensions of departmentalization (functional and divisional).

**Departmental focus.** All things being equal, SET management generally prefers a divisional structure rather than a functional structure. In addition, the SET approach prefers relatively small divisions (fewer than 150 members) that essentially operate as autonomous subunits, where each member has a sense of the overall goals of the unit and understands how their individual effort meshes with the efforts of others to meet those goals. This is illustrated by Semco's division sizes of about 120 to 150 members. Once a division grows much beyond this size, it should be subdivided into two divisions.[42]

**Departmental membership.** SET managers are more likely to include and invite the participation of external stakeholders. Of course, these stakeholders are not members in a formal sense but members of the larger community that an organization sees itself operating within. Stakeholders can also include the natural environment more generally. Inviting, listening to, and responding to a variety of stakeholders allows the organization to be sensitized to new opportunities

and also enhances goodwill when the inevitable mistakes are made. For example, Ricardo Semler describes meeting with customers, showing them Semco's financial statements with respect to a particular sale, and listening to what the customers say. Such transparency can in turn prompt reciprocated transparency and openness, and Semler describes how Semco started whole new product lines simply by listening to its customers. This has been called "extreme stakeholder alignment," which involves deliberately giving opportunities to employees, partners, customers, government representatives, and society to actively participate in making organizational decisions that could affect them: "Alignment is your value creation engine."[43]

Patagonia has developed a unique network structure that extends beyond traditional business relationships to include environmental organizations, grassroots activists, and community groups. Through initiatives like 1% for the Planet, which has contributed over $161 million to environmental causes since 1985, Patagonia demonstrates how network structures can advance both business and social goals. The company's network includes relationships with fair trade–certified factories, organic cotton farmers, and environmental advocacy groups, creating a complex web of relationships that supports its mission to "save our home planet."[44]

SET management often avoids traditional pyramid-shaped organizational charts such as those depicted in Figure 10.2. Specifically, the SET approach is uncomfortable with representing managers at the top and subordinates underneath. SET organizations sometimes invert the organizational chart, placing customers and other stakeholders at the top and managers closer to the bottom. At other times circles are used to draw SET organization charts. For example, Semco could be depicted as three concentric circles, with the top managers in the innermost circle, middle managers in the next circle, and the remainder of the organization in the outer circle.[45] In other SET organizations, the top management team in the innermost circle might be depicted as overlapping with surrounding intersecting circles containing various organization subunits and other stakeholders, like the petals of a flower.[46]

The TBL approach can be characterized as **enlightened departmentalization**, which refers to a variation of FBL departmentalization coupled with some SET participation in cases where the latter enhances the organization's financial well-being.

## Test Your Knowledge



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
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*In some SET organizations, the top management team is depicted as a central circle that overlaps with surrounding intersecting circles that represent the organization's various subunits, like the petals of a flower.*

## 10.6. Entrepreneurial Implications

One of the most challenging things about starting a new organization is developing its structure. Some entrepreneurs address this challenge by purchasing a franchise (e.g., McDonald's, Freshii, ReStore), where part of what is being purchased is a prescribed structure that addresses the four fundamentals of organizing. Indeed, as a condition of their franchise, entrepreneurs are often required to closely follow certain policies and structures.

In this section we describe some of the tactics and shortcuts entrepreneurs use to manage the four fundamentals of organizing when starting a new organization from scratch. Because entrepreneurs are being pulled in so many different directions, the time and resources that they can invest to establish a structure are limited. This results in underdeveloped structures that share remarkable similarities across organizations, regardless of whether the entrepreneur takes an FBL, TBL, or SET approach.

### 10.6.1. Fundamental 1: Standardization and Experimentation

Start-ups generally have few standards because new organizations are still figuring out and fine-tuning their goals and strategies, and because entrepreneurs generally do not have time to write policy manuals and job descriptions when they're already working fifty or more hours each week. Instead of developing specific standards for each member of the start-up, entrepreneurs often simply use the organization's overarching goals and strategies to (a) serve as general guidelines

for members' decision-making, (b) facilitate coordinated decision-making, and (c) motivate members by giving them an understanding and appreciation for the meaning of their work. Ensuring that members are aware of the "big picture" also helps to address one of the dangers of having too few performance standards, namely, where members spend too little time actually working and too much time trying to find out what they are supposed to be doing.

Start-ups must, of necessity, spend time on experimentation as members learn what works and what doesn't, and as performance standards are continually (re)constructed by members and stakeholders. Experimentation helps the start-up learn more quickly than if all the learning was done only by the founding entrepreneur(s). But start-ups can have too much experimentation—this occurs when members are doing too many experiments, and the results of those experiments are not coordinated. Having a weekly meeting where everyone updates each other on their activities is a simple way to guide and focus experimentation, and to ensure that activities are being completed in the best way for the organization.

*Start-ups spend time on experimentation as members learn what works and what doesn't.*

### 10.6.2. Fundamental 2: Specialization and Sensitization

It is generally appropriate for start-ups to have broad rather than narrow specialization. This is because new organizations are continuously fine-tuning their understanding of the specific KSAOs that they need, and because they have relatively few members to perform all the different tasks that need to be performed (e.g., one member may be both a receptionist and bookkeeper). Thus, entrepreneurs are more interested in hiring generalists (people who know something about a variety of things) than specialists (who know a lot about one thing).

*Entrepreneurs are typically more interested in hiring generalists (people who know something about a variety of things) than specialists (who know a lot about one thing).*

Start-ups typically place relatively high emphasis on sensitization, which is evident when people are hired for being able to develop and learn from interrelationships among stakeholders, both inside and outside of the organization. Entrepreneurs value the complementary skills of a team more than the individual skill sets of particular members. SET entrepreneurs in particular appreciate members who have valuable experience or knowledge that goes beyond the financial goals of the organization. An emphasis on sensitization assumes that an organization will have multiple goals that should change as its members grow and learn from each other and from other stakeholders.[47] But start-ups can have too much sensitization, which can result in an inability to help anyone as members become too distracted by trying to help everyone. Again, this danger can be managed via weekly meetings where all members of the start-up report on their work and help each other stay focused on their key tasks.

### 10.6.3. Fundamental 3: Centralization and Dignification

Entrepreneurs often have very strong ideas about what should be happening in their start-up, and they can be reluctant to delegate authority to others (i.e., they are tempted to micromanage everything, often in a very autocratic way). However, they soon learn the merit in focusing their efforts on those tasks that are the most crucial for the success of the start-up and delegating authority to others to complete less essential tasks.

At the same time, entrepreneurs quickly learn that their organization will benefit if the ideas of different members are given serious consideration and if members treat each other with care and respect, which is facilitated via a free flow of information and collaboration. The danger of too little dignification is that stakeholders will treat their jobs in instrumental terms and thus be reluctant to put in the extra effort often required for start-ups to succeed. However, too much dignification may result in delays as different stakeholders are consulted. Again, weekly meetings where everyone has a voice are a simple way to facilitate orderly deference among members.

### 10.6.4. Fundamental 4: Departmentalization and Participation

Start-ups are more akin to a division than to a functional department, and place relatively high emphasis on participation. Because of their small size, it is possible and often desirable to treat members of a start-up as a team that is seeking to establish itself in its industry (Chapter 16). In assembling this team, it is crucial

for entrepreneurs to identify the key functional competencies that must be housed in the organization and those that can be outsourced. For example, in a car dealership, sales skills are a core competency, while tax accounting skills may not be. For a tax filing company, however, accounting skills are central, while sales skills may be secondary. Can payroll be outsourced? Should transactions be handled directly, or via a service like PayPal or Shopify? These and other related decisions are important ones for entrepreneurs to make. Sometimes the identification of core competencies may not be obvious for an entrepreneurial start-up. For an example of how focusing on core competencies can be key to success, recall that the world's largest sports apparel company, Nike, outsources its manufacturing, shipping, and retail functions. Similarly, Patagonia recognized early on that its core strengths lay in design, testing, and marketing of outdoor gear—not in manufacturing. Like Nike, Patagonia chose to outsource production while maintaining tight control over its core competencies. Even so, Patagonia was able to ensure its values were maintained throughout outsourced operations, which included applying rigorous supplier standards and its "4-fold" approach to supplier selection (where environmental and social responsibility teams have as much decision-making power as traditional sourcing and quality teams do). This demonstrates how entrepreneurs can outsource effectively while maintaining their organizational values.

Start-ups tend to place relatively high emphasis on participation, which can help to compensate for the lack of well-developed departmentalization and facilitate everyone's working together harmoniously. This includes giving members a voice, as for example in weekly organizational staff meetings, and also giving other outside stakeholders a voice.

*Weekly meetings where everyone has a voice are a simple way to facilitate all four fundamentals of organizing.*

In sum, regardless of whether entrepreneurs prefer an FBL, TBL, or SET approach, well-managed start-ups will tend to be characterized by (1) relatively few standards and many experiments, (2) broad skill sets and much attention to how one's work fits with that of others, (3) diffusion of authority and dignification, and (4) a divisional orientation and participation. These characteristics will be discussed further in the next chapter, which will also provide a more in-depth

discussion about the differences between FBL, TBL, and SET organization structures.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=44#h5p-52*

## Chapter Summary

1. Organizing means ensuring that tasks have been assigned and a structure of relationships created that facilitates the achievement of organizational goals.
2. In general, FBL management focuses more on the *content* of organizing, *rational* competencies, and breaking things down to the *individual* level of analysis. In contrast, the SET approach places relatively more emphasis on the *process* of organizing, *relational* competencies, and the *team* and *group* level of analysis. TBL management is a hybrid of FBL and SET approaches.
3. The four fundamentals of organizing serve to ensure that (1) work activities are designed to be completed in the best way to accomplish the overall work of the organization; (2) the tasks performed by members contribute to the whole; (3) there is orderly deference among members; and (4) members work together harmoniously.
4. To satisfy the first fundamental, FBL management emphasizes standardization (developing uniform practices for organizational members to follow in doing their jobs), whereas SET management favors experimentation (ongoing voluntary implementation of new ways of performing tasks on a trial basis). The TBL approach can be characterized as enlightened standardization, meaning that standardization is combined with some experimentation if doing so enhances the organization's financial well-being.

5. To satisfy the second fundamental, FBL management focuses on specialization (grouping standardized organizational tasks into separate jobs), while SET management encourages sensitization (being aware of and receptive to better ways of doing things to take advantage of existing opportunities or to address existing needs). The TBL approach can be characterized as enlightened specialization, where specialization is coupled with some sensitization if doing so enhances the organization's financial well-being.
6. To satisfy the third fundamental, FBL management prioritizes centralization (having decision-making authority rest with managers at the top of an organization's hierarchy), whereas SET management emphasizes dignification (treating everyone with dignity and respect in community). The TBL approach can be characterized as enlightened centralization, in which centralization is combined with some dignification in instances where it enhances the organization's financial well-being.
7. To satisfy the fourth fundamental, FBL management emphasizes departmentalization (grouping members and resources together to achieve the work of the larger organization), whereas SET management prefers participation (mutual discernment and guidance). The TBL approach can be characterized as enlightened departmentalization, which refers to departmentalization coupled with some participation in cases where the latter enhances the organization's financial well-being.
8. Generally speaking, classic entrepreneurial start-ups place relatively low emphasis on standardization, specialization, centralization, and departmentalization. Instead, they place relatively high emphasis on experimentation, sensitization, dignification, and participation.

## Questions for Reflection and Discussion

1. Describe the four fundamental components of organizing. What are the general differences between the three management approaches (FBL, TBL, and SET) in terms of how the organizing function is carried out?
2. Do you think virtual organizations will become more prevalent dur-

ing your career? Why or why not?

3. Do you think treating others with dignity will change (increase or decrease) the amount of power that you have? Is the effect of treating others with dignity the same for all people, regardless of how much power they have to start with? Explain.
4. Review the Semco case at the start of the chapter. Should employees be trusted to set their own salaries, choose their own hours, and hire their own managers? Should university students be trusted to assign their own grades? In your view, what sort of information should instructors provide, and what should students provide, to set up a fair way for students to self-assign marks?
5. Ricardo Semler writes: "I'm not preaching anti-materialism. We do, however, desperately need a better understanding of the purpose of work, and to organize the workplace and the workweek accordingly. Without it, the purpose of work degenerates to empty materialism on one side and knee-jerk profiteering on the other."[48] Do you agree with Semler's observations? Explain what you understand to be the purpose of work. As a manager, how might you best structure the workplace based on your understanding? How does your analysis relate to Figure 5.1: Two key dimensions related to meaning in life?
6. Think of an organization you might want to start. Describe how you would manage each of the four fundamentals of organization, describing your approach to (1) standardization and experimentation, (2) specialization and sensitization (3) centralization and dignification, and (4) departmentalization and participation. Why do you think your choices are the best ones? What effect will they have on the organization?
7. Imagine that you have just launched the organization described in your answer to question 6. What sorts of changes in how you manage the four fundamentals of organizing would you expect to see after five years of operations? What factors would affect the changes? Explain your answer.

## Notes

1. For more information on how Semco is managed, see Green, M., & McNeill, B. (2024). Redistributing power through the democratisation of organisation. In B. McDonough & J. Perry (Eds.). *Sociology, Work, and Organisations* (pp. 117–132). Routledge; de Souza Sant'Anna, A. (2024). *Applying quantum field theory to understand emergent leadership in complex adaptive systems: A case study of*

*Semco*. Leadership Observatory NEOP FGV-EAESP. https://doi.org/10.13140/RG.2.2.16772.74886. The case was developed based on Kastelle, T. (2013, November 13). Hierarchy is overrated. *Harvard Business Review*. https://hbr.org/2013/11/hierarchy-is-overrated; Rees-Mogg, M. (2015, December 10; updated 2016, March 21). *Business leaders: Ricardo Semler*. Startups; Semco Style Institute. (2016, May). Ricardo Semler: The radical boss who proved that workplace democracy works. https://semcostyle.com/ricardo-semler-the-radical-boss-who-proved-that-workplace-democracy-works/; Semler, R. (2004). *The seven-day weekend*. Portfolio/Penguin Group; Semler, R. (1989, September–October). Managing without managers. *Harvard Business Review*, 76–84. https://hbr.org/1989/09/managing-without-managers; Vogl, A. J. (2004, May–June). The anti-CEO. *Across the Board*, 41(3): 30–36. This case also borrows heavily from Dyck, B., & Neubert, M. (2010). *Management: Current practices and new directions*. Cengage/Houghton Mifflin.

2. Semler (2004).
3. For more on what Ricardo Semler has been doing since selling Semco, please visit the Semco Style Institute website at https://semcostyle.com/ricardosemler/. After Semler sold Semco, information about its management model has been difficult to find; see page 910 in Mládková, L. (2023). Supporting knowledge communities: Examples from organisations with innovative management models. In F. Matos & A. Rosa (Eds.), *Proceedings of the European Conference on Knowledge Management* (Vol. 24, No. 1, pp. 908–915). https://doi.org/10.34190/eckm.24.1.1137. Scholars continue to analyze Semler's management approach at Semco: see Green & McNeill (2024); de Souza Sant'Anna (2024).
4. Semler (1989: 77).
5. Rees-Mogg (2015).
6. Semler (2004: 12).
7. Semler (2004: 92).
8. For recent reviews of the field, see Jerab, D., & Mabrouk, T. (2023a). *How to design an effective organizational structure & the 21 century trends*. Available at SSRN: https://ssrn.com/abstract=4584646, or at https://doi.org/10.2139/ssrn.4584646; Jerab, D., & Mabrouk, T. (2023b). *The evolving landscape of organizational structures: A contemporary analysis*. Available at SSRN: https://ssrn.com/abstract=4584643, or at http://doi.org/10.2139/ssrn.4584643
9. Weber, M. (1958). *The Protestant Ethic and the Spirit of Capitalism* (T. Parsons, Trans.). Scribner's; see analysis of Weber in Dyck, B., & Schroeder, D. (2005). Management, theology and moral points of view: Towards an alternative to the conventional materialist-individualist ideal-type of management. *Journal of Management Studies*, 42(4): 705-735. http://doi.org/10.1111/j.1467-6486.2005.00516.x
10. Because of its focus on the organization's overall goals and performance standards, this component can be seen as loosely related to the management function of planning.
11. This component may be most closely related to the first part of the organizing function, namely assigning tasks and creating organizational relationship to facilitate

meeting organizational goals.

12. This component is somewhat related to the leading function.
13. This fundamental is somewhat related to the function of controlling.
14. This quote and the reference to Frank Lloyd Wright are taken from Orr, D. (2006). Design: Part I. *Geez* 3 (Summer): 8.
15. Kruft, H.-W. (1994). *A history of architectural theory: From Vitruvius to the present*. Princeton Architectural Press.
16. For an explicit examination of the relative emphasis that managers place on materialism and individualism, see Dyck, B., & Weber, J. M. (2006). Conventional versus radical moral agents: An exploratory empirical look at Weber's moral-points-of-view and virtues. *Organization Studies*, 27(3): 429–450. https://doi.org/10.1177/0170840606062430. Dyck and Weber found that managers who placed more emphasis on materialism and individualism also placed more emphasis on standardization, specialization, centralization, and formalization, and less emphasis on experimentation, sensitization, dignification, and participation. In contrast, managers who placed less emphasis on materialism and individualism also placed less emphasis on standardization, specialization, centralization, formalization, and more emphasis on experimentation, sensitization, dignification and participation. See also Dyck, B., & Schroeder, D. (2005). Management, theology and moral points of view: Towards an alternative to the conventional materialist-individualist ideal-type of management. *Journal of Management Studies*, 42(4): 705–735. http://doi.org/10.1111/j.1467-6486.2005.00516.x
17. This SET emphasis on process and relational competence is consistent with Henry Mintzberg's notion of "strategic learning" discussed in Chapter 9. The SET approach does not see a lack of formal structure as a weakness to be overcome but rather embraces it as a hallmark of an appropriate way to manage the organizing function process.
18. For more on standardization, see Grillo, F., Wiegmann, P. M., de Vries, H. J., Bekkers, R., Tasselli, S., Yousefi, A., & van de Kaa, G. (2024). Standardization: Research trends, current debates, and interdisciplinarity. *Academy of Management Annals*, 18(2): 788–830. https://doi.org/10.5465/annals.2023.0072
19. Usually when we think of standards, we think of formal standards. The more written documentation there is, the higher the degree of formalization. This is particularly evident in very bureaucratic organizations like McDonald's. However, informal standards are also important. For example, informal standards are evident in the university classroom when students don't walk out in the middle of class, turn off their smartphones, ask questions by raising their hands, and so on. Such informal standards are often not formally written into course outlines because they are part of the "culture," or informal expectations of university students and professors. In this way, part of the role of organizational culture is to provide standards for members' behavior. Research suggests that there is a link between formalization and organizational values, showing that an increase in formalization is a barrier to trust (in individualistic countries). Huang, X., & Van de Vliert, E. (2006). Job formalization and

cultural individualism as barriers to trust in management. *International Journal of Cross Cultural Management*, 6(2): 221–242. http://doi.org/10.1177/1470595806066331

20. The details of Lincoln Electric in this paragraph were drawn from Carmichael, H. L., & MacLeod, W. B. (2000). Worker cooperation and the ratchet effect. *Journal of Labor Economics*, 18(1): 1–19. https://doi.org/10.1086/209948. The description in this paragraph is drawn from Dyck & Neubert (2010).
21. For example, when McDonald's opened its first branch in Moscow, it discovered that local farmers could not provide the high-quality potatoes needed to meet McDonald's standards. So McDonald's flew in experts, imported the appropriate seeds and harvesting machinery, and trained Russian farmers how to grow and harvest the potatoes it needed. The Russians who were hired to manage the Moscow branches were trained in Canada and at "Hamburger University" in Chicago.
22. Martin, D. & Schouten, J. (2012). *Sustainable marketing*. Prentice-Hall.
23. Sensitized managers who are unable to have their concerns addressed in-house may resort to whistle-blowing, or join or start more SET organizations. See Badaracco, J. L ., Jr., & Webb, A. P. (1995). Business ethics: A view from the trenches. *California Management Review*. 37(2): 8–28. https://doi.org/10.2307/41165786
24. Nguyen, N. N., Varsani, K. V., Avgoulas, M. I., Carey, C., Drakopoulos, T., & Carey, L. (2020, December 30). *The effects of "hot-desking" on staff morale: An exploratory literature scoping review* [Report]. School of Psychology and Public Health, La Trobe University. https://doi.org/10.26181/26877511. Dwyder, A. (2016, August 11). With hot-desking, not all employees are sitting pretty. *The Globe & Mail*. https://www.theglobeandmail.com/report-on-business/economy/growth/with-hot-desking-not-all-employees-are-sitting-pretty/article31341203/
25. A recent survey by Morgan Stanley of 300 companies with revenues over 0 million found that over 80 percent think sustainability will increase profits. See also Segal, M. (2024, May 22). 80% of companies see sustainability as a potential revenue, profitability driver: Morgan Stanley survey. *ESG Today*. https://www.esgtoday.com/80-of-companies-see-sustainability-as-a-potential-revenue-profitability-driver-morgan-stanley-survey/#. See also Kaplan, S. (2020). Beyond the business case for social responsibility. *Academy of Management Discoveries*, 6(1): 1–4. https://doi.org/10.5465/amd.2018.0220; Menghwar, P. S., & Daood, A. (2021). Creating shared value: A systematic review, synthesis and integrative perspective. *International Journal of Management Reviews*, 23(4): 466–485. http://doi.org/10.1111/ijmr.12252
26. O'Brien-Bernini, F. (2017, June 1). *The 9 (or 10) keys to successful sustainability leadership* [Adapted from commencement address at Furman University]. Trellis (was GreenBiz). https://www.greenbiz.com/article/9-or-10-keys-successful-sustainability-leadership
27. Of course, the reverse is also true. A relatively decentralized organization may have centralized departments if the department head insists on making all the major and minor decisions for the department. Finally, the organization and its subunits can

both be centralized, or both be decentralized.

28. For more on dignification in businesses, see Pirson, M. (2023). Dignity, humanistic management and the sustainable development goals. *Journal of Management for Global Sustainability*, 11(1): 2. https://doi.org/10.13185/2244-6893.1001
29. Buber, M. (1958). *I and thou*. Scribner.
30. Dyck, B. (2002). A grounded, faith-based moral point of view of management. In Teresa Rose (Ed.), *Proceedings of Organizational Theory Division* (Vol. 23, pp. 12–23). Administrative Sciences Association of Canada, Winnipeg, Manitoba.
31. Cooper, C., Dyck, B., & Frohlich, N. (1992). Improving the effectiveness of gainsharing: The role of fairness and participation. *Administrative Science Quarterly*, 37: 471–490. https://doi.org/10.2307/2393453
32. Zhang, Z., Qiao, Y., Jia, M., Ju, B., & Wang, X. (2024). Becoming better: When and why positive status change induces prosocial behavior versus self-interested behavior. *Management & Organization Review*, 20(4): 541–565. https://doi.org/10.1017/mor.2024.45
33. Dignity may be present in SET (and in TBL and FBL) organizations when members are encouraged to decorate their offices with personal touches and are given discretion in setting work hours to permit them to attend, for example, a special program at their children's school. There is a big difference between asking one's manager for permission to leave work early to attend a special event, versus letting the manager know about one's plan to leave early and explaining how the hours lost will be replaced. In our technological and globalized world, there is a tendency to treat people as numbers rather than as people. This description draws heavily from Dyck & Neubert (2010).[33] Dyck (2002).
34. Semler (2004: 179). Semler talks about trusting employees to choose their own hours: "People from CNN were at my company last week to do a special. They spent five days going through the whole company. We told them, 'Interview anybody you want—nobody will chaperone you.' The CNN people showed up on the first working day after Carnival, and went through entire floors without seeing a single person. 'Where were all the people?' they asked. But later, after interviewing, they calculated that our employees worked more hours than their counterparts at other companies. Which goes to say that when people are given freedom, they'll do whatever it takes to get the job done" (quoted in Vogl, 2004: 34).
35. Bakke, D. W. (2005). *Joy at work: A revolutionary approach to fun on the job*. PVG.
36. Bakke (2005: 68, 70–71).
37. This is a point made by Benefiel, M. (2005). *Soul at work*. Seabury Books.
38. Of course, a divisional structure will often have functional sub-departments, and a functional structure will often have divisional sub-departments. So in the end, the same people could work in each organization, but how they are grouped together depends on the departmentalization of the organization. However, this is not to suggest that departmentalization is not important—quite the contrary. The structures that we inhabit influence how we see the world and the work that we do. The differ-

ence is not unlike the difference between taking a university course with students from a wide variety of academic disciplines versus taking the same course with students who are all in the same discipline.

39. Tips on how to reduce the stress and enhance the positives in a matrix structure are given in Bhalla, V., Gandarilla, D., & Watkins, M. (2022). How to make your matrix organization really work. *MIT Sloan Management Review*, 64(1): 1–6. https://sloanreview.mit.edu/article/how-to-make-your-matrix-organization-really-work/

40. This description of ABB's structure is taken from Fitzgerald, S. P. (2002). *Organizational models*. Capstone Publishing.

41. Anderson, J. J. (2023, September 14). *Nike Shoes statistics*. RunRepeat. https://runrepeat.com/nike-shoes-statistics; Nike to lay off 740 employees at world headquarters in Beaverton. (2024, April 19). *KGW8*. https://www.kgw.com/article/money/business/nike-740-layoffs-world-headquarters-beaverton/283-3d676a3c-957d-4110-92bd-d5f7a9c793e9#

42. The advantages of relatively small organizational subunits and organizations are also described in Dyck & Schroeder (2005).

43. Semco Style Institute. (2014, December 14). *Get in line—or why you don't need strategy*.

44. Buchanan, S., Shourkaei, M., & Dyck, B. (2024). "Vote the assholes out": How value congruence work aligns stakeholders for corporate activism. Advance online publication (April 1). *Journal of Management Studies*. https:///doi.org/10.1111/joms.13068; Shourkaei, M., Taylor, K., & Dyck, B. (2024). Examining sustainable supply chain management via a social-symbolic work lens: Lessons from Patagonia. *Business Strategy & the Environment*, 33(2): 1477–1496. Advance online publication (August 31, 2023). https://doi.org/10.1002/bse.3552

45. See Zode, P. (2015, December 21) *SEMCO—A maverick organisation*. Slideshare. https://www.slideshare.net/prameyzode/semco-a-maverick-organisation

46. Roofthooft, W. (2015). Alternative organization models for the services business. *FMI*IGF E-Journal*.

47. This is illustrated by Semco's "Lost in Space" program, which might be better named "Exploring Space" because it gives new members and managers the opportunity to sensitively match skills with jobs. By fostering and welcoming members to act upon areas where they think improvement is possible, members will experience a greater feeling of purpose and meaningful work. Programs like this reduce the chance that members will leave the organization because of feelings that their manager does not respect their sensitivities (Badaracco & Webb, 1995). It is desirable when organizational stakeholders can work together to improve and gradually shift the overall goals of the organization and how they are met. Thus, whereas *goal displacement* is seen as a bad thing when it comes from an overemphasis on specialization, it can be seen to have positive aspects when it comes from an appropriate emphasis on SET sensitization.

48. Semler (2004: 25).

# 11. Organization Design


- Learning Goals
- 11.0. Opening Case – Design for a Soup Kitchen
- 11.1. Introduction
- 11.2. Key Elements of Organization Design
- 11.3. Four Generic Organization Design Types
- 11.4. Entrepreneurial Implications
- Chapter Summary
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*This chapter describes five elements of organization design (structure, culture, environment, technology, strategy) and how they align to produce four generic organization design types (simple, prospector, defender, analyzer). An overview of the chapter is provided in the table below and in the whiteboard animation video.*

| Four generic types of organization design | FBL examples | TBL examples | SET examples |
|---|---|---|---|
| **1. Simple type**<br>*Structure*: familial<br>*Culture*: clan<br>*Environment*: harsh<br>*Technology*: craft<br>*Strategy*: focus | Amway | Botanical PaperWorks | Greyston Bakery |
| **2. Defender type**<br>*Structure*: programmed<br>*Culture*: hierarchy<br>*Environment*: barren<br>*Technology*: routine<br>*Strategy*: cost leader/minimizer | Garment factories in Bangladesh | Everlane | Taylor Guitars |
| **3. Prospector type**<br>*Structure*: pioneer<br>*Culture*: adhocracy<br>*Environment*: prolific<br>*Technology*: non-routine<br>*Strategy*: differentiator/ transformer | Apple | Tesla | MAD Travel |
| **4. Analyzer type**<br>*Structure*: outreach<br>*Culture*: market<br>*Environment*: oasis<br>*Technology*: engineering<br>*Strategy*: dual/compounder | Goldman Sachs | 3M | Habitat for Humanity |
| **Entrepreneurial implications** | Start-ups are most likely to have a simple or a prospector organization design type. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=96*

## Learning Goals

After reading this chapter, you should be able to:

1. Understand the five basic elements that constitute organization design (structure, culture, environment, technology, and strategy).
2. Identify the two underlying dimensions specific to each of the five basic design elements.
3. Describe each of the four generic organization design types (simple, defender, prospector, analyzer) and how they are composed from the five basic elements.
4. Describe FBL, TBL, and SET variations of each of the four generic organization design types.
5. Explain how the five elements of organization design influence and constrain the choices of entrepreneurs.

## 11.0. Opening Case – Design for a Soup Kitchen

Nancy Elder has a challenge, and she is looking for someone with knowledge about organization design to help her. Maybe someone like you. If you met Nancy, she might tell you her story.[1]

> After high-school, I decided that I would try to make this world a better place. I didn't want to go to college just for the sake of enhancing my own career; I wanted some hands-on experience in helping people. Before long, I was doing volunteer work in a local soup kitchen.

You might be surprised to hear how many people in your community depend on food banks and soup kitchens. Food insecurity rose sharply during the COVID-19 pandemic and affects over 44 million people (one in seven) in the United States. In every single community in the country children go undernourished, and in some counties nearly half face hunger. Along with children, Black and Hispanic people are also disproportionately impacted by food security concerns.[2] The food bank in Nancy's city is one of its fastest growing corporations, providing food for over 5 percent of the population. There are about twenty soup kitchens in the city, each feeding some 250 people a day.

You learn from Nancy that there are three types of soup kitchens. She calls the first type "carrot-and-stick" soup kitchens, where in order to get food, people

need to pass through a church. The building is designed so that the only way to the soup kitchen is to go through the chapel. Clients only get their reward (carrot) after hearing a sermon (stick).

She calls the second type the "self-serving" model (no, this is not a buffet-style soup kitchen). Self-serving soup kitchens are the ones you read about in newspapers occasionally, which have a large staff and are able to raise hundreds of thousands of dollars but only direct 2 percent of the money raised to actually purchase food for hungry people. At worst, staff in such soup kitchens work there for their own self-serving reasons: feeding hungry people provides a means for the them to raise funds for their own livelihood.

The third type she describes is the "charity" model. Nancy has worked for this type of soup kitchen for five years. In this model, well-meaning people donate money and manage a soup kitchen to feed people who are less fortunate than themselves. This type relies on volunteer help and charity; anyone who wants food does not have to do anything except walk through the door and eat.

Nancy says that at first, she thought the charity model was the best. She worked hard in such soup kitchens, and after a few years became the paid manager of one. The organization she manages has two part-time staff members and an abundance of volunteers who come in to serve the 200 or so simple hot lunches that are prepared each day in a church basement. Most of the food is donated through a local food bank. The soup kitchen is governed by a board of individuals who want to help people less fortunate than themselves.

After some time, Nancy began to have doubts about the charity model. Her misgivings were triggered by some of the things she heard from the people who came there to eat. She heard them say things like "I never thought I'd drop so low as to become a charity case." "I feel that I have no more dignity." "It is humiliating for me to be here." Nancy describes how this affected her:

> I started to think about those comments. And I talked about the comments with my friends and associates. Were we robbing people of their dignity? Was our organization designed in such a way that we could not help but rob people of dignity? It bothered me to see how the attitude of our "regulars" seemed to change. At first, they felt badly because they did not have anything to contribute to the organization. Then, after a while, they started to think that they should not contribute anything.
>
> I listened some more, and asked probing questions. I tried to put myself in the shoes of the people who came to eat our soup. Would I like to be treated as a charity case? What would it do to me, to my sense of self-worth, to depend on hand-outs?
>
> I started talking about my concerns with my board members. I thought that they would provide a receptive ear. And at first, they did, but they resisted any suggestion I made about transforming the way our organization was designed, or trying to move toward a "dignity" model.

> I became almost obsessed by my frustration with the charity model. Finally, the board gave me an ultimatum: "Accept the current organization design, or quit."

Nancy asks if you would be willing to give her some advice on designing a "dignity" model organization, one where clients do not lose their sense of self-worth. She tells you that she has already made some progress in identifying sources where she thinks she could get food donations to start up such a soup kitchen, and she has some friends and acquaintances who would provide start-up money. She also says she has a site she could use. She just needs help in designing this new organization. How should it be managed? Who is welcome to join? How to start?

## 11.1. Introduction

Managers have long sought to discover the "one best way" to structure an organization. But happily, there is no *one* best way—think of how boring it would be if all organizations were structured the same way. However, research suggests that some ways of structuring an organization are better than others, and that managers should seek to design organizations in a way that optimizes the fit among a number of key elements.[3] **Organization design** is the process of ensuring that there is a good "fit" between an organization's structure, culture, environment, technology, and strategy.

Although there is no one best way to organize, research suggests that it is helpful to think of four different generic organization design types, each of which may be most appropriate in a particular context. An **organization design type** is a coherent alignment of an organization's structure, culture, and strategy to fit the prevailing environment and technology. In other words, there are certain organizational configurations where all the pieces fit together nicely, which is desirable. The four generic types are called *simple, prospector, defender, and analyzer*. These *four organization design types* are adaptable enough that they can be applied to Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) management, though with different meanings and nuances.

Of course, suggesting that there are only four organization design types is an oversimplification, but studying and understanding these four types has proven helpful to managers, scholars, and students. And even though the first type is called "simple," in reality, each type is a rather complex configuration of constituent elements, or pieces, that work together to form an integrated whole. In

the following sections we describe four key elements that make up organizational design: *structure*, *culture*, *environment*, *technology*. We also consider interrelationships between these elements. Then in the latter part of the chapter, we add the fifth element, *strategy,* and put all the pieces together to more fully present the four organization design types.

A note of caution and a suggestion before we proceed: with so many pieces and interrelationships, the information in this chapter may start to feel a little overwhelming. Although we do our best to present the material in a straightforward and systematic manner, we encourage you to spend time studying the diagrams and tables that accompany the text. Just like a picture that is worth a thousand words, these diagrams and tables can help you visualize and make sense of the content more readily. Organizational design is a bit like working on a puzzle. The art of fitting all these complex factors to work well together makes management challenging, interesting, and even fun.

## 11.2. Key Elements of Organization Design

### 11.2.1. Structure

Max Weber's four fundamentals of organizing (presented in Chapter 10) can be combined to form two dimensions that help us understand organizational structure. The first dimension describes how the four fundamentals emphasized in the FBL approach (standardization, specialization, centralization, and departmentalization) make up a continuum ranging from mechanistic to organic. The second dimension describes how the fundamentals emphasized in the SET approach (experimentation, sensitization, dignification, and participation) form a continuum from internal focus to external focus. We will look at each in turn

#### Structure's mechanistic–organic continuum

The four fundamentals of organizing emphasized in the FBL approach are often combined to form an overarching continuum that moves from a mechanistic structure at one end to an organic structure at the other (see Figure 11.1).[4] We will first define and illustrate the ends of this continuum, and then provide more descriptive detail in the paragraphs that follow.

A **mechanistic structure** is characterized by standardization, narrow specialization, centralization, and functional departmentalization. The US Postal Service is a mechanistic organization, where there are highly developed stan-

dards, job descriptions, and top-down decision-making mechanisms to guide work. In contrast, an **organic structure** is characterized by little standardization, broad specialization, limited centralization, and divisional departmentalization.[5] An example of an organic structure is a neighborhood pick-up sports league, where players show up if they are available and are divided into different teams each week. This mechanistic–organic continuum is conceptually powerful, and is the most widely recognized contribution in the organization design literature.[6]

**Figure 11.1. The mechanistic–organic structure continuum**




The logic behind the mechanistic–organic continuum is that there are interrelationships among each of Weber's four organizing fundamentals. These fundamentals take on different forms, depending on the structural type. In other words, the fundamentals of standardization, specialization, centralization, and departmentalization look quite different in a mechanistic organization than they do in an organic organization.

In a mechanistic structure, managers rely on *standardization* (e.g., manuals filled with policies and rules) and tend to emphasize *narrow specialization* (e.g., detailed, highly-specific job descriptions). Mechanistic structures are associated with *centralization* (decision-making authority is concentrated at the top of the hierarchy), and tend to favor *functional departmentalization* (grouping employees with the same skill set). In sum, in a mechanistic structure the fundamentals fit together to form a coherent whole that operates like a well-designed machine. This structure is sometimes called a *machine bureaucracy*. Generally speaking, as organizations increase in size, they tend to become more mechanistic. This is because mechanistic structures appear to offer more efficient processes to coordinate the work of hundreds or even thousands of employees.

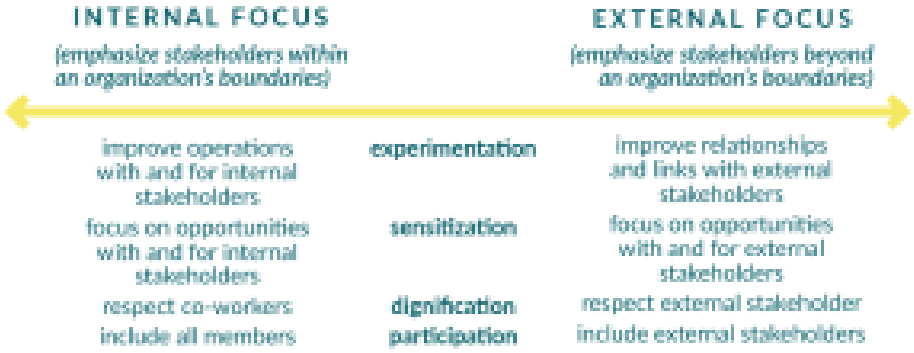
To see how the four fundamentals fit together in an organic structure, let's discuss them in the opposite order. To begin, recall that managers with *divisional*

*departmentalization* must coordinate work across a variety of functional areas (e.g., marketing, finance, and production). Because divisional managers will lack full expertise in all these areas, it is appropriate for the manager to operate with less *centralization*, delegating decision-making authority to expert subordinates. As members interact and work together across functions, they will tend to develop *broad specializations*. Finally, because of this diffuse decision-making authority and collaborative specialization, highly developed procedures and uniform work standards may not be possible or practical, resulting in less *standardization*. Thus, in an organic structure the fundamentals also fit together to form a coherent whole, but the structure operates less like a mechanical machine and more like a highly adaptive organism.[7]

#### Structure's internal–external focus continuum

The fundamentals of organization emphasized in the SET approach (experimentation, sensitization, dignification, and participation) can be combined to form an overarching continuum that contrasts an internal focus structure with an external focus (see Figure 11.2).[8] An **internal focus structure** is characterized by an emphasis on how stakeholders within an organization's boundaries engage in experimentation, sensitization, dignification, and participation, whereas an **external focus structure** is characterized by an emphasis on how stakeholders beyond an organization's boundaries engage in experimentation, sensitization, dignification, and participation.

**Figure 11.2. The internal–external focus structure continuum**



As with the mechanistic–organic structure continuum, the logic behind the internal–external continuum is that the four fundamentals of organizing associated with the SET approach are interrelated. In an internal focus structure, when members prioritize treating each other with respect (*internal dignification*), they emphasize the input and concerns of members (*internal participation*), causing members to be attuned to one another's work to look for new opportunities to improve their tasks (*internal sensitization*) and to seek new ways to improve internal operations (*internal experimentation*). The fundamentals thus form a self-reinforcing system, where a particular emphasis on any one factor is expected to be associated with a similar emphasis on the others. The internal focus at Greyston Bakery (Chapter 1) is evident already in its recruitment practices, where jobseekers—including people with a criminal record or who are unhoused—are hired in the order they add their names to Greyston's Job List: "No one willing to work should be denied the dignity of a job."[9] By meeting with apprentices every two weeks, Greyston is sensitized to their needs: "We were offering job training, but we found that many people who needed jobs didn't have housing or childcare . . . Our approach had to include housing, childcare, job training, counseling, and the creation of jobs all at once."[10]

In an external focus structure, when managers prioritize treating external stakeholders with respect (especially marginalized and underserved stakeholders), there is *external dignification*. It follows that the advice of these stakeholders will be sought (*external participation*), that members and stakeholders together will look for ways to improve overall multi-stakeholder well-being (*external experimentation*) and seek new ways to improve the effect of the organization's activities on external stakeholders (*external sensitization*). MAD Travel, described in Chapter 6, provides an example of an external focus organization, where Indigenous communities and the larger landscape are treated with dignity and are important participants in the work of the organization.

Of course, as with the mechanistic–organic structure continuum, the internal–external structure continuum reflects ideal types and does not perfectly describe what goes on in any particular organization. However, it does provide a helpful conceptual framework and can help managers think about how changing one dimension (e.g., dignification) will affect another (e.g., experimentation), to ensure a good overall fit with social and environmental goals of the organization.

#### Combining the two continua: Four generic types of organizational structure

As shown in Table 11.1, the mechanistic–organic and internal–external continua can be combined to create four types of organizational structure: familial, programmed, pioneer, and outreach.

**Table 11.1. Four types of organizational structure**

| | *Internal focus structure* | *External focus structure* |
|---|---|---|
| *Organic structure* | Familial structure | Pioneer structure |
| *Mechanistic structure* | Programmed structure | Outreach structure |

Starting in the top left quadrant, a *familial structure* is organic and has an internal focus. It is often characteristic of smaller organizations, perhaps especially family firms, but it can be found in non-family firms as well. For example, Velo Renovation has few rules, is always open to new ways of doing things, and seeks to optimize the well-being of its members (opening case, Chapter 9). Shown in the bottom left quadrant, a *programmed structure* is mechanistic and has an internal focus. This is evident in Taylor Guitars, which treats members with dignity while following rigorous standards in selecting and working with its wood. In the top right quadrant, a *pioneer structure* is organic and has an external focus. A firm like Tall Grass Prairie Bread Company (Chapter 7) is an example of this, perhaps especially during its early years, as it listened sensitively to the needs of local farmers and experimented with different baked goods and recipes. And finally, shown in the bottom right quadrant, an *outreach structure* is mechanistic and has an external focus. This is evident in organizations like Boldr (opening case, Chapter 5) that have specific rules and operating procedures to perform their tasks efficiently while simultaneously seeking to be very customer-oriented and aware of the social needs in the larger community.

### 11.2.2. Culture

Whereas organizational structure relates primarily to the *formal* aspects of management, organizational culture draws attention to the *informal* aspects of management. **Organizational culture** refers to the set of shared values and norms that influence how members perceive and interact with each other and with other stakeholders.[11] **Organizational values**, in turn, are the foundational beliefs that members hold about the goals of the organization and how those goals should be achieved. For example, the maximization of financial profit is an important value within FBL management, whereas values of equality and preserving nature are more prevalent in SET organizations. Choices and behaviors in any organization will tend to reflect the organization's underlying values. Some elements of an organization's culture and values may be highly formalized (e.g., expressed in a mission statement), but many aspects of organizational culture and values remain informal. **Organizational norms** are the informal rules that guide social and task behavior in a group. Although they are rarely stated explicitly, norms have powerful effects on almost all aspects of social life, including organizational life.[12] For example, in some organizations the norm is to take minutes at meetings, and in other organizations taking minutes is frowned upon (e.g., Semco).

Like structure, organizational culture varies widely and can be assessed on multiple dimensions. The best-known typology of organizational culture—called the Competing Values Framework[13]—is built on research that suggests two dimensions of organizational culture that are particularly helpful for understanding organization design. The first dimension is culture's predictability–adaptability continuum (which aligns with structure's mechanistic–organic continuum), and the second dimension is culture's internal–external focus continuum (which aligns with structure's internal–external focus continuum). Indeed, in important ways an organization's structure and its culture can be seen as two sides of the same coin.

*An organization's structure and its culture can be seen as two sides of the same coin.*

#### Culture's predictability–adaptability continuum

In the predictability–adaptability continuum, a **predictability culture** refers to organizations that tend to place greater value on stability and control, and an **adaptability culture** describes organizations that tend to place greater value on flexibility and change. In organizations with a culture of predictability, for example, members thrive when they know exactly what times and days of the week they have regular meetings, when reports are due, who reports to whom, and so on. In contrast, in an adaptability culture, members thrive on being flexible and not knowing what sorts of things will come up at work during any particular day or week, or whom they may be assigned to work with on an ad hoc team. As noted above, the predictability–adaptability continuum of culture aligns closely with the mechanistic–organic continuum of structure. Predictable cultures tend to have a mechanistic structure, and adaptable cultures tend to have an organic structure.

#### Culture's internal–external focus continuum

The second culture continuum reflects whether an organization has an internal focus or an external focus. An **internal focus culture** refers to organizations that place relatively more value on the needs of employees as compared to overall organizational goals. That is, the organization is a means to meet the needs of its members. By contrast, an **external focus culture** denotes organizations that prioritize organizational objectives over employee needs. In this type of culture, members are a means to meet the needs of the organization. Greyston Bakery's motto—that it bakes brownies in order to hire people, rather than hiring people to bake brownies—indicates an internal focus. In contrast, impersonal organizations—where members are treated as a "number"—are more likely to have an external focus. For example, factories assembling iPhones for Apple will typically have an external focus.[14] Again, culture's internal–external continuum aligns closely with structure's internal–external continuum.

#### Combining the two continua: Four generic types of organizational culture

As shown in Table 11.2, culture's adaptability–predictability and internal–external continua combine to create four types of organizational culture: clan, hierarchy, adhocracy, and market cultures.

**Table 11.2. Four types of organizational culture**

| | *Internal focus culture* | *External focus culture* |
|---|---|---|
| *Adaptability culture* | Clan culture | Adhocracy culture |
| *Predictability culture* | Hierarchy culture | Market culture |

Starting in the top left quadrant, a *clan culture* values flexibility and an internal focus, emphasizing cohesiveness, morale, and the development of its members. Clan culture is characterized by teamwork, participative decision-making, and is comfortable with high levels of openness. This culture is attractive to members who value affiliation, mutual dependence, long timelines, and interpersonal relationships and processes. Compared to the other types of culture, clan culture tends to place particular emphasis on internal social well-being.[15] It is associated with developing a sense of community[16] and higher levels of job satisfaction.[17] A clan culture (and familial structure) is evident in the networks of distributors who work in an FBL firm like Amway, where salespeople look out for each other and there is a strong incentive for senior people to nurture and help junior people to increase sales of its health, beauty, and home care products.[18] It is also evident in smaller craft-based TBL firms like Botanical PaperWorks,[19] which makes handmade paper for special events like wedding invitations. And it can be seen in a SET firm like Greyston Bakery, which provides jobs, training, and work-based and personal support for chronically unemployed people.

Moving to the bottom left quadrant, we see that a *hierarchy culture* values predictability and an internal focus, and emphasizes bureaucratic information management systems and communication. Hierarchy culture is characterized by its emphasis on minimizing costs, smooth operations, and dependability. This culture is attractive to managers who value certainty, long timelines, security, routinization, and the systemic analysis of facts in order to find the one best way to perform tasks.[20] A hierarchy culture is evident in FBL-managed overseas garment factories in countries like Bangladesh, which place relatively high emphasis on an FBL mechanistic structure and seek to respond to pressures from external stakeholders (e.g., human rights activists, concerned consumers) to adopt more characteristics associated with an internal focus structure.[21] An example of a

TBL variation is online fashion retailer Everlane, which sources all its clothing from socially responsible garment factories.[22] A SET variation was observed at Taylor Guitars, where highly routinized and systematic processes govern production, and where ownership was recently transferred from the founders to the employees of the company.

An *adhocracy culture*, shown in the top right quadrant, values flexibility and an external focus, and emphasizes dynamism, innovation, and growth.[23] Adhocracy culture is characterized by its emphasis on being willing to take risks and operate on the cutting edge. This culture is appealing to managers who value growth, variation, uncertainty, risk and excitement, a future orientation, and mutual influence with external stakeholders.[24] An adhocracy culture is evident in innovative FBL organizations like Apple (though not in its overseas FBL factories that manufacture its products, which would be more likely to have programmed structures[25]), TBL organizations like Tesla (though not in its established factories),[26] and SET organizations like MAD Travel.

Finally, in the bottom right quadrant, we see that *market culture* values predictability and an external focus, and emphasizes competitiveness, results, and constantly improving operations. Market culture is characterized by its emphasis on planning, goal-setting, and efficiency. This culture is attractive to managers who value short timelines and high certainty, and have a need for achievement and independence.[27] A market culture is evident in FBL organizations like Goldman Sachs,[28] which has very concentrated centralization[29] and an external focus on enhancing financial well-being.[30] It is also evident in a large TBL firm like 3M, whose external focus is evident in its engineers spending 15 percent of their time working on new product ideas to meet the needs of the marketplace. And a SET example is Habitat for Humanity, which has a well-developed formal structure and is always seeking to increase its support and the number of homes it can build for underhoused people.[31]

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### 11.2.3. Environment

The **organizational environment** consists of all the actors, forces, and conditions outside the organization. This includes the various political, economic, social, technological, environmental, and legal factors that exist in the organization's operating environment.[32]

Interestingly, scholars who examine how organizations fit into their broader environment often apply ideas from the natural sciences. Just as wildlife species must fit within their environment (e.g., the number of deer that a biome can support is determined by the weather, food supply, predators, etc.), so also organizations must fit within their environment (e.g., the number of gas stations a town can support is determined by the number of drivers who live in or travel through the town[33]). It is the "fittest" in this sense who survive and thrive. In the big picture, both wildlife (deer) and organizations (gas stations) must operate within the capacity of Earth's ecosystems, which is the grand life support system for all earthly populations, human and non-human alike.

*Just as wildlife species must fit within their environment, so also organizations must fit within theirs.*

Scholars have identified many different dimensions of organizational environments for managers to consider. Among these, two dimensions are of particular interest for organizational design: the environmental stability–change continuum, and the munificence continuum. **Environmental stability** refers to the prevalence and speed of change among key resources and stakeholders in an organization's external environment. A stable environment features a secure source of supply, steady demand, slow-changing technology, and government policies that are predictable and consistent. There is considerable agreement about how this dimension relates to the mechanistic–organic continuum.[34] In a stable environment, a mechanistic structure that generates uniform quality and reduces inefficiencies is recommended. However, in a dynamic and changing environment, an organic organization structure is preferred because it is more flexible and allows members to realign the organization's products and services with those external shifts.

The second dimension, **environmental munificence**, refers to the availabil-

ity of resources in the environment that enable organizations to grow and change.[35] In cases where the viability of an organization is threatened by a low munificence environment (i.e., low resource availability), an internal focus structure that uses limited resources very efficiently may be most appropriate. For example, if it is difficult to hire staff or find customers, managers can focus their efforts internally to retain the staff and customers they already have. Companies like Amway and door-to-door sales companies often find it difficult to attract and retain staff, and in order to fit within this environment such firms implement an internal focus to retain them.[36] In high munificence environments, managers can afford to lose current resources because there are many other, sometimes better, resources readily available. Consider the example of Tesla, which on the one hand operates very munificent environment: there is high demand for electric cars that address the concern around GHG (greenhouse gas) emissions generated by fossil-fuel powered cars. However, Tesla must continuously develop advanced technologies and infrastructure to free up or tap into that munificent environment.[37] Thus, Tesla has created proprietary charging infrastructure, longer range batteries, and sleek, iconic designs that are attractive to consumers.[38] We can observe companies like Tesla using external focus structures to develop and enhance their market's munificence.

#### Combining stability and munificence: Four generic types of organizational environment

Once again, we can combine the dimensions of stability–change and low–high munificence to create a typology, in this case of generic organizational environments. As shown in Table 11.3, four types of environments result: harsh, barren, prolific, and oasis.

**Table 11.3. Four types of organizational environment**

| | *Low munificence* | *High munificence* |
|---|---|---|
| *Changing environment* | Harsh environment | Prolific environment |
| *Stable environment* | Barren environment | Oasis environment |

A *harsh environment* (top left quadrant) is characterized by rapid change and low munificence. Start-up organizations in general often face a harsh environment as they seek to become known and trusted and compete with established firms. Organizations in a harsh environment must constantly change and adapt to their environment and/or find ways to stabilize their resource supply to decrease the impact of external shifts. For an example of adaptation, consider a neighborhood restaurant that, in order to accommodate demographic shifts within the community, changes from being a family-friendly pizza place to a young adult hangout, and then to a formal dinner place. An example of stabilizing the resource supply is when an organization secures long-term contracts with suppliers or customers. Greyston Bakery (SET) has a contractual commitment from Ben & Jerry's ice cream to purchase most of the 6 tons of brownies Greyston produces each day.[39] Botanical PaperWorks (TBL) uses its reputation and ability to fulfill orders in a timely fashion to compete against its lower-priced overseas competitors, and Amway (FBL) establishes ongoing personal relationships with customers and distributors to protect itself from the stream of competitive products in its market.

*Greyston Bakery has a contractual commitment from Ben & Jerry's ice cream to purchase most of the 6 tons of brownies Greyston produces each day.*

A *barren environment* (bottom left quadrant) is characterized by stability and low munificence; managers therefore go to great lengths to retain valuable resources that are in short supply. The stakeholders who provide key resources need to be attended to closely and even coddled.[40] For example, professional sports teams use extremely generous pay and benefits packages to attract and retain their key (human) resource, which is in very short supply: top athletes. For garment factories in Bangladesh (FBL), securing long-term contracts is essential to maintain their key resource, which is orders from retailers. In a competitive marketplace for responsible fashion where customer trust is low, Everlane (TBL) seeks to enhance trust by being transparent, though it has also been accused of greenwashing.[41] Taylor Guitars (SET) purchased the company that provides it with rare ebony.

A *prolific environment* (top right quadrant) is characterized by rapid change and high munificence. Apple (FBL) is always looking for "the next big thing," and its successes (e.g., the iPhone) pay for innovative products that are less successful (e.g., Apple TV).[42] Tesla (TBL) can also be seen as competing in a prolific environment, given the changes that are occurring in the automobile industry (e.g., changing consumer and regulatory demand for cleaner emissions) and growing munificence (e.g., government incentives for EVs in some jurisdictions). The environment of MAD Travel (SET) is also changing, due in part to its success in growing the local demand for ecotourism.

The *oasis environment* (bottom right quadrant) is characterized by stability and high munificence; it therefore attracts many competitors. Organizations in this quadrant typically focus on growth, taking advantage of both existing and new opportunities while also reducing the number of competitors. Examples include Goldman Sachs (FBL), which, notwithstanding the changes since the 2008 financial collapse, is competing in a fairly stable and munificent environment (i.e., financial institutions continue to report disproportionately high profits). Similarly, 3M (TBL) may be seen as competing in relatively stable environments (e.g., Scotch Tape, Post-It Notes, Thinsulate) as well as in new munificent environments (one-third of 3M's sales have been generated by products that were launched within the past five years).[43] Habitat for Humanity (SET) also operates in an oasis environment because there is an unfortunately stable supply of underhoused people, and there are philanthropically minded people willing to help (though perhaps never enough).

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### 11.2.4. Technology

The fourth element of organizational design, **technology**, refers to the combination of equipment (e.g., computers, machinery, tools) and skills (e.g., techniques, knowledge, processes) that are used to acquire, design, produce, and distribute

goods and services. Once again, we present two dimensions of technology—task analyzability and task variety—and consider these in relation to organizational structure.

The first dimension, *task analyzability*, refers to the ability to reduce work to mechanical steps and to create objective computational procedures for problem solving. As you might guess, high task analyzability tends to be associated with a mechanistic structure.[44] This is not limited to simple tasks: even something as complicated as building a car can be subdivided into many separate steps. In contrast, work that cannot be reduced to mechanical steps, even something as simple as an artist drawing a picture with a pencil, is typically associated with a more organic structure.

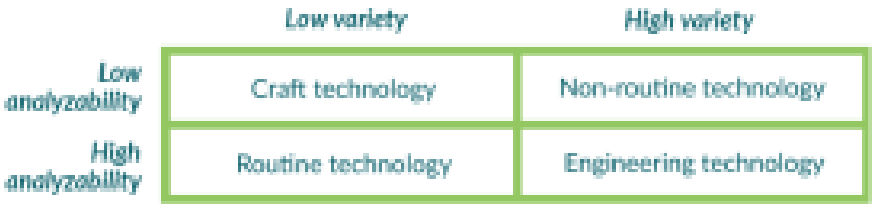
*Even something as complicated as building a car can be subdivided into many separate steps, whereas drawing artwork with a pencil cannot.*

Second, *task variety* refers to the frequency of unexpected, novel, or exceptional events that occur during work. When tasks have low levels of variety (i.e., jobs tend to be predictable), an internal focus structure may be more appropriate to help keep workers engaged and motivated. When task variety is high, and especially if the causes of variety are external, an external focus structure may be more appropriate. These differences will become more apparent as we describe the typology created when task analyzability and task variety are combined.

#### Combining analyzability and variety: Four generic types of organizational technology

Table 11.4 shows how four types of organizational technology result when combining the dimensions of analyzability and variety: craft, routine, non-routine, and engineering.

**Table 11.4. Four types of organizational technology**




*Craft technology* (top left quadrant) is characterized by work that has low analyzability and low variety. Such work in is often based on tacit knowledge that is applied in predictable settings. This might include the performing arts, teaching, and general management. Craft technology may also be evident in some "continuous process" organizations where much of the work is done by machines but where people's tacit knowledge is required to oversee the machines and ensure that they are operating properly (e.g., the finer nuances of brewing beer). Just like teachers and artists, such workers are troubleshooters where the nature of problems is often difficult to predict. Craft technology tends to fit with an internal focus structure and a more organic organization structure. A now-classic study by Joan Woodward found that continuous process manufacturers achieved higher financial performance if they had a more organic organization structure (due to challenges in standardizing a continuous process).[45] Examples of craft technology include the work of personal sales in Amway (FBL), hand-made paper making at Botanical PaperWorks (TBL), and the art of baking specialized products for high-end restaurants at Greyston Bakery (SET).

*Craft technology, like teaching, emphasizes tacit knowledge and tends to fit with a familial structure and clan culture.*

*Routine technology* (bottom left quadrant) is characterized by work that has high analyzability and low variety. Work in such organizations can be broken down into separate steps and exceptions to standard ways of operating are rare, thus making it suited to a mechanistic structure. A common example is traditional assembly-line technology. Jobs like bank tellers, data entry workers, and toll-booth operators would also be highly routine. Routine technology that is coupled

with an assembly-line technology has been associated with increased financial performance, as is the case in garment factories in Bangladesh (FBL). Such jobs would also benefit from an internal focus structure, especially in situations where the workers themselves do not interact with external stakeholders, as is the case for employees performing routine tasks in Everlane (TBL) and Taylor Guitars (SET).

At the other extreme, *non-routine technology* (top right quadrant) is characterized by work that has low analyzability and high variety. Work in such organizations cannot easily be broken down into separate steps and there are many one-of-a-kind activities. The work of professors in universities, management strategists in consulting firms, and founders in entrepreneurial start-ups may be characterized as having a non-routine technology. Joan Woodward found that when manufacturers relied on "small-batch" technologies to do custom work (e.g., unique short-run or one-of-a-kind products), an organic structure was associated with increased financial performance because it was a better fit. This quadrant also tends to be associated with an external focus structure because the adoption of non-routine technology is often driven by the specific and changing needs of external stakeholders. Examples may include product designers Apple (FBL), Tesla (TBL), and tour guides at MAD Travel (SET).

*Engineering technology* (bottom right quadrant) is characterized by work that has high analyzability and high variety. Many professional jobs, including those of engineers, lawyers, and tax accountants, employ engineering technology. The most appropriate structure for this technology is a mechanistic one with an external focus.[46] Representative examples include Goldman Sachs (FBL), 3M (TBL), and Habitat for Humanity (SET).

This concludes our "deep dive" into the constituent elements of organizational design. Observant readers will have noticed that we've covered structure, culture, environment, and technology, but seem to have missed one element: strategy (focus, cost leader/minimizer, differentiator/transformer, dual/compounder). This is because Chapter 8 was devoted to strategy. It may help to look back for a quick refresher because now it's time to put all the pieces together. In the next section we combine the five elements of organizational design, including strategy to present the four generic organization design types.

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## 11.3. Four Generic Organization Design Types

By combining the organization design elements we have presented thus far, we can identify four generic organization designs: simple, defender, prospector, and analyzer.[47] As depicted in Table 11.5, these four types tend to be aligned with specific configurations of design elements.

**Table 11.5. Four generic types of organization design**

| GENERIC DESIGN TYPE | |
|---|---|
| SIMPLE TYPE<br>Familial structure<br>Clan culture<br>Harsh environment<br>Craft technology<br>Focus strategy<br>Examples:<br>Amway (FBL)<br>Botanical Paperworks (TBL)<br>Greyston Bakery (SET) | PROSPECTOR TYPE<br>Pioneer structure<br>Adhocracy culture<br>Prolific environment<br>Non-routine technology<br>Differentiation/Transformer strategy<br>Examples:<br>Apple Inc (FBL)<br>Tesla Motors (TBL)<br>MAD Travel (SET) |
| DEFENDER TYPE<br>Programmed structure<br>Hierarchy culture<br>Barren environment<br>Routine technology<br>Cost leadership/Minimizer<br>Examples:<br>Garment factories in Bangladesh (FBL)<br>Everlane (TBL)<br>Taylor Guitars (SET) | ANALYZER TYPE<br>Outreach structure<br>Market culture<br>Oasis environment<br>Engineering technology<br>Dual/Compounder strategy<br>Examples:<br>Goldman Sachs (FBL)<br>3M (TBL)<br>Habitat for Humanity (SET) |

Of course, although the four types as described in Table 11.5 seem complex, they are still a simplification of what managers face in their organizations. For

example, in the so-called real world there is considerable variation among organizations within each generic design, and few if any organizations will fit a given configuration perfectly. Consider this analogy: even though there are a lot of components that make up a motorized vehicle (engine, tires, seat, steering, etc.), we can nevertheless combine them into generic types of motorized vehicles (cars, vans, trucks, motorcycles). And even though it is helpful to think of generic types of motorized vehicles, there is much variation within each category (e.g., a car can be further specified as a sedan, coupe, hatchback, roadster, or alternatively, as a Ford, Ferrari, Honda, Hyundai, etc.). So while generic categories help bring conceptual order to the world, we must remember that they are an abstraction of the real world and leave out many details. At the same time, we can still recognize that when shopping for a vehicle, it's really helpful to distinguish cars from vans, trucks, and motorcycles. Similarly, distinguishing between simple, defender, prospector, and analyzer generic types helps us better understand and make sense of the organizational world.

An organization with a **simple organization design** tends to have a focus strategy, a familial structure and clan culture, a harsh environment, and a craft technology. Smaller companies, start-ups, and family businesses often fit the simple design profile. Imagine, a family-run restaurant popular for its special atmosphere and "grandma's" traditional recipes (focus strategy: differentiation). The restaurant has provided stable employment for multiple generations of family members (familial structure), and that special atmosphere is closely tied to the family's tight-knit dynamic and cohesive working relationships (clan culture). The community around the restaurant has been developing rapidly in recent years and a number of new restaurants have opened offering all manner of global cuisine (harsh environment), but people keep coming for those "down-home" dishes that only grandma can make (craft technology). Even if this restaurant is only in your imagination, you probably recognize that all the pieces fit together to form a coherent whole.[48]

An organization featuring our second generic type, a **defender organization design** tends to have a cost leader or minimizer strategy, a programmed structure and hierarchy culture, a barren environment, and a routine technology. Compared to the simple type, defender organizations are typically larger, older, and more established companies with a core product or service offering. This time, imagine a branch of a national auto-parts supplier that sends out weekly flyers featuring a broad selection of discounted items on sale (cost leadership strategy). Even though you don't visit often, you recognize the staff because most employees have worked in the same role, in the same department, reporting to the same manager for many years, thanks to the job security, reasonable wages, and conge-

nial atmosphere (programmed structure, hierarchy culture). There are a number of very similar parts suppliers in the city, and customers tend to frequent whichever is most convenient (barren environment). Nonetheless, there always seems to be enough work to go around, and employees are kept busy serving customers, stocking shelves, and processing special orders (routine technology). This story may resonate if you're familiar with auto-parts suppliers because again, the pieces tend to fit together.

*The most powerful departments in a defender organization tend to be production and finance.*

Our third generic type is the prospector. A **prospector organization design** tends to have a differentiator or transformer strategy, a pioneer structure and adhocracy culture, a prolific environment, and a non-routine technology. Young, dynamic, and innovative firms generally fit the prospector profile. Our hypothetical example here is a small team of engineers working to commercialize their latest university-based research project: an artificial intelligence–enhanced robot designed to assist patients with progressive dementia (differentiation strategy). Although commercialization presents formidable challenges and requires each team member to "wear many hats," they remain passionate, believing their innovations will measurably improve the well-being of dementia patients and caregivers (pioneer structure, adhocracy culture). They also see great potential for adapting the product to the specific needs of other patient populations, made possible by their innovative integration of numerous cutting-edge technologies (prolific environment, non-routine technology). Perhaps there's a team working on something just like this in a research lab or tech incubator near you.

We now come to the last of the four generic design types. An **analyzer organization design** tends to have a dual (cost leader plus differentiator) or compounder (minimizer plus transformer) strategy, an outreach structure and market culture, an oasis environment, and an engineering technology. Analyzers can be thought of as part defender and part prospector, and sometimes employ a hybrid structure to accommodate these different aspects. Public institutions (e.g., hospitals, universities), established companies with intrapreneurial divisions, and firms that develop customized, project-based products and services tend to fit the analyzer profile. For this type we will imagine a major property development firm in

a large and growing metropolitan area. Typical projects include large-scale community centers, concert theaters, megachurches and sports complexes, most of which are awarded on the basis of competitive price bids and progressive design features (cost leader plus differentiation strategy). Due to the complexity of the projects, and the need for close and extended coordination with a complex customer (municipalities, faith groups, etc.), employees typically have dual reporting to both a functional team lead who oversees a given profession or trade, and a project manager responsible for overseeing all professions/trades on a given project (outreach structure, market culture). The region's economy continues to attract business investment along with a steady stream of young, aspiring professionals, and the firm looks forward to applying its design-build expertise on standout development projects for many years to come (oasis environment, engineering technology). The analyzer is clearly quite different from the preceding types, yet once again we observe complementary between the various design elements and coherence in the overall form.

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## 11.4. Entrepreneurial Implications

In this final section, we examine some of the implications of organization design for entrepreneurs, both in terms of how entrepreneurs can use the tools in this chapter to make decisions, and how research findings point to certain constraints on the options available. But first we highlight aspects of the larger cultural environment that entrepreneurs should take into consideration when choosing their strategy and design.

### 11.4.1. Cultural considerations

Recall that organizational culture consists of shared values and norms among members. However, culture also exists outside of organizations and can power-

fully influence the success of an organization.[49] Entrepreneurs must pay attention to both societal and industry culture when they design their organization's structure. In some countries it is normal and valued for authority to be centralized at the top of the organization's hierarchy (e.g., India, Malaysia, Philippines), whereas other countries value authority being diffused throughout an organization (Austria, Denmark, Israel).[50]

This provides direction for how organization structures should be designed, and also explains why the same organization design can be interpreted differently by members in different countries. In Mexico, where people tend to have a high deference to authority, managers who try to empower members and promote participative decision-making may be perceived as shirking their leadership responsibilities. In contrast, in Israel, where people tend to have a low deference to authority, managers who try to use a centralized decision-making approach may face resentment from members.

Industries can also display aspects of culture that may influence the operation of an entrepreneurial organization. FBL entrepreneurs may have difficulty acquiring financial resources if investors predominantly value TBL management. The recent global trends toward sustainable ESG (economic, social, and governance) investing suggest that market-based financing will increasingly favor TBL start-ups. Likewise, if there is a dominant organization in the industry, it may have shaped practices to its benefit, and in ways that make it more difficult for new firms to enter. For example, a new app needs to work with the operating systems on the devices it is targeting, and the start-up needs to follow the rules of the relevant stores promoting the app.

### 11.4.2. Entrepreneurial options in organization design

As discussed in Chapter 10, classic entrepreneurs—those starting new organizations based on product or service innovation—are likely to adopt an organic structure and lean toward the SET fundamentals of organizing. This has important implications for the start-up's organizational design. In particular, it suggests that most start-ups will adopt either a simple (organic with an internal focus) or prospector (organic with an external focus) organization design.

*Most start-ups will adopt either a simple **or a** prospector **organization design.***

**Organization designs to consider: Simple and prospector**

Of course, any organization can have any design its founder wishes, but if the design does not fit the environment and technology, the new organization will struggle to succeed. As we have seen in this chapter, the simple and prospector designs are well-suited to particular types of environments, technologies, and strategies. A *simple* design is especially appropriate when the environment is changing and has low munificence. This applies to entrepreneurs who are relatively new to an industry (and thus always learning something new about it) and do not yet have stable customers. A simple design is also appropriate when the entrepreneur is not yet aware of the best technology to use and needs to tweak things until they develop sufficient expertise. Here a focus strategy works best, as the entrepreneurial organization seeks to find its place in its industry over time.

A *prospector* design is especially appropriate when the entrepreneur perceives the environment as changing and having high munificence. This describes entrepreneurs who are relatively new to an industry or perhaps entering a relatively new industry (and thus always learning something new about it), and where there is a strong demand for their new product or service. A prospector type is also best when the start-up is not yet aware of the best technology to deliver its product or service and there is a lot of task variety. Here a differentiation or transformer strategy works best, as the entrepreneurial organization finds its place in the industry.

Overall, entrepreneurs need to be careful to analyze their environment and technology when designing their organization and to target opportunities where their relative flexibility is an advantage. If the environment is stable, they may wish to target a sub-environment that is changing. If the technology is highly analyzable, they may wish to focus on an emerging technology that is less analyzable. For example, the founder of MAD Travel knew it could not compete with mainstream tour operators in an industry that was fairly stable and analyzable. So MAD Travel focused on socially responsible ecotours, a new, less stable but potentially munificent segment of the industry. To enter this market successfully, the founder worked with and learned from partners and clients before developing the most appropriate organization design for their start-up.

*If the environment is stable, entrepreneurs may wish to target a sub-environment that is changing.*

#### Organizations designs to avoid: Defender and analyzer

Looked at from another perspective, there are organization designs that entrepreneurs may want to avoid. Consider the case of the *defender* type. To fit this generic design, an entrepreneur would need to adopt a cost leader strategy, which often favors large-scale production that creates economies of scale, or some other cost-saving advantage. A start-up is unlikely to have access to such resources. In addition, the prototypical defender context is an industry with a stable, well-established market, routine technology, and low munificence. This combination of features creates significant barriers to entry.

Imagine trying to launch a new online bookstore in the age of Amazon. Buyers have been conditioned to expect cheap books, the technical aspects of online book shopping are clearly defined, and there is already a dominant organization in the industry. Why would publishers want to enter into deals with your new bookstore? How could you offer a price that was better than the competition's, especially while you are learning the technology and routines, and running an under-capitalized new firm with limited inventory? As you can see, the prospects for a defender start-up are not promising. Of course, as examples like Boldr attest, there are exceptions to the rule, but those start-ups typically require extraordinary planning and a significantly different supply chain and value proposition (e.g., based on SET management).

The likely success of an *analyzer* start-up is equally low. The munificence of the environment in a stable market will have attracted other firms and there are likely to be one or more cash cows in operation. That source of reliable income would allow incumbents to defend their position and out-compete start-ups. The engineering technology is complicated, and so favors established firms with more numerous and experienced members. It is hard to imagine that a classic entrepreneur could expect to generate enough profit to attract investors and justify their new venture's operations.

There are two exceptions where entrepreneurs might successfully enter a market with a defender or analyzer design. The first is when a group of founders with deep industry experience is aware of under-tapped niches in the environment and can attract substantial investment from the outset. The second is in the case of franchising, if franchising support is sufficiently developed and the established brand is strong enough to create a pre-existing customer base.

In sum, most entrepreneurs, regardless of their management approach, are likely to start with a *simple* or *prospector* organization design. It may be done through a focus strategy that maximizes fit in a specific niche (simple) or through a differentiation/transformer strategy that showcases the entrepreneurial innova-

tion (prospector). Thus, though all start-ups are likely to be relatively organic, the entrepreneur needs to consider whether the structure and culture should be internally or externally focused. In part, this decision should reflect how munificent the environment is and how much task variety their work will involve.

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## Chapter Summary

1. Organization design addresses the need for a proper *fit* between various elements of the organization and its external environment.
2. The five basic elements of organization design consist of structure, culture, environment, technology, and strategy.
    - (i) **Structure** has two primary dimensions or continua: *mechanistic–organic* and *internal–external focus*. Combining these two dimensions creates four types of structures: *familial, programmed, pioneer, outreach.*
    - (ii) **Culture** has two similar underlying dimensions or continua: *adaptability–flexibility* and *internal–external focus.* Combining these two dimensions yields four types of culture: *clan, hierarchy, adhocracy, market.*
    - (iii) **Environment** has two primary dimensions: *stability* and *munificence*. Combining these dimensions results in four types of environments: *harsh, barren, prolific, oasis*.
    - (iv) **Technology** also has two primary dimensions:

*analyzability* and *task variety*. Combining these yields four types of technology: *craft, routine, non-routine, engineering*.

- (v) **Strategy** can be one of four generic types: *focus, cost leadership/minimizer, differentiation/transformer*, and *dual/compounder* (see Chapter 8).

3. The five design elements tend to align in specific configurations that are represented in four generic organization design types: simple, defender, prospector, and analyzer. Each type represents an integrated and coherent whole.
    - (i) The **simple** type has a focus strategy, familial structure, clan culture, harsh environment, and craft technology.
    - (ii) The **defender** type has a cost leadership or minimizer strategy, programmed structure, hierarchy culture, barren environment, and routine technology.
    - (iii) The **prospector** type has a differentiation or transformer strategy, pioneer structure, adhocracy culture, prolific environment, and non-routine technology.
    - (iv) The **analyzer** type has a dual (cost leader plus differentiation) or compounder (minimizer plus transformer) strategy, outreach structure, market culture, oasis environment, and engineering technology.
4. Classic entrepreneurial start-ups are most likely to have a simple or prospector organization design.

## Questions for Reflection and Discussion

1. Identify the five key elements of organization design. Which elements do you think are particularly important from an FBL perspective? A TBL perspective? A SET perspective?
2. Recall that in Chapter 1, we indicated that conceptual skills are key for explaining which managers get promoted. Do you think that stu-

dents who master this chapter are more likely to get promoted? Explain your reasoning.

3. Describe the four generic organization design types. What are their key features? What are the key differences between these types under FBL, TBL, and SET management approaches?
4. Visit a small independent business in your community and chat with the manager to determine how it operates and what kind of organization design it has. Briefly describe its structure, culture, environment, technology, and strategy. Would you classify it as an FBL, TBL or SET organization? Explain your reasoning. Determine which generic organization design type it is most similar to. What advice would you give to the managers to develop a better fit among the elements of organization design? If the organization already has a good fit, do you think that the organization will have to change to a different organization design type in the next five years in order to maintain its fitness? Explain your reasoning.
5. Now that you have developed an understanding the constituent elements of organizational design and the four generic design configurations, you should have a better sense of how to advise Nancy Elder, our soup-kitchen protagonist from the opening case. Given her goal to create a soup kitchen with a "dignity" focus, what should each of the design pieces look like? How might you manipulate the design levers to ensure overall coherence and a good fit between the organization and its environment? Is there a generic design that will work well? What tweaks might be required to fit the particulars of Nancy's situation? What special considerations might be needed, given that this will be a start-up enterprise and Nancy will be acting as an entrepreneur?
6. Suppose that you are making plans to start a new organization and are designing an Entrepreneurial Start-up Plan (ESUP) for it. What type of environment will your organization face? What technology will it use? Given these conditions, which generic organization design would be best? Explain your reasoning.
7. In Chapter, 10 you made choices about the four fundamentals of organizing for your ESUP. Which kind of generic organization design(s) do those choices imply? Is your answer the same as the design you chose in question 5 above? If not, what does that difference mean for your plans? What will you do in response?

## Notes

1. Some of the details in this case have been disguised. It is based on a presentation by the protagonist, and draws heavily on Dyck, B., & Neubert, M. (2010). *Management: Current practices and new directions*. Cengage/Houghton Mifflin.
2. Feeding America. (2024). *Map the meal gap 2024*. Food insecurity report briefs. Retrieved from https://www.feedingamerica.org/research/map-the-meal-gap/overall-executive-summary
3. This idea of fit draws heavily from contingency and configuration theory approaches to organization design. See Child, J. (1972). Organizational structure, environment, and performance: The role of strategic choice. *Sociology*, 6(1): 1–22. https://doi.org/10.1177/003803857200600101; Meyer, A. D., Tsui, A. S., & Hinings, C. R. (1993). Configurational approaches to organizational analysis. *Academy of Management Journal*, 36(6): 1175–1195. https://doi.org/10.2307/256809; Walker, K., Ni, N., & Dyck, B. (2015). Recipes for successful sustainability: Empirical organizational configurations for strong corporate environmental performance. *Business Strategy & the Environment*, 24(1): 40–57. https://doi.org/10.1002/bse.1805; Dyck, B. (1997). Understanding configuration and transformation through a multiple rationalities approach. *Journal of Management Studies*, 34(5): 793–823.Configuration ideas have also been applied to the study of leading sustainable organizations: Cantele, S., Leardini, C., & Piubello Orsini, L. (2023). Impactful B Corps: A configurational approach of organizational factors leading to high sustainability performance. *Corporate Social Responsibility & Environmental Management*, 30(3): 1104–1120. http://doi.org/10.1002/csr.2407; Arraya, M. (2024). Capabilities configurational method for organisations' sustainability: Antecedents and consequences. *International Journal of Management Concepts & Philosophy*, 17(2): 215–233. https://doi.org/10.1504/IJMCP.2024.137638
4. Note that our discussion of FBL organization structure builds on the work of Burns, T., & Stalker, G. M. (1966). *The management of innovation* (2nd ed.). Tavistock Publications. Discussion in this section also draws heavily from Dyck & Neubert (2010).
5. For more on the relationship between mechanistic–organic and functional–divisional departmentalization, see Burns, T., & Stalker, G. M. (1961). *The management of innovation*. London: Tavistock; Jundt, D. K., Ilgen, D. R., Hollenbeck, J. R., Humphrey, S. E., Johnson, M. D., & Meyer, C. J. (2004). *The impact of hybrid team structures on performance and adaptation: Beyond mechanistic and organic prototypes* [Working paper]. Michigan State University. https://www.researchgate.net/publication/235143992_The_Impact_of_Hybrid_Team_Structures_on_Performance_and_Adaptation_Beyond_Mechanistic_and_Organic_Prototypes
6. Donaldson, L. (1999). The normal science of structural contingency theory. In S. R. Clegg & C. Hardy (Eds.), *Studying organizations: Theory and method* (pp. 51–70). SAGE. For a related study, see González-Zapatero, C., González-Benito, J., Byung-Gak, S., & Lannelongue, G. (2024). Is supply chain risk mitigation affected by organisational design? The roles of organic structures and cultures. *European*

*Research on Management & Business Economics*, 30(2): 100248. http://doi.org/10.1016/j.iedeen.2024.100248

7. Note two caveats of this mechanistic–organic continuum. First, in actual practice there will be exceptions to the tendency for the four fundamentals to appear exactly in the way that they are shown on the continuum. New ventures, for example, may have a highly concentrated centralization (e.g., the entrepreneur makes all the decisions) and non-prescribed standardization and low specialization (e.g., the entrepreneur does everything "on-the-fly" and develops policies only on an "as needed" basis). Second, although thinking about the mechanistic–organic structure along a continuum has proven to be both elegant and useful, scholars have noted that some of its dimensions may be oversimplified. For example, rather than place concentrated and diffuse centralization on opposite ends of a *single* continuum, it may be more accurate to have two separate scales, where an organization could conceivably be seen to be getting simultaneously more centralized and decentralized. This could occur if decision-making authority was removed from middle management, with some of it going to lower-level managers (diffuse centralization) and some of it going to top managers (concentrated centralization). For more on this, see Cullen, J. B., & Perrewé, P. L. (1981). Decision making configurations: An alternative to the centralization/decentralization conceptualization. *Journal of Management*, 7(2): 89–103. http://doi.org/10.1177/014920638100700207
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10. Glassman, B., & Fields, R. (1996). *Instructions to the cook: A Zen Master's lessons in living a life that matters*. Crown Publishers, pp. 96–97; cited on page 3 in Van Wert (2018).
11. Schein, E. H. (1985). *Organizational culture and leadership: A dynamic view*. Jossey-Bass.
12. Anderson, J. E., & Dunning, D. (2014). Behavioral norms: Variants and their identification. *Social & Personality Psychology Compass*, 8(12): 721–738. https://doi.org/10.1111/spc3.12146
13. Malbašić, I., Rey, C., & Potočan, V. (2015). Balanced organizational values: From theory to practice. *Journal of Business Ethics*, 130(2): 437–446. http://doi.org/10.1007/s10551-014-2238-0. For more on the Competing Values Framework, see Cameron, K. S., & Quinn, R. E. (2011). *Diagnosing and changing organizational culture: Based on the Competing Values Framework* (3rd Ed.). Jossey-Bass. See also Giberson, T. R., Resick, C. J., Dickson, M. W., Mitchelson, J. K., Randall, K. R., &

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15. Under FBL or TBL management, a clan would seek the financial benefits of, for example, reduced turnover costs among members. In contrast, a SET management clan organization would emphasis benefits of treating one another with dignity in ways that defy financial measurement.

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19. See Botanical PaperWorks company website: https://www.botanicalpaperworks.com

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23. For empirical support, see Zeb, A., Akbar, F., Hussain, K., Safi, A., Rabnawaz, M., & Zeb, F. (2021). The competing value framework model of organizational culture, innovation and performance. *Business Process Management Journal*, 27(2): 658–683. https://www.researchgate.net/publication/349441072_The_competing_value_framework_model_of_organizational_culture_innovation_and_performance
24. An FBL management adhocracy would tend to emphasize instrumental goals, whereas a SET management adhocracy would emphasize sustainable innovations that enhance ecological and community well-being.
25. Smith, O. (2016, April 25). Inside secretive iPhone factory with safety nets "to stop workers killing themselves." *Express*. http://www.express.co.uk/news/uk/664296/secretive-iPhone-factory-safety-nets-stop-suicides-Apple-Petagron
26. Eisler, M. N. (2016). A Tesla in every garage? How not to spark an electric vehicle revolution. *IEEE Spectrum*, 53(2): 34–55. http://doi.org/10.1109/MSPEC.2016.7419798
27. An FBL market culture would tend to focus on financial performance goals, whereas a SET market culture would emphasize socio-ecological goals.
28. Martins, J. (2024, October 15). *6 tips to build a strong organizational culture, according to Asana leaders*. Asana. https://asana.com/resources/types-organizational-culture#
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ity-is-size-everything-20160715.html

30. While Goldman Sachs may have a high reputation among hedge fund and institutional investors, it has had a very low overall reputation in the general public in terms of social responsibility, vision and leadership, workplace environment, emotional appeal, products and services, and financial performance, according to Harris Poll data. Goldman Sachs ranked as the company with the sixth worst reputation in Comen, E., & Sauter, M. B. (2016, May 12). Companies with the best (and worst) reputations. *24/7WallSt*. http://247wallst.com/special-report/2016/05/12/companies-with-the-best-and-worst-reputations-4/
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34. However, FBL, TBL, and SET approaches generally agree that there is not one best way to manage stable and unstable environments vis-à-vis the SET management internal–external focus continuum.
35. The word "munificent" (noun form of "munificence") is defined as "very liberal in giving or bestowing" and comes from the Latin word for "generous." Merriam-Webster. (n.d.). Munificent. Retrieved December 24, 2024, from https://www.merriam-webster.com/dictionary/munificent
36. To illustrate the point, here is an article sponsored by Amway about how it seeks to foster trust among its employees: A wellbeing company has been fostering trust among its sellers and customers for decades. Here's what it looks like. (2024, June 5). *Business Insider*. https://www.businessinsider.com/sc/how-one-wellness-company-turns-skeptics-into-supporters. See also Givens, K. D., & McNamee, L. G. (2016). Understanding what happens on the other side of the door: Emotional labor, coworker communication, and motivation in door-to-door sales. *Journal of Ethnographic & Qualitative Research*, 10(3): 165–179.
37. For example, when a broad cross-section of motorists begins to desire environmentally friendlier forms of transportation, then it is possible to provide integrated solutions like hydrogen fuel cells, improved public transportation, and bicycle paths. The expensive infrastructure that must be developed requires a broad base of interested drivers. However, when only a small portion of society is seeking multiple forms of well-being, then managers must rely on smaller specialty or niche markets characterized by an internal focus. This is illustrated by bicycle shops that recondition old bikes, and organizations like CarShare and Zipcar that enable members to share cars because they do not need them twenty-four-hours a day, seven days a week.
38. Once firms like Tesla increase the munificence of the environment, other manufacturers are sure to enter, which both nurtures further munificence (e.g., by enhancing

infrastructure and legitimacy) and takes market share. The Grameen Bank may be seen as an example of a SET organization that has helped to develop a technology and munificent market (microfinancing) which others have been quick to enter.

39. See Jails to Jobs. (n.d.). *Greyston Bakery*. https://jailstojobs.org/resources/second-chance-employers-network/greyston-bakery/; and Ben & Jerry's. (n.d.) *Brownies from Greyston Bakery*. http://www.benjerry.com/greyston

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44. FBL, TBL, and SET approaches generally agree that there is no one best way to manage task analyzability vis-à-vis the internal–external focus continuum.

45. Woodward, J. (1965). *Industrial organizations: Theory and practice*. Oxford University Press; Woodward, J. (1958). *Management and technology*. Her Majesty's Stationery Service.

46. Though not as mechanistic as routine technology.

47. Much of this discussion draws from and builds on the typology developed by Miles, R. E., & Snow, C. C. (1978). *Organizational strategy, structure, and process*. McGraw-Hill. This typology has been the most enduring, scrutinized and used of numerous strategy classification systems introduced over the past four decades. Hambrick, D. C. (2003). On the staying power of defenders, analyzers and prospectors. *Academy of Management Perspectives* (was *Academy of Management Executive)*, 17(4): 115–118. https://doi.org/10.5465/ame.2003.11851883. Miles and Snow's typology is sometimes used to describe different *strategic* organizational types—and its overlap with Michael Porter's strategic types, described in Chapter 8, is well-accepted—but the deeper merit of their typology is its *comprehensive* nature, spanning organization structure, strategy, environment and technology. Ghoshal, S. (2003). Miles and Snow: Enduring insights for managers. *Academy of Management Perspectives* (*Executive)*, 17(4): 109–114. https://doi.org/10.5465/ame.2003.11851879; Ketchen, D. J. (2003). An interview with Raymond E. Miles and Charles C. Snow. *Academy of Management Perspectives* (*Executive)*, 17(4): 97–104. http://doi.org/10.5465/AME.2003.11851872

48. The simple organization design type may be organic simply because managers do not have the need or ability to create a well-developed mechanistic structure. Think of an entrepreneur who starts up a new organization in a garage or home office. This venture starts with one person, so there is little need for developing written guidelines or job descriptions. The job description of the lone entrepreneur is to do everything and to work as a one-person profit center. The entrepreneurs who manage such simple organizations have identified what they believe is an opportunity in a changing environment and are eager to demonstrate the viability of their new venture to make a profit and to attract investors. Their strategy is to focus on a particular segment of the market, where they offer their differentiated new-and-improved product or service ( "a better mouse-trap") or low-cost products or services (e.g., thanks to their lower overhead and operating costs). Managers often rely on their tacit knowledge to invent and fine-tune the unique technology required for producing and delivering their product or service.
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# 12. Human Resource Management


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*Chapter 12 introduces four key components of human resource management, as summarized in the following table and in the whiteboard animation video.*

| Four Components of Human Resource Management | FBL (Financial Bottom Line) | TBL (Triple Bottom Line) | SET (Social and Ecological Thought) |
|---|---|---|---|
| **1. Job analysis and design**<br>Identify tasks that need to be done | • Use input from human resource staff and current jobholders<br>• Focus on individual jobs<br>• Emphasize efficiency | A TBL approach is consistent with FBL practices, unless there is a business case supporting the adoption of SET practices. | • Use input from multiple stakeholders<br>• Focus on workgroup/ team<br>• Emphasize meaningful work |
| **2. Staffing**<br>Get the right people to join the organization | • Recruit from traditional applicant pools<br>• Base selection on fit with individual jobs<br>• Use input of managers | | • Recruit from chronically underemployed pools<br>• Base selection on fit with team and job requirements<br>• Use input of co-workers |
| **3. Training and development**<br>Prepare and improve the abilities of members | • Maximize the organization's financial benefits of training and minimize its costs<br>• Emphasize the development of individuals most likely to enhance the organization's future financial well-being | | • Provide training as a long-term investment to promote community's overall well-being<br>• Emphasize group-focused training and development, with an emphasis on enhancing socio-ecological well-being |
| **4. Performance management**<br>Measure performance and provide rewards for people | • Use administrative appraisals to reward employees<br>• Top-down emphasis<br>• Recognize individual performance, and reinforce independence via individual rewards<br>• Focus on financial rewards | | • Use developmental appraisals to provide constructive feedback<br>• Bottom-up emphasis<br>• Recognize collective performance, and reinforce community via group-based rewards<br>• Address income inequality, value non-financial rewards |
| **Entrepreneurship** | HRM work may be outsourced when start-ups lack adequate expertise | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=965*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain the four components of human resource management.
2. Describe the differences between FBL, TBL, and SET approaches to human resource management.
3. Describe the elements of job analysis and human resource management planning.
4. Identify and describe the two dimensions of staffing: recruitment and selection.
5. Distinguish between training and development, and describe organizational practices associated with each.
6. Describe the basic components of performance management.
7. Describe how the increasing trend to outsource human resource management affects entrepreneurs.

## 12.0. Opening Case – Mother Earth Recycling

Mother Earth Recycling is a remarkable for-profit social enterprise based in Winnipeg.[1] It fosters ecological well-being by recycling electronic products like computers, televisions, smartphones, appliances, and so on. “We will take anything that plugs in or runs on batteries—whether it be broken, not working or still kind of working,” according to general manager Jessica Floresco.[2] Not only does the firm recycle this e-waste and keep it out of landfills, it also refurbishes what it can, and fosters social well-being by selling these items at greatly reduced prices in its storefront in a poor part of the city to people who would otherwise not be able to afford the products.

The company is not content with recycling only e-waste. It also has a successful and growing mattress recycling program. Mattresses are notoriously difficult to dispose of because they resist compression and release toxic chemicals into landfills. However, nearly 95 percent of the materials in mattresses can be reused for new products, like foam for carpet underlay and metal for cans. To keep mattresses out of landfills, Mother Earth offers its recycling program

directly to customers as well as through partnerships with local government and private companies like Ikea. For example, a recent partnership with the City of Winnipeg aimed to recycle 8,000 mattresses in one year.

However, what makes Mother Earth Recycling most remarkable are its human resource management practices. First, Mother Earth is located in one of the poorest neighborhoods in Canada, where unemployment is especially high. To create social well-being, Mother Earth Recycling has designed its jobs so that many can be filled by entry-level employees with limited education or skills.

Second, Mother Earth deliberately recruits and hires employees who face multiple barriers to finding employment. In particular, Mother Earth is owned and operated by Indigenous people in a community where unemployment rates among Indigenous people are relatively high.[3] In partnership with community organizations, Mother Earth focuses on recruiting Indigenous people who have never had a job before, who may be in trouble with the law, or who did not graduate from high school (some of its employees quit school in Grade 8).

Third, it provides a six-month on-the-job training program, providing basic job skills. Mother Earth is especially pleased when employees are able to use its training and development to move on to better career prospects elsewhere. Floresco describes how "at the end of the six months, we'll help them do a resume and help them learn to look for jobs and apply for jobs and help them get a better job."[4] She goes on to describe an example: "We had one [employee] come and work for us, and they went from just getting out of a correctional facility and having no job experience, by the end of the training, they'd been accepted to [a local college] and going back to school and starting a career."[5]

Fourth, the compensation practices at Mother Earth are designed to ensure everyone receives a sustainable wage, not to hire people for the lowest financial cost possible. Floresco explains: "It's about getting that sustainable income, keeping families stable and safe in a stable environment and having a future to look forward to."[6] Overall, it's a wonderful example of what human resource management can do.

## 12.1. Introduction

**Human resource management (HRM)** *is the set of organizational activities directed at attracting, developing, and maintaining a well-functioning workforce.*[7] HRM has four components: (1) analyzing and designing the jobs that need to be performed in an organization; (2) recruiting and selecting staff to perform

these jobs; (3) ensuring that jobholders receive appropriate training and development; and (4) ensuring that appropriate methods are used to appraise employee performance and administer rewards. HRM planning involves ensuring that an organization has the present and future human resources it requires to fulfill its mission and strategic objectives,[8] while at the same time adhering to the many laws related to employee relations. **Employee relations** *refers to the activities that are necessary to effectively manage the relationship between employers and employees.* This includes the legal responsibilities of employers to employees, along with activities covered in other chapters of this textbook such as coaching, leadership- and team-building efforts, conflict resolution, and disciplining the workforce as appropriate.[9]

Before we examine the four main components of HRM, it is important to consider the legal context in which it operates. Many HRM activities are governed by legislation, especially the process of recruiting, selecting, and hiring new employees, where laws are in place to prevent discrimination. **Discrimination** *is evident when someone is treated unjustly or badly based on characteristics such as their race, age, gender, or disability.* Discrimination occurs when some applicants are not recruited or selected for reasons that are not job relevant. For example, companies have faced lawsuits for using social media platforms like Facebook to target recruitment efforts to people within certain age groups.[10] Many countries also have laws that require employers to provide accommodations for people with disabilities, such as making facilities accessible or modifying equipment, so they have equal opportunity to participate in the workforce. Organizations are held accountable for the legality of their HRM practices, even if illegalities are unintentional. A common situation where managers inadvertently violate employment law is in the interview process. Table 12.1 provides a few examples of illegal and legal questions in countries like Canada and the United States that might be asked during an employment interview.[11]

**Table 12.1. Examples of legal and illegal questions in the selection process**

| Issue | Illegal Question | Legal Question |
|---|---|---|
| Origin | Are you a citizen of this country? | Are you authorized to work in this country? |
| Family/Travel | Are you married? | Are you willing to travel? |
| Age | How old are you? | Are you over 18? |
| Disability | Do you have any disabilities? | Can you perform [a specific task]? |
| Background | What is your religion? | What is your past work experience? |

Furthermore, in organizations where employees belong to a labor union, HRM practices must adhere to a collective agreement. A **labor union** *is an organization that represents workers and negotiates with their employers (and in some countries, with the government) on the workers' behalf.* A **collective agreement** *is a contract negotiated by employers and unions that specifies and regulates duties and responsibilities that employees and employers have to one another.* Collective agreements often affect all four components of the HRM process, including recruitment and selection processes, criteria for hiring, promotions and layoffs, training eligibility, disciplinary practices, work hours, work rules, and seniority. In the United States, approximately 10 percent of the labor force is unionized,[12] in Canada 28 percent,[13] in China 44 percent, and in Iceland 91 percent.[14] Unions are typically formed to protect and enhance their members' interests and overall social well-being through collective bargaining.[15] **Collective bargaining** *is the process used when management negotiates wages and other terms of employment with a union or organized group of workers.*

Relationships between HRM professionals and their counterparts in unions can be cordial and mutually supportive, with a win-win orientation (evident in countries like Germany), or more antagonistic and adversarial, with a win-lose orientation (often the case in the United States).[16] Unions may reinforce their bargaining position by threatening to strike (refusing to work), while managers may threaten to "lock out" striking members (refuse to let employees come to work) or to hire "strikebreakers" or "scabs" (non-union members hired to replace striking union workers). Sometimes businesses are guilty of exploiting and mistreating workers, and sometimes union activities contribute to violent and destructive encounters between employers, union employees, and replacement workers.[17]

In the remainder of this chapter, we describe the four components or practices that make up HRM (see Figure 12.1). We will look at each of these in

turn, considering differences between the Financial Bottom Line (FBL), the Triple Bottom Line (TBL), and the Social and Ecological Thought (SET) approaches to human resource management.

**Figure 12.1. Overview of four components of the human resource management process**




## 12.2. Component 1: Job Analysis and Design

Although Figure 12.1 depicts job analysis and design as the first step of the HRM process, this component is often not revisited every time a new person is hired. Job analyses and descriptions are informed by the four fundamentals of organizing described in Chapter 10, ensuring that (1) work activities are designed to be completed in the best way for the organization; (2) assigned tasks are necessary to fulfill the work of the organization; (3) there is orderly deference among members; and (4) members work together harmoniously.

**Job analysis** *is an investigative process of gathering and interpreting information to identify the requirements of a particular job.* Job analysis can be seen as having two parts: (1) defining the tasks, duties, responsibilities of the job; and (2) identifying what knowledge, skills, abilities, and other characteristics (KSAOs) are necessary for jobholders to perform the job. Job analysis lays a foundation for other parts of the HRM process and results in the creation of job descriptions that summarize the duties and requirements of a position. A **job description** *specifies what tasks are to be performed in a particular position, as well as the knowledge, skills, education and training, credentials, prior experi-*

*ence, physical abilities, and other characteristics that are required.* A good job description that clarifies the position's tasks and roles can help employers make good hiring decisions and improve employee satisfaction and performance.[18]

Several methods of collecting information can be used in job analysis. A formal job analyst or manager might collect data through observing someone else performing the job, or perhaps even by performing the actual job themselves. More often, job analysts generate a list of job tasks or KSAOs by interviewing or surveying subject matter experts who either hold the job or who observe the job regularly. One popular survey is the Position Analysis Questionnaire, a standardized questionnaire that asks respondents to rate the extent to which a job reflects a very detailed set of tasks and processes (approximately 200 questions).[19] Other approaches involve a jobholder filling out a job diary (which lists daily activities), or the analyst using external resources such as job descriptions and specifications available in the Occupational Information Network.[20]

Whereas job analysis aims to understand how jobs are currently performed within an organization, job design focuses on creating new jobs or making deliberate changes to the structure of existing jobs. When designing jobs, HRM professionals can manipulate a variety of job characteristics known to be related to jobholder performance and/or satisfaction. Job characteristics theory looks at the motivational effect of six job design factors on jobholder performance and satisfaction:[21]

- *Autonomy* refers to the amount of freedom, discretion, and independence jobholders have to schedule their work and determine the procedures to carry it out.
- *Skill variety* refers to the degree to which a jobholder must use a variety of different skills to perform a job.
- *Task identity* refers to the extent to which a whole or visible outcome is created by performing the job itself (for example, a janitor can see the difference between a dirty floor and a clean floor, whereas a nurse may not see any improvement in a patient's health even after a twelve-hour shift).
- *Feedback from the job* refers to how much clear and direct information jobholders receive about how well they are doing their job (for example, a door-to-door salesperson gets direct feedback from each customer, whereas a policy analyst may not know if a policy has the desired outcome until far into the future).

- *Task significance* refers to how much of an effect a job has on the work or lives of others, both within and beyond the organization.
- *Interdependence* refers to how much jobholders collaborate with or rely upon others to do their jobs.[22]

Over time, job designs have shown increasing levels of job autonomy, skill variety, and interdependence. This is consistent with the trends toward more diffuse decision-making and flattening of hierarchies (autonomy), the increasing needs related to working in knowledge-based economies, and the extra skills needed to work in more complex team-based settings (skill variety and interdependence).[23]

### 12.2.1. FBL, TBL, and SET Approaches to Job Analysis and Design

All three management approaches utilize job analysis and design, but there are differences in how these are accomplished and what is emphasized. All three draw on the professional knowledge of the HRM manager and the knowledge of jobholders, but a SET approach is more likely to include other stakeholders, such as employees from other departments and customers, to help develop job expectations and tasks. For example, Mother Earth Recycling consults with local non-government organizations (NGOs) to design jobs that are suitable for the skillset of the labor pool in its neighborhood.

*Mother Earth Recycling consults with local NGOs to design jobs that are suitable for the skillset of the labor pool in its neighborhood*

The goals and emphases of job design also differ in ways that are consistent with the differences between the three approaches to the fundamentals of organizing (Chapter 11). For example, the FBL approach focuses on levels of standardization, specialization, centralization, and departmentalization. At one extreme, McDonald's designs jobs that are highly specified and contribute to very efficiently operated restaurants. As such, a job at McDonald's in Minneapolis, Manila, Monterrey, or Mozambique should essentially be the same.

In contrast, the SET approach will focus on experimentation, sensitization, dignification, and participation. Thus, a SET approach is generally more

likely than an FBL approach to analyze and design team jobs than create individual jobs, where the tasks and KSAOs of the team are designated in the job description and specifications.[24] This is particularly true if an organization has self-managed teams (Chapter 16). Moreover, a SET approach involves a team's members and its stakeholders in creating team job descriptions that include team-oriented KSAOs.

The SET approach is also more likely to include KSAOs that enhance social and ecological well-being, even if there is no business case to support them. This allows SET managers to embrace KSAOs that may not maximize profits. For example, consider Tim's Place ("The world's friendliest restaurant"), formerly owned and operated in Albuquerque by Tim Harrison, a man with Down syndrome.[25] Tim greeted customers at the door with a big smile and, if they wanted, gave them free hugs (by his count, over 70,000 hugs were given). This element of Tim's personal KSAOs transformed going to a restaurant from being a (sterile) transaction and made it into a human experience (as Tim noted, "and the best part is, the hugs are free!").

Other important differences among the three approaches to management are evident in how the six job design factors described above are managed. When designing jobs to be as efficient and productive as possible, FBL managers can be expected to place particular emphasis on the characteristic of autonomy, because research shows that autonomy is associated with both *objective* and *subjective* measures of productivity (note that four of the five remaining job characteristics are associated with only subjective measures of productivity—the exception is skill variety).[26] However, the productivity gains achieved via autonomy may be offset by increased expenses due to higher compensation and training costs.[27]

TBL managers will also emphasize the objective productivity benefits associated with autonomy and in addition be more aware of its beneficial reduced negative externalities, noting that autonomy can reduce financial costs because it is associated with decreased burnout and absenteeism. Thus, TBL managers may be more likely than FBL managers to embrace remote work, flextime, and other job design methods that enhance autonomy. Task significance and task identity also reduce burnout. Taken together, job characteristics like autonomy, task significance, and task identity are consistent with TBL's openness to *job crafting,* where members design their own jobs to be meaningful, based on their own experience (see Chapter 5).[28]

Finally, a SET approach will seek to enhance all six job characteristics—even though five are not associated with increased objective gain in pro-

ductivity—because each is positively associated with enhanced job satisfaction, growth satisfaction, and experienced meaning.[29] A SET perspective appreciates that some of these characteristics may also reduce costs associated with absenteeism and burnout, but these financial cost savings are not the main reason a SET approach embraces the six characteristics of job design.

**Test Your Knowledge**

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=965#h5p-58*

## 12.3. Component 2: Staffing

Once job descriptions have been developed that support the overall organizational strategy, the next component to consider is the recruitment and selection of people for the jobs. **Staffing** *is the HRM process of identifying, attracting, hiring, and retaining people with the necessary KSAOs to fulfill the responsibilities of current and future jobs in the organization.* Staffing has two main components: recruitment and selection.[30] We will look at each in turn.

### 12.3.1. Recruitment

**Recruitment** *is the process of identifying and attracting people with the KSAOs an organization needs.* Key to the recruiting process is establishing and building recruitment channels, which funnel potential members into the selection process. A steady flow of potential members helps to ensure that the work of the organization can continue. Recruitment channels include colleges and universities, employment agencies, job fairs, internships, referrals by current employees, the organization's website, and job board sites such as Monster.com or LinkedIn.

Social media is becoming increasingly important in recruitment.[31] Social media can enhance an organization's reputation as a good place to work. For example, contributors to websites like Glassdoor and Vault Jobs describe their work experience with different employers. But an organization's reputation can

also be hurt by content posted by disgruntled employees or customers. For example, United Airlines experienced costly reputational damage when video footage of a passenger being forcefully removed from an overbooked flight went viral on social media.[32] Such incidents can make it difficult for a company to attract new employees. The internet also enables companies to search for and research potential and actual applicants without their knowledge or permission. Such data mining may be unethical and illegal and can lead to discrimination because it does not determine the validity or accuracy of information used. This is why it is important for organizations to establish codes of conduct regarding use of big data for staffing.[33]

*Social media and big data present opportunities and risks for staffing.*

Current employees can be an effective channel for recruitment, either in referring others to the organization or in filling positions themselves. Some organizations have a policy that gives preference to in-house applicants when recruiting for a position. Internal recruiting can be less costly if applicants have the necessary skills, and may help to improve members' commitment, development, and job satisfaction.[34] On the downside, internal recruiting as a channel may not supply the necessary quantity or even quality of applicants.

Recruiting channels can be evaluated in terms of their speed and cost in delivering qualified applicants, that is, people who have the specified KSAOs. For example, web-based postings typically deliver a high quantity of applicants but not necessarily qualified applicants. To address this shortcoming, some sophisticated websites can screen applicants for the appropriate qualifications. Without such screening, receiving a high quantity of applicants requires extensive work by human resource professionals or managers to sift through applicant résumés, making this channel slower and less cost-efficient than other channels. In contrast, employee referrals or relationships with universities and employment agencies may provide qualified applicants in a shorter time and perhaps at a lower cost because these channels may screen applicants before recommending them to the organization.

Effective recruiting not only expands the pool of applicants to choose from at a reasonable cost, it can also improve the chances of retaining them once they are members. Although recruiters may be tempted to downplay negative fea-

tures of a job or organization in order to "sell" the position, misrepresenting the job can have negative consequences after applicants are hired. A **realistic job preview** *provides job applicants with information regarding both the positive and negative aspects of a position they are applying for.*[35] Such information helps to match members with positions, improves job satisfaction, and reduces turnover. **Turnover** *refers to "the rate at which employees leave an organization and are replaced."*[36] It is estimated that the financial costs associated with turnover of permanent employees is about 1.5 times their salary (e.g., to pay for recruiting costs, training, and so on).[37] Some information in a realistic job preview may be provided in the job listing, but at times it can only be experienced firsthand. For example, by providing potential new employees with a tour of the facility they would be working in prior to offering them a position, a slaughterhouse was able to reduce its employee turnover in their first week and thus also lower its training costs.[38]

### 12.3.2. Selection

**Selection** *is the process of choosing whom to hire among a pool of recruited job applicants.*[39] It may appear that the selection process begins once a *pool* of candidates has been recruited, but in reality selection begins already when the relevant KSAOs for the position are identified as the criteria for whom to select. Without justified criteria for selection, a manager or organization can get in legal trouble by being accused of making selection decisions based on criteria that are not relevant to the job, such as gender, race, or physical appearance. Once the job-relevant KSAOs from the job analysis and planning process have been identified, the next step is to choose the selection methods and tools that best assess these characteristics.

The most common selection tool is the *application form* that candidates complete to indicate interest in a position or organization. These forms, which are increasingly provided online, typically request information about an applicant's educational background, previous job experience, and other job-related items. Applicants are often also invited to submit their résumés at the same time. The application form and résumé are then used by recruiters to make decisions about an applicant's overall job fit (i.e., how well the applicant's abilities match the demands of the job) by considering work-related skills and abilities, motivation, and personality.[40]

Although application forms provide valuable information to make a

selection decision, additional methods and tools can be used to collect information that is more valid and reliable. **Selection validity** *refers to the relationship between the scores applicants receive during assessment and their subsequent job performance.* There are two ways to demonstrate validity:

- *Predictive validation* involves checking to see whether applicant scores correlate with actual job performance ratings.
- *Content validation* involves ensuring that the content of a selection method or tool assesses the actual KSAOs performed on the job.

You cannot have validity unless you have reliability. **Selection reliability** *refers to the ability of a selection method or tool to consistently provide accurate assessments.* For example, rather than assess someone's personality using a single question (which might be misinterpreted), reliability increases by using multiple questions. Using multiple items that ask about the same characteristic adds to the reliability, but also to the length, of a selection test.

Selection methods and tests can take various forms. As shown on the continuum in Figure 12.2, having applicants provide a *sample of the work* they would do if hired for a job has high validity in predicting job performance. Such a test might have an applicant work on an assembly line if applying for a job in an auto plant, write computer code for a computer programmer position, or be tested on word-processing skills for a clerical position.

**Figure 12.2. Validity of various selection methods for predicting job performance**[41]




Like the application form, the *interview* is almost universally used as part of the selection process. Some organizations use a preliminary phone interview—or even an interview via text messaging[42]—to gather more information or to screen out people who are not a good fit with the job before they schedule

face-to-face interviews. Some interviews are one-on-one, others are conducted by a panel, and often potential employees receive multiple interviews. Having more interviews or having more than one person conduct an interview increases the likelihood that the resulting judgment is reliable and less subject to the biases of individual interviewers.

*Structured interviews are one of the most valid and effective selection tools.*

Interviews may be structured or unstructured. In *structured interviews*, questions are decided upon in advance and related to specific job-relevant KSAOs such as resolving conflict or working in a team. All applicants are asked the same questions in the same order, and all responses are evaluated using the same rating scale. *Unstructured interviews* are more like conversations, where the direction of the interview may change based on the interests and background of each applicant. Although the distinction may seem minor, the differences in validity are not. Well-designed structured interviews have the highest validity of any selection method and are considerably better at predicting job performance than unstructured interviews.

Interview questions also can take different forms, ranging from "how *would* you behave" to "how *did* you behave" questions. **Situational interview questions** *ask applicants to respond to a specific scenario that is likely to arise on the job in the future* (e.g., "What would you do if an irate customer threatened to sue the company?"). **Behavioral interview questions** *ask applicants to draw from their experience to share an example of their work-related actions* (e.g., "Describe a situation where you dealt with a difficult customer or team member"). Situational questions have the advantage of being more standardized and thus more reliable, as well as allowing questioning of those who lack experience in the specified area. Behavioral questions have the advantage of being based on experience (which is a strong predictor of future performance) and therefore are a bit more valid.[43] In any case, interviewers should be encouraged to take notes during interviews to minimize memory effects.[44] Often, managers will need to make judgments after interviewing several candidates, possibly after several days. Note taking helps avoid problems in recalling information such as the

recency effect, which is the tendency to remember more about the last person interviewed.

*Cognitive ability tests* include questions designed to assess general mental ability, or more specific facets of ability such as verbal and numerical reasoning. These tests have moderate validity across a wide variety of jobs and are particularly useful for testing a large volume of job applicants, as well as for situations where applicants lack relevant experience or skills (e.g., entry-level hiring).[45]

Another selection tool that has moderate validity is *personality testing*, where sought-after traits often include conscientiousness, and—for people-oriented jobs—extraversion or possibly agreeableness (Chapter 14 has a fuller discussion of these personality traits).[46] *Integrity (honesty) tests*, despite concerns about faking, are more valid than standard personality tests in predicting job performance and also are valid for predicting counterproductive behaviors like stealing and absenteeism.[47] Some integrity tests ask direct questions about whether an applicant has taken home office supplies, lied about being sick, given away merchandise, or even stolen money from a past organization.

Finally, most organizations ask applicants to provide the names and contact information of *references*, which refers to people who can comment on an applicant's educational background, work experience, or work ethic (e.g., a previous or current manager or teacher). As many as 95 percent of firms do reference checks, which are particularly helpful in confirming the educational and work-related information applicants have provided on their application form and in appraising the applicant's characteristic and job performance capabilities.[48]

*As many as 95 percent of firms do reference checks when selecting employees.*

In addition to these traditional selection methods, organizations are increasingly leveraging artificial intelligence (AI) for staffing needs, such as developing hiring algorithms through machine learning or using chatbots to screen applicants. Despite the potential for increased efficiency and reduced human error, AI tools may introduce problems of their own.[49] For example, one of Amazon's early attempts at developing an AI screening tool was canceled

because the tool showed bias against women, a reflection of the biased data on which the model was created.[50] Employers must take care to use AI-enabled selection tools in ways that are valid and equitable.

In sum, a well-developed selection system typically involves multiple assessments. The use of multiple assessments increases the validity and reliability of selection judgments. This thinking lies at the foundation of *assessment centers*, where job candidates participate in a series of tests and simulation exercises over a period of two to three days. At the same time, organizations must consider the time and cost involved with using multiple assessments. The number of steps in a selection process typically varies depending on the nature of the job and its impact on the organization.

### 12.3.3. FBL, TBL, and SET Approaches to Staffing

There are many similarities in the three approaches to staffing, but also important differences. First, in terms of recruiting, even though all three approaches recognize the merits of a diverse workforce,[51] the diversity evident in the broader society is often not reflected in who gets hired in organizations. For example, in the United States, unemployment rates among visible minorities[52] and the LGBTQ community[53] remain 50 percent higher than in the general population, and overall rates are even higher for people with a mild mental illness (31 percent unemployed),[54] neurodiverse people (up to 80 percent unemployed),[55] and ex-offenders (up to 60 percent unemployed),[56] to name a few. A TBL approach is more likely than an FBL approach to develop a business case showing that recruiting from some non-traditional applicant pools can benefit the organization. For example, hiring people with disabilities can provide unique or special skills, improve organizational culture and productivity, and enhance a company's public image.[57] In an organization like Specialisterne, which focuses on employment opportunities for people with autism, what is generally considered to be a disability is transformed into an ability that can command premium financial compensation.[58]

A SET approach to recruitment goes one step further and is the most likely of the three approaches to *target* chronically underemployed populations, as we saw with Mother Earth Recycling.[59] Recall from Chapter 1 Greyston Bakery's mission, as reflected in its motto: "We don't hire people to bake brownies; we bake brownies to hire people." Greyston uses what it calls an open hiring process to recruit chronically underemployed people, such as homeless people and ex-offenders, who apply for jobs simply by adding their names and contact

information onto a waiting list—no résumés or references required. Since its inception, Greyston has been able to create over 3,500 jobs that pay a living wage and has launched a consulting business to help other organizations wanting to do the same thing.[60]

*Hiring chronically underemployed people is good for everyone.*

Moreover, beyond hiring chronically underemployed people in order to help *them*, a SET perspective recognizes that doing so can help *everyone*. For example, as described in Chapter 5, because the FBL approach sees meaningful work as related to tangible achievements (e.g., money) and enhancing one's interests vis-à-vis others (e.g., getting ahead), it follows that FBL managers will value and hire people who facilitate this (the best and the brightest). As a result, this (unintentionally) becomes a self-fulfilling prophecy for members to be preoccupied with materialistic and individualistic thinking. It also excludes people who may have developmental or other challenges that make them marginally less productive. In contrast, people who work alongside and appreciate co-workers who reflect the diversity of society will be more inclined to learn that meaning does not depend on maximizing money and getting ahead. Indeed, as we have seen, materialism and individualism actually reduce people's life satisfaction.

A powerful example of this insight is evident in an observation from Henri Nouwen, who left a successful twenty-year career as an academic at Harvard and Yale Universities in order to work at an organization called L'Arche. Nouwen called this one of the most important experiences of his life because it compelled him to (re)discover his "true identity."[61] In terms of meaningful work as described in Chapter 5, Nouwen's daily work alongside people with intellectual disabilities reminded him of the fleetingness of sources of meaning that are materialistic (his tangible achievements and financial success) and individualistic (his abilities to enhance his own identity and interests over those of others). Other possible benefits that can come from such ongoing relationships include an increased sense of tolerance, compassion, thoughtfulness, awareness of and care for others, and appreciation for life.[62]

Second, in terms of the selection process, a SET approach is most likely to include a wider variety of organizational stakeholders in interviews and in making selection decisions. Team members and peers may also be included in

panel interviews in FBL and TBL organizations, but SET organizations are more likely to give hiring authority to team members. A SET approach is consistent with relying on self-managed teams to do recruiting and hiring for their teams, as illustrated by Semco (opening case, Chapter 10).

The SET approach to staffing also differs from FBL and TBL approaches in other predictable ways. In particular, because the KSAOs developed in a SET approach are more likely to include knowledge and abilities related to socio-ecological well-being,[63] interviews in SET organizations are more likely to discuss practices that promote social and ecological well-being and ask applicants about their ability and desire to contribute to such efforts. Research suggests that the SET approach's emphasis on promoting social and ecological well-being may make it easier to recruit younger and more educated people.[64]

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*Interviews in SET organizations are more likely to talk about social and ecological well-being.*

## 12.4. Component 3: Training and Development

Once the organization's human resource needs have been determined (job analysis and planning) and recruiting and selection have been completed (staffing), it is time to consider employee training and development.

### 12.4.1. Training

**Training** *refers to the provision of learning activities that improve a jobholder's*

*skills or performance.* On average, organizations in the United States spend over $1,000 per employee per year on training.[65] The first exposure most employees receive to training is new member orientation programs that may run for a few hours or a couple of weeks. During orientation, new members become familiar with the people in their workgroup, its goals, and how their job fits with those of co-workers. Orientation provides an introduction to the organization's history, mission statement, key leaders, and human resource policies (e.g., work hours, overtime policy, benefits). New members often receive a tour of the organization as part of their orientation. Orientations may be very formal (such as a one-week course off-site) or informal ("Here's Sally—she'll take you around and introduce you to some of the people you'll be working with"). This early training is an important form of socialization that helps new employees navigate their new work environment.

On-the-job training is the most common training method. **On-the-job training** (OJT) *occurs when someone who knows how to perform a particular task shows and teaches someone else how to do it.* When it works, OJT is considered to be a fast and effective form of training.[66] OJT is tailored to the specific knowledge and skills employees need for their job, and provides trainees with immediate opportunities to practice new tasks.

*On-the-job training is often the fastest and most effective form*

OJT is not appropriate for every training need. When tasks are too complex to learn by OJT or when OJT causes too much disruption to normal operations, organizations will use *off-the-job training* methods like formal education, classroom lectures, videos, and simulation exercises. In these off-the-job training environments, the successful transfer of the training to the everyday work environment depends on several factors.[67] First, training should be offered to those who have an interest in and aptitude for the training. In other words, trainees must be willing and able to be trained. Second, the training content itself must be relevant and the instructions designed so that trainees are given multiple opportunities to practice using each component of the target skill or knowledge domain. The objectives of the training are reinforced before, during, and after the training experience. Third, there must be support for applying the training in the work environment. Many employees have returned from training enthusiastic to apply

what they have learned, only to find no immediate opportunities for or interest in using that training on the job. For example, a manager who attends a seminar to learn how to better conduct job interviews may not be involved in hiring anyone for the next six months. A supportive work environment can be created by a manager who is committed to encouraging investments in training, finding opportunities to apply training, and recognizing improvements gained through training.

Managers who take training seriously also take the time to measure training effectiveness.[68] Although in most organizations trainees are asked to provide their reactions immediately after training—and in some cases, organizations attempt to assess learning through pre- and post-tests—very few organizations take the time to systematically link training to behavioral change or business results. A comprehensive HRM system allows for such measurement. For example, if specific KSAOs are identified in the job analysis (or perhaps in the training needs analysis) and are measured in the performance appraisal, training that specifically addresses those KSAOs can be evaluated by tracking progress in performance appraisal ratings. In some cases, training can be tied to business results, such as when training in quality improvement leads to decreases in defects or waste that improve the performance of a manufacturing plant. However, in many other cases it is difficult to prove the direct business benefit of training.

### 12.4.2. Development

**Development** *refers to learning activities that result in broad growth and training beyond the scope of one's current job.* Development practices may include becoming familiar with other departments or facilities in an organization (and perhaps transferring from one department to another). Some organizations engage in cross-training or job rotation, where employees receive OJT in a variety of positions in the organization, thus permitting them to better understand how their job fits into the overall organization and providing flexibility for the organization if another member is unable to come to work for an extended period of time. Development can also include being assigned challenging or novel projects, being mentored by senior managers, and participating in formal career-planning discussions. Development is also evident when a firm pays for employees to attend professional seminars and training sessions that go beyond the scope of their current job, or to enroll in MBA or other graduate degree programs.[69]

Development can be seen as having two general purposes. The first is to

allow workers to grow as persons. Development of this sort may sometimes be supported by a business case, for example, showing that development increases employee motivation and productivity (consistent with the job characteristics model), or that it enables cost saving thanks to a more flexible workforce. Development enables employees to become more creative, as they have a more holistic understanding of the firm and how its different parts work together (see *sensitization* in Chapter 10).[70]

Second, career development can be an important part of the HRM planning process that ensures an organization has adequate human resources prepared to fill jobs at higher levels in the organization's hierarchy. A **succession plan** *refers to identifying and grooming talented employees who have the potential of doing well in jobs of increased responsibility within the organization.* Organizations can use succession plans for a variety of reasons, from ensuring enough talent is in the pipeline to seeing that a sufficient number of underrepresented people (often women or minorities) are advancing through the system. Unfortunately, many organizations either have limited succession planning or none at all.[71]

*Many organizations lack adequate succession planning.*

### 12.4.3. FBL, TBL, and SET Approaches to Training and Development

FBL and TBL managers focus on training and development activities that are linked to increasing a firm's net financial performance.[72] In contrast, SET managers are more likely to also support training and development for its own sake, even if it does not obviously contribute to the financial bottom line. There are at least two general variations of such a SET approach to training and development.

First, some SET organizations are specifically designed to provide training and development to employees who will essentially "graduate" from the organization. This is evident in organizations like Greyston Bakery, BUILD, and Mother Earth Recycling, which deliberately recruit and select workers from chronically underemployed populations (e.g., formerly incarcerated people, individuals with no high school education) in order to train and develop them so that they can find other jobs elsewhere. Such organizations will also often provide life

skills training for their workers (e.g., skills in managing their personal finances, parenting, cooking, and so on).

Second, whereas FBL and TBL organizations focus on providing job- or organization-specific training that will increase productivity and financial well-being, SET organizations also deliberately provide training and development for their employees that goes beyond what they do in their everyday work but instead enhances overall organizational and community socio-ecological well-being. Recall that Montreal's Tomasso Corporation encourages and pays its senior managers and other employees to help out in soup kitchens, thereby encouraging them to become more well-rounded people and to think beyond typical FBL and TBL considerations when making decisions for the company (including subsequent decisions about whom to hire at Tomasso).[73]

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## 12.5. Component 4: Performance Management

**Performance management** *refers to the HRM processes that are designed to ensure that individual and team activities and outputs are aligned with the organization's strategic goals.*[74] Performance management has two components: performance appraisal and compensation.[75] Performance management can be seen as a particular example of the general four-step control process described in Chapter 18, which starts with establishing performance standards, monitoring and evaluating performance, and responding accordingly.

### 12.5.1. Performance Appraisal

The performance appraisal process serves as the foundation of an effective performance management system. **Performance appraisal** *specifies, assesses, and provides feedback to jobholders regarding what they are expected to do.* Apprais-

ing employee performance can be challenging and stressful, especially when providing feedback to poor performers or when making distinctions among employees to decide who will receive bonuses or raises. Being on the receiving end of poor appraisals can also be stressful; employees often complain that perceptions and politics influence ratings more than actual performance does.[76]

*Performance appraisals do not need to be frustrating experiences.*

However, performance appraisals do not need to be frustrating experiences that both parties disdain. Performance appraisals can be valuable in conveying important information and aligning employee behavior with organizational goals if the following steps are taken:

- Design a system for appraisal with a clear purpose, defined roles, and agreed-upon criteria.
- Equip the people doing the appraising with the skills and tools to be successful.
- Reinforce and review the appraisal process.[77]

#### 1. Design a System

When designing an appraisal system, it is important to decide what criteria will be used for the appraisal, what type of appraisal it will be, who will be doing the appraising, and how often appraisals will take place. First, the system should spell out clearly what performance is expected from the employee. Appraisal criteria are based on the job description and the organization's goals.

Second, managers have two types of appraisals to choose from: administrative and developmental. **Administrative appraisals** *justify pay, promotion, and termination decisions.* For example, organizations like Amazon, Meta, and Uber[78] have used performance appraisal information to promote and to fire employees using the "rank-and-yank" system inspired by General Electric's former CEO Jack Welch. The system comparatively rates or ranks employees, and top performers get rewarded and low performers get fired or put on performance improvement plans. **Developmental appraisals** *provide feedback on progress*

*toward expectations and identify areas for improvement*, and can be used in combination with training and development processes described in the previous section. In practice, most organizations use administrative appraisals on an annual or semi-annual basis, and fewer organizations use formal developmental appraisals. In either case, it is important to communicate to both managers and employees what the appraisal information will be used for.

Third, managers can design single- or multi-rater appraisal systems. In a fairly simple system, the appraising might be done by an employee's supervisor. A more elaborate method, called 360-degree feedback, relies on self-report ratings combined with input from a full circle of people who work directly with the member whose performance is being appraised.[79] Members of the appraisal group can include supervisors, co-workers, subordinates, and internal and external stakeholders. Clarifying who will be involved in the appraisal process helps to ensure perceptions of fairness; no one wants to be surprised by who is providing input into decisions about their performance. An advantage of the 360-degree feedback method is that it increases the quantity and variety of information while reducing the bias that might come from using a single rating source. Shortcomings of this method are that it may fail to provide feedback to ratees that they can use to improve their performance,[80] and it may be prone to employees using it to anonymously "get back" at a boss, or to managers coercing their subordinates to give good evaluations.

*Many companies are shifting to a continuous performance management approach that encourages ongoing feedback.*

Fourth, managers must decide how frequently to conduct appraisals. Although annual appraisals are most common, many companies are shifting to a "continuous performance management" approach that encourages ongoing feedback between managers and their employees.[81] An advantage with more frequent appraisals is that areas for improvement can be identified and addressed in a more timely manner. Providing informal developmental appraisals on an as-needed or variable schedule may be particularly effective at maintaining desired behaviors (see Chapter 14).

### 2. Equip Appraisers

The second step in the performance appraisal process is to equip appraisers with the knowledge and tools that will help them make accurate ratings.[82] One type of appraiser training, sometimes called frame-of-reference training, is meant to increase the accuracy and reliability of ratings by providing raters with a common understanding of what constitutes high, medium, or low performance. Another type of training focuses on making raters aware of common biases such as those listed in Table 12.2 and urging them not to commit these errors:[83]

**Table 12.2. Common rater biases that cause errors in making performance appraisals**

| Bias | Description |
|---|---|
| Leniency | Giving higher-than-deserved ratings |
| Halo/horn effects | Using one piece of known information about a person (good or bad) to influence the rating of the person on unknown information |
| Representativeness | Allowing one prominent trait or impression to stereotype the employee |
| Availability | Relying on memorable information (dramatic or recent) to make overall judgments |
| Attribution errors | Attributing poor performance to the person without giving adequate regard for situational factors beyond the person's control |
| Anchoring and adjustment effects | Failing to sufficiently adjust a judgment from an initial impression (i.e., an anchor), even in the face of contrary evidence |

The performance appraisal form is the primary tool for rating. Typically, a rating form has one or more of the following elements: (1) questions that rate specific KSAOs or characteristics; (2) assessments of progress toward goals; and (3) a summary judgment or rating.

First, most performance appraisal systems rate an employee's KSAOs.[84] Graphic rating scales are one of the oldest and most popular methods to appraise KSAOs. This method often uses a 5-point scale where raters are asked to assess the degree to which they agree a characteristic is descriptive of a person. A more advanced type of graphic rating scale is called the behaviorally anchored ranking scale (BARS), which focuses on specific behaviors of members. Table 12.3 illustrates these two types of rating scales. Because BARS items and their rating

scales are more closely related to specific descriptions of work behavior, they are more valid and reliable than a simple graphic rating scale.[85] Some rating forms go one step further in asking raters to provide a graphic rating as well as specific examples of performance to justify the rating.

**Table 12.3. An example of two ways to rate a manager's legal knowledge of HRM**

| | | | | |
|---|---|---|---|---|
| **SIMPLE GRAPHIC RATING OF A KSAO:**<br>Demonstrates a high level of knowledge about HRM law | | | | |
| 1<br>*strongly disagree* | 2 | 3 | 4 | 5<br>*strongly agree* |
| **BEHAVIORALLY ANCHORED RANKING SCALE (BARS) OR KSAO:**<br>HRM legal knowledge: | | | | |
| 1<br>*Demonstrates a lack of understanding HRM law. Frequently requires assistance of legal counsel.* | 2 | 3<br>*Demonstrates a general understanding HRM law. Occasionally requires assistance of legal counsel.* | 4 | 5<br>*Demonstrates a mastery of HRM law. Rarely requires assistance of legal counsel.* |

Second, about 80 percent of rating forms refer to the progress the person being rated is making toward specific goals.[86] Often the focus is on easily measured *outcome* goals (e.g., reaching a sales goal), with less attention given to how the outcomes are achieved (e.g., treating customers with dignity).

Finally, regardless of the types of ratings that are provided, an appraisal typically ends with a summary rating. This may be "subjective," when the rater is asked to give an overall judgment of the employee's performance, or "objective," when the individual item ratings are combined mathematically to yield an overall score.[87] For example, an employee in the human resources department may score low on one item (perhaps a 2 on legal knowledge of HRM) but score high on other items, giving that person an overall rating score of, say, 4.2.

#### 3. Reinforce and Review the Process

A third key element of performance appraisal is to reinforce the importance of the appraisal process, subjecting it to regular review and continuous improvement to ensure that it remains relevant and reliable. An important symbolic way to reinforce the importance of the appraisal system occurs when top managers model a thoughtful, thorough, and timely approach to their own appraisals of others. Research suggests that a review process that invites input from all participants can have a positive impact on employees' acceptance of the process and is almost universally beneficial[88] (e.g., employees participate in developing the performance appraisal system in about 50 percent of US firms[89]). Many criteria can be used to evaluate the performance appraisal system, including its perceived fairness and accuracy, whether it helps members and the organization to achieve their goals, and whether it proceeds in a timely manner.

### 12.5.2. Compensation

Compensation is the second component of performance management. **Compensation** *refers to monetary payments such as wages, salaries, and bonuses as well as other goods, commodities, and intangible rewards that are given to organizational members*.[90] In terms of financial rewards, there are two basic types of compensation systems: job-based pay, and pay for performance. **Job-based pay** *refers to a standardized system where employees receive financial rewards based on their position title.* There is usually some variability across employees holding the same position based on work experience or job tenure, but the pay scale usually is "banded" (that is, it is constrained by a predetermined minimum and maximum). The pay range for a position can be determined by comparing it to other jobs in the organization, and/or by comparing it to similar jobs in the market.

**Pay for performance** *refers to a system where employees' compensation is based on activities and outputs of individual employees, and/or their workgroup, and/or the entire organization*.[91] Most companies offer some form of pay for performance, or incentive pay. The simplest pay-for-performance system is piece rate, where an employee gets paid a set amount of money for every unit of work they perform (e.g., a carpet installer who gets paid $5 for every square foot of carpeting installed). Salespeople often work on an individual commission basis, where their compensation is tied to their sales, and they may also receive additional rewards for meeting specified goals. Merit pay programs link pay to performance appraisal ratings and reward top performers with pay increases or

bonuses. Pay for performance also can include gain-sharing plans (where a group of employees is rewarded for reaching agreed-upon productivity improvements); goal-sharing plans (where a group of employees receives bonuses for reaching strategically important goals); profit-sharing plans (where a portion of an organization's profits is paid to employees); and stock option plans (where employees earn the right to purchase shares of their organization at a potentially reduced cost). Consistent with agency theory (Chapter 6), these types of compensation systems align employee incentives with an organization's strategic goals.[92]

*Many organizations use both pay-for-performance and job-based pay systems.*

Many organizations use compensation systems that have elements of both job-based pay and pay for performance. For example, restaurant workers are paid a small hourly rate plus what they earn in tips (either individually or shared with others). Another variation is evident in skill-based pay systems, where employees get paid a base hourly wage rate for doing their job, and then get additional increments for acquiring other skills that are valuable to the organization (such a system was championed by Michael Mauws at Westward Industries—see opening case, Chapter 18).

When the word "compensation" is mentioned, most people think about someone's salary or wage, but compensation also includes the idea of *benefits*, which are non-pay-based compensation. Benefits include things like health, disability, and life insurance, retirement plans, and perks such as access to exercise facilities, on-site daycare, subsidized cafeteria food, education reimbursement, and laundry services. To enhance employees' appreciation of benefits, some organizations offer so-called cafeteria-style benefit plans that present an array of possible benefits and allow members to pick and choose which benefits they want (up to a certain maximum dollar amount). Although some motivational theories dismiss benefits as unimportant in motivating employees, research suggests that benefits influence employee attraction and attrition, and that having a choice of attractive rewards can increase performance significantly.[93]

Finally, in addition to the tangible benefits mentioned above, there are also intangible benefits. For example, each year several organizations publish lists of "the best places to work." Individuals who work at companies that rank

high on these lists may attach some significance to this intangible benefit, and it may reduce their desire to leave the company even if they are not particularly happy about the tangible rewards they are receiving. Other intangible benefits include workplace friendships and the camaraderie that results from working with people who are fun to be with.

### 12.5.3. FBL, TBL, and SET Approaches to Performance Management

Performance management in all three approaches to management involves performance appraisal and compensation.[94] FBL, TBL, and SET management approaches follow the same three steps of performance appraisal (design a system, equip appraisers, and reinforce and review the process). However, there are notable differences in how they enact each step and the emphasis they place on specific factors. For example, whereas the FBL and TBL approaches are more likely to use administrative appraisals, the SET approach is more consistent with the use of developmental appraisals where raters are skilled in expressing gratitude to employees, providing constructive and more frequent feedback, and facilitating discussions regarding areas for growth and improvement.

Another difference is that a SET approach is more likely to involve a greater variety of stakeholders in all three steps, whereas FBL management is more likely to use a top-down approach that involves supervisors and higher-ups. Thus, SET managers welcome the involvement of employees when developing appropriate performance appraisal systems; this ensures that all stakeholders have the required information to make appraisals, and all are involved in reinforcing and reviewing the process.[95] For example, at Semco, employees have work councils and are encouraged to unionize, which provides an additional avenue to provide their input into the performance appraisal process (see the opening case in Chapter 10).[96] Recall that at Semco, employees choose their own managers and set their own salaries. In order for employees to make informed choices, management provides them with training on how to read the firm's financial reports (an "open book" policy), information about how their managers are perceived by others, and information about the salaries of their co-workers and the pay scales used by other businesses in the industry.

*At Semco, employees choose their own bosses and their own pay.*

A traditional FBL approach to performance management has tended to focus on *managers* appraising and rewarding *individual* members' performance, though with the growing emphasis on teams in businesses, this is changing. Team-oriented reward and feedback systems are often a practical necessity, as it is often impossible to separate out the contributions of individuals when work tasks are highly interdependent (see Chapter 16).[97] Rating team performance is entirely consistent with the low emphasis on individualism that characterizes the SET approach. Team-based HRM systems, which appraise and reward at the group level, encourage cooperation and flexibility in accommodating the views of other group members and other stakeholders. When all team members share in the success of the team, its members are more likely to share tactical or technical information broadly and help solve problems that benefit the whole group. An emphasis on teamwork does not preclude rewarding high-performing individuals within the group. Indeed, several times the owner of Velo encouraged employees to give themselves a raise. In one case at Semco, when a high performer did not choose a high enough salary, other team members insisted he give himself a raise.

*In SET organizations the ratio between the highest-paid and the lowest-paid workers is reduced.*

Finally, when it comes to financial compensation, the SET approach has a distinctive emphasis on policies that reduce income inequality. On the one hand, SET organizations often pay their lower-level employees at above-market rates in order to ensure that everyone is paid a living wage. On the other hand, SET organizations often pay their higher-level employees at below-market rates. For example, Nathaniel De Avila, the owner-manager of Velo Renovation (Chapter 9), is not the highest-paid person at the firm. He recounts how, when employees were asked what to do if at year-end the firm had made more than enough profit (De Avila was leaning toward paying everyone a bonus), some responded with:

> "Well, what if I don't really want more than [what I was paid]?" Which is also a surprising comment, I guess. But my response was, "Well then, what should we do with it?" Because in my mind it's not mine to decide what to do with. One person was like, "Well,

> what if we just hire some derpy teenager to work for us next summer, and like they don't know what to do, but I can get paid to teach them. Which makes me feel great, and maybe it's someone who needs a job and then that's great, too!" That was a little bit mind-boggling to me. That's a very selfless way to think about your own employment, too. Like would you give up your extra money so that someone else could have a job?

De Avila does not know why his employees responded to the idea of how to share year-end surpluses in the way they did, but he observes that "selfless behavior around money is transferrable. So once sharing is patterned and exemplified in some way, like 'this is an okay way to operate,' it's possible that some people also want to jump on the bandwagon. But not in any sort of forced way."[98] This is consistent with the emphasis in virtue ethics on everyone having enough (and that it is unethical to have too much).

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## 12.6. Entrepreneurship Implications

Human resource management is a particularly important consideration for entrepreneurs. Because most start-ups are relatively small and organic in structure, every employee can play an influential role in organizational success. While it is important for all organizations to have the right people completing tasks, it is especially so in the smaller, less formalized setting of a start-up. For example, if a start-up only has six people in it, every one of those people can have a powerful effect on the organization. It is therefore crucial for entrepreneurs to manage HRM matters effectively.

Many organizations, entrepreneurial and otherwise, choose to outsource HRM duties. Unless an organization is quite large, it may not benefit from sufficient economies of scale to support the costs of an internal HRM function. As well, because of the technical and legal complexities associated with some

aspects of HRM, it often makes sense to outsource to experts. For example, very few organizations manage their own retirement plans; instead, they invest in funds managed by other organizations that specialize in wealth management. Likewise, most work-based insurance and health-related benefits are provided through outsourcing relationships. All aspects of HRM—job analysis, staffing, training, and performance management—can potentially be outsourced. This fact may help to simplify entrepreneurial start-ups, since founders do not have to worry about the technical and legal aspects of HRM. At the same time, this outsourcing can also provide entrepreneurial opportunities: an entrepreneur with HRM knowledge could start a new organization to respond to the outsourcing demand from others.

In fact, the outsourcing of HRM is on the rise in most organizations through the use of contingent workers. **Contingent workers** *are individuals who are contracted for a specific project or fixed time period but are not considered to be permanent employees of the host organization*.[99] Contingent workers, who are sometimes called "temps" (short for "temporary workers"), are employed by staffing agencies like Randstad, Adecco, and Manpower.[100] These agencies and others like them provide contingent workers to organizations on demand, thereby taking over much of the traditional HRM function. Using contingent workers serves to reduce payroll and benefit costs (e.g., health insurance, retirement plan contributions) and to increase flexibility for employers. In a 2023 survey, 80 percent of company leaders across the globe said they use contingent workers, and 65 percent said they plan to increase their use of contingent workers over the next two years.[101]

In the past, most temporary workers were in low-level clerical and manufacturing positions, but a growing number today are professionals. In fact, there are contingent workers doing almost every kind of work.[102] There have always been contingent workers (e.g., ski resorts only hire staff in the winter, brick-and-mortar retailers hire more part-time staff during major shopping seasons), but their use has become increasingly common. As a result, the entire notion of a "job" may be changing. Some estimates suggest that over one-third of workers are in contingent positions rather than being traditionally employed within a single organization.[103]

*Recent estimates suggest that over one-third of workers are working in contingent jobs.*

This change in work has been sped up by the development of technology, which makes it easier to establish contingent relationships that weren't practical in the past. For example, think about how Uber and other ridesharing organizations have changed transportation. In most cases, Uber drivers are not employees of Uber; they are treated as independent contractors (i.e., contingent workers).[104] As a result, most of the traditional HRM functions don't apply for Uber drivers. Recruitment consists only of confirming basic qualifications (e.g., ability to drive, clean background check), little training is provided, and compensation comes from the consumer rather than from Uber. Similar changes are taking place in many industries (e.g., Airbnb in the hospitality industry).

Because so many jobs are contingent, observers have begun to refer to modern work as the "gig economy."[105] In this context, a "gig" is a temporary job; the individual is hired for a fixed fee or time period to complete a specific task. Recently, most of the new jobs created in the United States were gigs,[106] and gigs may soon be more common than traditional employment.[107] If these predictions come true, most workers will not have permanent employers, and people won't have a job but rather a series of gigs that they must find and combine to build their career.

The rise of the gig economy influences entrepreneurship in many ways. With more gig workers available and better platforms for accessing them, entrepreneurs now have far more flexibility in terms of make vs. buy decisions (see transaction cost theory in Chapter 7). For example, the idea that a hotel company could not only exist but expand internationally, without owning any real estate or hotels, may have seemed impossible in the early 2000s, but as of 2023 Airbnb had more than 8 million lodgings listed in more than 200 countries and had facilitated over 2 billion guest stays.[108]

The gig economy also raises questions for entrepreneurs about employment relationships. This development is too new for certain conclusions, but we can likely expect FBL entrepreneurs to favor gig work and contingent employees. Using contingent workers offers many ways to save money (reduced HRM costs, more flexibility in staffing, simpler dismissal of undesired workers). Likewise, TBL entrepreneurs will presumably embrace these cost-saving opportunities while extolling the personal flexibility and lifestyle freedoms that gig working can provide. For example, a parent who is the primary caregiver for school-age children may benefit from the option to not work during parts of the year (e.g., school holidays). A SET entrepreneur's likely attitude regarding gig workers is harder to predict. The lifestyle and flexibility aspects of contingent work would be seen as attractive, since they can contribute to family, community, and per-

sonal growth. In fact, research evidence suggests that some workers prefer gig work to traditional jobs, seeing it as an opportunity for more variety, control, and meaning in their work.[109] At the same time, however, gig workers have less stability and certainty than traditional employees, they usually make less money, they are more vulnerable to mistreatment by employers, and they must bear the burden of work usually handled by the HRM function (e.g., income tax withholding, medical benefits, paid vacation).[110]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=965#h5p-62*

*Do the benefits of the gig economy for workers (more flexibility) outweigh the costs (less security)?*

## Chapter Summary

There are four components in human resource management (HRM):

1. *Job analysis* identifies the knowledge, skills, abilities, and other characteristics (KSAOs) that are necessary to perform a particular job; and *HRM planning* combines all the KSAOs needed in an organization and determines how to acquire them from the market.
    - An FBL approach is more likely to focus on individual jobs and KSAOs, input from existing jobholders, efficiency, and the use of contingent workers.

- A SET approach is more likely to focus on team-oriented job analyses and KSAOs, input from a variety of stakeholders, meaningful work via job crafting, and hiring permanent workers.
- A TBL approach is consistent with FBL practices, unless there is a business case for adopting SET practices.

2. Staffing involves both *recruitment* (identifying and attracting people with the KSAOs an organization needs via recruitment channels and practices like realistic job previews) and *selection* (choosing which applicant to hire via selection methods like application forms, interviews, cognitive ability tests, and work samples).
    - An FBL approach is more likely to use administrative appraisals, recruit from traditional applicant pools (e.g., internet jobs sites), select applicants based on fit with individual jobs, and have hiring decisions made by managers or human resource professionals.
    - A SET approach is more likely to use developmental appraisals to recruit from non-traditional applicant pools (especially chronically underemployed groups), select applicants based on organizational fit (e.g., fit with team-based KSAOs, agreeableness, diversity), and have hiring decisions made by a variety of stakeholders.
    - A TBL approach is consistent with FBL practices, unless there is a business case for adopting SET practices.
3. *Training* involves activities where a jobholder learns to improve their skills or performance, such as on-the-job training; and *development* involves learning activities that result in broad growth beyond the scope of one's current job.
    - An FBL approach is more likely to use training and development to improve financial performance and reduce financial costs (evident in use of contingent workers, providing job- or organization-specific training).
    - A SET approach is more likely to use training and development to improve overall well-being and reduce overall costs (evident in training the chroni-

cally underemployed, providing life skills training, and fostering group-focused social connections that enhance socio-ecological well-being throughout the organization and toward disadvantaged segments of society).

- A TBL approach is consistent with FBL practices, unless there is a business case for adopting SET practices.

4. Performance management involves both *performance appraisal* (specifying, assessing, and providing feedback to jobholders regarding their work via designing an appropriate system, training appraisers, and continually improving the process) and administering *compensation* (monetary and other rewards for members).

    - An FBL approach is more likely to use administrative appraisals, equip supervisors and managers to design and control the process, focus on individual-level appraisal and rewards, design compensation systems that are consistent with the marketplace, and emphasize financial well-being.
    - A SET approach is more likely to use developmental appraisals, invite and equip a variety of stakeholders to be involved in the process, focus on group-level appraisal and rewards, design compensation systems that reduce income inequality and at minimum pay a living wage, and emphasize socio-ecological well-being and meaningful work.
    - A TBL approach is consistent with FBL practices, unless there is a business case for adopting SET practices.

Finally, entrepreneurs often outsource components of the HRM process where they lack expertise.

## Questions for Reflection and Discussion

1. Keeping job analysis and planning information up to date can be a

time-consuming and laborious task. If you were asked by someone whom you are managing to explain why job analysis and HRM planning is worth the time, what would you say?

2. Do the selection processes you've experienced (or heard about from others) seem fair to you? Why or why not?
3. Think of a time when you were interviewed for a job. Was the interview structured or not? Did you get any strong impressions that would allow you to classify it as an FBL, TBL, or SET organization? If so, elaborate. What advice would you have for interviewers from organizations associated with each of the three approaches to management?
4. What are the pros and cons of hiring people who might be the best and brightest for an organization but not for a particular job?
5. Recall an experience of working in a group in which you were aware that some people had disabilities and others did not. What have you learned about yourself from such experiences?
6. Explain the difference between an administrative appraisal and a developmental appraisal. Which would you rather receive? Which would you rather give? Why?
7. One poll found that twice as many people would choose a low-paying job that they love over a high-paying job that they hate.[111] What about you? What are the key non-financial rewards that can make a low-paying job more attractive than a high-paying job? What are the implications of your answer for HRM?
8. Have you ever been a contingent worker or worked with contingent workers? What are the pros and cons of hiring a contingent worker, of working with one, and of being one?
9. If you were to start your own organization, which parts of the HRM process would you outsource, and which would you manage yourself? Explain your answer.

## Notes

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Indigenous North End business to create jobs recycling mattresses. *Metro News*; Martin, N. (2016, January 17). North End business to create jobs while recycling used mattresses. *Winnipeg Free Press*. https://www.winnipegfreepress.com/local/North-End--business-to-create-jobs-while-recycling-used-mattresses--365586401.html; Schmidt, J. (2019, February 13). New recycling program aims to keep up to 8,000 mattresses, box springs out of Winnipeg landfills. CBC News. https://www.cbc.ca/news/canada/manitoba/winnipeg-mattress-mother-earth-recycling-1.5017719.

2. Baxter (2018).
3. According to Damon Johnston, president of the Aboriginal Council of Winnipeg, Mother Earth Recycling "is a huge step up for our community . . . Indigenous unemployment rates are really high" (Martin, 2016).
4. Quoted in Dacey (2016).
5. Baxter (2018).
6. Baxter (2018).
7. With slight adaption, this definition taken from page 208 in Ebert, R. J., Griffin, R. W., & Starke, F. A. (2009). *Business essentials* (5th Canadian ed.). Pearson. Note that this chapter has benefitted from feedback from Brianna Caza.
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Group. (2014, July 17). *Restaurant owner Tim Harris: "I have Down syndrome. I am awesome"*. https://www.youtube.com/watch?v=m2r4Y3rvnwo; KRQE. (2015, December 18). *Tim's Place set to close, couple opens up about decision to leave*. https://www.youtube.com/watch?v=UvJoRhaiRz0; AoL. (2013, February 15). *Tim's Place Albuquerque's service with a smile*. https://www.youtube.com/watch?time_continue=4&v=y6He0FWoFj0

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79. Whereas Forbes reports that more than 85% of Fortune 500 companies use 360-degree feedback, other research has found it used in only 23% of large US businesses. Zenger, J. (2023, March 10). How effective are your 360-degree assessments? *Forbes*. https://www.forbes.com/sites/jackzenger/2016/03/10/how-effective-are-your-360-degree-feedback-assessments; Gorman, C. A., Meriac, J. P., Roch, S. G., Ray, J. L., & Gamble, J. S. (2017). An exploratory study of current performance management practices: Human resource executives' perspectives. *International Journal of Selection and Assessment*, 25(2): 193–202.

80. Adler, S., Campion, M., Colquitt, A., Grubb, A., Murphy, K., Ollander-Krane, R., & Pulakos, E. D. (2016). Getting rid of performance ratings: Genius or folly? A debate. *Industrial and Organizational Psychology*, 9: 219–252; Bracken, D. W., Rose, D. S., & Church, A. H. (2016). The evolution and devolution of 360° feedback. *Industrial and Organizational Psychology*, 9(4): 761–794. https://doi.org/10.1017/iop.2016.93

81. Cappelli, P., & Tavis, A. (2016). The performance management revolution. *Harvard Business Review*, 94(10): 58–67.

82. About 75% of companies provide rater training, according to a study that surveyed human resources executives from over 100 US organizations in various industries, mostly (44%) headquartered in the southeastern states, with 88% of respondents reporting over 100 employees and revenues over $1 million (Gorman et al., 2017).

83. The efficacy of rater training has been hotly debated. On the whole, research suggests that both types of training can improve the accuracy of performance ratings but neither is likely to have a large impact. Murphy, K. R., Cleveland, J. N., & Hanscom, M. E. (2018). *Performance appraisal and management*. Sage; Adler et al. (2016).

84. Over 80% of performance systems, according to Gorman et al. (2017).

85. There has been little research on the comparative validity of these and other performance rating scales since 1980, when Landy and Farr called for a moratorium on rating format research. Landy, F. J., & Farr, J. L. (1980). Performance rating. *Psychological Bulletin*, 87(1): 72–107. For more information on the development and use of performance rating scales, see Murphy et al. (2018).
86. Gorman et al. (2017).
87. The "vast majority" (84%) use numerical rating at some point (Gorman et al., 2017).
88. Schleicher et al. (2018).
89. Gorman et al. (2017).
90. This definition follows the literature in focusing on the tangible aspects of compensation. Gupta, N., & Shaw, J. D. (2014). Employee compensation: The neglected area of HRM research. *Human Resource Management Review*, 24(1): 1–4.
91. Gerhart, B., & Fang, M. (2017). Competence and pay for performance. In Elliot, A. J., Dweck, C. S., & Yeager, D. S. (Eds.), *Handbook of competence and motivation: Theory and application* (2nd ed.) (pp. 232–250). The Guilford Press. Pay for performance (PFP) is among a select set of HRM practices that Jeff Pfeffer and others have called high-performance work practices. Pfeffer, J., & Veiga, J. (1999). Putting people first for organizational success. *Academy of Management Executive*, 13(2): 37–48. Nevertheless, research also cautions that PFP can have unintended consequences (e.g., excessive risk taking, excessive competition among employees, and unethical behavior), particularly when the stakes are high. Fulmer, I. S., Gerhart, B., & Kim, J. H. (2023). Compensation and performance: A review and recommendations for the future. *Personnel Psychology*, 76(2): 687–718.
92. Schleicher et al. (2018).
93. Caza, A., McCarter, M. W., & Northcraft, G. B. (2015). Performance benefits of reward choice: A procedural justice perspective. *Human Resource Management Journal*, 25: 184–199.
94. Note that the emphasis of performance management on linking HRM processes to an organization's strategic goals has different implications for FBL, TBL, and SET organizations. For FBL and TBL firms, it means HRM seeks to maximize organizational profits, which, it has been argued, represents a departure from HRM's original rejection of treating employees as "a commodity whose sole purpose is to produce more output and wealth for the employer." In contrast, because the strategic goals of SET organizations include enhanced social well-being, a SET approach to performance management is more consistent with HRM's origins: "A number of ways of thinking about the management of workers and employees in the U.S. preceded today's highly publicized concept of Strategic Human Resource Management. Beginning in the early 1900s, these methods were known variously as Employee Relations, Personnel Management, Labor Relations, and Industrial Relations (Kaufman and Aldao-Zapiola, 2014). A common feature across all of these approaches was a sense of humanism, a serious rejection of the notion that employees are a commodity whose sole purpose is to produce more output and wealth for the employer. Rather, employees were viewed as human beings with rights to

decent terms and conditions of employment, fair treatment, voice, and participation (Kaufman, 2008).” Page 1 in Stark, E., & Poppler, P. (2017). Evolution of a strange pathology: HRM as a strategic business partner and employee advocate in the USA. *Employee Responsibilities and Rights Journal*, 29(1): 1–14.

95. “A voluntary effort by the organization to promote dialogue between workers and unions results, among other advantages, in a decrease in labour disputes, a reduction in absenteeism and improved organizational confidence.” Barrena-Martínez et al. (2017).

96. Ricardo Semler writes: “Our employees have 117 trustees (one for every group, location, or site) who are empowered to represent the people of Semco, and defend its ‘constitution.’ Our constitution is of course not written; it just conceptually encompasses the basic values and culture that are currently in place (and that change with time).” Semler goes on to describe how the financial numbers are known to everyone, thanks to a system of “comanaging with the union, a system in which every check requires a signature from management and one from the union.” Semler, R. (2004). *The seven-day weekend*. Portfolio/Penguin Group. Elsewhere he explains how unions aren’t going to go away, and that Semco is stronger because it engages them instead of fighting them. Fisher, L. M. (2005, November 29). Ricardo Semler won’t take control. *Strategy + Business*. https://www.strategy-business.com/article/05408?gko=3291c

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99. Or, put more succinctly, this refers to ”workers who have short-term contracts with organizations.” See page 1 in Retkowsky, J., Nijs, S., Akkermans, J., Jansen, P., & Khapova, S. N. (2023). Toward a sustainable career perspective on contingent work: A critical review and a research agenda. *Career Development International*, 28(1), 1–18. https://doi.org/10.1108/CDI-06-2022-0181; they cite Katz, L. F., & Krueger, A. (2019). Understanding trends in alternative work arrangements in the United States. *Rsf: The Russell Sage Foundation Journal of the Social Sciences*, 5(5): 132–146.

100. Staffing Industry Analysts. (2023, September 25). *Randstad, Adecco, and Manpower are the largest staffing firms in the world*. https://www.staffingindustry.com/news/global-daily-news/100-largest-staffing-firms-world-post-2853-billion-revenue

101. Staffing Industry Analysts. (2023, August 10). *65% of companies say they plan to increase use of contingent workers*. https://www.staffingindustry.com/news/global-daily-news/65-companies-say-they-plan-increase-use-contingent-workers

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103. Note that in some cases, contingent work is a “side hustle” in addition to a full-time job. Dua, A., Ellingrud, K., Hancock, B., Luby, R., Madgavkar, A., & Pemberton,

S. (2022, August 22). *Freelance, side hustles, and gigs: Many more Americans have become independent workers*. McKinsey & Company. https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/freelance-side-hustles-and-gigs-many-more-americans-have-become-independent-workers

104. The employment status of Uber drivers has been debated, with some arguing that they meet the criteria to be classified as employees. In 2024, the United States Department of Labor issued a new rule aimed at preventing the misclassification of workers as independent contractors. In response, Uber issued a statement that the new rule will have no impact on the classification of the company's drivers. Napolin, A. (2023, February 17). Uber drivers: Independent contractors or employees? Examining the arguments for and against classification. *Medium*. https://medium.com/@alexander_88739/uber-drivers-independent-contractors-or-employees-ae6d27263b28; Bursztynsky, J. (2024, January 9). Here's how DoorDash, Uber, and Lyft are responding to rule change on gig work. *Fast Company*. https://www.fastcompany.com/91007559/doordash-uber-lyft-new-rule-gig-work

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# 13. Organizational Change


- Learning Goals
- 13.0. Opening Case – From Being Worthy of Jail to Creating Net Positive Externalities
- 13.1. Introduction
- 13.2. Three Dimensions of Organizational Change
- 13.3. The Four-Phase Organizational Change Process
- 13.4. Intrapreneurship
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 13 provides an overview of the four-phase process of change, as summarized in the following table and in the whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| Types of change (four-phase change process) | Change varies based on scope (transformational versus incremental), preparedness (proactive versus reactive), and source (innovative versus imitative) | | |
| **Phase 1** Recognize the need/opportunity for change | Recognize the need to **unfreeze**: Managers recognize a need/ opportunity, and develop a vision to address it | Recognize a good time to **unfreeze**: Members recognize and discuss a TBL-based need/ opportunity for change | Recognize the need to **freeze** (press the "pause" button); Invite members to critically reflect on ongoing activities |
| **Phase 2** Prepare for change | Begin **unfreezing:** Managers convince members to embrace the change by overcoming resistance to change | Begin **unfreezing:** Involve members in developing a vision for change; enhances commitment | **Praxis:** Invite experimental activities to address a problem/ opportunity |
| **Phase 3** Make the change | **Transition:** Managers use their authority to design and implement organizational changes | **Transition:** Managers lead members in designing and implementing organizational changes | **Transition:** Members reflect on praxis experiments which prompts them to change their world view |
| **Phase 4** Safeguard the change | **Refreeze:** Managers promote social norms and develop structures and systems that reinforce and reward members who support change | **Re-slush:** Managers support structures and systems that facilitate continuous learning and celebrate improvement | **Resume:** Implement desired changes (i.e., press the "play" button) and resume adaptive improvisation and learning |
| **Intrapreneurial implications** | The tools of organizational change, alongside strategic management and organization design, are key to intrapreneurship. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=109*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain how different types of organizational change vary in terms of scope, preparedness, and source.
2. Describe organization life cycle theory and how it fits with the four generic types of organization design.
3. Recognize the four generic phases of the organizational change process.
4. Explain differences in the organizational change process in FBL, TBL, and SET approaches.
5. Explain how to use the tools of organizational change to support intrapreneurship

## 13.0. Opening Case – From Being Worthy of Jail to Creating Net Positive Externalities

Interface Inc., a manufacturer of carpet tiles that was founded about fifty years ago, is a well-known example of a traditional FBL business that has successfully managed to change, first into a TBL firm and then into a SET firm.[1] A market leader in over 100 countries where it competes, Interface has about $1 billion in annual sales, 3,500 employees, and dozens of factories in half a dozen countries.[2] To change a business of this size takes considerable skill and time. Interface's use of the four-phase organizational change process is instructive.[3]

> One of the biggest misconceptions is that Ray was the lone leader and by being the founder and CEO he could just edict the transformation and it would happen but that's just not how you change a billion dollar organization. . . . what Ray laid out was potentially a complete transformation of the entire existing economy of the world" (manager).[4]

The first phase—recognizing the need or opportunity for change—started in 1994

when company founder and CEO Ray C. Anderson (1934–2011) was asked about Interface's environmental performance. This was something he had not given much thought to, so he did some research. He says it struck him "like a spear in his chest" when he found out that each year Interface manufactured $800 million worth of products by extracting over 6 million tons of raw resources and producing over 10,000 tons of solid waste, 60,000 tons of carbon dioxide, and 700 tons of toxic gases while contaminating over 2 billion liters of water. "I was running a company that was plundering the earth . . . someday people like me will be put in jail."[5] This prompted Anderson to develop a new vision for Interface: "Be the first company that, by its deeds, shows the entire world what sustainability is in all its dimensions: people, process, product, place, and profits by 2020." In particular, Anderson wanted Interface to have net-positive ecological externalities, a challenge he likened to climbing higher than Mt. Everest.

While Anderson was convinced about the *need* for change, much work needed to be done to demonstrate the *opportunity* for change. His managers "needed to discuss whether it [would] be possible to create competitive advantages via sustainability."[6] This was uncharted territory not only at Interface but also in the larger industry. To begin, Interface managers sought to understand what sorts of internal and external resources were available to address the challenge; this meant collecting and compiling existing information about policies, projects, green programs, eco-activities, and human resources. This led to managers learning about biomimicry (where the waste of one organism becomes food for another), principles of green product design, material recovery ideas where waste became inputs, and process improvements that could come from redesigning manufacturing facilities. They soon discovered that such changes would take time and would require considerable effort in preparing internal and external stakeholders.

The first phase ended with some TBL initiatives that Interface could implement relatively easily to create some "early wins" that would help to inspire future action. By the end of this phase, Interface had tripled its profits, doubled its employment, and was recognized in the Fortune 100 list of "Best Companies" to work for. But these quick fixes were still within the TBL management paradigm, and Anderson wanted Interface to become a SET organization.

The second phase—preparing to implement changes associated with SET management—began around 1999 and aimed at getting members to buy into SET thinking. As Anderson described, "Most of the managers viewed the new vision with hostility, confusion, and skepticism."[7] External consultants were brought in to hold workshops designed to foster outside-the-box thinking and help members develop a holistic vision of sustainability covering all areas of the business. Key

aspects included identifying new green business opportunities that could be created in-house or with external partners, and developing a deeper understanding of how Interface's new compounder strategy would differentiate the firm in the marketplace. Its mission was to become a corporation that cherishes nature (minimizes negative externalities) and restores the environment (enhances positive externalities). As Anderson put it: "For those who think that business exists to make a profit, I suggest they think again. Business makes a profit to exist. Surely it must exist for some higher, nobler purpose than that."[8]

The third phase—which involved actually implementing organization-wide changes consistent with SET management—started in 2003. This phase focused on reinventing Interface's business model in terms of products, services, and processes. A key element in Interface's renewal process was for leaders to support individuals and teams who promoted green experiments and initiatives, signaling that sustainability was not a fad but instead the new normal. In particular, instead of the previous system where worn-out carpet found its way into the landfill ("cradle-to-grave" products), Interface wanted worn-out carpet to be re-used to make new carpet ("cradle-to-cradle" thinking).[9] By 2006, aided by new suppliers, Interface was the first in its industry to develop a commercial recycle and reuse system. By the end of this phase, the company had saved over $400 million in reduced waste, reduced its fossil fuel use by 60 percent, cut 82 percent of its greenhouse gas (GHG) emissions relative to sales, and reduced water consumption by 66 percent, all while doubling its earnings.

In addition to working to enhance ecological well-being, Interface also focused on social well-being, which Anderson referred to as the "soft side" of the business.[10] Anderson was thankful that others in the company rallied to this issue with the same passion he had for ecological well-being. For example, rather than exploit overseas working conditions, Interface built and operated its Asia-based factories to the same high standards as in North America, Europe, and Australia. Interface also encouraged its members to become involved in their local communities and successfully found ways to provide jobs in economically challenged communities (e.g., in Harlem, New York City). By 2004, Interface employees had volunteered almost 12,000 hours in community activities.[11]

The final phase, starting in 2008, was to safeguard the changes that had been made. This meant working with suppliers and customers to make sustainability the new normal in the larger industry[12] so that Interface's SET analyzer organization design with a compounder strategy (Chapter 11) need not rely only on internal practices or specific leadership personalities. As one manager explained: "It is important to connect sustainability with performance measures, managerial

performance scorecards, staff's work duties, and the existing incentive systems."[13]

Altogether, the four-phase change process at Interface took more than fifteen years: five years to recognize needs and opportunities and implement TBL initiatives, four years to prepare members for the changes based on SET management, five years to implement them, and then several years to safeguard them. Many transformational change attempts to adopt SET management do not make it past the first phase and simply celebrate "quick wins" without fundamentally changing the organization. Change attempts also often fail in the second phase to get members on board with the SET approach. Once the first two phases have been completed, the actual change begins in the third phase, where success can depend on generating and receiving adequate support from external stakeholders (e.g., suppliers, customers, government regulations).

## 13.1. Introduction

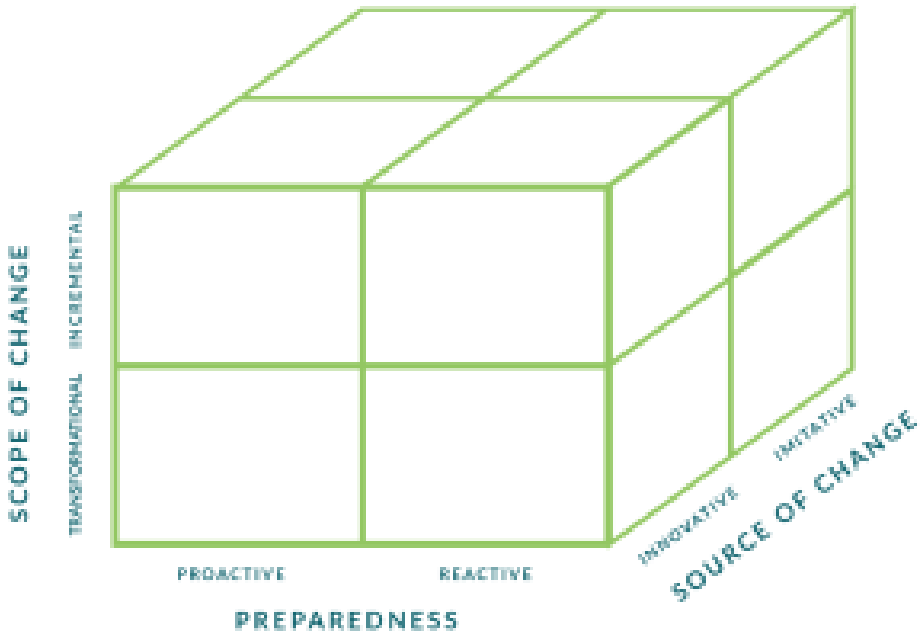
Thus far our discussion of the planning and organizing functions has focused on managing different processes within organizations such as making decisions, formulating and implementing strategy, and creating coherent organization designs. These are challenging tasks for managers, but even more challenging is to *change* an organization's goals, strategy, or design, or to implement an intrapreneurial initiative. It is in times of change that the role of the manager may be most critical. In this chapter, we begin by describing three basic dimensions of organizational change and the eight specific types of organizational change that result. We then describe the four-phase process of change as it is carried out by Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) approaches to transformational change. We conclude by discussing implications for intrapreneurship.

## 13.2. Three Dimensions of Organizational Change

**Organizational change** *is the substantive modification of some aspect of an organization*. This can be a change to any one (or more) of the components that comprise an organization's design, including change to its structure (e.g., its place along the mechanistic-organic continuum), culture (e.g., the values of its members), environment (e.g., expansion into a new market), technology (e.g., the process used to transform inputs into outputs), or its strategy (including its mis-

sion and vision). In short, change can involve anything that happens within organizations. Managing change is an integral part of every manager's job. How to best manage change is determined in part by what needs to be changed, and what type of change is needed. Figure 13.1 identifies three basic dimensions of change—scope, preparedness, and source—which combine to yield eight specific types of change.

**Figure 13.1. A 3×2 table that shows eight types of organizational change**




### 13.2.1. Scope of Change: Transformational versus Incremental

The scope of a change can be either transformational or incremental.[14] In simple terms, a **transformational change** occurs when an organization shifts from one type of organizational design to another,[15] while **incremental change** occurs when an existing organization design is fine-tuned.[16] Transformational changes are more difficult to manage than incremental changes. Organizations spend most

of the time in periods of equilibrium characterized by incremental changes that fine-tune an existing organizational design type; these periods of equilibrium are occasionally interrupted or "punctuated" by bursts of transformational change when an existing organizational design type is replaced with a new one.[17] For example, Interface Inc. was an FBL defender prior to 1994, underwent a transformational change to become a TBL prospector by 1999, and then underwent another transformational change to become a SET analyzer by 2012.

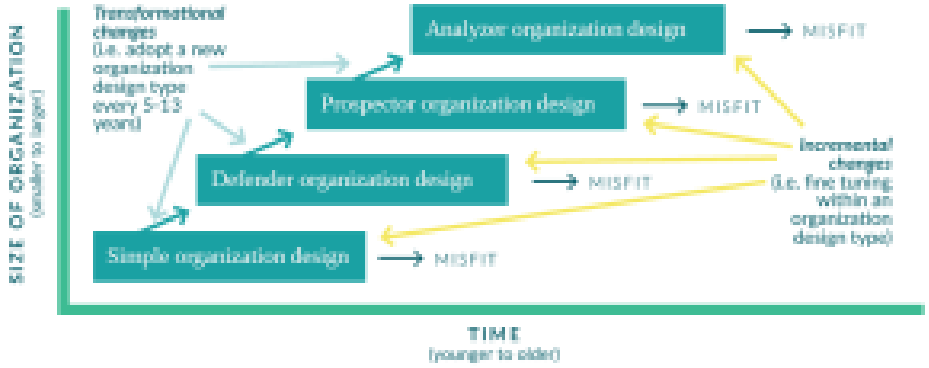
Research suggests that organizations generally operate within a specific organization design for anywhere from five to thirteen years, during which time managers fine-tune the elements of that design. After this period of equilibrium, many organizations will (again) face internal and/or external pressures forcing them to abandon their existing organization design and adopt a new one.[18] This transformational change might be triggered when the CEO decides to address negative socio-ecological externalities, as Ray Anderson did in 1994. Or it might occur when a formerly stable environment suddenly becomes dynamic (e.g., when climate change threatens predictable weather patterns),[19] or when a new technology is developed that renders a current technology obsolete (e.g., when jet engines replaced propeller engines, or when the internet replaced regular mail). Because separate elements of the design may change independently and pull the organization in different directions, "misfit" is inevitable (that is, proper fit is compromised), and the tensions can only be resolved via transformational change.[20]

*As organizations grow in age and size, they follow a predictable progression from one generic organizational design type to another.*

A helpful and common way to think about this ongoing back-and-forth between incremental and transformational change is captured by organizational life cycle theory. **Organizational life cycle theory** explains how organizations, as they grow in age and size, move in a predictable progression from one generic organizational design type to another.[21] This theory is built on the metaphor that just as humans go through a predictable life cycle (from childhood to youth to adult to old age), so also organizations go progress through a cycle of the design types described in Chapter 11, proceeding from simple to defender to prospector to

analyzer. A variation of life cycle theory, which is clearly a simplified description of the change process, is depicted in Figure 13.2.[22]

**Figure 13.2. Organizational life cycle, showing transformational versus incremental changes**




Recall from earlier chapters that entrepreneurs typically launch new organizations as organically structured simple types that offer new products and services. As the simple organization grows in size, its operations become more established via a series of incremental changes that help to manage recurring environmental uncertainties. At the same time its technology becomes clearer and more analyzable, and its culture increasingly values predictability. Soon, managers are pushed to develop mechanistic administrative structures to accommodate its growth. In short, the simple organization is facing pressures to become a defender organization. Managers who are unable to bring this transition to fruition will find that their organization is stuck somewhere between a simple and a defender organization. In such a case it becomes an "administration-less misfit," where the different elements of the organization's design no longer fit together to form a coherent whole. This misfit can be resolved by adopting a defender organization design.

Similarly, a defender organization may enjoy success for many years of incremental change, but it inevitably becomes a "stifled misfit" unless it manages

the transition to become a prospector type. For example, an FBL stifled misfit is one where the culture becomes so predictable and internally focused, where decision-making is so concentrated at the top of the hierarchy, specialization so narrow and standardization so prescribed, that members' creativity is stifled and the organization fails to respond to the changing needs of its customers. This can be resolved by becoming a prospector organization.

Along the same lines, prospector organizations are vulnerable to becoming "scattered misfits," where diffused decision-making authority and a lack of standardization across departments leads to failure. From an organizational life cycle perspective, a prospector can avoid failure by becoming an analyzer organization.

Finally, the analyzer organization can become a "stressed-out misfit" because the ambiguity and tension that comes from pursuing a dual strategy may lead to psychological stress and a difficulty to cope among members. What happens after the analyzer phase? An organization may be subdivided into many smaller (simple) units and/or be "re-born" as a variation of one of the earlier types.

### 13.2.2. Preparedness: Proactive versus Reactive

Change can also vary in terms of the preparedness of its managers.[23] When managers are on top of things and are effectively monitoring the fit (or lack of fit) among the key elements of their organization's design (e.g., being aware of whether organizational structure and culture is aligned with changes in the environment or technology), then they can design and implement planned, proactive changes. **Proactive change** is designed and implemented in an orderly and timely fashion. Proactive change often occurs when managers see an opportunity to improve an organization's performance. When members perceive opportunities for change, they increase their support for change and decrease their support for the status quo.[24] Interface's changes in the opening case were planned, proactive changes.

In contrast, **reactive change** involves making ad hoc or piece-meal responses to unanticipated events or crises as they occur. Reactive change is often prompted by an unexpected threat facing the organization. A common problem faced by organizations is the failure of managers to anticipate or respond to changing circumstances; they are then forced to make unplanned, reactive changes. Sometimes reactive changes happen almost by accident without deliberate awareness on the part of managers, as an organization drifts from one way of doing things to another way. Reactive incremental changes rarely threaten an

organization's survival unless a firm finds itself unable to get itself out of a misfit stage. The danger of organizational failure is much greater in the event of unplanned reactive transformational change attempts, such as those prompted by the need to respond quickly to unexpected strategic initiatives by competitors.[25]

### 13.2.3. The Source of Change: Innovation versus Imitation

A third dimension of change is whether it arises from innovation within the organization or from imitating what other organizations are doing. **Innovation** involves the development and implementation of new ideas and practices. Innovation was evident when Interface developed a new kind of nylon that could be reused indefinitely to manufacture carpets. **Imitation** involves the application of existing ideas, which may come from other units within the organization or from outside of the organization. Imitation was evident when Interface provided its nylon technology to other organizations in order to reduce the industry's overall negative externalities. Because imitative changes have a proven track record, they may be easier to manage and implement than innovative changes.

As depicted in Figure 13.1, eight types of organizational change arise from these three basic change dimensions (scope, preparedness, and source). This chapter will focus on changes that are transformational, proactive, and innovative because they are the most comprehensive examples of the change process.[26] Transformational changes are more encompassing than incremental changes, innovative changes are more challenging than imitative changes, and proactive changes provide a more complete picture of the four-phase change process than reactive change.

**Test Your Knowledge**

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=109#h5p-63*

## 13.3. The Four-Phase Organizational Change Process

The most popular and influential contemporary models of organizational change

have four phases: (1) recognizing the need or opportunity for change; (2) deliberately preparing for the change process; (3) making the change; and (4) safeguarding the change.[27] This four-phase process can be helpful for understanding all types of organizational change, but its full implications are most evident in changes that are proactive, innovative, and transformational. The first two phases would be much less well developed in unplanned, reactive changes.[28]

As depicted in the summary table at the beginning of this chapter, there is important variation but also considerable overlap among the three management approaches regarding the change process. FBL management is based on the classic idea that organizations seek to spend most of their time in periods of equilibrium, where all the elements of an organization's design form a coherent whole that enables it to maximize efficiency, productivity, and financial well-being. In order to avoid their organization becoming a misfit, managers must occasionally make transformational changes where they "unfreeze" an existing configuration, implement changes, and then "refreeze" the organization until it is time to change again.

TBL management is similar, except that it seeks organizational design types that enhance profits by reducing negative socio-ecological externalities. Also, in contrast to the top-down approach of FBL management, the TBL approach seeks to involve members in the unfreeze–change-refreeze process, and on understanding the dynamic way that organizational design elements fit together.[29]

In SET management, thanks to its emphasis on participation and experimentation, there is more fluidity within each of the organizational design configurations than in either the FBL or TBL approaches. In the SET approach, it is advisable to occasionally "freeze" the action to see what is going on to determine whether change is called for.[30] Think of it this way: SET management sees an organization as if it were a movie of a particular genre (e.g., a comedy, drama, or mystery), and considers it important to occasionally press the pause button to see whether a change should be made (e.g., to the script, genre, characters) before pressing play again.[31] In contrast, both FBL and TBL management approaches are more likely to see an organization as a series of photos, where one photo captures how all the elements of its design are arranged in one era, and a second photo captures how the elements could be or have been rearranged after a transformational change and a new era has begun.

*From a SET perspective organizations are like a movie, and it is important*

*to occasionally press the pause button to see whether a change should be made before pressing play again.*

### 13.3.1. Phase 1: Recognize the Need and/or Opportunity for Change

To identify opportunities for change, managers rely on a variety of sources, including organizational members, customers, suppliers, formal information systems that monitor internal operations and the larger industry, and intuition that comes from having a deep understanding of existing operations. Change may be triggered by a wide variety of factors, such as depletion of affordable raw materials that the company relies upon as inputs (e.g., coal and oil for energy companies), opportunities to reduce negative socio-ecological externalities (e.g., reduce income inequality), or a lack of employees with specific skills (e.g., not enough nurses in a hospital). Or an organization may need to respond to new government regulations (e.g., affirmative action programs, pollution regulations) or new directives from shareholders (e.g., greater transparency about the compensation packages of senior managers). Finally, organizations may need to respond to technological innovations by competitors or suppliers. Note that the same trigger event may prompt different reactions among managers. For example, in response to ecological concerns, some managers may embrace clean technology, while others may see a short-term cost advantage in sticking with older, less environmentally friendly technologies. When Ray Anderson wanted Interface to invest in a solar array, the accountant said he couldn't find a business case to support this decision; they did it anyway and it was a success, thanks to new customers attracted to the idea of solar carpets.[32]

Recognizing and responding to the need for transformational change often comes too late, resulting in misfit and eventually organizational failure.[33] This delay may be due to the natural human tendency to exhibit a **threat-rigidity response** where people who face a crisis, whether as individuals or in groups, tend to revert to familiar patterns of behavior that they perceive to have been successful in the past.[34] Sometimes reverting to past organizational designs is advisable, but sometimes it merely hastens the organization's demise, especially if the past design is partly responsible for the current crisis.

*People who face a crisis, whether as individuals or in groups, tend to revert to familiar patterns of behavior that they perceive to have been successful in the past.*

Other factors that make it less likely that managers will recognize the need for change were discussed in Chapter 7. These include *escalation of commitment* (persevering in the current way of doing things because they do not want to admit that their prior decisions were ill-advised), *information distortion* (the tendency to downplay information that suggests you are doing something wrong), and *administrative inertia* (when existing ways of organizing persist simply because they are already in place). These factors all increase the likelihood of organizational failure, which comes when managers wait until the demise of an organization is imminent before beginning the costly and time-consuming transformational change process.[35]

*A recognition of the need or opportunity for change may be stifled by escalation of commitment, information distortion, and administrative inertia.*

#### FBL, TBL, and SET Approaches to the Need or Opportunity for Change

FBL management is distinct from TBL and SET approaches in two important ways. First, FBL management concentrates on looking for or recognizing needs and/or opportunities for changes that will help to maximize efficiency, productivity, competitiveness, and financial well-being, and does so without proactively pursuing opportunities to reduce negative socio-ecological externalities. Second, FBL management typically assumes that it is the manager's job to identify opportunities and threats, and the manager's job to develop the plan or vision regarding how to deal with these opportunities and threats.

In contrast to FBL managers, TBL managers seek to enhance financial well-being by proactively addressing negative socio-ecological externalities. Like FBL managers, TBL managers also draw on their experience and unique organizational vantage point to identify areas that could be changed. But unlike FBL

managers, for whom identifying areas for change is a top-down process, TBL managers are more likely to involve organizational members to jointly diagnose the information and ideas that might prompt change. In this way, TBL management emphasizes participation and openness, which invites more members to become sensitized to the broader issues of concern for the organization and its stakeholders.[36] Managers at Interface Inc. spent four years discussing and developing a rich understanding of the needs and opportunities associated with enhancing socio-ecological well-being.

SET management, finally, has less need to maximize financial well-being than FBL and TBL approaches do, and therefore SET managers have freedom to consider a wider variety of changes that enhance socio-ecological well-being. SET management is also more likely to invite even broader participation in recognizing opportunities and the need for change, and in the merit of pressing the pause button (e.g., by paying close attention to the ecological environment). In particular, SET management is sensitive to the dignity needs of the least privileged in society, whether they are income-insecure people in the Philippines or around the world (e.g., MAD Travel, Chapter 6) or the underpaid cocoa farmers in Ghana (Divine Chocolate, Chapter 2).[37]

### 13.3.2. Phase 2: Prepare for Change

Once it has been established that there is a need for change (phase 1), one might expect that it should be easy to get everyone in the organization to be ready to hop on board. While this is sometimes true for incremental changes, it is often not true for transformational changes. Only about 25 percent of attempted transformational changes are successfully implemented.[38] An important reason that change attempts fail is because of inadequate preparation prior to actually implementing the change. Preparing for change involves using influence tactics to get organizational members to be open and willing to change.[39]

*Only about 25 percent of attempted transformational changes are successfully implemented.*

Change can evoke a wide range of emotions from the people facing or experiencing it. The very nature of organizational change creates stress, regardless of

whether the change is perceived to be in someone's interests (e.g., stress can be caused by being promoted or demoted). Change increases members' exposure to uncertainty, disrupts informal support networks, and affects organizational structures and power.[40] Taken together, change may take a heavy toll on participants even when it is in the best interest of all organizational stakeholders.

As shown in Table 13.1, managers can draw on a variety of influence tactics to prepare members for change.[41] Which tactics are used depends on which management approach is being used and whether managers seek to *push* members to change (e.g., by drawing attention to a crisis) or *pull* them (e.g., by drawing attention to an opportunity). Often a push-pull process works best, which reinforces the need for change (even though this may contribute to a threat-rigidity response) and then offers an enticing vision of what that change might look like (which helps to overcome the threat-rigidity response).

**Table 13.1. Influence tactics to prepare members for change**

| | |
|---|---|
| *Pressure* | Introduce or suggest threats or negative consequences |
| *Exchange* | Indicate willingness to reciprocate or share benefits |
| *Coalition tactics* | Appeal to the buy-in of others (e.g., a third party) in attempt to persuade |
| *Ingratiation* | Use praise, flattery, or friendly behavior before making a request |
| *Rational persuasion* | Use logical arguments and factual evidence |
| *Personal appeal* | Appeal to feelings of loyalty or friendship |
| *Inspirational appeal* | Arouse enthusiasm by appealing to values, ideals, aspirations |
| *Legitimizing tactics* | Appeal to an agreed-upon authority (e.g., a vision/mission/founder) |
| *Consultation* | Involve others in planning or formulating an idea or strategy |
| *Praxis* | Encourage practical action and critical reflection by members |

Drawing attention to a crisis may include presenting members with alarming information and the potential negative consequences that might occur if they don't change. This might involve using *pressure* tactics (e.g., pointing to the possible negative consequences of a crisis) or *rational persuasion* (e.g., using a graph to show a decline in sales, and another graph that links declining sales to job loss). By contrast, drawing attention to opportunities includes suggesting that organizational members will be better off if they change. This could involve *rational persuasion* (e.g., explaining how removing one product line and replac-

ing it with another is in keeping with changes in market demands) or *inspirational appeal* (e.g., explaining how a new product line is in keeping with the organization's vision).

However, even if members recognize the crisis and/or opportunity that is prompting a change, and even if their uncertainty is reduced by managers spelling out a clear vision of the future, members still might resist the change if they feel the change is a violation of their psychological contract. A **psychological contract** *is an unwritten expectation related to the exchanges between an employee and the organization.*[42] For example, an employee might feel their psychological contract has been violated when they are required to do more or different work, thus raising the objection that "I wasn't hired for this." To address this, managers may use influence tactics like *exchange* (e.g., offering higher pay for the increased work effort), or *personal* or *inspirational appeal* (e.g., asking members to increase their efforts for the sake of the greater good).[43]

*Even if members recognize the need for change, they may resist it if it violates their psychological contract.*

#### FBL, TBL, and SET Approaches to Preparing for Change

More than TBL and SET approaches, an FBL approach tends to assume that managers and experts will play the primary role in identifying and planning the change, and that managers will then use influence tactics to prepare members to accept the change. FBL managers explain or interpret the need and vision for change to members, and try to convince members of the merit of the manager's insight and plans for the change. The emphasis is on getting other members to "buy into" the ideas that management is promoting, and FBL managers are more likely to use *instrumental exchange*, *pressure*, and *coalition tactics* than TBL and SET managers.

In contrast, TBL management is more likely to use *consultation* and *inspirational tactics* to invite members to participate in developing the vision for the change. This creates a powerful sense of ownership and commitment, and this emphasis on consultation was already evident in phase 1, where members participate in recognizing the need for change. Such bottom-up involvement is more likely to lead naturally to a shared vision.[44] By allowing people to share in the

process of gathering and assimilating information, the vision becomes theirs.[45]

Involving members in establishing the vision of an organization not only allows TBL management to empower members, it also allows managers to access the knowledge of frontline members to help redesign how the organization works. Of course, management and staff experts also bring knowledge that other members do not have. Even though having management and members working together will result in a better vision and a more effective organization, historically such consultation and partnership has not happened as often as one might think. Why? First, managers often believe that empowering others dilutes their own power, even though sharing control can actually empower both parties.[46] Second, in the past organizations were smaller and technologies were less complex, so that members did not have as much unique valuable information to contribute and the extra time that was required to access this knowledge was deemed inefficient. Third, managers expect that members will be unlikely to suggest changes to enhance the financial well-being of owners if that could threaten their own self-interests.

*Managers often believe that empowering others dilutes their own power; in fact, sharing control can actually empower both parties.*

TBL management recognizes that many things have changed over the years. Today members have important knowledge to bring to the table, and they are motivated to create visions and organization designs that help to improve socio-ecological well-being. TBL management recognizes that both members and owners want their organization to become a better place, and in return members have less reason to fear that management will take advantage of them. When a crisis or opportunity is recognized, members have a standing invitation to help develop a win-win solution. By being informed and involved in the change process, members are more likely to accept even those changes that may not be in their own material self-interest but which do enhance overall economic and socio-ecological well-being.

SET management differs from the other two approaches in its ongoing practice of inviting members to test out new approaches that address the needs established in phase 1. This is consistent with SET management's emphasis on experimentation, as described in Chapter 10, and extends it to issues that may

inform an organization's mission or vision. For SET management, such experimentation refers to practical actions, that is, actual changes that address the problem (see also trial and error decision-making, Chapter 7). This emphasis on *praxis* is reinforced by SET management's collaborative inquiry approach,[47] which uses consultation and inspirational tactics to invite members to participate in developing the vision for the change.

The experiments in SET management differ from the experiments under FBL or TBL management in several significant ways. First, FBL and TBL approaches tend to emphasize "thought experiments," where employees are asked to envision the future, or to imagine what their jobs will be like after a specific change has been implemented. In contrast, SET experiments involve hands-on, practical activities. Second, even when FBL and TBL managers do introduce hands-on experiments—for example, Interface was already introducing pilot projects and creating "small wins" prior to phase 3 in the change process—they are not as likely as SET managers to authorize members themselves design and carry out the experiments, or allow members to opt out of certain experiments.

To illustrate the SET approach, consider the example of Robert Greenleaf, a corporate vice-president at AT&T, who became aware that women were under-represented among the work crews who installed telephone lines.[48] When he met with operations managers to draw their attention to this issue (phase 1), Greenleaf very consciously adopted a "we" attitude, deliberately reminding himself that he was part of the culture and organizational practices that were associated with this problem. Then he asked the operations managers to help identify the problematic behavior in light of the "potential biases within 'our' embedded tradition system." In effect, he was pressing the pause button and asking members to evaluate and critically reflect upon why women were under-represented in their workforce. Some operations managers responded by saying that a major reason might be because workers had to regularly lift rolls of telephone cable that were 50 pounds (almost 23 kilograms), which they felt were too heavy for most women to lift on a sustained basis. Someone suggested having their supplier provide 25-pound rolls (about 11.3 kilograms). This ushered in phase 2 of the change process, when Greenleaf used his authority to have the supplier provide 25-pound rolls for any operations managers who wanted to experiment with this idea (some managers were adamantly opposed). The experiment showed that women were fine with regularly lifting 25 pounds, and that the men preferred it too! These experiences ushered in phase 3, where managers began thinking differently about their unit's work, and soon this change was made voluntarily throughout the company (phase 4).[49]

SET management's focus on practical action in phase 2 (prepare for change)

is consistent with the Aristotelian idea of praxis. **Praxis** is a combination of critical reflection and practical action that facilitates positive change.[50] Critical reflection ensures that members are engaged and thinking about their firm's positive and negative externalities, while practical action increases the likelihood that members will change their views about how their organization should work. The merits of praxis are illustrated by research that shows, for example, that even though many people recognize the need to make changes in order to combat climate change, this knowledge on its own does not change their worldview or behavior. However, people do change become more ecologically minded, less materialistic, and less individualistic) after doing and reflecting upon a one-week "experiment with sustainability" (e.g., not using fossil fuels, not eating meat).[51]

Overall, research shows that change is facilitated when there is room in organizations for building interpersonal relationships where trust and collaboration can develop (*relational* spaces), allowing new ideas and understanding to emerge (*conceptual* spaces, related to phase 1 of the change process), and novel approaches can be tested (*experimental* spaces, related to phase 2).[52]

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*Change is more likely to happen if new knowledge is acted upon, even via a simple experiment, rather than when knowledge is merely learned cognitively.*

### 13.3.3. Phase 3: Make the Change

This is the phase where key changes are implemented. For incremental changes—which do not need as much effort in navigating phases 1 and 2—this serves to fine-tune an organization's structure, technology, or strategy. Transfor-

mational changes include these elements as well as the idea of the how they fit together to make a sensible whole. This often involves (re)formulating and implementing strategy (Chapters 8 and 9) and rethinking organization design (Chapter 11).

Phase 3 is often where the role of managers is the most visible. Although change agents are important throughout all four phases of change, during this phase it is critical that change agents model appropriate behavior and provide visible support for the initiative. A **change agent** is someone who acts as a catalyst and takes leadership and responsibility for managing part of the change process. Change agents are often managers or human resource specialists from within the organization. Or a change agent may be an outside consultant. Change agents make things happen, and a part of every manager's job is to act as a change agent in the work setting (see the entrepreneur role from Mintzberg's study, Chapter 1).

Change agents sometimes work in conjunction with idea champions. An **idea champion** is a person who actively and enthusiastically supports a new idea. Change agents and idea champions work collaboratively to promote change within the organization by building support, overcoming resistance, and ensuring that innovations are implemented.[53] The roles of change agents and idea champions differ for FBL, TBL, and SET approaches.

#### FBL, TBL, and SET Approaches to Making the Change

In this phase, the FBL approach emphasizes the use of managerial authority to ensure that organizational members understand and know how to implement the technical aspects of a change and are committed to implementing it. While it may be easy to convey these aspects of a change, it can be challenging to achieve commitment.[54] Even if phases 1 and 2 have been completed successfully, the change process can still fail in phase 3. It is not enough for managers to develop a technically brilliant vision for a change. Managers also need human relations skills to make sure members implement the change. When change attempts fail, 80 percent of the time members attribute this to managers: particularly those lacking adequate communication skills and practices, and displaying poor work relationships and poor interpersonal skills.[55] A manager lacking these skills leaves members uncertain and stressed, and also fails to provide access to the rich informal knowledge that exists in an organization. Other important factors include managers failing to set clear goals, breakdowns in delegating authority to others, and an inability to break old habits (each mentioned about 60 percent of the time).

*80 percent of failed change attempts are attributed to managers lacking adequate communication skills and practices, poor work relationships, and poor interpersonal skills.*

An FBL approach points to three things a manager can do to increase members' commitment to change. First, a manager should increase members' confidence in the manager by establishing their own credibility, acquiring appropriate skills, leading by example, being well-prepared, and not overreacting to drawbacks.[56] Second, a manager should increase members' self-confidence by clarifying expectations, providing training,[57] planning for early success,[58] and providing necessary resources.[59] Third, a manager should encourage members to adopt a positive attitude about the change by communicating the intrinsic benefits of the change (e.g., enhancing job security),[60] linking it to extrinsic rewards such as pay raises and bonuses, and hiring and promoting members who have a positive attitude toward the change.[61]

In a TBL approach—unlike the FBL approach, where managers typically rely on their hierarchical authority to develop a change and describe how it is to be implemented—managers couple their authority with continued attention to members' participation, as in phases 1 and 2. They do this by providing forums for open discussion, and by providing resources and recognition for change agents and idea champions.[62]

Elaborating on this, the TBL approach points to at least three strategies managers can take to improve members' commitment to change. First, in order to increase confidence in the manager, the manager should continue to foster members' participation in the change process (as they did in phases 1 and 2) and be trustworthy (including demonstrating a willingness to put members' well-being ahead of the manager's own personal interests).[63] When managers share power, members are more likely to commit to change because they have greater confidence that the manager is doing what is best for the organization.[64] In addition, enhancing participation and teamwork contributes to personal satisfaction as well as to improving productivity and performance.[65]

Second, in order to increase members' self-confidence, managers should foster opportunities for informal and peer learning. Like FBL management, TBL management also recognizes the benefit of training and clear expectations in building confidence. However, TBL managers are more likely to create spaces or opportunities for informal or peer learning to enhance the skills of employees and

to provide relevant information. Instead of tightly controlling and delivering training and information, TBL managers create and nurture an environment where members can learn from each other. This does not mean that managers leave communication and change to chance. TBL managers are aware of their role in helping others make sense of what is happening in the organization as change brings about intended and unintended outcomes.[66] That is, managers must be able to pick up on issues that have the potential to discourage or to create dissension throughout the organization.

*In order to encourage members to have a positive attitude toward change, managers should encourage communication about the benefits (and sacrifices) of the change.*

Third, in order to encourage members to have a positive attitude toward change, TBL managers should encourage communication about the benefits (and sacrifices) of the change, as will happen when working through the above.

The SET approach emphasizes similar skills and behaviors as FBL and especially TBL approaches, but SET management is significantly different from FBL and TBL management in this third stage of the change process. Whereas FBL and TBL management focus on implementing a desired change in *what* things are done, SET management also understands the importance of how members understand and think about their jobs and about how their organization works, or *why* things are done. In particular, SET management looks for changes in members' ways of thinking and understanding their work that result from their praxis experiments that were started in the second phase of the change process.[67] The key change is for members to see their work world differently, to interpret their jobs through a new lens, and to relabel the components of their work. Of course, the changes to *what* things are done as a result of experiments are important, as they represent how the elements in an organization are being rearranged in a tangible way. But it is the change in seeing the organization and its elements differently that is key for SET management. In the example of Robert Greenleaf at AT&T, change happened when operations managers started to see that women were legitimate hires, that women could do the job as well as men, and that everyone felt better about their organization when women were treated as equals. This was not a compromised worldview that members reluctantly accepted;

instead, this had become a new worldview that members were excited to have developed via praxis. Because of this changed worldview, the organizational change was more likely to be safeguarded going forward (phase 4).

Another distinction is that SET management is more likely to involve external stakeholders in the change process. Simply being mindful of other stakeholders can already have an effect. For example, former Amazon CEO Jeff Bezos sometimes left an empty chair around the table at a meeting and asked attendees to imagine that the seat was filled by a customer, "the most important person in the meeting."[68] SET managers may be especially inclined to have voice-less stakeholders seated in the empty chair, such as the natural environment, or future generations, or someone from the local community who is homeless. Hearing directly from a variety of external stakeholders—especially those from the margins—can be even more more powerful and lead in unexpected directions and yield counter-intuitive corporate decisions (such as when Interface decided to build a solar array even though it lacked a business case to do so). Such participation deepens participants' understanding of existing relationships and systems because it draws on the experience and knowledge of a wide variety of stakeholders. This broad participation also informs the implementation of changes so that changes more fully consider the complexity of the system.

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### 13.3.4. Phase 4: Safeguard the Change

Once a change has been implemented, steps must be taken to ensure that the change is reinforced (i.e., becomes institutionalized), and that organizational practices do not revert to previous ways. Ideally, the change becomes second nature to members because it is embedded in their everyday actions and thoughts. This involves creating structures that reinforce the change, and dismantling structures and systems that undermine it.

#### FBL, TBL, and SET Approaches to Safeguarding the Change

In FBL management this phase is called *refreezing*, and FBL managers use a top-down approach to fine-tune various aspects of the organization to reinforce the change implemented in phase 3. This may involve fine-tuning the fundamentals of how work is organized (e.g., standardization, specialization, and centralization) and who reports to whom (departmentalization). It also requires revising formal job descriptions, aligning the performance appraisal and reward systems with the new expectations, and adapting recruitment and promotion practices to reinforce the new culture. The idea is to reestablish the organization's structures and systems so that the new ways of doing things are repeated and rewarded (for more on the importance of rewards, see Chapter 14).[69]

TBL management also seeks to ensure that positive changes remain implemented throughout the organization.[70] But unlike FBL managers, who seek to re-*freeze* the changed organization via formal structures and systems, TBL managers are more likely to want to re-*slush* the organization because, like SET managers, they expect some ongoing experimentation within the organization. Thus, TBL managers make changes to structures and systems (such as adjusting misaligned reward systems) with an eye to ensuring the changes foster subsequent learning and flexibility. An important part of TBL management is that ongoing member-initiated improvements are acknowledged, celebrated, and diffused throughout the organization as appropriate. "Slushing" also assumes that a change may not work uniformly well throughout the organization.

*There are important differences between refreezing, re-slushing, and resuming activities.*

In SET management the final phase is called *resuming*, which goes even further from the FBL practice of freezing than the TBL preference for re-slushing. SET management expects and encourages its members to maintain dynamic relationships between organizational design elements and various stakeholders. Returning to the metaphor of a movie, once the pause button has been pressed (phase 1), and the cast and directors have had a chance to experiment with new scripts (phase 2) and reflect on them in a way that changes their worldview (phase 3), everything is ready for the play button to be pressed and the action to resume. In

this metaphor, SET movie directors place greater importance on improvisation than on rehearsing prescribed lines and repeatedly shooting the same scene to get it exactly as written in the script. For example, recall that employees at Semco do not even keep minutes during their meetings, because the goal is for members to remain flexible going forward (Chapter 10). SET management encourages flexible structures that can support continuous change. This includes monitoring the outcomes of ongoing experimental changes and providing opportunities to share these successes with others in order to promote further learning. Positive changes are celebrated and disseminated to provide examples for others to consider and adopt (such as when all the units in AT&T started using 25-pound rolls of cable). Ultimately, changes that begin and grow informally may become institutionalized throughout the organization via a bottom-up process (not decided top-down by management).

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## 13.4. Intrapreneurship

In each chapter we have considered how the tools and ideas introduced apply to entrepreneurs, and we have primarily focused on classic entrepreneurs (those starting a new organization). However, the issues of organizational change discussed in this chapter are not as relevant to the concerns of an entrepreneurial start-up. In a new organization, there are few routines and little history; there are no institutionalized "old ways" to hold on to, and current practices may have been developed literally yesterday. Dynamism and change are taken for granted in start-ups, and thus often provoke less resistance.

However, the sorts of change discussed in this chapter, especially planned, transformational, and innovative changes, are of considerable importance to intrapreneurs—those who pursue entrepreneurship within an existing organization. In this section we therefore consider how the tools from this and previous

chapters can be integrated with the four phases of the change process to help intrapreneurs introduce new ventures within existing organizations.

### 13.4.1. Phase 1: Recognize the Need or Opportunity for Change

Intrapreneurial initiatives are often instances of proactive, innovative, and transformational organizational change. Thus, the first step in the change process is akin to the first step in the entrepreneurial process, except in the latter it is to identify an intrapreneurial opportunity. A key difference, though, is that an intrapreneur has access to a host of existing organizational resources to start a new venture, whereas the classic entrepreneur starts with more of a blank slate. The intrapreneur thus begins with significant advantages (e.g., access to funds, expertise, and collaborators to identify opportunities and challenges[71]), as well as added challenges (needing to change what an existing organization does).

The kinds of opportunities intrapreneurs identify will vary by management type. FBL intrapreneurs are likely to focus on opportunities where they can leverage existing resources to increase financial returns (e.g., reducing costs by outsourcing manufacturing to overseas factories). TBL intrapreneurs will look for opportunities where they can leverage existing resources to address social or ecological issues (e.g., finding ways to profitably offer their products in low-income countries, to permit people at the Base of the Pyramid to participate in and enjoy the fruits of belonging to a global economy[72]). SET entrepreneurs may seek to change fundamental ways an organization produces its goods and services (e.g., Ray Anderson acted like an intrapreneur when he recognized the need for Interface to transform its ecologically irresponsible practices). SET intrapreneurs often employ management action research (MAR) approaches, which involve reflection practice, engagement practice, and dissemination practice to identify and address fundamental organizational changes.[73]

Regardless of whether they follow an FBL, TBL, or SET approach, once intrapreneurs have identified an opportunity for change, they can use the same strategic management tools used by other managers within their organization (and used by classic entrepreneurs). This includes developing stakeholder maps, performing SWOT analyses (strengths, weaknesses, opportunities, threats), identifying an appropriate generic strategy, and crafting a vision and/or mission statement for the new initiative, whether this is driven by the intrapreneur working independently (FBL approach), with members (TBL approach), or with a range of stakeholders (SET approach). Having a clear and compelling value proposition

for the intrapreneurial change will increase access to organizational resources and reduce resistance.

### 13.4.2. Phase 2: Prepare for Change

Unlike classic entrepreneurs, who focus only on preparing for their new start-up vis-à-vis the larger market, intrapreneurs must in addition prepare their host organization for the intrapreneurial initiative. As described in the chapter, the process of preparing for change will differ for FBL, TBL, and SET entrepreneurs.

In particular, because intrapreneurs are working within an existing organization, they must consider market cannibalization, an issue that most classic entrepreneurs do not have to deal with. **Market cannibalization** *refers to the negative effect that a new product or service has on an organization's existing products and services*. For example, imagine that an airline company launches a new discount subsidiary offering flights with fewer services, in smaller planes, and at cheaper prices. In this situation, it is likely that some travelers who would otherwise have chosen the main airline will instead choose a discount fare. This loss of a full-fare customer represents cannibalization and is an issue that intrapreneurs need to consider. Another example might a company that supplements its regular products by introducing a "green" product line, which then draws customers away from its traditional products.[74] Cannibalization is most common in mature industries that are not growing, because there are few truly new customers. Some organizations practice intentional cannibalization (e.g., manufacturers wanting consumers to upgrade their phones or computers to the latest model), but the possibility for loss makes it essential that intrapreneurs conduct a thorough analysis of the environment and industry, as well as consider the place of the new venture in the organization's overall corporate strategy.

*Market cannibalization is most likely to occur in mature markets.*

Unless they are envisioning the creation of product categories that are unrelated to their firm's existing offerings, FBL intrapreneurs will be most concerned about negative effects from cannibalization, as the FBL model generally assumes a relatively fixed market filled with self-serving and price-conscious customers. Any

new product or service must be carefully assessed for its potential to reduce financial returns.

In contrast, some amount of cannibalization is likely to be built into TBL intrapreneurship; it may even be the goal. New initiatives within the TBL approach typically involve changing an old product or process to increase profits by being more sustainable. As such, if the new product is more profitable or offers more benefits in terms of public image and brand loyalty, the TBL organization would prefer to have their customers switch to it.[75]

SET intrapreneurs will usually be the least concerned about cannibalization. Indeed, few SET markets are mature; because the world's socio-ecological problems are large and complex, there is room for growth. Likewise, since the SET approach is less focused on maximizing financial profit, having customers change from one product to another is less problematic, as long as the organization remains viable and/or the goals of socio-ecological well-being are enhanced. In fact, many SET organizations would love to become obsolete. Mohammad Yunus, founder of the Grameen Bank that provides microfinancing to impoverished entrepreneurs, is known for saying that our grandchildren will need to go to a museum to see poverty.[76]

*Mohammad Yunus hopes that our grandchildren will need to go to a museum in order to see poverty.*

### 13.4.3. Phase 3: Make the Change

Both when preparing for and implementing their initiative, intrapreneurs need to be particularly attuned to issues related to organizational (re)design. Whereas classic entrepreneurs struggle with the work required to start up a fully developed organization design, intrapreneurs must find their place within an existing organization design. If the intrapreneurial initiative is to succeed, it will likely need to make changes to the host organization's culture and structure.

In particular, when working within host organizations that have relatively rigid organizational designs—often typical of the mature existing organizations that can best afford to support an intrapreneurial venture and may have the most to gain by its infusion of new ideas—intrapreneurs will be pushing for more fluidity and room to experiment. However, when working within host organizations

that have more dynamic organizational designs—where experimentation and ideas for potential new initiatives are commonplace—intrapreneurs may be pushing for greater rigidity as they promote a specific idea for which they need firmly committed organizational resources. This is part of the reason that the manager's role in a change is often the most visible in phase 3—it is managers that have the authority to commit resources. Thus intrapreneurs must engage in both top-down and bottom-up change processes, building strategic support while eliciting participation from below.[77]

### 13.4.4. Phase 4: Safeguard the Change

Having implemented their initiative, intrapreneurs must ensure that it becomes institutionalized so that practices do not revert to the way they were before. If the intrapreneurial initiative was transformational in scope, then the whole organizational design may need to be adjusted. But even if the initiative was smaller (e.g., launching a new product, or changing how an internal process operates), the change still needs to be integrated with established procedures. Think of the number of people you know who have made New Year's resolutions or other promises to change their behavior (e.g., lose weight, stop smoking, sleep more, stop using social media), but then a few weeks or months later return to their previous behavior. Similar processes are at work in organizations, which is why phase 4 is so important.

Unlike classic serial entrepreneurs, who are often most adept at the start-up phase but not particularly comfortable with developing and managing the ongoing structures and systems associated with mature and stable organizations, intrapreneurs are often more at home in developing the structures and systems required to safeguard the intrapreneurial venture (e.g., compare Larry Mauws and Michael Mauws of Westward Industries, Chapter 18). Intrapreneurs are relatively comfortable in this phase because it involves a return to "normal," where normal means being part of an organization with well-developed systems and functions (Chapter 18). For those intrapreneurs who have successfully implemented their initiative within a fairly rigidly structured host organization, this may mean allowing the intrapreneurial venture to become more rigid over time. And for intrapreneurs who have successfully carried out their initiative within a host organization with a dynamic design, this may mean allowing the intrapreneurial venture to also be dynamic over time.

**Test Your Knowledge**

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=109#h5p-67*

*Unlike classic serial entrepreneurs, intrapreneurs are often more at home in developing the structures and systems required to safeguard their new venture.*

## Chapter Summary

1. Organizational change is complex and varies in its scope (transformational versus incremental change), preparedness (proactive versus reactive change), and source (innovative versus imitative change).
2. The change process has four phases:
    - (i) recognize the need and/or opportunity for change
    - (ii) prepare for change
    - (iii) make the change
    - (iv) safeguard the change
3. The four phases in the change process are managed differently in FBL, TBL, and SET approaches.
    - FBL management has a top-down, productivity-maximizing financial focus, where managers
        - (i) recognize the need and/or opportunity for change and develop the change vision
        - (ii) use influence tactics to overcome

resistance and persuade members to buy into the change
- (iii) use their authority to implement the change and gain commitment
- (iv) establish structures and systems to ensure the change remains entrenched

- TBL management has a bottom-up triple-bottom line bias, where managers
  - (i) sensitize members to a wider scope of areas where change may be appropriate (not just changes that enhance financial well-being)
  - (ii) involve members when developing the change vision
  - (iii) work together with members to implement change and gain commitment
  - (iv) encourage ongoing learning among members
- SET management has a bottom-up socio-ecological well-being bias, where managers<
  - (i) press the pause button at times when heightened critical reflection is called for
  - (ii) invite members to design and carry out experiments to address a problem and/or opportunity
  - (iii) facilitate the ability and opportunity for members to change their worldview as they reflect upon their experiments
  - (iv) encourage ongoing adaptive improvisation and learning among members

4. The four-phase change process provides concepts and tools helpful to

manage the intrapreneurial process, including how to work with and build on resources in an existing organization (e.g. opportunities for collaboration) and how to address the challenges of convincing an existing organization to move in a new direction (e.g., threat of cannibalization).

## Questions for Reflection and Discussion

1. Identify the four steps in the change process. What are the main differences between FBL, TBL, and SET approaches in each step?
2. As an employee, which management approach—FBL, TBL, or SET—would you prefer to be in place when your organization is going through a change? If you were a manager, which approach would you prefer? Explain your reasoning.
3. Think of an organization where you have worked. Which management approach to change—FBL, TBL, or SET—do you think would be the most effective in that organization? Think of a change that was introduced in this organization. What system was used? Was that system the one you think they should have used? Why or why not?
4. Think of a change that has occurred in your life recently. How did you react to the change? Is the way you reacted similar to the way you react to change generally? Why or why not? What are things that make you more (and less) open to change?
5. From your personal experience, what do you think are the three most important reasons that people resist change? What can be done to minimize resistance and increase commitment? How do your ideas compare with what this chapter says?
6. What are the benefits and drawbacks of including more stakeholders in shaping and implementing the change process?
7. What changes might happen if your classrooms included an empty seat for homeless people from your community, or for the half the world that lives on less than ten dollars a day, or for Mother Earth?
8. In previous chapters you have been developing an Entrepreneurial Start-Up Plan (ESUP) for an organization that you would like to create. You have probably been thinking of your organization as a new

start-up, but how might it be possible to realize your value proposition within an existing organization via intrapreneurship? Identify a specific organization that you think would be well-suited to pursue your idea intrapreneurially. What do you think makes it suitable? What changes would the existing organization be required to make? What would need to be done to manage that process? Sketch out an intrapreneurial plan for achieving your ESUP goals within the existing organization you have identified.

## Notes

1. The opening case was drawn from Redekop, B. W. (2024). Sustainable leadership in business: The Ray Anderson solution. In *Environmentally sustainable leadership* (pp. 107–123). Edward Elgar. https://doi.org/10.4337/9781800374058.00010; Rajala, R., Westerlund, M., & Lampikoski, T. (2016). Environmental sustainability in industrial manufacturing: Re-examining the greening of Interface's business model. *Journal of Cleaner Production*, 115: 52–61. http://dx.doi.org/10.1016/j.jclepro.2015.12.057 ; Dean, C. (2007, May 22). Executive on a mission: Saving the planet. *New York Times*. https://www.nytimes.com/2007/05/22/science/earth/22ander.html ; Anderson, R. C. (1998). *Mid-course correction: Toward a sustainable enterprise: The interface model*. Peregrinzilla Press; Nature and the industrial enterprise: Mid-course correction: An interview with Ray C. Anderson. (2004). *Engineering Enterprise* (Spring): 6–12; Hawken, P., Lovins, A., & Lovins, L. H. (1999). *Natural capitalism: Creating the next industrial revolution*. Little, Brown and Company; Interface Inc. company website, at http://www.interfaceinc.com
2. Lampikoski, T. (2012). Green, innovative, and profitable: A case study of managerial capabilities at Interface Inc. *Technology Innovation Management Review*, 2(11): 4–12. https://www.timreview.ca/sites/default/files/article_PDF/Lampikoski_TIM-Review_November2012.pdf; Stubbs, W., & Cocklin, C. (2008). An ecological modernist interpretation of sustainability: The case of Interface Inc. *Business Strategy and the Environment*, 17(8): 512–523. Unless otherwise noted, all dollar amounts in this chapter are in US currency.
3. Rajala et al. (2016).
4. Havey, N. (Writer/Director). (2021) *Beyond zero* [Video trailer]. https://www.youtube.com/watch?v=dBAvYFor1zA
5. Quoted in Dean (2007).
6. Rajala et al. (2016: 56).
7. Rajala et al. (2016: 56).
8. Branson, R. (2013). *Screw business as usual: Turning capitalism into a force for good*.

Penguin.

9. A new service Interface developed was to lease carpeting to industrial customers, so that Interface would take care of and replace carpet as needed. However, this leasing service failed because of government regulations that limited customers' tax advantages.
10. Anderson links this soft side to the need for spirituality in business: "The growing field of spirituality (a term that, frankly, turned me off when I first heard it, because I associated it with religiosity) in business is a cornerstone of the next industrial revolution" (Anderson, 1998).
11. Stubbs, W., & Cocklin, C. (2008). An ecological modernist interpretation of sustainability: The case of Interface Inc. *Business Strategy and the Environment*, 17(8): 512–523. http://dx.doi.org/10.1002/bse.544
12. Stubbs & Cocklin (2008).
13. Rajala et al. (2016: 58).
14. Van de Ven, A. H., & Poole, M. S. (1995). Explaining development and change in organizations. *Academy of Management Review*, 20(3): 510–540. https://doi.org/10.2307/258786
15. Kavanagh, M. H., & Ashkanasy, N. M. (2006). The impact of leadership and change management strategy on organizational culture and individual acceptance of change during a merger. *British Journal of Management*, 17(S1): S81–S103. http://dx.doi.org/10.1111/j.1467-8551.2006.00480.x
16. Burnes, B. (2019). The origins of Lewin's three-step model of change. *Journal of Applied Behavioral Science*, 56(1): 32–59. https://doi.org/10.1177/0021886319892685
17. Greiner, L. E. (1998). Evolution and revolution as organizations grow. *Harvard Business Review*, 76(3): 55–68. https://hbr.org/1998/05/evolution-and-revolution-as-organizations-grow; Haveman, H. A., Russo, M. V., & Meyer, A. D. (2001). Organizational environments in flux: The impact of regulatory punctuations on organizational domains, CEO succession, and performance. *Organization Science*, 12(3): 253–273. https://www.researchgate.net/publication/247824208_Organizational_Environments_in_Flux
18. Research consistent with what has been called a "punctuated equilibrium" view suggests that organizations are usually in period of equilibrium (incrementally fine-tuning an existing organizational design type, which may last five or more years) but must occasionally experience a period of punctuation (a transformational change from one organization type to another). Organizations that fail to make qualitative changes to their organizational design risk becoming misfits and failing. For more studies in this area, see Dyck, B. (1997). Understanding configuration and transformation through a multiple rationalities approach. *Journal of Management Studies*, 34: 793–823; Greenwood, R., & Hinings, C. R. (1993). Understanding strategic change: The contribution of archetypes. *Academy of Management Journal*, 36: 1052–1081. https://doi.org/10.5465/256645; Hinings, C. R., & Greenwood, R. (1988). *The dynamics of strategic change.* Basil Blackwell; Romanelli, E., & Tush-

man, M. L. (1994). Organizational transformation as punctuated equilibrium: An empirical test. *Academy of Management Journal*, 37(5): 1141–1166. https://doi.org/10.2307/256669; Miller, D. (1992) *The Icarus paradox*. HarperCollins.

19. Yang, E., & DiBenigno, J. (2024). Opportunistic change during a punctuation: How and when the front lines can drive bursts of incremental change. *Organization Science*, 36(1). https://doi.org/10.1287/orsc.2021.15120
20. The "misfit type" corresponds to what Miles and Snow (1978) called the "reactor" organization, which referred to organizations that lack consistency among the elements of their organization design. Miles, R. E., & Snow, C. C. (1978). *Organizational strategy, structure, and process*. New York, NY: McGraw-Hill.
21. Much has been written about organizational life cycle theory, but the classic article still is Greiner, L. E. (1972). Evolution and revolution as organizations grow. *Harvard Business Review*, 50 (July–August): 37–46; for an updated version with additional commentary by the author, see Greiner, L. E. (1998). *Harvard Business Review* (May–June). https://hbr.org/1998/05/evolution-and-revolution-as-organizations-grow. While organizational life cycle theory is too prescriptive, it does have an underlying truth that continues to make it attractive to and helpful for practitioners and students. And there is research that supports the basic contention that managers change their organizations from one type to another over time. The research suggests that organizations may spend from five to thirteen years in any one type (with some exceptions, like Lincoln Electric), but that as they outgrow it managers feel compelled to change (e.g., Dyck, 1997). Although life cycle theorists might argue that an organization that has grown out of the simple type must enter the defender type (no skipping of types is permitted), subsequent scholarship suggests that this is too rigid and we expect that managers will be able to choose to change into any one of the remaining types.
22. Note that these general arguments are consistent with life cycle theory, but that the particular names we give to each type of organization differs from the names used by Greiner (1972) while building on the descriptions used by Greiner (1972) and others, including page 353 in Dyck, B., & Neubert, M. (2010). *Management: Current practices and new directions*. Cengage/Houghton Mifflin. Our discussion elaborates life cycle thinking by using terms and concepts related to organization design as presented in Chapter 12. Of course, we fully recognize that our elaboration of the life cycle model in the first place already simplifies reality.
23. Nadler, D. A., & Tushman, M. L. (1990). Beyond the charismatic leader: Leadership and organizational change. *California Management Review*, 32(2): 77–97. https://doi.org/10.2307/41166606; Badawi, B., Nurudin, A., Muafi, M., & Salsabil, I. (2025). Readiness to change and dynamic capability for growing green competitive advantage of post-merger rural banks in Indonesia. *Review of Integrative Business & Economics Research*, 14(2): 198–212. https://buscompress.com/uploads/3/4/9/8/34980536/riber_14-2_14_s24-287_198-212.pdf
24. Dyck, B. (1996). The role of crises and opportunities in organizational change. *Nonprofit & Voluntary Sector Quarterly*, 25(3): 321–346. https://doi.org/10.1177/0899764096253004

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26. Dyck, B., Mischke, G., Starke, F., & Mauws, M. (2005). Learning to build a car: An empirical investigation of organizational learning. *Journal of Management Studies*, 42(2): 387–416. https://doi.org/10.1111/j.1467-6486.2005.00501.x
27. Although the four-step description provided here is based on Lewin's basic change model, it draws from and builds on a variety of studies, including the four-phase learning model developed by Mary Crossan et al. See Lewin, K. (1951). *Field theory in social science*. Tavistock; Crossan, M. M., Lane, H. W., & White, R. E. (1999). An organizational learning framework: From intuition to institution. *Academy of Management Review*, 24(3): 522–537. http://dx.doi.org/10.2307/259140
28. For example, Dyck et al. (2005).
29. The TBL approach described here builds on a number of other models in the literature, such as Beer, M., Eisenstat, R., & Spector, B. (1990). Why change programs don't produce change. *Harvard Business Review*, 68(6): 158–166. https://hbr.org/1990/11/why-change-programs-dont-produce-change
30. SET management modifies and builds on the four-step friendly disentangling process used by Greenleaf. See Nielsen, R. P. (1998). Quaker foundations for Greenleaf's servant-leadership and 'friendly disentangling' method. In L. C. Spears (Ed.), *Insights on leadership* (pp. 126–144). John Wiley & Sons; the four-phase virtuous circle described in Dyck, B., & Wong, K. (2010). Corporate spiritual disciplines and the quest for organizational virtue. *Journal of Management, Spirituality & Religion*, 7(1): 7–29; and ideas drawn from Weick, K. E., & Quinn, R. (1999). Organizational change and development. *Annual Review of Psychology*, 50: 361–386. https://doi.org/10.1146/ANNUREV.PSYCH.50.1.361; and Purser, R. & Petranker, J. (2005). Unfreezing the future: Exploring the dynamic of time in organizational change. *Journal of Applied Behavioral Science*, 41(2): 181–203. https://doi.org/10.1177/0021886304268157
31. Although periods of equilibrium are thought of as relatively calm, in reality they have ongoing tensions and forces for transformational change that are not pursued. For example, see Dyck, B. (1997). Understanding configuration and transformation through a multiple rationalities approach. *Journal of Management Studies*, 34(5): 793–823. https://doi.org/10.1111/1467-6486.00072
32. Havey, N. (Writer/Director). (2021) *Beyond zero*, Clip 1. Havey Pro Cinema. https://beyondzerofilm.com
33. Dyck (1990).
34. Staw, B. M., Sandelands, L. E., & Dutton, J. E. (1981). Threat-rigidity effects in organizational behavior: A multilevel analysis. *Administrative Science Quarterly*, 26(4): 501–524. https://doi.org/10.2307/2392337; Mazzei, M. J., DeBode, J., Gangloff, K. A., & Song, R. (2024). Old habits die hard: A review and assessment of the threat-rigidity literature. *Journal of Management*, 01492063241286493. https://doi.org/10.1177/01492063241286493

35. Dyck (1990).
36. Sometimes TBL and SET managers might educate members at all organizational levels in how to read financial statements and how to link their own actions to the organization's health and well-being. An example of this approach is sometimes referred to as "open-book management," which enables and invites all members of an organization to participate in identifying opportunities and needs to change. Jack Stack was an early pioneer in this approach to sharing information with employees: "It's amazing what you can come up with when you have no money, zero outside resources, and 119 people all depending on you for their jobs, their homes, even their prospects for dinner in the foreseeable future." Stack and a handful of managers purchased their small manufacturing company from International Harvester when they were given the choice of either ownership or a shut down. The company was in a dire situation that could only be reversed with a radical approach that required employees to understand the business in a new way so that everyone could make decisions to keep the company afloat. With the combined wisdom of the whole company, they changed their company for the better. Open-book management is an ongoing approach to managing change. It holds as a core belief that significant change occurs when people at the bottom are meaningfully engaged and allowed to have a voice. Stack, J., & Burlingham, B. (1992). *The great game of business.* Doubleday.
37. In addition, SET management also differs from FBL and TBL approaches because SET management has a more dynamic or fluid understanding of configuration. Whereas FBL and TBL approaches focus on organization design as a relatively rigid fit between elements that need to be unfrozen in order to make changes, SET management places relatively more emphasis on how the organizational design elements are in constant interaction with each other and with the external environment, where change management requires "freezing" the elements in order to evaluate them.
38. Dyck (1997). . Moreover, even when changes are implemented, they are often not successful: about 70% of mergers and acquisitions do not create shareholder value. Wiztmann, N., & Dörrenbächer, C. (2016). The link between cultural due diligence and sociocultural post-merger integration: Management as a critical success factor in M&As. In Tarba, S. Y., Cooper, C. L., Sarala, R. M., & Ahammad, M. F. (Eds.), *Mergers and acquisitions in practice* (Chapter 11). Routledge.
39. Dyck (1996).
40. McKendall, M. (1993). The tyranny of change: Organizational development revisited. *Journal of Business Ethics*, 12: 93–104. https://doi.org/10.1007/BF00871929
41. This list, with the addition of praxis, was drawn from Yukl, G. (1998). *Leadership in organizations*. Prentice Hall. See also Allen, R. W., Porter, L. W., & Angle, H. L. (2016). *Organizational influence processes*. Routledge.
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*tracts in organizations: Understanding written and unwritten agreement*. Sage.

43. "Effective practices pertain to organizational justice, effective communication, participation, leadership, management practices for planning change and human resource management practices." Page 211 in Raeder, S. (2023). Sustaining psychological contracts during organizational change. *Gruppe. Interaktion. Organisation: Zeitschrift für Angewandte Organisationspsychologie (GIO)*, 54(2): 211–221. https://link.springer.com/journal/11612

44. For example, see Beer et al. (1990); Doten-Snitker, K., Margherio, C., Litzler, E., Ingram, E., & Williams, J. (2021). Developing a shared vision for change: Moving toward inclusive empowerment. *Research in Higher Education*, 62(2): 206–229. https://doi.org/10.1007/s11162-020-09594-9

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47. Shani, A. B. (Rami), Coghlan, D., Paine, J. W., & Canterino, F. (2023). Collaborative inquiry for change and changing: Advances in science-practice transformations. *Journal of Applied Behavioral Science*, 59(4): 541–555. https://doi.org/10.1177/00218863231204372

48. Nielsen (1998).

49. Greenleaf used a similar approach to increase the number of minorities in management positions at AT&T. In these cases the change may not have been from one organization design to another, but it may have set the course for an organization or a department moving from FBL to SET management. Of course, in some cases these sorts of SET experiments may fail, but in all cases people can learn something by critically reflecting on their experience.

50. See review in Walker, K., Dyck, B., Zhang, J., & Starke, F. (2019, originally published 2017). The use of praxis in the classroom to evoke student transformation. *Journal of Business Ethics*, 157(4): 199–216. https://doi.org/10.1007/s10551-017-3630-3

51. See review in Walker et al. 2019).

52. Bradbury, H. (2022). *How to do action research for transformations at a time of ecosocial crisis*. Edward Elgar.

53. Shani et al. 2023.

54. Neubert, M. J., & Cady, S. H. (2001). Program commitment: A multi-study longitudinal field investigation of its impact and antecedents. *Personnel Psychology*, 54(2): 421–448. http://doi.org/10.1111/j.1744-6570.2001.tb00098.x; Herscovitch, L. & Meyer, J. P. (2002). Commitment to organizational change: Extension of a three-component model. *Journal of Applied Psychology*, 87(3): 474–487. https://doi/

10.1037/0021-9010.87.3.474; Robertson, P. J., Roberts, D. R., & Porras, J. I. (1993). Dynamics of planned organizational change: Assessing empirical support for a theoretical model. *Academy of Management Journal*, 36(3): 619–634. http://doi.org/10.2307/256595

55. Drawn from research that formed the basis of Longenecker, C. O., Neubert, M. J., & Fink, L. S. (2007). Causes and consequences of managerial failure in rapidly changing organizations. *Business Horizons*, 50(2): 145–155. http://doi.org/10.1016/j.bushor.2006.11.002
56. On occasions where changes do not achieve the desired results, 70% of members will attribute it to a manager having the wrong skill set or lacking the best fit for the job. Reichers, A. E., Wanous, J. P., & Austin, J. T. (1997). Understanding and managing cynicism about organizational change. *Academy of Management Perspectives* (formerly *Academy of Management Executive*), 11(1): 48–59. https://doi.org/10.5465/AME.1997.9707100659; Kotter, J. (1996). *Leading change*. Harvard University Press.
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# Part 4: Leading

# 14. Motivation


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*Chapter 14 provides an overview of innate and acquired bases of motivation, as summarized in the following table and in the whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Innate Bases of Motivation** | | | |
| 1. Personality traits | Matches members' personality traits to specific types of jobs in order to improve productivity | | Identifies personality traits associated with being motivated to work for socio-ecological well-being |
| 2. Innate needs<br>• Existence<br>• Relatedness<br>• growth | • Pay a primary motivator<br>• Focus on individuals | | • Growth a primary motivator<br>• Focus on community |
| **Acquired Bases of Motivation** | | | |
| 1. Desire for accomplishment<br>• Goal setting<br>• Expectancy<br>• Instrumentality<br>• Valence<br>• Reinforcements | Achievement (extrinsic)<br>• SMART goals<br>• "I can do it" (self-efficacy)<br>• "What's in it for me?<br>• "The reward is dear to me"<br>• Emphasis on financial rewards for individuals | A TBL approach is consistent with FBL practices, unless there is a business case supporting the adoption of SET practices. | Significance (intrinsic)<br>• SMART 2.0 goals<br>• "We can do it" (group)<br>• "What's in it for everyone?"<br>• "The reward is dear to us"<br>• Emphasis on overall well-being for community |
| 2. Desire for fairness | Equity<br>• Treat members equitably | | Justice<br>• Treat stakeholders justly |
| 3. Desire for relationships | Affiliation<br>• An exchange-based view that values affiliation and instrumental benefits | | Community<br>• A view that values contributing to a caring community |
| 4. Desire for power | Opportunity to gain power to get ahead | | Responsibility to others via use and sharing of power |



*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=868*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain what motivation is and why it is important.
2. Identify innate needs and personality traits everyone is born with, and describe how these are related to motivation.
3. Describe the four basic acquired needs and explain how each is related to motivation.
4. Describe differences between FBL/TBL and SET approaches to motivation.
5. Understand the psychological and environmental factors that motivate entrepreneurs to start new businesses.

## 14.0. Opening Case – Motivational Sneakers

When managers look for ideas to energize people in their organizations, they often invite motivational *speakers*. However, to truly engender long-term motivation, perhaps they should look for lessons from motivational *sneakers*.[1] In particular, there is much to learn about motivation from Veja, a French firm that may provide the most sustainable sneaker on the planet. The word *veja* means "look," inviting consumers to look at not only the sneakers but also the socio-ecological externalities that are built into sneakers. Veja has no advertising budget, but the company has been profitable and experiencing healthy growth since its launch in 2004, enjoying shout-outs from celebrities like actress Emma Watson and football star David Beckham.

Veja was started by François-Ghislain Morillion and Sébastien Kopp, who, in 2003 at the age of twenty-five, became disillusioned with the best practices of business as usual when they were doing a social audit for a French fashion brand in a Chinese factory:

> We spent three days among the workers: they looked pale and tired, but the factory was clean, and the working conditions

> seemed pretty good. Everything went well with the audit, until we asked to see the living quarters. At first, the direction [management] refused, but after insisting and arguing, they opened the doors. We found ourselves in a 25 square meter room where 32 Chinese workers were sleeping together, stacked in 5-level bunk beds. And in the middle of the room, only a hole that served both as a shower and a toilet. On that day, we realized globalization had gone wrong.[2]

Kopp and Morillion, two extraverted and conscientious university graduates who had been friends since age fourteen, were open and eager to find better ways of doing business. In particular, they were motivated to start a sustainable business that addressed humankind's physical, social, and human fulfillment needs.

After exploring a variety of ideas, they eventually decided that they should reinvent sneakers, a product they loved and which they felt was symbolic of their generation. An important insight was learning that 70 percent of the costs associated with the sneakers produced by big brands go into advertising and communication, and only 30 percent account for the actual raw materials and production. So they decided to produce a sneaker where all the costs would go into the raw materials and the people making the sneakers, and to not spend any money on advertising.[3]

Kopp and Morillion had previously worked with a fair trade company and spent several years traveling the world, looking at socio-ecological externalities associated with mining operations, sweatshops, and small-scale agriculture. With this background knowledge, and working with non-government organizations (NGOs) to help identify suppliers along the way, they chose Brazil to source and produce their shoe. Brazil has the world's best supply of wild rubber, a good supply of organic cotton, and factories where workers are paid a living wage.

Veja and its stakeholders are motivated to enable people to meet their basic needs for physical and social well-being, and have developed practices that treat people and the planet fairly. For example, Veja pays its suppliers of raw material above–market rates and helps them enhance ecological well-being. Its 320 cotton farmers receive twice the market rate for their crop and have been trained to use agronomic practices that minimize soil erosion. Veja also pays a premium rate to the sixty families of *seringeiros* (rubber tappers) who supply its rubber, so that the tappers do not need to clear the forest (and thereby degrade the land) in order to supplement their incomes with cattle or other crops.[4] In France, Veja works with an NGO that provides employment for the chronically underemployed, who are responsible for the logistics of receiving and warehous-

ing shoes from Brazil and distributing them to various retailers and online customers.

Veja and its stakeholders are further motivated to build relationships and community, both at work and beyond. For example, its factory workers in Brazil are paid a living wage (16 percent above minimum wage) while also having weekends off, shorter workdays on Fridays, four weeks of vacation, overtime pay, and bonuses. Veja also enables new employees in France to visit the factory in Brazil, build intercultural relationships, and gain a first-hand understanding of who manufactures the sneakers and where they come from. Veja designs and maintains its website to create greater transparency, thereby building virtual relationships of sorts between its customers and suppliers. Indeed, at the heart of Veja is its strength in developing and maintaining healthy relationships with the various farmers, factory workers, and related NGOs. According to Morillion: "People are often amazed by what we've managed to create, but we don't do a lot, we just connect the dots between amazing projects to create a great sneaker."[5]

Veja and its stakeholders are also motivated by allowing everyone to grow in their capacity and power. For example, Kopp and Morillion are happy to have reduced their involvement in the day-to-day management of the factory in Brazil, and in the management of its logistical operations in France. They also provide advice to new start-ups in eco-fashion. Their goal is not to become the next global giant but rather to motivate *everyone* to work toward enhancing socio-ecological well-being. Says Kopp:

> We don't want to be another Nike. We want to show if two friends with no background in this industry can do it, everybody can do it. We want Veja to be an example and we want to say to the other brands, with all the money you have, with all the knowledge you have, with all the power you have, you can do much more.[6]

Overall, Veja and its stakeholders have been motivated to make significant accomplishments. Says Kopp:

> It's possible to make a company with equilibrium where the boss or owners of the company are not paying themselves like crazy and [instead] everybody is well-paid, and the minimum salary is high and the maximum salary is low—and it's cool; everybody can live a very happy life with that.[7]

Since opening, Veja has sold over 3 million sneakers—which are available in

seventy countries from 3,000 retailers—and, to enhance its sustainable impact, has opened cobbler shops around the world to repair sneakers.

## 14.1. Introduction

**Motivation** *is a psychological force that helps to explain what arouses, directs, and maintains human behavior.* People who are highly motivated will persist in behaving in a certain way. There are two basic types of motivation. **Extrinsic motivation** *refers to behavior that is exhibited because of the promise of some desired outcome (reward) from someone else,* such as a supervisor or higher-level manager. Outcomes may be in the form of promotions, pay increases, time off, special assignments, office fixtures, awards, praise, and many other things that an individual desires. The focus in extrinsic motivation is on rewarding people who achieve goals, regardless of whether the goals or work activities are meaningful to the person accomplishing them. By contrast, **intrinsic motivation** *refers to behavior that is exhibited because the task is inherently satisfying, enjoyable, or meaningful to the person.* The source of motivation is the actual performance of the task. Some research suggests that if both extrinsic and intrinsic outcomes are present in a job or task, over time the extrinsic outcomes may come to dominate the intrinsic outcomes to the point that intrinsic motivation disappears.[8] For example, if a person loved playing hockey while growing up but then becomes a professional athlete and gets paid for playing, that person may lose some of their original intrinsic pleasure and begin to see playing hockey merely as a job.[9]

In this chapter, we look at why and how people are motivated to behave the way they do in organizations. The goal is to better understand (a) what prompts people to initiate actions; (b) how much effort they will exert; and (c) the extent to which their efforts persist over time.

Managers want members to be motivated to behave in ways that benefit the organization. Understanding and managing motivation can be challenging for a variety of reasons, including the fact that there may appear to be no direct relationship between a motivation and an action. The same action may result from many different motivations, and the same motivation may lead to different actions. Motivation is also challenging to manage because it can be seen as having two different sources—innate needs and personalities that people are born with, and acquired needs and desires that are shaped by people's lived experiences. Using the computer as a metaphor, we can say that each person has unique hardware (a natural personality and innate needs that they were born with) and

unique software (acquired needs and values that are shaped by childhood experiences, the country they live in, the social media they use, etc.). We will examine each of these basic types of needs and how they are managed in Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) organizations.

## 14.2. Innate Bases of Motivation

### 14.2.1. Personality

An individual's personality (or disposition) is one factor that shapes what they are motivated to do.[10] Peoples' personalities are rooted in their biological makeup much more than in their background or upbringing. This is illustrated by considering how members from one family can be very different despite a similar upbringing. One sibling may be very neat and organized, and another may be very sloppy and disorganized. One sibling may be talkative while another is shy. In short, people have different traits. **Traits** *are personal characteristics that are relatively stable.* Researchers describe personality traits as falling into five broad categories, called the Big Five:[11]

- **Conscientiousness**: achievement oriented, responsible, persevering, dependable.
- **Agreeableness**: good-natured, cooperative, trustful, caring, gentle, not jealous.
- **Extraversion**: sociable, talkative, assertive, adventurous.
- **Emotional stability**: calm, placid, poised, not anxious or insecure.
- **Openness to experience**: intellectual, original, imaginative, cultured, curious.

Management researchers have been especially interested in the relationship between the Big Five and individual behavior and performance.[12] For example, the personality trait of conscientiousness has been shown to be a good predictor of performance in most jobs, and extraversion is particularly helpful for predicting success in jobs with a great deal of social interaction. In a team or group context, conscientiousness and extraversion also contribute to team performance, and agreeableness helps the team bond, reduce conflict, and perform.[13]

Research on the Big Five helps managers to explain behavior and to create selection instruments that enhance the fit between people and jobs by helping them to identify individuals who will be more naturally inclined or motivated to be productive when performing the tasks they are being hired for (e.g., extraverted people will be more naturally motivated to perform well in sales positions).

Beyond these basic job-related issues (which are typically emphasized in FBL and TBL organizations), in SET organizations members are also interested in how personality influences people's motivation to work for social and ecological well-being. As with their effect on productivity generally, extraversion and conscientiousness also have a positive effect on social and ecological well-being. But the highest correlation is with openness, which does not have an effect on financial well-being. Agreeableness, again, has a positive effect on enhancing social well-being.[14] Put differently, people who are high on the traits of openness and agreeableness will be more naturally inclined or motivated to enhance social well-being (e.g., people with high openness are more naturally motivated to work with diverse others, which may put them in a better position to address complex socio-ecological problems).

A sixth personality trait that many researchers have recently been studying—honesty-humility—also has a positive effect on social and ecological well-being but is not associated with economic benefit.[15] People high in honesty-humility don't cheat or manipulate others for self-serving purposes, and they lack a sense of entitlement and a desire for a lavish lifestyle.[16]

*People high in honesty-humility don't cheat or manipulate others for self-serving purposes, and they lack a sense of entitlement and a desire for a lavish lifestyle.*

### 14.2.2. Innate Needs

In addition to the preferences that are rooted in an individual's personality, people also have basic innate needs.[17] People obviously need to eat and sleep, but they also have inherent needs to relate to others and to make contributions or to create.

Abraham Maslow developed a well-known model of motivation that identified five human needs: (1) physiological (food, clothing, shelter); (2) safety

(stability, protection from harm); (3) belongingness (love, meaningful relationships with others); (4) esteem (desire for recognition and respect); and (5) self-actualization (realizing one's full potential).[18] Where Maslow got it wrong is in arranging these needs hierarchically, suggesting that lower-order (e.g., physiological) needs must be substantially satisfied before the motivational value of higher-order needs is activated.[19] For example, he suggested that people will not be motivated by their need for self-actualization if their need for belongingness is not met, and that they will not be motivated by their need for belongingness if their need for food and shelter have not been met. However, in reality everyone—even the billion or so people on the planet who do not have adequate food and shelter—is motivated by a need for belongingness and self-actualization.

A subsequent needs theory that enjoys much stronger research support is Clayton Alderfer's existence-relatedness-growth (ERG) theory, which identifies three basic needs that are *not* hierarchically related.[20] These needs center on *existence* (physiological needs and safety), *relatedness* (belongingness),[21] and *growth* (esteem and self-actualization).[22] According to ERG theory, a desire to meet any or all of these needs can motivate someone's behavior at any given time. Alderfer also introduced the **frustration-regression principle**, *which suggests that people who are unable to satisfy some needs at a basic level will compensate by focusing on over-satisfying other needs.* For example, a CEO who cannot fulfill a need for relatedness may direct their efforts toward making a lot of money.

*People who are unable to satisfy some needs at a basic level will compensate by focusing on over-satisfying other needs.*

Frederick Herzberg's two-factor framework—which differentiates between (a) hygiene factors and (b) motivator factors[23]—may help managers to better understand how to manage each of the three ERG needs to enhance employee job satisfaction and motivation. **Hygiene factors** *address issues of work* ***context****; they include factors such as working conditions, pay, company policies, and interpersonal relationships.* By contrast, **motivator factors** *address issues of work* ***content****; they include interesting work, autonomy, responsibility, being able to grow and develop on the job, and having a sense of accomplishment.* According to Herzberg, whereas motivator factors can increase satisfac-

tion, hygiene factors can simply reduce dissatisfaction; in other words, hygiene factors decrease demotivation but do not increase motivation. Although the two-factor model has its own shortcomings—many factors influence both dissatisfaction and satisfaction to some degree—Herzberg's most prominent contribution was in challenging the prevailing assumption that pay is the most important motivator. According to his research, satisfying needs associated with growth and autonomy are more important motivator factors than pay.[24] Herzberg's theory and findings continue to be contested, but managers can draw on his work to consider the influence of a variety of factors in motivating workers.

#### FBL, TBL, and SET Approaches to Innate Needs

All three approaches to management benefit from recognizing that people have ERG needs that they are motivated to satisfy. Managers should consider how to create work environments where employees' motivation to meet their ERG needs also motivates them to perform their work. Similarly, all three approaches suggest that managers should consider how to make sure that employees work in an environment that provides adequate pay, safety, and respect (hygiene factors), though there are clear differences among the three approaches in how they understand the word "adequate." For example, in the opening case, "adequate" for Veja means paying employees a living wage and giving them weekends off, whereas most of the world's shoes are manufactured by people working for a minimum wage, often in deplorable working and living conditions.[25]

There are other important differences between SET and the other two management approaches**.** First, a SET perspective may be more inclined to see pay primarily as a hygiene factor (everyone needs enough, but more than enough does not increase motivation), whereas FBL and TBL approaches are more likely to see pay as a motivator factor in meeting relational needs (more money means more people will want to be your friend) and growth needs (more money means more self-esteem and self-actualization). Even though research suggests that money does not accomplish these things—that is, money does not buy happiness—the mantra of "more money is better" has proven difficult to resist for many.[26]

Second, a SET approach is more likely to challenge another assumption embedded in Maslow's hierarchy, namely that *self*-actualization is at the apex of the hierarchy. In contrast, a SET perspective suggests that the apex might better be called *community* actualization. Recall from Chapters 1 and 5 that from a virtue theory perspective, true happiness cannot be achieved at the individual

level of analysis (e.g., self-actualization); rather, it comes from practicing the four cardinal virtues in community. Put in terms of motivation, virtue theory essentially argues that people will be motivated to participate in and contribute to organizations where members practice and experience virtues like justice, courage, self-control, and practical wisdom.[27]

*People will be motivated to work in organizations characterized by justice, courage, self-control, and practical wisdom.*

Third, whereas FBL and TBL approaches have a greater focus on motivator factors for individuals, a SET approach places greater emphasis on improving hygiene factors related to socio-ecological externalities, and on motivator factors that enhance a community. For example, contrary to FBL and TBL perspectives, a SET manager like Dan Price (Chapters 3 and 5) was motivated to reduce his $1 million salary in order to increase the salary of his employees (essentially to ensure that their pay is enough, a hygiene factor). He is motivated to work hard to ensure that Gravity Payments is able to maintain such community-building practices.

**Test Your Knowledge**



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=868#h5p-68*

## 14.3. Acquired Bases of Motivation

In addition to being born with certain personality traits and *innate* needs, over their lifetimes people also acquire certain needs. These *acquired* needs are shaped by factors like the national values of the countries where they live, the norms and practices of organizations they work for, and by the values and lifestyles of their

family and friends. We will look at four particularly important acquired needs, namely the needs for accomplishment, fairness, relationships, and power.[28]

As might be expected, there is some overlap between people's innate needs and their acquired needs, such as the needs for relatedness and relationships. However, their acquired needs for affiliation and community, power, and fairness will be shaped by the different cultures and contexts they live in. These acquired needs (which we will sometimes call "desires" to differentiate them from innate needs) are especially important for managing motivation, because they can be further changed and shaped in the workplace. In addition to overlapping with innate needs, the four acquired needs we will discuss are also related to the three elements of social well-being described in Chapter 5: *meaningful work* is related to satisfying needs for accomplishment and for power; *belongingness* is related to satisfying the need for relationships; and *peace and justice* are related to satisfying need for fairness.

We will look at each of the four acquired needs in turn, describe different theories that explain *how* they can be used to motivate people, and discuss differences between the FBL/TBL and SET approaches.

### 14.3.1. Desire for Accomplishment

Of the four main acquired needs discussed in the motivation literature, the desire for accomplishment (or achievement) has received the most research attention. The desire for accomplishment is relevant for each of the three approaches to management, but we can expect there to be differences on *what* sort of accomplishment is desired. For example, an FBL/TBL approach focuses on how the desire to achieve productivity and financial performance-related goals can be very motivational. A SET approach considers how accomplishing significant socio-ecological goals can be motivating.

These two types of accomplishment are evident in the career of Elizabeth Lee, who managed thousands of people as Chief Operating Officer for UMC-Nissan and had an impressive list of other achievements, including being the first female chairperson of the Chamber of Automotive Manufacturers of the Philippines Inc. She left all of that in order to found EMotors Inc., which manufactures ZüM electric trikes that promise to provide increased opportunities for low-income microentrepreneurs (social well-being) and to reduce noise and greenhouse gas pollution (ecological well-being). For Lee, success is not about making as much money as possible but about having a positive impact on others and on the environment.[29]

*For Elizabeth Lee, meaning comes from having a positive impact on others and on the environment, not from making as much money as possible.*

#### Accomplishment and Goal-Setting Theory

Goal-setting theory is one of the most studied and supported of all management theories. There are at least two reasons why goal setting can have positive outcomes. First, engaging in the planning process and setting goals encourages careful thought to what should be accomplished. In other words, goal setting is effective at pointing to *what* should be done. Second, setting goals motivates people to work. In other words, people get satisfaction from achieving a goal that meets their acquired need for accomplishment.[30]

Recall that research shows that SMART goals (specific, measurable, achievable, results based, and time specific) lead to increased productivity.[31] SMART goals are motivational because of people's desire for achievement. SMART goals increase performance gains more than a goal like "do your best." This knowledge has been used to great effect by FBL/TBL managers to optimize their employees' productivity.

Recall also that a SET approach is somewhat different.[32] Instead of appealing to people's motivation to accomplish *any* goal, SET management appeals to people's motivation to accomplish goals that are significant, meaningful, agreed upon, relevant, and timely (SMART 2.0 goals). For example, from a SET perspective as informed by virtue ethics, using money to make more than enough money would not be a motivating goal (and in fact, it may be a demotivating goal). Rather, goals that are aligned with providing goods and services that nurture overall well-being are motivating because they allow people to meet their desire for significance. Goals like "do your best" may not maximize productivity, but they may motivate people to become more collaborative, improve relationships between leaders and followers, and result in reduced negative self-evaluations and stress.[33]

*Goals like "do your best" may not maximize productivity, but they may motivate people to increase collaboration in the workplace, result in better relationships between leaders and followers, and reduce negative self-*

*evaluations and stress.*

#### Accomplishment and Expectancy Theory

Expectancy theory provides a closer look at key factors in the motivation link between setting goals and the desire for accomplishment.[34] In particular, **expectancy theory** *describes how motivation can be increased by increasing employees' expectations that they can achieve certain goals, and that the achievement of those goals will be linked to rewards that they value.* As depicted in Figure 14.1, motivation is considered a function of three separate thought calculations, regarding expectancy, instrumentality, and valence.

**Figure 14.1. An individual-focused variation of expectancy theory**




**Expectancy** *refers to the probability perceived by an individual that exerting a given amount of effort will lead to a certain level of performance* ("Can I achieve the goal?"). Research shows that the greater the confidence employees have that their efforts will produce desired outcomes, the greater will be their motivation. Confidence is a critical component for a number of theories of motivation. Expectancy is related to self-efficacy.[35] Recall from Chapter 6 that self-efficacy refers to a person's belief that they are able to complete a task successfully.[36] A person's self-efficacy can be increased by coaching, training, pro-

viding ample resources, conveying clear expectations, and other factors under the control of managers. One interesting example, discussed in Chapter 2, relates to research supporting self-fulfilling prophecies, which shows that subordinates often live up (or down) to the expectations of their managers.[37] In other words, a simple word of encouragement—such as saying "I believe you can do it"—can go a long way toward building someone's confidence and expectancy. High expectancy contributes to high levels of effort and persistence. High levels of expectancy are likely when someone has the appropriate amount of capability, experience, and resources (e.g., time, machinery, tools). A student may be motivated to earn an A in a class if she believes that with hard work it is possible. However, if the student believes earning an A is not possible given her limited capability or available time to study, she will have low expectancy.

**Instrumentality** *refers to the perceived probability that successfully performing to a certain level will result in attaining a desired outcome* ("Will I get something for achieving the goal?"). Employees are more likely to be highly motivated if they think that their high performance will serve as means to certain ends (outcomes) such as pay, job security, interesting job assignments, bonuses, or feelings of achievement. A student may be motivated to earn an A in a class if he believes that the A grade will be instrumental in gaining entrance to a professional program or securing a job. If an A is not perceived to be linked to any foreseeable valued outcome, his motivation is likely to be low.

**Valence** *is the value an individual attaches to an outcome.* To motivate organizational members, a manager needs to determine which outcomes (or rewards) have high valence for each member (i.e., which rewards are highly valued) and make sure that those outcomes are provided when each member performs at high levels. Simply put, the higher the value of the outcome to the employee, the greater the motivation. Returning to the student example, the more the student values the outcome of entrance to a professional program ("I've always wanted to be a lawyer"), the more motivated he might be. On the other hand, if being a lawyer was Mom's or Dad's dream for the student and not his own, it is not likely to be as motivating.

A sales department example can be used to explain how all three elements work together. If a salesperson at a diamond jewelry shop has learned that increased selling effort will lead to higher personal sales, expectancy is high. Additionally, if the salesperson believes that higher sales will lead to a promotion or a pay raise, instrumentality is high. Lastly, if the salesperson places a high value on the promotion or pay raise, valence is high. Such a salesperson would be highly motivated. On the other hand, if expectancy, instrumentality, or valence is

low, motivation may be low. This theory is very practical; managers can take action to make sure that employees believe they can achieve goals, that the goals are linked to clear outcomes, and that the outcomes are valued by employees. Research supports the idea that expectancy, instrumentality, and valence each have an effect on motivation.[38]

Consistent with Figure 14.1, expectancy theory has typically been discussed with regard to individual employees, which fits with a traditional FBL approach that emphasizes individual self-interests (Chapter 1). However, expectancy can also be applied at a group or community level of analysis, which is more in keeping with a SET perspective. A group-level application can also be used within the FBL approach, but FBL managers would be more interested in goals like maximizing corporate profits, whereas SET goals would be more likely to include optimizing socio-ecological goals.

As shown in Figure 14.2, a variation of expectancy theory that places less emphasis on individuals replaces an "I can do it" view of expectancy with "We can do it." The difference may appear subtle, but the implications for managing motivation can be profound. First, instead of primarily focusing on and building self-efficacy, a SET approach would seek to pursue goals in the context of community and in building group efficacy. **Group efficacy** *refers to group members' belief that they are able to complete a task successfully.* Groups with high levels of *expectancy* not only perform well over time, but their members also are likely to be motivated by group processes such as participative decision-making, cooperative problem solving, and workload sharing.[39]

**Figure 14.2. A community-focused variation of expectancy theory**



Second, with regard to *instrumentality*, rather than considering "What's in it for me?" the SET approach might ask, "What are the effects on others, especially those at the margins of society?" Elizabeth Lee, CEO of EMotors, notes that future leaders "will have to think of 'What's in it for we?' instead of 'What's in it for me?'"[40] In other words, how is this goal related to employees' desires for significance? Such a focus on community can be in tension with a focus on individuals. For example, research shows that the more people are given and rewarded based on measured individual goals, the less effort or attention is directed toward organizational citizenship behavior.[41] **Organizational citizenship behavior (OCB)** *means going above and beyond normal, required practices in order to serve organizational stakeholders.*[42] By raising the question of "What's in it for others?" and encouraging more collective thinking, a community focus encourages OCB.[43] The SET approach motivates organizational members through appealing to significant benefits others receive from members' actions. Serving others is motivating and is related to unity with others, and consistent with a SET understanding of meaningful work and a meaningful life.[44] Lee says: "The key to happiness is not having things for yourself, the key to happiness is helping somebody else."[45] The people you help may be co-workers, or they could be stakeholders who haven't been born yet.

*According to Elizabeth Lee, the key to happiness is not having things for yourself, the key to happiness is helping somebody else.*

Finally, with regard to *valence*, a SET approach holds a less individualistic and less materialistic understanding of what is valuable. A SET approach may emphasize outcomes related to enhanced socio-ecological externalities (e.g., healthier living conditions, more choice in the workplace). In particular, a SET approach to motivation is more likely to recognize that people are motivated by more than simply money. Indeed, while it is important to earn *enough* money, recall that too much attention to financial rewards can reduce peoples' intrinsic motivation. This brings us to reinforcement theory.

### Accomplishment and Reinforcement Theory

Reinforcement theory provides a closer look at factors related to valence as described in expectancy theory. In other words, rather than look at how to manage goals, reinforcement theory focuses on how to manage the rewards linked to meeting goals. **Reinforcement theory** *explains how to motivate employees to change their on-the-job behavior through the appropriate use of rewards and punishments.* According to reinforcement theory, which generally focuses on extrinsic motivation, human motivation and behavior are determined by the external environment and the consequences it holds for the individual. Another term describing this process is **behavior modification**, *a set of techniques by which reinforcement theory is used to modify human motivation and behavior.*[46] The goal of behavior modification is to use reinforcement principles to systematically motivate desirable work behavior and discourage undesirable work behavior. There are four basic types of reinforcement, which provide a range of options that managers can choose among, depending on the situation and the costs involved.

**(i) Positive reinforcement** *is the administration of a pleasant and rewarding consequence following a desired behavior.* For example, when a manager observes an employee doing an especially good job and offers praise, this positive response reinforces the behavior and increases the likelihood it will occur again in the future. It also satisfies the individual's desire for accomplishment. Other positive reinforcers include pay raises, promotions, and most anything that people regard as a desirable consequence. For managers, positive reinforcement is the preferred approach for increasing desirable behavior and increasing learning. Of course, a reinforcer is only positive if it is something that is valued by the person who receives the reinforcement. For example, tickets to an NBA basketball game might be a positive reinforcer for some people but not for others.

*Tickets to an NBA basketball game might be a positive reinforcer for some people but not for others.*

**(ii) Punishment** *refers to the application of an unpleasant consequence after an undesirable behavior has occurred.* For example, a supervisor may

berate an employee for performing a task incorrectly, or a professor may take off points for a late student assignment. The supervisor and professor expect that the negative outcome will reduce the likelihood of the unwanted behavior recurring in the future.

**(iii) Negative reinforcement** *is the removal of an unpleasant consequence following a desired behavior.*[47] This type of reinforcement is based on the idea that employees will exhibit the right behaviors in order to avoid unpleasant outcomes. Negative reinforcement is evident when a student comes to class on time in order to avoid a disapproving look from the professor, or when an employee completes work before a deadline in order to avoid a reprimand from a boss. Note the difference between negative reinforcement and punishment: the latter reduces the likelihood of future unwanted behavior, while the former increases the likelihood of future desired behavior.

**(iv) Omission** *is the absence of any reinforcement, positive or negative, following the occurrence of a behavior.* It can be used to weaken an unwanted behavior, especially a behavior that has previously been rewarded. The idea is that a behavior that is not positively reinforced will be less likely to occur in the future. For example, suppose an employee wastes everyone's time by telling them interesting stories (which results in a lot of attention being paid to the employee). In order to extinguish this behavior, a manager might counsel co-workers to stop paying attention to the employee's stories. The reduced attention the employee receives will reduce the likelihood of such storytelling behavior in the future.

These four basic *types* of reinforcement can be administered using different *schedules* of reinforcement. At the most general level, schedules are either *continuous* (a reward or punishment follows each time a behavior of interest occurs) or *intermittent* (the behavior of interest is rewarded or punished only some of the time). Continuous schedules rapidly increase desired behavior or decrease undesirable behavior, but learning is more enduring with intermittent schedules.

*Continuous reinforcement schedules rapidly increase desired behavior or decrease undesirable behavior, but learning is more enduring with intermittent schedules.*

Reinforcement theory is usually discussed in terms of motivating employees to adopt behaviors that managers want, to help employees achieve certain rewards that they desire, and to increase their felt level of *achievement*. This is quite consistent with FBL/TBL management, but reinforcement can also be used to address the *significance* concerns that SET managers have.

While an FBL/TBL approach focuses on an individual's self-interest, a SET approach takes a more holistic perspective, going beyond individuals and beyond extrinsic motivators. For example, instead of reinforcing a job well done by giving the employee a pay raise, a SET approach may reinforce a job well done with opportunities for them to spend a day helping out in a local soup kitchen on company time, or by showing them a sample of heartfelt thank-you cards from customers.[48] Of course, FBL/TBL managers also use non-financial reinforcements, but a SET approach places a greater emphasis on reinforcers that appeal to significance beyond the self-interests of individuals.

*A SET approach places a greater emphasis on reinforcers that appeal to significance beyond the self-interests of individuals.*

A SET approach may deliberately seek reinforcers that are intrinsically motivating and/or draw attention to the inherent significance of peoples' jobs (although FBL and TBL management would also promote the use of such reinforcers if they were less expensive than providing financial reinforcers). Recall that if both extrinsic and intrinsic outcomes are present in a job or task, eventually the extrinsic outcomes may come to dominate the intrinsic outcomes, sometimes to the point that intrinsic motivation disappears.[49] By focusing on intrinsic reinforcers (e.g., how profits from sales of a particular product could be donated to a local charity, how a successful product launch created jobs that pay a living wage for a supplier in a low-income country, how reduced pollution results in a local river that is again fit for people to swim in), a SET approach seeks to counteract the fact an emphasis on extrinsic reinforcements can overtake people's desire to meet intrinsically significant goals. This is consistent with research that says that an emphasis on materialism (e.g., extrinsic goals) reduces peoples' overall quality of life and happiness,[50] and also reduces ecological well-being.[51]

## Test Your Knowledge

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### 14.3.2. Desire for Fairness

We all have some inherent sense of fairness that influences our thinking about our interactions with others.[52] What does the idea of fairness mean to you? People's understanding of and desire for fairness can go in at least two directions. The first direction emphasizes people being treated *equitably*, which means getting the results they deserve for the effort they put forward when compared with others. In particular, individuals with a high desire for equity are motivated to ensure that *they* get treated fairly.[53] The second direction emphasizes ensuring that everyone be treated *justly*, including advocating for people whose best efforts are not rewarded with a living wage. Recall that the virtue of justice is evident when managers ensure that all stakeholders associated with a product or service receive their due and are treated fairly (being especially sensitive to fair treatment of the marginalized).[54] The discussion below will reflect on both of these understandings of fairness.

#### Equity Theory

**Equity theory** *is based on the logic of social comparisons and the idea that people are motivated to seek and preserve social equity in the rewards they expect for performance.*[55] Equity theory pays particular attention to the outcomes someone receives for their contributions compared to others in the workplace. For example, workers who feel underpaid compared to their co-workers are likely to be demotivated because of a perceived lack of fairness.

Perceived inequity has been shown to relate to decreased performance,[56] and to increased turnover and absenteeism.[57] According to the theory, people evaluate equity by observing the ratio of their level of input into their jobs (e.g., effort, ability, experience, and education) relative to the outcomes they receive from their jobs (e.g., pay, status, benefits, and promotions). This input-outcome

ratio may be compared to that of another person in the workgroup or to a perceived group average.

*"In comparison with others, how fairly am I being compensated for the work that I do?"*

The basic question associated with equity theory—"In comparison with others, how fairly am I being compensated for the work that I do?"—can be answered in three ways. First, someone may feel *equitably rewarded* if, for example, they feel that they are being paid fairly compared to their co-workers. This situation may occur even though the other co-workers' compensation is greater, provided that those other persons' inputs are also proportionately higher. Suppose one employee has a high school education and earns $40,000. He may still feel equitably treated relative to another employee, who earns $55,000 because she has a college degree.

Second, an employee may feel *under-rewarded* when, for example, they have a high level of education or experience but receive the same salary as a new, less-educated employee. Equity theory predicts that when individuals perceive that they are being under-rewarded and therefore treated unfairly in comparison to others, they will be motivated to act in ways that reduce the perceived inequity. Employees may try to deal with negative inequity by changing their own input-output ratio, changing the input-output ratio of their comparison person, or by changing their own and others' ratios simultaneously in the following ways:

- putting less effort into their jobs and thereby lowering inputs (changing one's own ratio);
- asking for a pay raise or some other higher outcome (changing one's own ratio);
- pressuring others to provide more inputs (changing others' ratio);
- attempting to limit or reduce others' outcomes (changing others' ratio);
- some combination of the above; or
- changing the situation by leaving their job.

It is not unusual for employees to leave an organization as a result of being lured

by higher salaries elsewhere, only to return when they realize that the working conditions in the new company are harsher. This is illustrated by a comment from management at a busing company: "In the past we've had drivers leaving, but then they come back after realising the grass isn't greener the other side."[58]

Lastly, an individual may feel *over-rewarded* relative to others. Facing this situation, people will often rationalize the situation as appropriate. For example, an employee with a long history in the firm may justify her higher salary because of the historical knowledge she brings to decisions, whereas a new employee may justify his higher salary because he brings new ideas to the firm. However, if individuals do not rationalize their being over-rewarded, then equity theory suggests they will be motivated to reduce the over-compensation by increasing their inputs (by exerting more effort) or by reducing their outcomes (e.g., by taking a voluntary pay cut). When Mark Wahlberg was paid $1.5 million more for doing the same work on a movie as Michelle Williams, he donated the extra money to the #TimesUp legal fund related to the #MeToo movement.[59]

Equity theory applies to all three approaches to management described in this book (FBL, TBL, and SET). But managers in SET organizations typically interpret equity not simply in terms of people's desire for traditional rewards for their contributions but also in terms of concern for others. From the SET perspective the question is not so much "Am I getting my fair share?" as it is "What can I do to help those stakeholders who are not getting their fair share?" This different understanding of equity is closer to the understanding of justice described earlier, which is a hallmark of the virtue ethics that the SET approach is built upon.

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*Instead of "Am I getting my fair share?" a SET manager is more likely to ask, "What can I do to help those stakeholders are not getting their fair share?"*

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This emphasis on overall justice is evident when organizational members are asked to develop the distribution rules that will determine how much everyone is paid for the input they provide. Research suggests that when people are allowed to participate in the development of distribution rules that they perceive to be fair, the rules tend to take into account both the innate *needs* of members (e.g., the poorest-performing members should not be relegated to poverty, every-

one should earn a living wage) and their *performance* (e.g., highly productive people should be paid more). In such an organization everyone may have a base salary that pays a living wage, and then earn pay increases based on their relative productivity. Research also suggests that people who develop and work under such two-pronged decision rules (where fairness is based on both need and productivity) tend to be more motivated than people who work under equity rules based only on productivity or only on need.[60] Thus, motivation is optimized with a combination of (a) ensuring that no one is mistreated (SET approach); and (b) ensuring that everyone gets their fair share based on their performance (FBL approach). This is how the system operates at Veja sneakers, as described in this chapter's opening case.

## Test Your Knowledge



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### 14.3.3. Desire for Relationships

People have an innate need for interpersonal relationships, and this innate need is elaborated further by the acquired need for relationships that develops based on culture, family, and other life experiences. Chapter 5 summarizes the research on interpersonal relationships in the workplace and notes differences between FBL, TBL, and SET approaches. In the FBL/TBL literature on motivation, the acquired need for relationships is usually referred to as the desire for *affiliation*, while in the SET approach the emphasis is more on the desire for *community*.

At the organizational level of analysis, managers can harness the motivational potential of people's desire for relationships by fostering **organizational commitment**, *which is a motivational force that binds a person to a particular organization.*[61] Employees who are emotionally attached or committed to an organization are motivated to contribute positively to it by willingly exerting effort, helping others, and making creative contributions.[62] Commitment—which can reduce turnover costs and increase group productivity—can often be imple-

mented in relatively simple ways such as hosting picnics, sponsoring softball teams, and providing a fun environment in which to work.

At the interpersonal level of analysis, a common way to think about workplace affiliation is via the lens of exchange theory, which examines the give-and-take of relationships.[63] Research suggests that there are three kinds of people in organizations: *givers* (people who contribute time and effort to others without seeking anything in return), *takers* (people who get help from others while guarding their own time and expertise), and *matchers* (people who seek to balance giving and taking).[64]

*There are three kinds of people in organizations: givers, takers, and matchers.*

When we assume that people are self-interested—as is emphasized in the FBL approach—it makes sense that they will be attracted to relationships where the benefits they receive are at least equal to the time and energy they invest.[65] Moreover, from such an exchange perspective, people will seek interpersonal relationships that offer instrumental value. In a world where "taking" seems to be the smart way to get ahead, the following observation from Bill Gates sounds odd:

> There are two great forces of human nature—self-interest [takers], and caring for others [givers]. In many organizations, those forces come together with damaging effect. With thoughtful management, however, they can be yoked in such a way that caring for others [giving] becomes the best strategy for the most ambitious.[66]

It turns out that research supports Gates's contention. Studies show that the top-performing employees in organizations are more likely to be givers than takers. But the opposite is also true: low-performing employees are also more likely to be givers (because they are taken advantage of by others). These findings suggest the importance of developing a better understanding of *how* to be a giver without being taken advantage of by others.

The hallmarks of best practices for givers may be more consistent with a SET approach than with an FBL approach. For example, research suggests that givers excel when they assertively and compassionately seek to promote and serve the interests of *other* stakeholders who have little power. Whereas givers

are often not good at (or interested in) maximizing their own salaries, they are often good at arguing on behalf of others.[67] At the same time, it is better for givers to act with compassion (i.e., support others who are suffering) than be overcome by empathy (feeling the pain of others who are suffering). Research suggests that empathetic givers may be more vulnerable to being manipulated, can get too emotionally involved (which can burn them out), and may create unhealthy dependencies for the people they are trying to help.[68]

Finally, recall that a SET approach to relationships extends beyond simple exchanges and includes building a sense of community and serving others and treating them with dignity.[69] Moreover, relationships with other people are motivating not only because we need to *receive* love and affirmation but also because we need to *give* love and affirmation and make sacrifices for others. As illustrated in the Veja case, it is inherently motivating to belong to a community and to use your gifts, time, and resources to serve others.

### 14.3.4. Desire for Power

Power has been defined in many different ways. As we use the term, **power** *refers to the potential that one person has to influence and control someone else's behavior or to change the course of events.*[70] This definition recognizes the fact that some people have power but never use it, and that someone who is perceived to be powerful but fails to achieve the control they desire is actually not as powerful as previously thought. For example, only time will tell whether Elon Musk has the power to change the automobile industry and to get humans to Mars (see Chapter 15, opening case).

People's desire for power has an effect on motivation in at least two ways. First, people may be motivated to seek power. Research suggests that takers and givers understand power in different ways. Takers are more likely to view power as an *opportunity* to meet their own goals of having control over others, whereas givers are more likely to see power as a *responsibility* that demands taking into account the effect their actions will have on the well-being of other stakeholders (see servant leadership, Chapter 15).[71] Matchers might seek power for a combination of these two reasons.[72] Second, people can use their power to motivate others. Indeed, a focus in this textbook is on how managers can use their power to motivate various organizational stakeholders. FBL/TBL managers typically use their power to maximize profits, while SET managers are more likely to use it to optimize socio-ecological well-being.

In order to better understand how power is acquired and used by FBL, TBL, and SET managers, it is helpful to understand the different sources of power and how power is shared differently in organizations managed according to FBL, TBL, and SET approaches.

#### Sources of Individual Power

At least five sources or types of individual power have been identified, three of which are related to someone's formal position in an organization—legitimate, reward, and coercive power—and two of which are related to personal factors—expert and referent power.[73]

**Legitimate power** *is the capacity of someone to influence other people by virtue of one's position in an organization's hierarchy of authority.* Legitimate power is synonymous with formal authority. It enables managers to set the agenda for their work unit, to make decisions, and to develop and implement strategies. A person with legitimate power has the authority to say, "Because I am the boss, you must do as I ask." Most employees comply with the requests of those with legitimate power. When a person holds legitimate power, it is common for them to also have reward and coercive power. However, a person can have reward or coercive power without legitimate power.

*A person with legitimate power has the authority to say, "Because I am the boss, you must do as I ask."*

**Reward power** *is the ability to influence the behavior of others by giving or withholding positive benefits or rewards.* These can be tangible rewards as in pay raises, bonuses, or choice job assignments, or intangible rewards such as verbal praise, a pat on the back, or a show of respect. A reward can be anything that one person has access to and can give that is valued by another person. A person who uses reward power implicitly says, "If you do what I ask, I'll give you a reward." The opposite side of the coin of reward power is **coercive power**, *which refers to someone's ability to influence the behavior of others through the threat of punishment.* This includes the capacity to ensure compliance through psychological, emotional, and/or physical threat. Today, for the most part, coercive

actions are limited to verbal and written reprimands, disciplinary layoffs, fines, demotion, and termination.

Building on our earlier discussion of reinforcement theory, the use of legitimate, reward, and coercive power is likely to motivate others' immediate compliance, but it may not motivate ongoing commitment.[74] For example, employees may (unenthusiastically) obey orders and carry out instructions in the short term even though they may personally disagree with them. If these sources of power are overused, they may lead to resistance and demotivation among employees.

In contrast, expert and referent power are more likely to motivate employees to higher levels of commitment. **Expert power** *is the ability to influence the behavior of others based on special knowledge, skills, and expertise that one possesses.* While everyone may value being appreciated by others, people with a desire for power may be especially motivated to take advantage of the power that comes with their recognized expertise. When a person has a great deal of technical know-how or information pertinent to the task at hand, others will often be motivated to go along with the recommendations because of that person's superior knowledge. To develop expert power, one must acquire relevant skills or competencies, or gain a central position in relevant information networks.

Finally, **referent power** *is the ability to influence the behavior of others on account of their loyalty to or desire to imitate or identify with the power holder.* Because others are attracted to the person who holds power and want to be like that person, they are more likely to do what the person requests. Referent power is more informal and abstract than the other kinds of individual power. It transcends any formal title or position in an organization and is a part of transformational leadership that is described in Chapter 15.

#### Sharing Power

Sharing power with employees by consulting with them and seeking their input increases their motivation levels.[75] In some organizations—like worker-owned cooperatives or kibbutzes—the very structure of the organization ensures that everyone has a share of the power. In other cases, power may be shared on a more piecemeal basis, such as when a manager empowers workers to participate in making certain decisions or delegates specific decisions to them.

*Sharing power increases innovation, satisfaction, effectiveness, confidence, and commitment.*

In environments with high levels of shared power, people are motivated to spot problems, solve problems, engage clients, and satisfy clients because they "own" the work. Organizational members who see themselves as empowered are generally more innovative, less resistant to change, more satisfied, less stressed, and judged as more effective by others.[76] Empowered people also have a stronger bond with the organization, confidence in their abilities, and a clear sense of being able to make a difference.[77] When employees have meaningful participation in goal setting, they are more committed to achieving the goal that has been set.[78]

For example, the QuikTrip convenience store chain has been ranked on *Fortune's* list of the "100 Best Companies to Work For." Why? Consistent with its long-standing desire to have every employee grow and succeed,[79] 87 percent of QuikTrip employees have said: "Management trusts us to do a good job without watching over our shoulders,"[80] and "This company makes everyone feel important."[81] In essence, QuikTrip recognizes that collectively, members have the expert power necessary to run the store, so the firm pays frontline workers more than they expect.[82] In contrast to this example, managers who seek to gain and hold power create a sense of powerlessness and helplessness that demoralizes employees. Consider how frustrating it is to know how to solve a problem but not be given the opportunity to do so.

*Consider how frustrating it is to know how to solve a problem but not be given the opportunity to do so.*

FBL, TBL, and SET approaches recognize the same sources of power and similar benefits to sharing power. However, as we have already discussed, FBL and TBL managers are more likely to be motivated to seek power as an opportunity to serve their own interests and to get ahead, whereas SET managers are reluctant to seek power for their own interests but are motivated to seek it to

fulfill their responsibility to other stakeholders. Thus, there are differences not only in the desire for power but also in the use of power.

Similarly, although all three approaches recognize the benefits of sharing power, the nature of those benefits differ. From an FBL perspective, power sharing makes sense only when it results in overall performance gains that serve the organization's financial well-being. While also welcoming such performance gains, the SET approach also promotes empowering people who have the expertise to make decisions because it the right thing to do.[83]

One of the more intriguing ideas from a SET perspective is that power is not the zero-sum game that it is often assumed to be in FBL/TBL approaches. An FBL/TBL approach typically assumes there is a limited amount of power within an organizational work unit. For example, if a manager empowers a follower to make a decision, that manager loses some amount of power (say, X units) and the follower gains the same amount of power (also X) units. Because the loss of the manager's power and the gain of the follower's power is the same, it is a zero-sum transaction (X X 0).

In contrast, a SET approach argues that when a manager gives power to others, the overall amount of perceived power in the work unit increases. By empowering others, a manager may gain referent power from increased admiration on the part of followers, or gain expert power if followers interpret empowerment as a sign of an especially skilled or knowledgeable manager. Imagine a fast-food franchise where the manager retains all the decision-making power and schedules everyone's hours, versus a neighboring franchise where the manager empowers staff to make some of those decisions. Research suggests that in the latter organization, *everyone* will perceive themselves to have more power than in the former organization, and the latter organization may well outperform the former.[84] Maybe power is a bit like love: the more you horde it for yourself, the less there is; and the more you share it with others, the more there is for them and for you.[85]

## Test Your Knowledge



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## 14.4. Entrepreneurial Motivation

What motivates some people to become entrepreneurs, but not others? Chapter 1 identifies the three most common reasons entrepreneurs give for founding their organizations: the desire for more freedom and autonomy; the desire to address an important problem; or the desire to gain wealth and power. But most people want at least one of these things, so desiring them does not help to distinguish entrepreneurs from non-entrepreneurs. Similarly, almost everyone has complaints about some product or service that they use and ideas about how it could be improved. Therefore, virtually everyone has had ideas that could potentially be pursued as an entrepreneurial venture.

But most people don't actually become entrepreneurs. What motivates entrepreneurs to actually take action? Research suggests that for an individual to start and manage a new organization typically requires both psychological and environmental sources of motivation, though both may not be equally important at all stages of the start-up process.[86] It seems that entrepreneurs' decisions to take action depends on who they are, but the situation in which they operate determines their level of success.

### 14.4.1. Psychological Sources of Motivation

Researchers have found that entrepreneurs differ from the general population in at least two ways.[87] First, individuals who found businesses have a more internal locus of control. **Locus of control** *is a person's beliefs about the sources of success and failure.* A person with an internal locus of control believes that they are masters of their own fate and that their actions can shape their environment. In contrast, people with an external locus of control feel that things simply happen to them and that they are at the mercy of their environment. Entrepreneurs tend to believe that the success or failure of their organization is related to their own actions, not to luck or the actions of others. Second, entrepreneurs also tend to have a higher-than-average need for accomplishment, and entrepreneurs with the greatest need for achievement tend to be the most successful. Taken together, these two differences suggest that entrepreneurs are especially motivated by the ability to influence the world around them and create something new and excellent.[88]

*People with a high internal locus of control and a high need for achievement are more likely to become entrepreneurs.*

There are other areas where entrepreneurs don't seem to be much different than non-entrepreneurs. For example, despite what many people assume, founders of new organizations are not consistently more risk-tolerant than other people.[89] It is also true that the personalities and motivations of senior managers are very similar to those of entrepreneurs. While entrepreneurs have a higher need for achievement than most of the population, so do senior managers. It seems that success in management requires and rewards the same qualities that motivate entrepreneurs (this is consistent with the view that entrepreneurship is fundamentally a management activity).

### 14.4.2. Environmental Sources of Motivation

External motivation comes from factors in the environment where the entrepreneur lives and works, either by "pushing" or by "pulling" individuals to start a new organization. Overall, there are more opportunity-driven entrepreneurs (pull) than there are necessity-based ones (push), though as you might expect, the frequency of each type depends on the local environment.[90]

*Entrepreneurs are motivated by both push and pull factors.*

People facing difficult situations can be pushed to become an entrepreneur even if they would prefer to not be one. For whatever reason, if an individual cannot find appropriate work in an existing organization, their only option may be to create an organization of their own. Such necessity-based start-ups tend to be more common in countries and regions with greater wealth disparity and fewer opportunities for the disadvantaged.[91] Any situation that presents systemic barriers (such as racism) tends to make necessity-based entrepreneurship more important.[92]

In contrast, people can be pulled to become entrepreneurs because of

enticing opportunities in the environment to work more independently. Entrepreneurs motivated by pull factors tend to be more common and more successful.[93] All of the environmental factors that are important in managing an existing organization are also important for understanding the motivation to start a new organization. For example, political and legal institutions can be important sources of motivation (e.g., government support for start-ups through a well-functioning regulatory system). Similarly, the forces that make a market more or less attractive to corporate strategy (e.g., barriers to entry, level of competition) also influence how much motivation entrepreneurs will have to start a new organization, as will the characteristics of the organizational environment, including stability and available technology.

### 14.4.3. Differences Between FBL, TBL, and SET Approaches to Entrepreneurial Motivation

Regardless of their management approach—FBL, TBL, or SET—all entrepreneurs can be motivated by psychological factors and environmental push-and-pull forces. However, these factors will differ in expected ways. For example, FBL/TBL entrepreneurs will be more likely to have a need to achieve financial goals, whereas SET entrepreneurs will be more likely to have a need to accomplish socio-ecological goals (e.g., Veja sneakers). Similarly, FBL entrepreneurs will be more likely to be pushed or pulled to enhance their own well-being, whereas SET entrepreneurs are more likely to be pushed or pulled to enhance the well-being of others. For example, when Elizabeth Lee founded EMotors she did not need more money or freedom for herself—she already had those in a high-paying and challenging job in the regular auto industry. Rather, she was pulled in by a desire to make the world a better place, thanks in part to an earlier project she had worked on with her mother to help poor people in her country, which showed her the need for an electric vehicle.

## Test Your Knowledge



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*Like many other successful entrepreneurs, Elizabeth Lee had the idea for her start-up while working for another business in the industry.*

## Chapter Summary

1. To understand motivation, managers must be aware of people's personality traits, innate needs, and acquired needs. How motivation is managed differs between an FBL/TBL perspective and a SET perspective.
2. With regard to the Big Five personality traits (emotional stability, extraversion, agreeableness, conscientiousness, openness):
    - An FBL/TBL approach focuses on the relationship between traits and performance (e.g., conscientiousness is generally positive, extraversion is positive for jobs requiring social interaction, agreeableness is positive for teamwork).
    - A SET approach adds other traits that are associated with being motivated to enhance socio-ecological well-being (e.g., openness, honesty-humility).
3. With regard to the innate needs of existence, relatedness, and growth:
    - An FBL/TBL approach is more likely to focus on the individual level of analysis, and more likely to view pay as a motivator factor ("more money is better").
    - A SET approach is more likely to focus on the community level of analysis, and more likely to view pay as a hygiene factor ("everyone needs enough money").
4. With regard to the acquired need for accomplishment:
    - An FBL/TBL approach emphasizes achievement and focuses on developing SMART goals, enhancing self-

efficacy and instrumentality, and deploying appropriate reinforcements and schedules that serve as extrinsic motivators.
    - A SET approach emphasizes significance and focuses on developing SMART 2.0 goals, enhancing group efficacy and instrumentality, and deploying appropriate reinforcements and schedules that serve as intrinsic motivators.
5. With regard to the acquired need for fairness:
    - An FBL/TBL approach emphasizes the equitable treatment of each individual employee.
    - A SET approach emphasizes the just treatment of each stakeholder.
6. With regard to the acquired need for relationships:
    - An FBL/TBL approach emphasizes affiliation and uses an exchange-based give-and-take lens.
    - A SET approach emphasizes community building and values healthy giving relationships.
7. With regard to the acquired need for power:
    - An FBL/TBL approach emphasizes individual power and opportunities to get ahead.
    - A SET approach emphasizes shared power and responsibilities to include stakeholders.
8. Compared to non-entrepreneurs, entrepreneurs are more likely to have an internal locus of control, a higher need for accomplishment, and tend to be pushed and/or pulled into forming a start-up organization.

## Questions for Reflection and Discussion

1. Consider for a moment your motivation to do well as a student. Do

you desire to achieve good grades so you can get a well-paying job? Or are you motivated by a desire for a more significant and meaningful understanding of management, which you can use to live a more fulfilling life?

2. What happens when there is an overemphasis on extrinsic motivators like pay or good grades? What are the implications for management practice?
3. How does your personality affect your motivation? List some things you naturally like to do. Is there an underlying pattern in these activities that hints at a particular aspect of your personality? Does it hint what sort of career path you should consider?
4. Goal setting is well established as a means to improve motivation. What is your experience with setting goals in the workplace and/or in your personal life? When did it work (or not work) well?
5. Discuss why two people with similar abilities may have very different expectancies for performing at a high level. What can you do as a manager to increase workers' expectancies?
6. You may have heard a few teachers complain that their pay is poor, yet they continue to teach. How can this be explained by motivation theory?
7. What is your understanding of the difference between achievement and significance? Which do you find more motivating?
8. Compare and contrast the equity view of the need for fairness versus the justice view. Which do you subscribe to? What factors have shaped your views?
9. Describe the differences between the affiliation and community-building views of the need for relationships. Do you think one is better than the other? Explain your reasoning.
10. Many managers have been accused of abusing their power in organizations. How can you make use of power without abusing it?
11. Identify and describe any push-and-pull factors in your own life that may influence your choice to become an entrepreneur. Based on this chapter, do you think you have the personality traits associated with typical entrepreneurs? Does that influence your decision as to whether to become an entrepreneur? Explain.

## Notes

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2. Veja. Taken from *The Veja project* (n.d.). https://project.veja-store.com/en/story
3. Veja sneakers cost more than five times as much to make as regular sneakers but sell for comparable prices.
4. Veja also uses vegetable-tanned leather (which uses acacia in the tanning process instead of chrome), and also offers shoe uppers made from recycled plastic bottles.
5. Drummond (2015).
6. Blanchard (2017).
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(pp. 417–440). Annual Reviews.

12. Zell, E., & Lesick, T. L. (2022). Big five personality traits and performance: A quantitative synthesis of 50+ meta-analyses. *Journal of Personality*, 90(4): 559–573; Barrick, M. R., & Mount, M. K. (1991). The Big Five personality dimensions and job performance: A meta-analysis. *Personnel Psychology*, 44: 1–26; Tett, R. P., Jackson, D. N., & Rothstein, M. (1991). Personality measures as predictors of job performance: A meta-analytic review. *Personnel Psychology*, 44: 703–742; Van Aarde, N., Meiring, D., & Wiernik, B. M. (2017). The validity of the Big Five personality traits for job performance: Meta-analyses of South African studies. *International Journal of Selection and Assessment*, 25(3): 223–239.
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15. Marcus & Roy (2017).
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27. Extending the argument a bit further, from a SET perspective everyone has an innate need to practice and to experience *practical wisdom* (evident in discerning and acting in the interests of the community); *justice* (evident when all stakeholders connected with an organization get their due); *courage* (evident when actions improve overall happiness, even at threat to self); *self-control* (evident when members overcome impulsive actions and the self-serving use of power). Surely members of such a community will achieve a healthy balance among a variety of forms of well-being.
28. The chapter builds on David McClelland's highly regarded acquired needs theory, which states certain types of needs or desires are acquired during an individual's lifetime. We include the need for fairness in addition to the three commonly associated with the original theory. McClelland, D. C. (1951). *Personality*. Holt; McClelland, D. C. (1987). *Human motivation*. Cambridge University Press.
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40. Bustamante (2016).
41. Wright, P. M., George, J. M., Farnsworth, S. R., & McMahan, G. C. (1993). Productivity and extra-role behavior: The effects of goals and incentives on spontaneous helping. *Journal of Applied Psychology*, 78(3): 374–381.
42. Organizational citizenship behavior is defined as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization" in Organ, D. W. (1988). *Organizational citizenship behavior: The good soldier syndrome*. Lexington Books.
43. Research links self-reported OCB with burnout, but when it is measured by others, OCB is linked with positive affect which in turn is negatively linked to burnout and depressed moods, and positively related to general health satisfaction and life satisfaction. Baranik, L. E., & Eby, L. (2016). Organizational citizenship behaviors and

employee depressed mood, burnout, and satisfaction with health and life: The mediating role of positive affect. *Personnel Review*, 45(4): 626–642; Paine, J. B., & Organ, D. W. (2000). The cultural matrix of Organizational Citizenship Behavior: Some preliminary conceptual and empirical observations. *Human Resource Management Review*, 10(1): 45–59.

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45. Bustamante (2016).
46. A similar idea, used by psychologist B. F. Skinner, is operant conditioning. Operant conditioning describes the process of motivating behavior by manipulating its consequences (or learning-by-reinforcement).
47. Also called avoidance learning.
48. Simply recognizing the group's contributions toward significant goals and providing feedback at the group level can be motivational. For an example, see Matsui, T., Kakuyama, T., & Onglatoco, M. L. U. (1987). Effects of goals and feedback on performance in groups. *Journal of Applied Psychology*, 3: 407–415.
49. Deci & Ryan (1985).
50. Isham, A., Verfuerth, C., Armstrong, A., Elf, P., Gatersleben, B., & Jackson, T. (2022). The problematic role of materialistic values in the pursuit of sustainable well-being. *International Journal of Environmental Research and Public Health*, 19(6): 3673. Also available at https://pmc.ncbi.nlm.nih.gov/articles/PMC8951562/
51. Kasser (2003); Burroughs & Rindfleisch (2002); Richins & Dawson (1992); Cohen & Cohen (1996); McCarty & Shrum (2001); Rees (2002).
52. For example, the norm of reciprocity is consistent across human cultures, which basically says that if someone gives you something, you are obligated to return something. Gouldner, A. W. (1960). The norm of reciprocity: A preliminary statement. *American Sociological Review* 25: 161–178; see also Barclay, L. J., Bashshur, M. R., & Fortin, M. (2017). Motivated cognition and fairness: Insights, integration, and creating a path forward. *Journal of Applied Psychology*, 102(6): 867.
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54. This review of how the four cardinal virtues are evident in community draws from and adapts a review of the literature and discussion in Dyck, B., & Manchanda, R. (2017). *Sustainable marketing 2.0: A virtue theory-based approach* [Working paper]. University of Manitoba.
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*Social Psychology*, 53(5):921–938.

57. Mitchell & Daniels (2003); see also Greenberg, J. (1988). Equity and workplace status: A field experiment. *Journal of Applied Psychology*, 73: 606–613.
58. Dobbins, T., Hughes, E., & Dundon, T. (2021). "Zones of contention" in industrial relations: Framing pluralism as praxis. *Journal of Industrial Relations*, 63(2): 149–176.
59. Rossi, R. (2018, January 13). Mark Wahlberg to donate .5 million to #TimesUp in Michelle Williams' name. *TheWrap*. https://www.thewrap.com/mark-wahlberg-donate-1-5-million-timesup-michelle-williams-name/. Unless otherwise noted, all dollar amounts in this chapter are in US currency.
60. See Cooper, C., Dyck, B., & Frohlich, N. (1992). Improving the effectiveness of gainsharing: The role of participation and fairness. *Administrative Science Quarterly*, 37: 471–490.
61. Meyer, J. P., & Herscovitch, L. (2001). Commitment in the workplace: Toward a general model. *Human Resource Management Review*, 11: 299–326.
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64. See video by Adam Grant. (2016, November). Are you a giver or a taker? TED Conferences. https://www.ted.com/talks/adam_grant_are_you_a_giver_or_a_taker
65. Though note that such "negative reciprocity" is typically not functional in the long run between ongoing exchange partners. Sparrowe, R. T., & Liden, R. C. (1997). Process and structure in leader-member exchange. *Academy of Management Review*, 22(2): 522–552.
66. This quote and many ideas in these paragraphs are taken from the work of Adam Grant, including the following description of givers and takers: "Every day, employees make decisions about whether to act like givers or like takers. When they act like givers, they contribute to others without seeking anything in return. They might offer assistance, share knowledge, or make valuable introductions. When they act like takers, they try to get other people to serve their ends while carefully guarding their own expertise and time." Page 90 in Grant, A. (2013). In the company of givers and takers. *Harvard Business Review*, 91(4): 90–97.
67. Grant (2013).
68. Grant (2013).
69. Pirson, M. (2017). A humanistic perspective for management theory: Protecting dignity and promoting well-being. *Journal of Business Ethics*, 1–19.
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of events, to overcome resistance, and to convince people to do things that they would not do otherwise." Found in electronic abstract of Pfeffer, J. (1992). Understanding power in organizations. *California Management Review*, 34(2): 29–50.

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73. French, J. R. P., & Raven, B. (1959). The bases of social power. In D. Cartwright & A. Zander (Eds.), *Studies in social power* (pp. 150–167). University of Michigan, Institute for Social Research.
74. Yukl, G. A., & Gardner, W. L. (2020). *Leadership in Organizations*. Pearson.
75. Yukl & Gardner (2020).
76. Spreitzer, G. M., & Quinn, R. E. (2001). *A company of leaders: Five disciplines for unleashing power in your workforce*. University of Michigan Business School Management Series. Jossey-Bass.
77. Akter, K. M., Tang, S., M., & Adnan, Z. (2023). Impact of empowerment and ICT on quality of work life: The mediating effect of trust climate. *Cogent Business & Management*, 10(1). https://doi.org/10.1080/23311975.2023.2176412
78. Locke & Latham (1990). Also, employees who have autonomy, responsibility, and opportunities to participate, with appropriate levels of authority and resources, are generally more motivated because they feel more ownership. Finally, a balance between control and shared power, rather than a focus on only one of the two, is associated with cohesiveness in work units. Arize, A. C., Liu, S., Nyaanga, S., & Malindretos, J. (2017). Relationships between managerial power orientation and unit cohesiveness: Implications for R&D management at NASA. *International Journal of Business Administration*, 8(6): 36–45
79. Kress, M. (2016, March 3). QuikTrip & Sheetz make Fortune's 2016 best companies list. *Convenience Store News*. https://csnews.com/quiktrip-sheetz-make-fortunes-2016-best-companies-list
80. *Fortune*. 100 Best Companies to Work For. (2006, January 23).
81. Anon. (2017, March 13). QuikTrip named great place to work: For 15 years, the convenience retailer has been named to Fortune's top 100 places to work. NACS. https://www.convenience.org/Archive/News/NACSDailyArticles/2017/ND0313172
82. Ton, Z. (2023, May–June). Obstacles to creating good jobs. Harvard Business Review. https://hbr.org/2023/05/the-obstacles-to-creating-good-jobs
83. In SET businesses that belong to the economy of communion, this a part of what is called the principle of subsidiarity: "The logic of subsidiarity also implies receiving, reciprocating the help received, and, furthermore, transmitting self-benefit to others, such as the teacher who mentors students, who, in turn, teach others using their own talents and the aid received. The logic of subsidiarity presupposes the logic of giv-

ing." Page 283 in Guitian, G. (2010). Integral subsidiarity and economy of communion: Two challenges from *Caritas in veritate*. *Journal of Markets and Morality*, 13(2): 279–295.

84. Dyhrberg-Noerregaard, N., & Kjaer, U. (2014). Non-zero-sum leadership games: Is facilitative leadership a win-win? *International Journal of Public Administration*, 37(4): 249–258. That said, others might suggest that just because perceived power increases, that does not mean actual power does. For example, if a manager asks each member of a team of four to tell then what percentage of a team task they completed, the sum of the answers may well be more than 100%—but that's logically impossible. Likewise, in shared power, members may feel like they have power, but power may not actually be going up. Tannenbaum, A. S., & Cooke, R. S. (1980). Organizational control: A review of studies employing the control graph method. In C. J. Lammers & D. J. Hickson (Eds.), *Organizations alike and unlike* (pp. 183–210). Routledge.
85. This sentiment about love is expressed in the well-known song from the middle of last century, "Magic penny," written by Malvina Reynolds. http://people.wku.edu/charles.smith/MALVINA/mr101.htm
86. In most cases, psychological factors are the most important factor in determining prefounding motivation, while environmental motivations more influential among operating entrepreneurs. Taormina, R. J., & Lao, S. Kin-Mei (2007). Measuring Chinese entrepreneurial motivation: Personality and environmental influences. *International Journal of Entrepreneurial Behavior & Research*, 13(4): 200–221.
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89. Shane & Locke et al. (2003).
90. Eijdenberg, E. L., Paas, L. J., & Masurel, E. (2015). Entrepreneurial motivation and small business growth in Rwanda. *Journal of Entrepreneurship in Emerging Economies*, 7(3): 212–240; Taormina & Lao (2007).
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92. Khosa, R. M., & Kalitanyi, V. (2015). Migration reasons, traits and entrepreneurial motivation of African immigrant entrepreneurs: Towards an entrepreneurial migration progression. *Journal of Enterprising Communities: People and Places in the Global Economy*, 9(2): 132–155.
93. Kirkwood, J. (2009). Motivational factors in a push-pull theory of entrepreneurship. *Gender in Management: An International Journal*, 24(5): 346–364.

# 15. Leadership


- Learning Goals
- 15.0. Opening Case – Leadership of Design
- 15.1. Introduction
- 15.2. Leadership Traits
- 15.3. Leadership Behaviors
- 15.4. Leadership Contingencies
- 15.5. Entrepreneurship Implications
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 15 provides an overview of the personality traits, behaviors, and context associated with leadership, as summarized in the following table and in the whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Big Five personality traits**<br>• Conscientiousness<br>• Agreeableness<br>• Extraversion<br>• Emotional stability<br>• Openness to experience | Emphasis on how Big Five traits can help leaders to maximize organizational financial well-being. | | Emphasis on how Big Five traits can help leaders to optimize socio-ecological well-being, while ensuring adequate organizational financial well-being. |
| **Four leadership behaviors**<br>1. Task-oriented (initiate structure, contingent rewards)<br>2. Relationship-oriented (consideration)<br>3. Change-oriented (transformation, servant)<br>4. Avoidance | • Focus on organizational efficiency/productivity<br>• Focus on instrumental relationships (motivating productivity)<br>• Focus on achieving organizational goals<br>• Do not avoid leading | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | • Include socio-ecological externalities with organizational operations<br>• Focus on community, belongingness, meaning<br>• Focus on anticipating and serving stakeholder needs<br>• Do not avoid leading |
| **Leadership contingencies**<br>• Follower competence and commitment<br>• Environmental stability<br>• Workgroup diversity<br>• Stage of change<br>• Organization culture/design<br>• Shared leadership | Emphasis on how leaders should respond to contingencies in order to maximize organizational financial well-being. | | Emphasis on how leaders should respond to contingencies in order to optimize socio-ecological well-being, while maintaining adequate financial well-being. |
| **Entrepreneurship implications** | Shared leadership is of particular relevance for the leadership challenges facing entrepreneurs. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=112*

## Learning Goals

After reading this chapter, you should be able to:

1. Describe how the Big Five personality traits in leaders are related to measures of perceived leader effectiveness, follower satisfaction with leaders, and group performance.
2. Describe the four main types of leadership behavior, and how each is related to measures of leader effectiveness, follower satisfaction with leaders, and group performance.
3. Describe key contingencies and how they influence which leadership behavior is the most appropriate in a given situation.
4. Describe the hallmarks and benefits of shared leadership and explain how it is of particular relevance for entrepreneurs.

## 15.0. Opening Case – Leadership of Design

CEO Melanie Perkins is the extraordinary leader of Canva, a company known for its deliberately user-friendly graphic design software. According to *Forbes*: "Melanie Perkins is undoubtedly one of the most inspiring figures in the global technology landscape."[1] She co-founded Canva in 2013, along with Cliff Obrecht and Cameron Adams, and by 2023 it had revenues of $2 billion and her net worth was estimated to be $3.6 billion.[2] By 2024 Canva had 5,500 employees and 200 million users.

The success of Canva has been shaped greatly by Perkins's traits and behaviors. Perhaps Perkins's most important trait is her persistence and her commitment to big dreams, both components of conscientiousness. For example, Perkins never gave up pitching Canva to potential investors, who may have been reluctant to invest for a variety of reasons (e.g., only 2 percent of venture-backed businesses are led by women, and Canva's location in Perth, Australia, is far from Silicon Valley).[3]

> We pitched to hundreds of investors, getting rejected time and time again. . . . I was quite literally living on my brother's floor.[4]

> Rejection hurts a lot, but *failure was never an option*. . . . For better or worse, when I

> set my mind to something I don't give up very easily at all. Being rejected a lot in our initial stages just meant that I had to try harder and refine my strategy.[5]

Similarly, Perkins sets bold goals:

> One of our values at Canva is to set crazy big goals and make them happen. . . . And I think that helps to carry the whole company because, as they're dreaming together, and we're all dreaming about what is that next big thing . . . that's really exciting and motivating because people want to be part of something that's bigger than themselves.[6]

A second personality trait, agreeableness, is evident in the way Perkins is an excellent listener, attuned to the needs of those around her. Indeed, the idea for her user-friendly design software came from her observations while teaching graphic design courses at a university. She noticed how difficult it was for students to learn to use the available software.

> People were really struggling with basic programs like Photoshop and InDesign. . . . It would take them six months just to learn the bottom level that you need to even begin a design. I realized that I could create a tool online that's collaborative and really easy to use.[7]

This insight prompted her to co-found Fusion, a company that developed software to help high schools do lay-outs for their yearbooks. The success of Fusion gave her the confidence, and experience, to start Canva.

Perkins's agreeableness is also evident in her caring orientation, demonstrated by the company's philanthropic work. Canva participates in the 1% Pledge to donate to charity 1 percent of its product (e.g., it provides products for free to non-profits and schools); company time ("every year, our team [members] get time to actually go and do things that have a positive impact in their local community. We have a whole range of programs set up to do so"[8]); profit; and equity. Going further, in 2023 Perkins and co-founder Cliff Obrecht committed to donating most of their personal equity in Canva (30 percent) to charities around the world:

> The decision to give away the vast majority of our equity . . . it wasn't really a choice. It was like . . . who needs billions of dollars? Literally no one needs billions of dollars for anything. We believe that customers and investors and our team really want to be working for companies and investing in companies and joining companies that are doing good things for the world.[9]

Perkins also demonstrates openness to experience. During the early years when

she was seeking investors, she learned about an event with investors who enjoyed kitesurfing (i.e., standing on a surfboard holding onto a kite to propel you through the water). Perkins was adventurous enough to learn how to kitesurf, thinking this might help her get investors: "If you get your foot in the door just a tiny bit, you have to kind of wedge it all the way in."[10]

Of course, Perkins's leadership behaviors also helped Canva immensely. Showing task-oriented leadership behavior, Perkins developed structures that address social and ecological externalities of the firm (e.g., the 1% Pledge). This is also evident in how her emphasis on goals has shaped Canva's structure.

> We structure our whole company around goals. The old school hierarchies of years gone by with rigid structures and hierarchies were certainly not made for rapidly growing startups. We structure each team around "crazy big goals" with a lot less emphasis on titles. Every team has a goal and then celebrates when they hit that goal.[11]

This connects with her relationship-oriented leadership behavior, where Perkins has long been aware of the importance of fostering community and belongingness at work. For example, she believes in the importance of people having lunch together, and feels it is an important opportunity of bonding.

> Having lunch together is one of strongest things you can do for culture. When people are feeling strong friendships and social networks, they feel part of something. We used to have lunch around mum's living table. Now we have a chef who comes in and cooks.[12]

Perkins's change-oriented leadership behavior combines an emphasis on achieving organizational goals with anticipating and serving stakeholder needs, what she calls her two-step plan:

> Step one, build one of the world's most valuable companies. And step two, do the most good we can do. And I think that that has been a really unifying force for our company as well because it means that people are coming to Canva who actually care about having a positive impact and care about things that are bigger than themselves.[13]

Finally, Perkins is aware of how she has needed to change her leadership style over time:

> I've been working toward the vision of Canva and this journey for more than 10 years now, and one of the most important things I've learned is that different stages of a business require different types of leadership."[14]

> In the early days, we didn't have our values written down. We just kind of were sitting around the table and everyone could talk to each other and everyone kind of knew what everyone else was doing at all times. But then once we grew from everyone being around the same table and understanding what everyone's working on implicitly we needed to cement those values into something that everyone could see and feel. So, the day that someone starts [to work at Canva], they'll know that we've got their back if they make a decision that's in line with our values. And so we went through a bit of a process to ensure that we actually wrote those things down."[15]

## 15.1. Introduction

Leading is one of Fayol's four functions of management (alongside planning, organizing, and controlling; see Chapter 1). **Leading** is the process of influencing others so that their work efforts lead to the achievement of organizational goals. Leadership may be the most researched topic in all the social sciences, but there is still very much to learn. As with each of the four functions of management, sometimes members other than the formal manager perform the leading function. In fact, in most organizations there are many such informal leaders and, as we shall discuss, different "leadership substitutes" that can reduce the need or opportunity for a manager to perform the leading function.

A key challenge for students of leadership is measurement. How do you decide how good someone is as a leader? This chapter will focus on three of the most common measures used by leadership researchers. The first—*leader effectiveness*—is commonly measured by combining the ratings of a leader from the leader's followers, peers, and managers.[16] Because these ratings of leadership effectiveness are based on others' perceptions rather than based on objective performance measures, they may be influenced by the raters' implicit understandings of "what makes a good leader."[17] For example, research suggests that people today are still more likely to assume that leaders are male,[18] and that people who are extraverted are more likely to become leaders.[19] In fact, each of us has a detailed image in our head of what we think a leader is. When you hear the word "leader," what comes to your mind? Do you picture someone old or young? Male or female? Outgoing or shy? Research has shown that each of us has a script defining the ideal leader, and this script reflects our experiences, our culture, and the environment around us. The better a person matches our script, the more positively we respond to their leadership. We are more likely to agree with a leader who matches our script, and we tend to evaluate them more positively. And most of these effects happen subconsciously. In other words, we don't know we're doing it. For example, if a follower's script for an ideal leader describes someone

who is “mature” (perhaps in their forties or fifties), then a leader who is younger or older will be at a disadvantage. The follower may not be aware of doing so, but they will judge a “too-young” leader more harshly and be less likely to give them the benefit of the doubt.

*How would you decide whether someone is an effective leader?*

A second commonly used measure looks at *follower satisfaction* with the leader. This measure focuses on the perceptions of followers regarding the type and quality of relationship they have with their leaders. This measure is important because influencing followers is at the core of what it means to be a leader: no one can be a leader unless they have followers. Of course, a problem with this measure is that followers may be most satisfied with leaders who are the least demanding of them, and thus may not be particularly effective at meeting organizational goals.

The third measure is *group performance*, which has the advantage of being based on objective outcomes. However, groups may perform well in spite of having a poor leader. Such groups may have members who play various informal leadership roles to fill in or compensate for the lack of a competent formal leader. Imagine a group led by an emotionally volatile leader, where the members organize to support each other and ensure the group performs well. In contrast, it can also be the case that a group performs poorly despite having a great leader. For example, a sports team may have a great coach, but lousy players.

This chapter will review what scholars have learned about leadership, focusing on traits, behaviors, and contingencies. As always, our discussion will highlight differences between Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) perspectives as appropriate.

## 15.2. Leadership Traits

Traits are personal characteristics that are relatively stable. Early research in leadership sought to identify characteristics that differentiated leaders from non-leaders by analyzing great leaders.[20] Indeed, over the years researchers have examined hundreds of traits to see if they are related to leadership. However,

recall from Chapter 14 that the Big Five personality traits have been the most studied: (1) *Conscientiousness* (being achievement oriented, responsible, persevering, dependable); (2) *Agreeableness* (being good-natured, cooperative, trustful, caring, gentle, not jealous; (3) *Extraversion* (being sociable, talkative, assertive, adventurous); (4) *Emotional stability* (being calm, placid, poised, not anxious or insecure); and (5) *Openness to experience* (being intellectual, original, imaginative, cultured, curious).

As shown in Table 15.1, taken together, the Big Five personality traits account for almost 20 percent of the variance in their perceived leadership effectiveness (i.e., first column in table). In other words, if you know the personality trait scores of leaders you can use that information to make more accurate predictions about how effective they will be perceived to be. The most important Big Five trait is extraversion, which alone accounts for 7.7 percent of the overall perceived effectiveness of leaders. The second most important personality trait is conscientiousness (5.9 percent of total variance). Emotional stability (3.1 percent) and openness to experience (2.9 percent) are also significant.[21]

**Table 15.1. Personality traits and measures of effective leadership**

| | Leadership effectiveness (%) | Satisfaction with leader (%) | Group performance (%) | Average (%) |
|---|---|---|---|---|
| Conscientiousness | 5.9 | 0.9 (negative) | 8.6 | 5.0 |
| Agreeableness | 0.2 | 4.9 | 3.1 | 2.7 |
| Extraversion | 7.7 | 0.0 | 0.0 | 2.6 |
| Openness to experience | 2.9 | 0.1 | 1.0 | 1.3 |
| Overall variance explained by the Big Five combined | 19.8 | 6.0 | 13.8 | 13.2 |

When it comes to followers' satisfaction with their leader (second column), the Big Five account for only 6.0 percent of the variance, with the biggest contribution coming from agreeableness (4.9 percent), and much less coming from conscientiousness (0.6 percent) and emotional stability (0.4 percent). It is interesting to note that the more conscientious a leader is, the *less* satisfied followers

are. This suggests that followers' satisfaction with leaders is lower when working for achievement-oriented leaders.

Finally, leader traits account for a total of 13.2 percent of the variance of group performance (third column). Here the most important trait is conscientiousness, which explains 5.0 percent of the variance. The second most important personality trait is agreeableness (2.7 percent), followed by emotional stability (1.5 percent) and openness to experience (1.3 percent). What may be unexpected is that emotional stability has a negative effect on group performance, which suggests that having an emotionally volatile leader may actually offer a small *benefit* to group performance.

### 15.2.1. FBL, TBL, and SET Approaches to Leadership Traits

Each personality trait is important for each of the three approaches to leadership, but some traits may be more important for some approaches than for others. For example, as discussed in Chapter 14, agreeableness may be more relevant for SET leaders than for FBL leaders, given that agreeableness has a positive effect on enhancing social well-being but not on motivation to work for financial well-being.[22]

More generally, note that when leaders do not match the dominant social scripts for what constitutes an effective leader, they will have to work harder to gain trust and support from followers. Because FBL has historically been the dominant management approach and TBL management is currently the most common approach among large, high-profile organizations, many people may have "profit maximizing" as a part of their generic script for what constitutes effective business leadership. If so, then SET leaders might be perceived as less effective, because they fail to match that aspect of their followers' scripts. However, in keeping with the social construction of reality (see Chapter 2), if SET-oriented leaders become more common and gain higher profile, we can expect that generic leadership scripts will change to place greater emphasis on socio-ecological well-being.

## Test Your Knowledge

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## 15.3. Leadership Behaviors

Researchers have studied well over 100 different categories of leader behaviors, many of which overlap with each other. However, as summarized in Table 15.2, there is some agreement that all these behaviors can be combined into three different clusters or types of leadership behavior (task-oriented, relationship-oriented, and change-oriented), and a fourth type that might be called non-leadership behavior (avoidance).[23]

**Table 15.2. Main types of leadership behaviors**

| |
|---|
| **Task-oriented behaviors**<br>· Plan, organize, and coordinate work activities; establish goals and standards for tasks<br>· Organize tasks into jobs and roles<br>· Explain tasks and standards, and priorities regarding task objectives<br>· Monitor activities<br>· Ensure tasks are performed efficiently and reliably<br>· Develop and follow systems that motivate and encourage members to meet standards |
| **Relationship-oriented behaviors**<br>· Build social connections with members<br>· Recognize members for their accomplishments and contributions<br>· Encourage cooperation and mutual trust among group members<br>· Build group identity using stories, symbols, and rituals<br>· Express confidence and support for members, especially those facing difficult tasks<br>· Manage conflicts constructively<br>· Inform, consult with, and empower members regarding decisions affecting them |
| **Change-oriented behaviors**<br>· Engage in strategic planning, especially developing a new vision and performing SWOT analyses<br>· Engage in change management, especially recognizing need/opportunity for change and preparing for change<br>· Encourage, announce, facilitate, and celebrate the implementation of change<br>· Model intrapreneurship |
| **Avoidance/non-leadership behaviors**<br>· Exhibit passive indifference to followers and to the task<br>· Ignore problems and follower needs<br>· Avoid engaging in task-, relationship-, or change-oriented leadership behaviors |

As shown in Table 15.3, empirical research suggests that taken together, these four leadership behaviors account for almost half (46 percent) of the variance across all three measures of leadership.[24] In other words, how well and how

appropriately you exhibit these four behaviors will explain about half of your effectiveness as a leader. That is something worth learning! We will look at each in turn.

**Table 15.3. Leadership behaviors and measures of effective leadership**

| Leadership behaviors | Leadership effectiveness (%) | Satisfaction with leader (%) | Group performance (%) | Average (%) |
|---|---|---|---|---|
| **Task-oriented**<br>· initiating structure<br>· contingent rewards | **14.3**<br>6.1<br>8.2 | **11.8**<br>3.4<br>8.4 | **8.4**<br>6.6<br>1.8 | **11.4**<br>5.3<br>6.1 |
| **Relationship-oriented** (consideration) | **9.2** | **31.4** | **3.3** | **14.6** |
| **Change-oriented**<br>· transformational<br>· servant/active management-by-exception[25] | **12.1**<br>10.7<br>1.4 | **16.2**<br>13.9<br>2.3 | **6.8**<br>5.7<br>1.1 | **11.7**<br>10.1<br>1.6 |
| **Avoidance**<br>· laissez faire<br>· passive management-by-exception | **11.5 (negative)**<br>10.4 (negative)<br>1.1 (negative) | **10.6 (negative)**<br>10.2 (negative)<br>0.4 (negative) | **1.5 (negative)**<br>unknown<br>1.5 (negative) | **7.9**<br>6.9<br>1.0 |
| Overall variance explained by four types of behavior | **47** | **70** | **20** | **46** |

Note: 25

### 15.3.1. Task-Oriented Leadership Behaviors

**Task-oriented behavior** involves designing, implementing, and explaining organizational structures and systems that enable and motivate members to perform their tasks. Task-oriented behaviors are often associated with *transactional leadership*, so named because it focuses on the instrumental transaction that takes place between self-interested members and their employer, who offers benefits in exchange for members performing tasks assigned to them. The focus here is on the task itself, and not on the social relationships in the workplace.

Task-oriented behaviors often involve initiating structure and using contin-

gent rewards.[26] **Initiating structure** describes behaviors like determining tasks and roles and assigning them to members, coordinating members' actions, and maintaining the standards for task performance. *Contingent rewards* are rewards that are linked to the performance of a specific behavior or outcome. Associated leadership behaviors include clarifying rewards, helping followers based on their effort, and recognizing and rewarding achievements.[27]

On average, task-oriented behaviors explain about 10 percent of the variation in measures of leader effectiveness (14 percent), follower satisfaction with the leader (12 percent), and group performance (8 percent). Compared to the other types of leader behaviors, task-oriented behaviors make the greatest contribution to group performance, where task-oriented behavior explains almost half of the total effect of all the leader behaviors combined. This is especially true for initiating structure, which accounts for about one-third of the effect that leader behavior has on group performance. In other words, when it comes to facilitating *group performance*, leaders should focus on the perhaps somewhat mundane work of developing well-functioning structures and systems, as this is more important than relationship- or change-oriented behaviors. In contrast, focusing on contingent reward behaviors describes over 8 percent of variation in leadership effectiveness and satisfaction with leader scores, but less than 2 percent of group performance.

*Compared to the other types of leader behaviors, task-oriented behaviors make the greatest contribution to group performance.*

### 15.3.2. Relationship-Oriented Leadership Behaviors

**Relationship-oriented behavior** involves showing concern and respect for group members, being friendly and approachable, treating other members as equals, and being open to their input.[28] Mutually trusting relationships, where leaders and followers both expect the best from each other, are ideal and influence a vast range of outcomes, including turnover, job performance, commitment, satisfaction, and willingness to help.[29] In exhibiting relationship-oriented behaviors, leaders not only improve their own relationships with followers but also encourage members to focus on the well-being of the group as a whole.[30] Relationship-oriented behaviors are often described using the term consideration.

*Consideration* includes listening to, defending, consulting with, accepting suggestions from, and doing personal favors for followers.[31] Some of the key behaviors of leaders that rank high on consideration include focusing on followers' strengths, differentiating among followers, providing individual attention to each follower, and teaching and coaching followers.[32]

Consideration goes a long way when explaining how satisfied followers are with their leader, explaining almost one-third of the variance (31 percent). Consideration is also important for explaining leadership effectiveness (10 percent); it is least important for explaining group performance (3.3 percent).

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### 15.3.3. Change-Oriented Leadership Behaviors

**Change-oriented behavior** involves monitoring and understanding the work unit's larger environment, discovering innovative ways of working within it, and promoting the implementation of major changes in strategy, structures, and systems, or in the array of goods and services that are offered.[33] Change-oriented leadership behaviors are an important part of intrapreneurship (see Chapter 13). Among scholars who research leadership, the most common example of change-oriented leadership is called transformational leadership.

*Transformational leadership* has been described in many different ways by many different authors. However, there is some agreement that it has at least four components, known as the 4 I's: intellectual stimulation, inspirational motivation, idealized influence, and individualized consideration.[34] Of these, the first two in particular are related to change-oriented behavior, and the second two are more aligned with relationship-oriented behavior, with some reference to task-oriented behavior in the second component (setting standards, defining tasks).

- *Intellectual stimulation* involves leaders challenging assumptions, taking risks, encouraging follower creativity, and soliciting their ideas. This behavior prompts followers to see problems in a new light and

develop novel or creative solutions for making changes. It includes suggesting new ways of doing things, seeking different views, seeing things from different angles, and re-examining assumptions of how things are done.[35] *First principles thinking*—which breaks down complex problems into their essential fundamental parts—exemplifies this approach.[36]

- *Inspirational motivation* involves leaders articulating a vision that followers find compelling. It also includes challenging members via setting high standards, demonstrating optimism that members will be able to achieve the goals, and providing members with a sense of meaningfulness for the tasks they perform.[37] In short, transformational leaders promote changes that are engaging and meaningful.
- *Idealized influence* (sometime called charisma) involves leaders behaving in admirable ways that increase followers' identification with the leader, such as making self-sacrifices in order to benefit followers, or demonstrating exemplary courage or dedication. (This is related to referent power described in Chapter 14). Elon Musk, co-founder and CEO of Tesla, exemplified this behavior when sleeping on the factory floor for months while ramping production of the Tesla Model 3.[38]
- *Individualized consideration* involves leaders listening and attending to the concerns and needs of each follower, and providing coaching, mentoring, support, and encouragement as appropriate. While Musk is known for having little patience for failure, his colleagues laud his support and philosophy to "serve your team."[39]

Many other types of leadership that overlap with transformational leadership have been identified, including charismatic leadership, authentic leadership, ethical leadership, spiritual leadership, and servant leadership. While there are important conceptual differences between these types, researchers have had a difficult time discriminating between them in terms of observable behaviors. Moreover, these other types of leadership seem largely redundant with transformational leadership in terms of their outcomes. One exception seems to be servant leadership, which has behaviors that do offer a value-added contribution that goes beyond transformational leadership.[40]

*Servant leadership* shares many components with transformational leadership, including a focus on identifying new opportunities to solve problems (intellectual stimulation), adding meaning to task performance (inspirational motivation), being a role model who is able to forgo self-interests to benefit oth-

ers (idealized influence), and attending to the concerns and needs of followers (individualized consideration). Where servant leadership differs from transformational leadership is in the leader's focus. Transformational leaders concentrate on building follower commitment to meet the objectives of the organization, whereas servant leaders focus on serving their followers and others.[41] Servant leaders actively promote the well-being of others even if this does not maximize financial well-being for the firm. According to Robert Greenleaf, who coined the term servant leadership,[42] the essence of servant leadership involves three interrelated components:

- First, servant leaders help others to "grow as persons." To grow as *persons* fosters community because it emphasizes and nurtures the connection among people (a person is a part of a community). This is different from an understanding of growing as *individuals* defined as being distinct or apart from others.[43]
- Second, servant leaders want others to become "healthier, wiser, freer, more autonomous, [and] more likely to themselves become servants." Servant leaders model service, treat employees and others with dignity, and encourage them to do likewise.[44]
- Finally, servant leaders seek to have a positive effect on—and refuse to have a negative effect on—the stakeholders who are "the least privileged in society." Servant leaders have a special concern for facilitating changes that improve the situation for people who are particularly disadvantaged by the status quo, both within and outside the organization's boundaries. Recall the example of how Greenleaf modeled servant leadership when he helped to increase the number of women hired at AT&T, where his role was to help his followers recognize the need for such a change and to develop those changes themselves (Chapter 13).

As shown in Table 15.3, most of the effects of change-oriented leadership are associated with behaviors that characterize the transformational leadership style. Of the 11.7 percent effect on change-oriented behaviors on average, most of it (10.1 percent) is attributed to transformational leadership. Of the 11.7 percent, only 1.6 percent is due to the addition of behavior associated with active management-by-exception, which, like servant leadership, includes anticipating task-oriented problems and proactively taking corrective actions.[45] Overall, leaders who exhibit behavior associated with both transformational *and* servant leadership

styles are more effective than leaders who exhibit only a transformational style.[46] Taken together, as shown in Table 15.3, on average change-oriented leadership actions account for about 16 percent of satisfaction with the leader, 12 percent of leadership effectiveness, and 7 percent of group performance.[47]

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*Servant leaders seek to have a positive effect—and refuse to have a negative effect—on stakeholders who are the least privileged in society.*

### 15.3.4. Avoidance Leadership Behaviors

This type of leadership, sometimes called *laissez-faire leadership*, describes people who are officially given a leadership role but fail to take responsibility or fulfill their duties. Laissez-faire leaders do not engage in task-oriented, relationship-oriented, or change-oriented leadership behaviors. Avoidance leadership behaviors also overlap with *passive management-by-exception leadership*, which describes nominal leaders who avoid making decisions, delay in responding to requests, are often absent when needed, and react only to serious problems.[48]

As Table 15.3 shows, avoidance behavior has a negative effect on all measures of leadership effectiveness and explains over 10 percent of the variance in leadership effectiveness and satisfaction with leaders.[49]

*Avoidance has a negative effect on all measures of leader effectiveness.*

### 15.3.5. FBL, TBL, and SET Approaches to Leadership Behaviors

Leaders with FBL, TBL, and SET management approaches may use any combination of task-, relationship-, change-oriented, and even avoidance behaviors. However, we can expect some differences in how these behaviors are put into action within the three approaches to management.

With regard to task-oriented behaviors, all three approaches are interested in achieving efficiencies within the organization, but SET managers will be more attuned to socio-ecological externalities associated with how tasks are designed and the results of performing them. For example, all coffee shops will design tasks so as to brew a great-tasting coffee, which includes sourcing the coffee beans and energy to brew the coffee. An FBL approach will seek to source the least-expensive coffee beans and the least-expensive energy provider to brew the coffee. In contrast, a SET approach will seek to purchase fair trade beans and to install solar power to provide the electricity, even though this complicates tasks and may create additional expenses related to sourcing beans and powering the equipment. In short, SET leaders include socio-ecological externalities when thinking about costs and efficiency associated with the tasks performed by followers.

In terms of relationship-oriented behaviors, an FBL approach will focus on managing relationships in order to optimize followers' motivation and performance, whereas a SET approach will be more attuned to developing relationships that provide a sense of community, belongingness, and meaningful work (see Chapters 5, 16, and 17). As will be described more fully in Chapter 16, there is a difference between managing social relationships to maximize follower efficiency and productivity (the FBL approach) and managing social relationships to develop work units that perform tasks well while creating a life-enhancing community (the SET approach). Hallmarks of creating a sense of community include fostering an ethic of care and embracing healthy conflict.[50] An *ethic of care* accepts that people are morally relational and interdependent; this ethic is evident when organization members have ongoing emotionally significant relationships and behaviors that value the experience, needs, and future growth of others in a nurturing and compassionate manner (see Chapters 5 and 17).[51] Practicing an ethic of care has become more challenging for leaders in an era of remote work and AI (Artificial Intelligence),[52] but is certainly evident in examples like Nathaniel De Avila at Velo Renovation (Chapter 9).

*Hallmarks of creating a sense of community include fostering an ethic of care and embracing healthy conflict.*

With regard to change-oriented behaviors, while all three approaches value transformational leadership, there will also be differences. This is most evident in terms of the content of changes being promoted. FBL and TBL approaches will focus on change-oriented behaviors that serve to maximize financial well-being, and the SET approach will be most likely to include behaviors that enhance socio-ecological well-being (see also Chapter 13).[53] Whereas FBL leaders will exhibit a traditional transformational leadership focus on building follower commitment to meet the objectives of the organization, SET leaders will also embrace a servant leadership focus toward followers and other stakeholders.

Finally, none of the three approaches support avoidance leadership behaviors. However, as with the other leadership behaviors described in the previous paragraphs, there will be differences in how this plays out. For example, FBL leaders who are exhibiting all the task-, relationship-, and change-oriented behaviors expected of them will avoid exhibiting some behaviors that are exhibited by SET leaders. Relatively speaking, FBL leaders will generally avoid what they perceive as inefficient and unnecessary task-oriented behaviors related to socio-ecological externalities, relationship-oriented behaviors related to ethics of care, and change-oriented behaviors related to improving the conditions for marginalized stakeholders.

### 15.3.6. Combining Traits and Behaviors

Research suggests that leader personality traits influence leader behaviors as follows:

- agreeableness has a positive effect on relationship-oriented behavior
- extraversion has a positive effect on change-oriented and relationship-oriented behavior
- conscientiousness and emotional stability both have a positive effect on change-oriented and task-oriented behavior
- openness to experience has a negative effect on task-oriented behavior

Combining information about leaders' Big Five personality traits with information about how much they exhibit the four main types of leadership behaviors explains 57 percent of the variation in leader effectiveness ratings, 92 percent of follower satisfaction with leader, and 31 percent of group performance (average = 60 percent).[54] In other words if, for example, you know what a leader's personality traits and leadership behaviors are, you have a very good idea of how satisfied followers will be with the leader (these two things explain 92 percent of the variance). However, that same information explains less than one-third (31 percent) of the variance of group performance. While 31 percent is still a significant number—demonstrating that leadership makes a difference—it also points out that there are many other contingencies that need to be considered to explain group performance. This observation brings us to the next section.

## 15.4. Leadership Contingencies

Just as our understanding of leadership improves when we consider both leadership *traits* and leadership *behaviors*, it can be improved even further by recognizing that the appropriate leadership behavior depends on the situation facing a leader. Researchers have developed contingency models of leadership, where the *situation* determines which leadership behaviors are most effective at maximizing productivity (FBL management) or optimizing socio-ecological well-being (SET management).

Leadership contingency theories recognize that a successful leadership style in one situation may not necessarily work in another situation. For example, a task-oriented leadership style may be appropriate to train new technicians but not for leading seasoned financial planners. Similarly, a leadership style well-suited to the demands of an army general is not likely to fit well with the demands of a university president. However, it is possible for a person to perform well as a general and then as a university president and then as president of the United States, as Dwight Eisenhower did. Contingency theories help to determine which leader behaviors work best in different situations.

*Contingency theories recognize that a successful leadership style in one situation may not necessarily work in another situation.*

In some cases, *substitutes for leadership* act as situational factors that reduce the need for leaders to exhibit task-, relationship-, and change-oriented leadership behaviors.[55] Specific characteristics of the task and work environment may substitute for the behaviors of leaders, neutralize the influence of leaders, or enhance the influence of leaders.[56] For example, task-oriented leadership behavior may not be necessary when experienced followers have mastered their task and/or when a task is highly formalized with specific policies and procedural rules. Experience, policies, and rules can all be seen as substitutes for task-oriented leadership behavior. Indeed, in such cases leaders who continue to exhibit task-oriented behaviors may annoy followers. This may be especially true in highly technical jobs and in supervising millennials.[57] Similarly, in highly cohesive teams or when followers perform work that they find intrinsically interesting, it may not be as necessary for the leader to exhibit relationship-oriented behavior in order to ensure productivity. Especially from an FBL perspective, redundant relationship-oriented leadership behaviors may seem to be an inefficient use of time and money, whereas SET managers exhibit an ethic of care even if it does not maximize productivity. Finally, change-oriented behaviors may be unnecessary when an organizational unit is operating in a highly stable environment. This is not to suggest that leaders are unnecessary in such situations, but rather that the need for specific leadership behaviors may be reduced in certain situations.[58]

*Substitutes for leadership act as situational factors that reduce the need for some leader behaviors.*

Several contingency models explaining the relationship between leadership styles and specific situations have been developed. Among the most influential are Fiedler's contingency theory, House's path-goal model, and Hersey and Blanchard's variations of situational leadership theories. These theories all focus on two dimensions of leader behavior: task-oriented and relationship-oriented.

### 15.4.1. Two-Dimensional Contingency Theories

Fred Fiedler's 1967 theory of leadership, based on the premise that effective leadership depends on a match between leadership style and situational demands, was an important early study in developing a contingency approach to leader-

ship.[59] He looked at three aspects of a situation: how much authority the leader has, how well structured the followers' tasks are, and how good the relationships between leader and followers are. Combinations of these three aspects can make a situation more or less favorable for the leader. For example, a very favorable situation is one in which the leader has a lot of authority, the followers' tasks are well-structured, and leader-member relations are good. A very unfavorable situation is one where the leader has very little authority, the followers' tasks are poorly structured, and leader-members relations are poor. An intermediate situation is one where leader authority is high, task structure is low, and leader-member relations are good. Fiedler found that in situations that are either very favorable or very unfavorable for the leader, the task-oriented leadership style is the most effective, but in situations that are intermediate in favorableness for the leader, the relationship-oriented style is most effective. Fiedler believed that it was difficult for leaders to change their style, so it was important to place them in situations where their basic style was effective. More recent leadership theories tend to assume that leaders *can* change their style and, for example, that a leader can use both relationship-oriented and task-oriented behaviors.[60]

*Recent leadership theories assume leaders can change their style to suit the situation.*

Path-goal theory, developed in the early 1970s by Bob House, focuses on what leaders can do to motivate and align employee behavior to achieve organizational goals.[61] Consistent with expectancy theory (Chapter 14), path-goal theory suggests that a leader can motivate followers by linking their efforts and behaviors to desirable outcomes. Followers will perform better if leaders give them

- a clear and accurate understanding of the performance goals they are expected to accomplish (requires task-oriented leadership);
- the confidence that they can achieve those goals if they invest enough effort (requires relationship-oriented leadership); and
- an understanding that achieving their performance goals will result in rewards that they value (requires task-oriented leadership).[62]

According to path-goal theory, managers will be most effective when they exhibit

leadership behaviors that complement situational needs. The leader adds the most value by contributing things that are missing from the situation or need strengthening. In other words, leadership means getting done what needs doing but wasn't already getting done.[63] Most research evidence supports the logic underlying the path-goal theory that employee performance and satisfaction are likely to be positively influenced when the leader adjusts to situational factors related to the employee and the work setting.[64]

Finally, situational leadership theory provides a model that became particularly popular with practitioners.[65] Developed by Paul Hersey and Ken Blanchard, situational leadership theory integrates behavioral and contingency approaches to leadership, and adds a developmental element that explicitly looks at the changing needs of followers over time.[66] The model suggests that leaders can and should adjust their style of leadership behavior depending on the developmental level of followers to perform in a given situation.[67] A follower's developmental level is seen to have two dimensions: (1) competence (how well a follower can perform the tasks required for their job), and (2) commitment (how willing or motivated the follower is to perform the task).[68] The developmental level of followers depends on factors like their maturity, expertise, work experience, and loyalty to their manager or co-workers.

**Table 15.4. Four leadership styles depending on follower competence and commitment**

| FOLLOWER COMMITMENT | FOLLOWER COMPETENCE: HIGH | FOLLOWER COMPETENCE: LOW |
|---|---|---|
| HIGH | *Appropriate leadership behavior:* Low task-oriented, Low relationship-oriented | *Appropriate leadership behavior:* High task-oriented, Low relationship-oriented |
| LOW | *Appropriate leadership behavior:* Low task-oriented, High relationship-oriented | *Appropriate leadership behavior:* High task-oriented, High relationship-oriented |

As depicted in Table 15.4, this gives rise to four leadership situations,

depending on the levels of followers' competence and commitment. According to the model, the appropriate amount of task-oriented behavior leaders should exhibit varies along with follower competence: the less competent followers are, the more leaders should exhibit task-oriented behavior. A similar relationship exists between leaders' relationship-oriented behavior and follower commitment: the less committed followers are, the more relationship-oriented behavior leaders should exhibit.

- *High follower commitment/High follower competence*: This describes situations where followers have become self-reliant achievers, having acquired the appropriate job-related competencies and high commitment to perform their tasks. This might refer to an employee with a lot of experience, skill, and loyalty. The model recommends that in response, leaders provide little task- or relationship-oriented behavior, thus allowing the follower to make decisions and take responsibility for those decisions (a "delegating" style). Permitting followers to self-manage in this way takes advantage of their skills and motivation while simultaneously reducing the time and financial costs required to manage employees. One might assume that followers would appreciate this leadership style, but research suggests that followers think it is appropriate only about 12 percent of the time, whereas leaders use it 42 percent of the time.[69]
- *High follower commitment/Low follower competence*: This describes situations when organizational members lack task-related knowledge to do their jobs but are enthusiastic and committed to acquiring it. This might be the case, for example, when a new, keen, but untrained employee joins a department. In response, the leader defines roles and gives instructions to the new employee regarding what, how, when, and where to do various tasks (a "directing" style). Specific task directions are given in this leadership situation, which requires more task-oriented than relationship-oriented behavior. According to followers, this combination of leadership behaviors is rarely needed or provided by leaders (less than 5 percent of the time).[70]
- *Low follower commitment/High follower competence*: This describes situations where organizational members have the competence necessary to perform the job but may lack motivation or confidence in their ability to perform. For example, a follower who has previously been

micromanaged may have the skill but has become cautious and lacks the confidence or desire to take on more responsibility and act independently. Or perhaps a follower has grown bored of performing the tasks they have long mastered and needs a leader who realizes and enriches their work experience. In response, the leader adopts low task-oriented and high relationship-oriented behavior, encouraging such followers through providing affirmation and confidence in the follower's abilities, practicing participative decision-making, and being approachable and friendly (a "supporting" style). According to followers, they need and receive this kind of leadership about 25 percent of the time.[71]

- *Low follower commitment/Low follower competence*: This describes situations where organizational members have neither good technical knowledge nor strong commitment. This might include employees who are undergoing a seemingly endless series of changes to their jobs, or recently hired employees who are faced with a long training period and for whom the excitement of a new job is wearing off. Or it might refer to typical employees who are not particularly committed to jobs they have not yet mastered. In these situations, the model recommends that the leader use high levels of both task- and relationship-oriented behavior to provide task directions, feedback, and affirmation in a supportive and convincing way (a "coaching" style). Followers suggest that they need coaching about 60 percent of the time but receive it only 33 percent of the time.[72]

*Followers need coaching 60 percent of time but receive it only 33 percent of time.*

### 15.4.2. Leadership Contingencies and Change

While earlier studies of leadership contingencies tended to focus on the two dimensions of task- and relationship-oriented leadership behaviors, more recently researchers have begun adding contingencies associated with change-oriented leadership behaviors. Indeed, today leadership research focuses on transformational leadership behavior ten times more frequently than it focuses on task- and relationship-oriented leadership behaviors.[73] As our understanding of change-ori-

ented leadership has grown, so too has our understanding of the contingencies associated with it. For example, research suggests that

- the more turbulent the environment, the greater the need for change-oriented leadership behaviors;
- the greater the diversity among members in a work group, the greater the need for change-oriented (and relationship-oriented) leadership behaviors;
- the more problems there are in overall working conditions (e.g., related to workplace safety or pay), the greater the need for change-oriented (and task-oriented) leadership behaviors;[74]
- the more emphasis there is on flexibility in an organization's culture and design, the greater the appropriateness of change-oriented leadership behavior.[75]

*Transformational leadership has become a dominant topic in leadership research.*

Research also suggests that there is interplay among the appropriate types of leader behavior as changes unfold over time. Change-oriented (transformational) leadership is particularly important in the early stages of a change process, such as when recognizing the need or opportunity for change, developing the mission and/or vision, and developing strategic plans and goals. The more a leader serves as a visionary role model in these early stages, the more likely followers are to appraise the change positively, and this positive attitude carries forward to the final phases of the change process. In contrast, task-based (transactional) leadership in the early stages of the change process has a negative effect on followers' appraisals of the change. For example, introducing change by seeking to ensure compliance and consistency undermines followers' support of the change.[76]

#### Shared leadership

It is important to note that leadership behaviors can be distributed, or shared, among the members of an organizational unit. In other words, it is not necessary for the formal leader of an organizational unit to be equally adept at task-ori-

ented, relationship-oriented, and change-oriented leadership behaviors. Even key leadership behaviors within each of these three clusters can be shared. For example, consider how the behaviors associated with transformational leadership can be shared among members. One member may be particularly good at envisioning (being able to articulate a compelling vision, set high expectations, and model consistent behaviors), another member particularly good at enabling (being able to express personal support, empathize, and express confidence in people), and a third member particularly good at energizing (being able to demonstrate personal excitement).[77]

*Shared leadership decreases the need to find one person who is great at all aspects of leadership.*

Research suggests that shared leadership may explain additional variance in a team's performance compared to when leadership is provided by only a nominal leader.[78] This may be especially true when leadership is shared in the top management teams of new start-ups (see also Chapter 16).[79] Shared leadership increases ability and confidence within groups.[80] When groups face challenging situations, they can turn to members who have the necessary leadership expertise to deal with the situation and do not need to rely on a single, nominal leader to be expert at everything. Shared leadership can also provide greater opportunities for members to interact with, get to know, and be intellectually stimulated by their co-workers, which may increase their motivation, competence, and performance. Research also suggests that the relationship between shared leadership and a group's performance becomes stronger the more the group's work is knowledge-based and members work with each other interdependently (for more on interdependence, see Chapter 16).[81] While the sharing of task- and relationship-oriented leadership behaviors contributes to team effectiveness, the sharing of change-oriented leadership behaviors is particularly valuable.[82]

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## 15.5. Entrepreneurship Implications

Just like other leaders, leaders of entrepreneurial ventures need to exhibit each of the three generic types of leadership behaviors: task-, relationship-, and change-oriented. The benefits from these three types of behaviors will vary based on the situation facing a leader; however, the situation facing entrepreneurial leaders is significantly different than for other leaders.[83] In general terms, all three types of leadership behavior are especially important because there are few precedents or leadership substitutes in new start-ups. For example, there may be no existing policies regarding *tasks* like how to hire a new employee or how to keep track of inventory. As well, there is no history of interpersonal *relationships* to draw upon within a new firm and with its key suppliers and buyers, and *change* is constant when many things are being done or developed for the first time. Given the sheer volume of leadership behaviors that need to be performed, it makes sense that new ventures perform best when there are multiple leaders or when leadership roles are shared among members.[84] We will discuss each of the three types of leadership behavior among entrepreneurs, starting with change-oriented leadership behavior, because of its central importance in entrepreneurship.

*All three types of leadership behavior are especially important in start-ups because of the lack of precedents or leadership substitutes.*

### 15.5.1. Entrepreneurship and Change-Oriented Behavior

Change-oriented behaviors are key when starting a new venture, where everything is new. Entrepreneurs engage in change-oriented behaviors by definition when they recognize the opportunity to start something new, develop a mission or vision for their new organization, and engage in strategic planning and SWOT

(strengths, weaknesses, opportunities, and threats) analyses. They can do this formally or informally (e.g., they may not write down the venture's mission or vision statement, but the vision and mission will be evident in the actions of the entrepreneur over time). Similarly, the entrepreneur may not complete a formal SWOT analysis, but instead prefer to engage in strategic learning (as described in the Honda motorcycle case in Chapter 9).

Transformational leadership behaviors are particularly important for start-ups. Starting a new venture requires each of the four hallmarks of transformational leadership: (1) *Inspirational motivation*—leaders must articulate a vision that is compelling enough that stakeholders will want to support and participate in it; (2) *Intellectual stimulation*—leaders encourage followers to participate in identifying and creatively solving problems and seizing opportunities; (3) *Idealized influence*—leaders set the example for other members to be inspired by and to follow; and (4) *Individualized consideration*—this is especially evident in the relationship-oriented behavior entrepreneurial leaders exhibit.

As is the case for leadership more generally, we would expect SET entrepreneurs to engage in more servant leadership behaviors than their FBL and TBL counterparts.[85] Because servant leadership is more time-consuming and demands serving other stakeholders (especially the marginalized) from an FBL and TBL perspective, it may seem to be an inefficient way to get a new venture up and running. However, while it is true that servant leadership complicates and slows things down in the short term, it may offer advantages in the long run. For example, imagine that you are working for a non-government organization (NGO) in Bangladesh in the 1970s.[86] Further, imagine that agricultural practices in Bangladesh are hampered by a lack of irrigation, and most villagers drink water from hand-dug wells or ponds that are shared with bathing cows and water buffaloes. Cholera and diarrhea are common, and each year hundreds of thousands of deaths result from drinking contaminated water. The need for change is clearly evident. What leadership behaviors would you exhibit?

*Because servant leadership is more time-consuming and demands serving other stakeholders (especially the marginalized) from an FBL and TBL perspective, it may seem to be an inefficient way to get a new venture up and running.*

One option was pursued by several large NGOs that took decisive action, operating from a transformational leadership perspective. They drew on their knowledge of technologies that worked in other countries and opted to import and subsidize diesel-powered and cast-iron pumps to supply water for irrigation. Unfortunately, these imported technologies were resisted by farmers and failed to achieve the desired result. They were deemed too costly to purchase, required expensive fuel to operate, and could not be easily repaired locally when they broke down.

In contrast, a successful technology was introduced by a much smaller NGO using a servant leadership style. The entrepreneur was George Klassen, a North American engineer who had been working alongside Bangladeshi farmers in the fields for several years in a servant leader mode, contributing to community building and earning their trust. He was successful in building relationships and mutual understanding, but from an FBL and TBL perspective he had little "explicit" measurable success to show for his efforts (e.g., increase in calories of food energy produced, people fed). However, it was Klassen who eventually had the insight to develop what is called a "rower pump" (so named because operating it requires a motion that looks similar to rowing a boat). By experiencing the rhythms of the rural life and being attuned to the needs of the farmers, he had learned that they required a water pump that could be operated by one person, could be built out of local materials (e.g., bamboo shoots), and was an affordable "low-tech" option that could be serviced locally. As will be described below, coupled with appropriate task- and relationship-oriented behaviors from others in the NGO, this innovative rower-pump technology soon became the norm among Bangladeshi farmers.

### 15.5.2. Entrepreneurship and Task-Oriented Behaviors

Whereas a long-standing organization will generally have well-developed structures and systems related to tasks that need to be performed—for example, standard operating procedures, clear job descriptions, manuals and guidelines—the opposite is generally true for entrepreneurial start-ups. As a result, entrepreneurial leaders need to pay close attention to task-oriented behaviors. However, rather than focus on task-oriented behaviors to develop detailed and specific policies and guidelines—as might be the case for a mature bureaucracy—entrepreneurs should focus on developing flexible guidelines and policies (as might be the case in an adhocracy). In particular, as described in Chapter 11, because of low levels of standardization, entrepreneurs will need to spend more time with experimenta-

tion. And rather than relying on specialists to perform a narrow range of tasks, entrepreneurs will look for generalists who are sensitive to the need to perform a wide variety of tasks.

*Rather than focus on task-oriented behaviors to develop detailed and specific policies and guidelines—as might be the case for a mature bureaucracy—entrepreneurs should focus on developing flexible guidelines and policies.*

The importance of task-oriented behaviors, which are also clearly related to change- and relationship-oriented behaviors, can be seen in the introduction of the rower pump in Bangladesh. Once the best designs for the rower-pump had been fine-tuned and agreed upon, the operational challenge of bringing it to market arose. This task required a different set of leadership skills than Klassen's, so it was handled by a more senior manager in the NGO (an example of shared leadership). Other staff at the NGO worked to piece together a network of local businesses to build, sell, and service the pump. This helped in the development of a local infrastructure with expertise in installation, repair, and inventory of parts. NGO workers also performed field tests and trained people on how to use the pump. In the early years, NGO workers also provided a subsidy for the pump but had clear plans to phase out its involvement within four years to ensure that the pump would be self-financing. Furthermore, the NGO planned to completely phase out their involvement after a period of five years.

Five years after the entrepreneurial venture was started, a critical mass of farmers was using the rower-pump technology (1,000 were sold), and the infrastructure had been developed to enable the further production, sale, and service of rower pumps. This provided the foundation for other entrepreneurs to get in on the action; "scripts" about how to build, sell, fix, and use the rower pump were reasonably well-developed. Copy-cat and clone rower pumps were introduced, and soon sales reached 50,000 pumps and it became the new normal among Bangladeshi farmers.

### 15.5.3. Entrepreneurship and Relationship-Oriented Behavior

Relationships are vitally important in all leadership situations, but they take on

special importance for classic entrepreneurs. Entrepreneurs are at a severe disadvantage if, when they start a new firm, they also have to spend time developing new relationships with their employees, suppliers, and buyers. This is one reason why entrepreneurial ventures are more successful if they are started by a group of people who have previous experience working together in the industry. Indeed, employees in start-ups are more likely to be there because they know the founders, as opposed to having applied for a job at an organization about which they know nothing. Because everything is new, relationships gain importance, since people need to be adaptive and trusting in rapidly changing situations.

*Entrepreneurs are at a severe disadvantage if, when they start a new firm, they also have to spend time developing new relationships with their employees, suppliers, and buyers.*

The importance of relationships is clearly evident in the introduction of the rower pump in Bangladesh. Klassen's good working relationship with farmers had two positive benefits. First, the farmers had learned to trust him and were motivated and willing to work alongside him in refining the idea of a rower pump. Second, Klassen benefited greatly from the knowledge that farmers shared with him as they developed and tested many different prototypes. The rower pump could not have been fine-tuned without the expertise and knowledge of both Klassen and the farmers. Whereas other NGOs had difficulties getting skeptical farmers to test and use their diesel-powered and cast-iron pumps, farmers were eager to work with Klassen with whom they had developed a trusting relationship over time. They experimented with different designs, talked about how to deliver the product, and learned from one another. They worked together and there was less resistance to change.

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## Chapter Summary

1. Knowledge about a leader's Big Five personality traits (conscientiousness, agreeableness, extraversion, emotional stability, and openness to experience) can help to explain significant portions of their anticipated leadership effectiveness (20 percent), followers' satisfaction with them as leader (14 percent), and group performance (6 percent).
2. Knowledge about a leader's four main leadership behaviors (task-oriented, relationship-oriented, change-oriented, and avoidance) can also explain significant portions of their anticipated leadership effectiveness (47 percent), followers' satisfaction with them as leader (70 percent), and group performance (20 percent).
3. The three key leadership behaviors are expressed differently by FBL and SET leaders.
    - *Task-oriented*
        - FBL: focus on efficiency, productivity, and profit
        - SET: focus on productivity and socio-ecological externalities
    - *Relationship-oriented*
        - FBL: focus on relationships to motivate performance
        - SET: focus on community, job satisfaction, and meaning
    - *Change-oriented*
        - FBL: focus on achieving organizational goals
        - SET: focus on serving stakeholders/anticipating needs
4. Important contingencies that influence which leadership behaviors

are most appropriate in a particular situation include competence and commitment of followers, environmental turbulence, workgroup diversity, stage of the change process, and type of organization culture and design.

5. Shared leadership means that less pressure is put on one person to have the expertise to play all the different leadership roles. It can make a greater impact on measures of team performance than the impact of the nominal leader.
6. Entrepreneurs' leadership takes place in a context where there are few pre-existing scripts and leadership substitutes, making each of the three leadership behaviors more crucial than in other contexts, thus making shared leadership especially important early in a new venture.

## Questions for Reflection and Discussion

1. Do you think that most leaders basically have a fixed one-size-fits-all leadership style, or are they quite flexible as appropriate to the situation? Give examples to support your view.
2. Consider the best boss for whom you have worked. What characteristics describe their leadership? Are the characteristics predominantly traits or behaviors?
3. Identify a strength of a leader whom you know. Is it possible that this strength could also be a weakness? Explain.
4. What are the pros and cons of a low task-oriented and low relationship-oriented leadership approach? Have you ever seen this leadership approach work well? Poorly? Describe. Do you think FBL and SET managers would engage in this behavior for different reasons? Explain. Do you think there would a difference in the *likelihood* that FBL and SET managers would engage this behavior? Explain.
5. Given that shared leadership can make significant contributions to group performance, why is it not discussed more prominently in the media and in business schools? What does this tell us about our implicit theories of leadership? What sorts of self-fulfilling prophecies does it create? Do you think there is a difference between how

receptive an FBL and a SET approach is to the idea of shared leadership? Explain.

6. Now that you have read the chapter, go back to the opening case about Melanie Perkins. Do you think she is a servant leader? Explain. Would you like to work for and be mentored by her? Explain.
7. Think about an entrepreneurial venture you might want to start. What sorts of personality traits do you think will be important to lead the start-up? Do you have those traits, and if not, what sorts of leadership substitutes could be used to make up for the deficiency? What leadership behaviors will be the most important to a successful launch? Consider the pros and cons of starting with a group of co-founders. What sorts of leadership skills would you want other members of your group to have that complement yours? What skills do you have that you would not want others to have?

## Notes

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46. On average, servant leadership "added about 12% to the variance explained in the measures beyond that explained by transformational leadership alone." (Hoch et al., 2016: 21).
47. Interestingly, the relative proportion of the effect of servant leadership versus transformational leadership is slightly larger for group performance (19% = 1.1/5.7) than for leader effectiveness (15% = 1.4/10.7) and satisfaction with leader (17% = 2.3/13.9). This may suggest that the merits of servant leadership are more pronounced in the actual *performance* of a group than in the *perceptions* of raters. In other words, our implicit leadership theories and scripts may prevent us from appreciating the merits of serving others, but despite this its merits are evident in our performance. The lack of appreciation for servant leadership is also highlighted in the story taken from Hermann Hesse's novel *Journey to the East*, which Greenleaf used to describe the essence of servant leadership. In this story, a group of travelers enjoy success and good cheer along their journey without much notice of a faithful servant, Leo, who does the menial but necessary tasks and encourages the others with his positive spirit and song. Leo is, to a large degree, invisible to the traveling party, but after he leaves the party his leadership role becomes obvious to everyone when the group falls into disarray and the journey is forsaken. One of the travelers, after years of wandering aimlessly, meets up with Leo again, only to find out that among his people Leo is recognized as a great and noble leader. Hesse, H. (1956). *The journey to the East* (H. Rosner, Trans.). Picador.
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49. Avoidance explains less than 2 percent of the variance of group performance, but this is likely due to the fact that having inadequate data to determine the effect of laissez-faire leadership on group performance.
50. Lansing, A. E., Romero, N. J., Siantz, E., Silva, V., Center, K. Casteel, D., & Gilmer, T. (2023). Building trust: Leadership reflections on community empowerment and engagement in a large urban initiative. *BMC Public Health* 23: 1252. https://doi.org/10.1186/s12889-023-15860-z

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53. Boeske, J. (2023). Leadership towards sustainability: a review of sustainable, sustainability, and environmental leadership. *Sustainability*, 15: 12626. http://dx.doi.org/10.3390/su151612626

54. Derue et al. (2011). Note that these combined percentages of variance explained are not simply the summing of the variance explained in Tables 15.1 and 15.3. In some cases, combining the two creates redundancies and lowers the overall variance explained (leader effectiveness and group performance) in other cases it increases variance explained (satisfaction with leader).

55. Kerr, S., & Jermier, J. M. (1978). Substitutes for leadership: Their meaning and measurement. *Organizational Behavior & Human Performance*, 22(3): 375–403. https://doi.org/10.1016/0030-5073(78)90023-5

56. Kerr & Jermier (1978).

57. Ryan, S., and Cross, C. (2024). Micromanagement and its impact on millennial followership styles. *Leadership & Organization Development Journal*, 45(1): 140–152. https://doi.org/10.1108/LODJ-07-2022-0329

58. Podsakoff, P. M., & MacKenzie, S. B. (1997). Kerr and Jermier's substitutes for leadership model: Background, empirical assessment, and suggestions for future research. *The Leadership Quarterly*, 8(2): 117–132. https://doi.org/10.1016/S1048-9843(97)90012-6

59. Fiedler, F. E. (1967). *A theory of leadership effectiveness*. McGraw-Hill.

60. Though there are benefits in working in situations that are a better fit for your strengths. Buckingham, M., & Coffman, C. (1999). *First break all the rules: What the world's greatest managers do differently*. Simon and Schuster.

61. House, R. J. (1971). A path-goal theory of leadership effectiveness. *Administrative Science Quarterly*, 16: 321–339; Evans, M. G. (1970). The effects of supervisory behavior on the path-goal relationship. *Organizational Behavior & Human Performance*, 5(3): 277–298. https://psycnet.apa.org/doi/10.1016/0030-5073(70)90021-8

62. Path-goal theory suggests that the effect of specific leadership behaviors depends on situational factors related to personal characteristics of followers and characteristics of the workplace. In particular, path-goal theory suggests that leaders' task-oriented behaviors are more likely to improve followers' performance, effort, role clarity, and self-efficacy when followers are not sure about how to do their job. This is more likely to be the case when the jobs are difficult and complex and followers are inexperienced. Similarly, leaders' relationship-oriented behaviors are more likely to increase followers' effort, confidence, and satisfaction when the task is stressful, tedious, or dangerous. Summary taken from Yukl (2013: 165). Note that there are some differences in the effects of relationship-oriented versus task-oriented behav-

iors, and in different situations. Also, although the theory focuses on only a few prominent situational factors, it acknowledges that a vast number of situational factors can influence whether a particular leadership behavior is appropriate.

63. Stahl, A. (2018, January 16). 4 ways to go from manager to leader. *Forbes*. https://www.forbes.com/sites/ashleystahl/2018/01/26/4-ways-to-go-from-manager-to-leader/
64. Yukl (2013).
65. While general interests in and support for situational leadership theory remains strong (e.g., Ali, 2017), empirical tests have been difficult because of challenges in developing research designs that reflect the content and adequately measure concepts—for example, the empirical support may be buttressed by measuring both the followers' and the leaders' ratings of the follower needs. Thompson, G., & Glasø, L. (2015). Situational leadership theory: A test from three perspectives. *Leadership & Organization Development Journal*, 36(5): 527–544. https://doi.org/10.1108/LODJ-10-2013-0130; Ali, W. (2017). A review of situational leadership theory and relevant leadership styles: Options for educational leaders in the 21st century. *Journal of Advances in Social Science & Humanities*, 3(11). https://doi.org/10.15520/jassh311
66. More than previous theories, their approach focuses a great deal of attention on the characteristics of followers in determining appropriate leadership behavior. In fact, according to the *Harvard Business Review* "What great managers do!" is understand and adapt to the uniqueness of individual followers. Buckingham, M. (2005). What great managers do. *Harvard Business Review*, 83(3): 70–79.
67. In their original model, Hersey and Blanchard argued that leaders can and should adjust their style of leadership depending on the "readiness" of the follower to perform in a given situation. "Readiness" is based on how (1) able and (2) willing or confident followers are to perform required tasks. Organizational members have varying degrees of readiness, depending on their maturity, expertise, and experience in relation to the specific tasks that they undertake. Hersey, P. & Blanchard, K. H. (1969). *Management of Organizational Behavior—Utilizing Human Resources*. Prentice Hall.Our description is based on a slightly revised model developed by Ken Blanchard after extensive experience using situational leadership with business leaders: Blanchard, K. H., Zigarmi, P., & Zigarmi, D. (1985). *Leadership and the One Minute Manager: Increasing effectiveness through Situational Leadership® II*. William Morrow.
68. Blanchard et al. (1985).
69. Zigarmi & Roberts (2017).
70. Zigarmi & Roberts (2017).
71. Zigarmi & Roberts (2017).
72. This may suggest that followers are not as motivated and competent as leaders think, and/or perhaps that leaders seek to minimize the time they spend exhibiting relationship- and task-oriented behavior. Coaching is the most expensive of the four leadership situations, because it involves a lot of both task- and relationship-ori-

ented leader behaviors, so FBL leaders may be especially keen to limit the amount of time and effort they spend coaching. Zigarmi, D., & Roberts, T. P. (2017). A test of three basic assumptions of Situational Leadership® II Model and their implications for HRD practitioners. *European Journal of Training & Development*, 41(3): 241–260. https://doi.org/10.1108/EJTD-05-2016-0035

73. Anderson & Sun (2017).
74. Oc, B. (2017). Contextual leadership: A systematic review of how contextual factors shape leadership and its outcomes. *The Leadership Quarterly* 29(1): 218–235. https://doi.org/10.1016/j.leaqua.2017.12.004
75. For example, it seems appropriate that change-oriented leadership behaviors are more prevalent in organization cultures that value flexibility (e.g., adhocracy and clan cultures) than stability (hierarchy and market cultures) (Chapter 11). Moreover, as might be expected, 95 percent of change-oriented (transformational) leaders would prefer to work in an adhocracy or clan organizational culture (which emphasize change and flexibility), and only 5 percent in a market or hierarchical organizational culture. Masood, S. A., Dani, S. S., Burns, N. D., & Backhouse, C. J. (2006). Transformational leadership and organizational culture: The situational strength perspective. *Proceedings of the Institution of Mechanical Engineers, Part B: Journal of Engineering Manufacture*, 220(6): 941–949. http://dx.doi.org/10.1243/09544054JEM499
76. However, the most helpful leadership behavior is different in the later stages of the change process. In the implementation stages of a change—such as while developing operational goals and plans, and implementing and monitoring them—task-oriented leadership behaviors become more important because they are focused on structuring organizational activities and overcoming resistance. Of course, as always, the nature of both change- and task-oriented leadership behaviors will differ based on the management perspective (see Chapter 13). Holten, A. L., & Brenner, S. O. (2015). Leadership style and the process of organizational change. *Leadership & Organization Development Journal*, 36(1): 2–16.
77. Nadler, D. A., & Tushman, M. L. (1990). Beyond the charismatic leader: Leadership and organizational change. *California Management Review*, 32(2): 77–97. https://doi.org/10.2307/41166606. Note that shared leadership is different from decentralizing or delegating responsibilities to others, where the nominal leader doles out responsibilities but is still seen as the de facto leader. In shared leadership, the various members are treated as equals in terms of leadership.
78. Nicolaides et al. found that “shared leadership explains unique variance in team performance, over and above that of vertical leadership.” Nicolaides, V. C., LaPort, K. A., Chen, T. R., Tomassetti, A. J., Weis, E. J., Zaccaro, S. J., & Cortina, J. M. (2014). The shared leadership of teams: A meta-analysis of proximal, distal, and moderating relationships. *The Leadership Quarterly*, 25(5): 923–942. https://doi.org/10.1016/j.leaqua.2014.06.006. Similar findings are in Wang, D., Waldman, D. A., & Zhang, Z. (2014). A meta-analysis of shared leadership and team effectiveness. *Journal of Applied Psychology*, 99(2): 181–198. https://doi.org/10.1037/a0034531

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81. Wang et al. (2014). The finding on interdependence is echoed by Nicolaides et al. (2014).
82. Wang et al. (2014).
83. McGrath, R. G., & MacMillan, I. C. (2000). *The entrepreneurial mindset: Strategies for continuously creating opportunity in an age of uncertainty*. Harvard Business Press; Gupta, V., MacMillan, I. C., & Surie, G. (2004). Entrepreneurial leadership: Developing and measuring a cross-cultural construct. *Journal of Business Venturing*, 19(2): 241–260. https://doi.org/10.1016/S0883-9026(03)00040-5. Others argue that entrepreneurial leadership is fundamentally different from other types of leadership: Fernald, L. W., Jr., Solomon, G. T., & Tarabishy, A. (2005). A new paradigm: Entrepreneurial leadership. *Southern Business Review*, 30(2): 1–10. https://www.researchgate.net/publication/281315780_A_New_Paradigm_Entrepreneurial_Leadership; Kuratko, D. F. (2007). Entrepreneurial leadership in the 21st century: Guest editor's perspective. *Journal of Leadership & Organizational Studies*, 13(4): 1–11. https://doi.org/10.1177/10717919070130040201
84. Ensley et al. (2006); Pearce & Sims (2002).
85. Sajjad, A., Eweje, G., & Raziq, M. M. (2024). Sustainability leadership: An integrative review and conceptual synthesis. *Business Strategy & the Environment*, 33(4): 2849–2867. https://doi.org/10.1002/bse.3631
86. This extended example is based on personal interviews by the first author, and on information found in Dyck, B., Buckland, J., Harder, H., & Wiens, D. (2000). Community development as organizational learning: The importance of agent-participant reciprocity. *Canadian Journal of Development Studies*, 21(sup. 1): 605–620. https://dx.org/10.1080/02255189.2000.9669933

# 16. Groups and Teams


- Learning Goals
- 16.0. Opening Case – Lifelong Lessons in Teamwork
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- 16.2. Groups, Teams, and Different Types of Teams
- 16.3. Stages of Team Development
- 16.4. Entrepreneurial Implications
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*Chapter 16 introduces different kinds of groups and teams, and then describes the four stages of team development: forming, storming, norming and performing, as described in the table below and on the chapter whiteboard animation video.*

| | FBL | TBL | SET |
|---|---|---|---|
| **Types of teams** | Permanent vs. project; hierarchically vs. self-managed; functional vs. cross-functional; co-located vs. virtual | | |
| **Stage 1: Forming** Team is created | • Describe how team goals fit within the larger organization<br>• Focus on task cohesion more than social cohesion<br>• Draw attention to team boundaries and competitors | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | • Describe how team goals fit with rest of organization and the socio-ecological realm<br>• Focus on social cohesion more than on task cohesion<br>• Draw attention to team boundaries and cooperation |
| **Stage 2: Storming** Conflict occurs | Embrace moderate task conflict but avoid relationship conflict | | Embrace moderate task conflict and relationship conflict |
| **Stage 3: Norming** Ways of working together are established | Reinforce suitable norms via<br>• information sharing on task goals<br>• introducing systems to minimize free riding | | Reinforce suitable norms via<br>• information sharing on task and socio-ecological goals<br>• introducing ways to enhance consistent contributing |
| **Stage 4: Performing** Team excels | Emphasize extrinsic reinforcers, often for members individually | | Emphasize intrinsic reinforcers, typically for the team collectively |
| **Entrepreneurial implications** | Entrepreneurs can benefit from knowing their own and other members' preferred conflict management styles. | | |



*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=116*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain differences between groups and teams.
2. Identify four different dimensions along which teams can vary.
3. Describe the essential features of the four stages of team development.
4. Understand how the development of social and task cohesion proceeds in each of the four stages of team development.
5. Describe key leadership behaviors in each of the four stages of team development.
6. Explain the differences in how teams are managed under FBL, TBL, and SET approaches.
7. Describe different conflict management styles, and how entrepreneurs can benefit from learning about their own and other members' preferred style.

## 16.0. Opening Case – Lifelong Lessons in Teamwork

When it comes to experiencing social well-being within an organization, there may be nothing quite so rewarding as being a member of an effective team. Teams are small enough to facilitate meaningful interpersonal relationships and large enough to provide opportunities to make valuable contributions to completing tasks that individuals could not achieve independently. Indeed, when students are asked to identify where they feel most connected to others, they mention sports teams about as often as family.[1] They also mention working at summer camps for children and youth.[2]

Kate Cassidy had a life-changing experience working as part of the team of counselors at a small camp in Quebec, Canada: "It had a profound effect on my goals, choice of career, and who I have become."[3] Summer camps are typically organized around a variety of teams, including a team that maintains the physical facilities of a camp (e.g., ensuring that the lawn is mowed), a team to work in the kitchen, a leadership team in charge of programming (overseeing camper activi-

ties), a team of support staff (e.g., lifeguard, canoe instructor), and a team of counselors who work directly with the campers.

When Cassidy describes her experience of working at camp, you can see several stages of team development. First, when she started and the counselor team was being formed, she was on her best behavior, trying to be accepted as she learned more about the group and what her job would entail:

> I arrived that summer thinking I had to act in a certain way to fit in. I admired the staff who were funny and outgoing, and thought their behavior defined the ideal camp staff member. I did my best to act accordingly, but it proved difficult to maintain 24 hours a day.

Because of this, Cassidy considered quitting her job, but first she decided to quit trying to be what she *thought* her teammates expected of her and instead began to be her authentic self (i.e., more serious and inward-looking). To her surprise, she was still fully accepted by her teammates:

> I remember that a feeling of acceptance for being myself was different from the more limited sense of belonging I felt when I knew I was not being authentic. It was great to feel fully accepted, and perhaps this struck me so forcefully because I do not believe I had experienced this sense before outside my family. This was my first experience of fully "being" in community.

Of course, not everything is sunshine and roses, even at summer camp. It was inevitable that conflict would occur among a group of people working together all summer, twenty-four hours a day. Although Cassidy had grown up thinking that conflict was a bad thing, she learned to understand its positive aspects through her camp experience:

> I came to realize that conflicts were almost always talked through respectfully, and resolved. I saw this done regularly, even facilitated the process with campers, and usually saw both parties emerge with tighter bonds and a better understanding of each other. Camp changed my idea that conflict was always a negative thing that should be avoided. I learned that when it happened in an atmosphere of care and respect, and people were open to talking about it, new insights and a deeper connection could result.

As a community of around seventy people, it was important to develop and redevelop agreed-upon guidelines for behavior:

> Our camp community was guided by norms of care and respect. . . . It was generally understood that breaking those rules could have a negative effect on others. There were times that rules were broken, and the reasoning and consequences were always

> discussed. To some extent, the rules were also open to negotiation as well. . . . We all cared for each other and we used this as guidance to follow or change rules and to make decisions.

Having time and space for meaningful dialogues was particularly important:

> Sharing fears, wondering about deeper meanings, and exploring different perspectives were all commonplace. I think this helped us come to appreciate the fact that although camp members looked different on the surface (different religious, economic, and language backgrounds),[4] everyone had commonalities and differences that ran deeper, and we were more unique than these surface categories. For people to feel they can be themselves, they must first know that the time and space is there for them to be deeply heard.

Cassidy and the rest of her team performed very well as a cooperative community.

> We knew each other's strengths and weaknesses and accepted them non-judgmentally. Whenever anyone needed help or support, it was there for them. . . . We experienced challenges, disappointments, and arguments, but the care for each other was always there and from every struggle, people seemed to emerge stronger. It was a perfect social atmosphere for campers and staff alike to take risks, try new things, develop new skills, and learn more about ourselves.

Her positive experience as part of the team at camp has shaped her subsequent professional choices, her management style, and her friendships decades years later:

> It has been almost 25 years since that summer but the bonds we created were very strong and many of the staff and campers are still friends today.

## 16.1. Introduction

In addition to being parts of functional or divisional departments (see Chapter 11), organizational members are often divided into teams. If properly managed, teams can enhance social well-being and meaningful work, improve the quality of decision-making, heighten creativity, increase motivation, and help facilitate organizational change. Teams also can allow managers to decrease their direct supervision of employees by reassigning some supervisory duties to team members.[5] Teams can help organizations encourage high-involvement work cultures and flatter and more flexible organizational structures that adapt to changes in technology.[6] However, poorly managed teams may lead to dysfunctional conflict

that decreases job satisfaction, increases turnover and absenteeism, and reduces the overall performance of team members and the organization. Thus, managers must understand and manage team processes effectively so they can take advantage of their positive aspects and avoid the negative.

We begin this chapter by differentiating between groups and teams, and then describing different types of teams. The bulk of the chapter describes how teams develop over time and identifies the key processes that are typically evident at each stage of team development. As with other chapters, we will highlight the similarities and differences between Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) approaches to teams.

## 16.2. Groups, Teams, and Different Types of Teams

### 16.2.1. Groups Versus Teams

Often the terms “group” and “team” are used interchangeably, which in many cases may be appropriate. Both terms can refer to collectives of three or more members within an organization. However, there are significant differences between the two. A **group** is a collection of three or more people who share a common interest or association. Examples include a work-based book club, co-workers who regularly play cards over lunch, and co-workers who exercise together in the company gym. A **team** is a collection of three or more people who share task-oriented goals, work toward those goals interdependently, and are accountable to one another to achieve those goals. Examples include work teams within a department, a bargaining team within a labor union, and the top management team in a new start-up organization. Table 16.1 summarizes some of the characteristics that differentiate groups and teams.

**Table 16.1. Typical characteristics of groups and teams**

| Group | Team |
|---|---|
| Typically informal | Typically part of formal hierarchy |
| Members share common interests | Members work interdependently to achieve shared task-oriented goals |
| Small or large in size | Generally small in size |

Groups are typically informal, such as organizational members who eat lunch together regularly at the same table in the company cafeteria. In contrast, teams are typically formally constituted—members are assigned to a team by managers—but teams can also have informal qualities as members befriend each other when they work together.

Groups are typically more concerned with a common interest and with the benefits of the interpersonal relationships associated with membership. In contrast, teams are created with task achievement goals in mind, though members may share common interests and enjoy social relationships with their team members. Team members are more likely to need to rely on the work of other members to successfully complete tasks, whereas group members may work independently from one another.

Groups can range in size from a few people to thousands. Generally, teams are smaller in size due to limitations in how many people can work together interdependently; however, larger teams may be possible if work is divided into sub-teams.[7] For example, an American football team may include three sub-teams (offense, defense, and special teams), each of which may be further divided into sub-teams (e.g., offensive line, backs, and receivers).

Unless otherwise noted, we will focus primarily on teams in the rest of this chapter, in part because it's relatively easy to define membership, and in part because managers of organizations are more likely to be interested in work teams given their task and goal orientation.

### 16.2.2. Types of Teams

There are many types of teams, and they are configured in many different ways. Members may work together for a short time, or the arrangement may be relatively permanent. A team may have a direct manager, or members may manage themselves. A team may be composed of people from the same function, or include members from multiple functions. Members may work side by side, or live and work in geographically diverse settings. And of course, teams will be some combination of all these different categories. Some common types of teams are described below.

#### Permanent Versus Project Teams

Teams can be relatively stable and ongoing (*permanent*), or their existence may be relatively fleeting, to meet short-term needs (*project*). One kind of project

team is a task force that has been set up to accomplish specific goals or to solve a particular problem, and which disbands once it completes its task. Such task forces are becoming more important as organizations need to deal with increasingly volatile, uncertain, complex, and ambiguous information.[8] For example, Robert Greenleaf essentially invited interested managers to participate on a task force to increase gender hiring equity at AT&T (Chapter 13). Project teams are different from permanent teams in that project teams have a predefined and limited life and role to serve in the organization.

#### Hierarchically Versus Self-Managed Teams

In traditional *hierarchically managed* teams, a leader is given the responsibility and legitimate authority to manage the team. The formal leader sets the agendas, assigns the tasks, and ensures that each member is performing their job. In recent years there has been a steady increase in the use of self-managed work teams.[9] A *self-managed* work team typically consists of members who are given primary responsibility to manage themselves on a daily basis.[10] These responsibilities may include scheduling, rotating jobs, making work assignments, hiring new team members, and deciding on who will take the lead in different aspects of the team's activities. Members of self-managed teams tend to get satisfaction from their increased discretion in decision-making,[11] though being part of a self-managed team can also be experienced as tyrannical when it is based on an instrumental ideology that subverts alternative views.[12] Self-managed teams tend to be very cost effective and reduce the need for many levels of management. At Johnsonville Foods, for example, self-managed teams have the authority to recruit, hire, evaluate, and fire team members on their own. Team members train one another, track their own budgets, make capital investment proposals, and handle quality control inspections.[13]

#### Functional Versus Cross-Functional Teams

A *functional* team has members who work in the same functional department or area, such as marketing or finance. Because members do not come from a variety of areas, there is greater homogeneity among them and a greater likelihood of getting along socially as a group. Functional teams are formed to achieve functional-level goals, such as efficient production lines and trustworthy and affordable suppliers. *Cross-functional* teams bring together people who have a variety of expertise and knowledge from different organizational functions (akin to divisional departmentalization). They are assembled to achieve organizational-level

goals or goals that require cooperation across functions. Overall, research suggests that diversity among team members helps to enhance creativity and satisfaction, but it also increases task conflict and reduces social integration (see also Chapter 10 on functional versus divisional departmentalization).[14]

#### Co-located Versus Virtual Teams

*Co-located* team members see each other regularly, often many times a day. They share the same office space or work on the same assembly line, and have plenty of opportunities to develop relationships with one another. A *virtual* team is composed of members who live in geographically diverse settings. Members rarely if ever meet face to face; instead they interact via email, phone, and video-conferencing. Virtual teams have grown in popularity because (a) organizations have become increasingly global, (b) recent technological advances have made virtual teams feasible, (c) there is increasing need for highly specialized workers who can work in innovative and flexible situations, and (d) after COVID-19 many people prefer to work from home if they can.[15] For example, the design of an automobile may include team members who span several continents and time zones. Designers in California work an eight-hour shift designing the car, then pass it electronically to team members in India who work on it for another eight-hour shift, who then send it to team members in the UK to work on for eight hours, who finally send it back to California for the next shift cycle. A virtual team may also involve members who are from various other organizations, such as when a textbook is written by co-authors who never or rarely meet face to face.

*Virtual teams are becoming increasingly prevalent.*

### 16.2.3. FBL, TBL, and SET Approaches to Teams

All three management approaches encourage the use of teams, but for different reasons. Even though teams seem to go against the idea of individualism, the FBL approach recognizes that teams can help to improve productivity and profits. In contrast, while a SET approach welcomes such improved financial outcomes, it values teams because they also enhance community and overall well-

being (recall from Chapter 1 that from a virtue ethics perspective, human flourishing is optimized when virtues are practiced in community rather than individually).

**Test Your Knowledge**

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## 16.3. Stages of Team Development

While no two teams are the same, and there is always variation in how teams develop over time, research suggests that it is helpful to think about teams going through a series of four developmental stages.[16] As shown in Figure 16.1, the four stages are called forming, storming, norming, and performing. A fifth stage, adjourning, applies to some teams and we will briefly discuss it separately near the end of the chapter.

**Figure 16.1. The four-phase model of team development**



In reality, the team development process can be an ongoing process that is much messier than implied by Figure 16.1. For example, while "forming" may be especially important in the early stages of a team's life cycle, team members must engage in ongoing "re-forming" activities as new members join and when the parameters of the team's responsibilities change.

Table 16.2 provides more detail about what happens at each stage of team development, showing how each stage requires team members to address relationship-oriented issues (both at a personal and a group level) and task-oriented issues (in terms of both aims and means).[17] By understanding these relationship- and task-oriented issues and responding appropriately, team leaders can help to facilitate team development and improve team performance.[18] We will discuss each stage in turn.

**Table 16.2. Stages of team development**

| Realm | Forming | Storming | Norming | Performing |
|---|---|---|---|---|
| **Relational**<br>• *Personal*<br>• *Group* | • Will I be accepted?<br>• What will the group norms be? | • Can I accept and trust others?<br>• Can I shape team norms to suit my values/ interests? | • Are my skills and I valued?<br>• Are all members and their skills valued? | • Do I find meaning/ belongingness?<br>• Is the team a cooperative community? |
| **Task**<br>• *Aims*<br>• *Means* | • What is the team purpose?<br>• What will I/we do to achieve it? | • Can I commit to our goal?<br>• How does my role fit with others' roles? | • Do we embrace a shared vision?<br>• Do the tasks and roles align? | • Is there agreement and commitment?<br>• Is there excellent teamwork? |
| **Key behaviors for team leaders** | • Welcome and help members get to know each other.<br>• Describe work of team and different roles on it. | • Model tolerance for conflict but not for bullying.<br>• Model listening and learning | • Reinforce positive norms; facilitate self-management<br>• Ensure information and workload are shared properly | • Nurture a supporting community<br>• Provide positive reinforcement for team performance. |

### 16.3.1. Stage 1: Forming

The first stage refers to the start of a new team, but many aspects of this stage will also be relevant when new members join an existing team. We will discuss each of the aspects listed in Table 16.2

#### Relationship-Oriented Issues in Forming

The key part of this stage is to help individuals answer a variety of questions they bring with them whenever they join a new team, including overarching questions such as "Will I be accepted?" and "Will the team be successful?" Members typically experience anticipation and excitement alongside apprehension and uncertainty when joining a new team. Overt disagreement among team members is typically low in this stage because members are focused on making a good first impression. New teams must begin the work of developing a group identity as they develop norms about how they will interact with each other; this work continues throughout the four stages of group development and is a focal point of stage 3, norming.

#### Task-Oriented Issues in Forming

Another important element of this stage is for members to learn the basic purpose of the team (aims) and how the team members will fulfill its purpose (means). Part of this includes identifying the team's task boundaries, which involves letting members know what the team is and is not responsible for doing. For example, one team might be responsible for developing new products and services for an organization, while a different team is responsible for testing the marketability of those products. Identifying the boundaries of a team's tasks is important for helping members understand what their responsibilities are. This is also the time when members begin to think about and clarify the various responsibilities and roles each member will have in achieving the team's goals. Roles such as project manager, analyst, spokesperson, and so on describe the various positions and activities members will perform in helping the team achieve its goals.[19]

#### Relationship-Oriented Leadership Behaviors in Forming

In order to address the relevant relationship-oriented issues in the forming stage, leaders need to make members feel welcome and to start the ongoing work of developing social cohesion (which is necessary in all the stages).[20] **Social cohesion** is the attachment and attraction of team members to one another. Typically, social cohesion increases along with similarities among group members, time spent together, shared positive experiences, and shared goals.[21] Social cohesiveness is fostered when members learn to trust one another. This mutual trust takes time to develop, but managers can hasten trust-building by modeling trustworthiness in their relationships and by facilitating open communication among mem-

bers. For example, they could start meetings with “warm-up” questions like “If you had the day off today, what would you do?” Learning about the interests of other team members helps to develop a fuller understanding of them and enhances relationships. Managers can also encourage social interaction by hosting a lunch or working on group-building exercises. As a more extreme example, some start-up companies have used an exercise that challenges team members to survive in a forest, believing that this will provide a common bonding experience and help members learn to collaborate. However, it has been noted that such exercises may not be appropriate for all team members, and that it is better have team-building exercises related to collaboratively solving the sorts of problems members are likely to face at work.[22] Finally, social cohesiveness can be facilitated by something as mundane as managing the team’s size. Teams that are smaller tend to be more cohesive, so if a team has much more than twelve or fifteen members, a manager may be wise to subdivide it.[23]

*“If you had the day off today, what would you do?”*

The importance of attending to social cohesion increases along with group diversity, since diversity reduces similarities; this may help to explain why some managers are reluctant to create diverse teams. Even so, there are many benefits of selecting team members with maximal diversity of function, tenure, age, ethnicity, and even personality, to ensure that the team includes a variety of perspectives and experiences to draw on in its work. Research indicates that diversity enhances creativity and satisfaction.[24] However, if not properly managed, diversity may contribute to significant problems in social interactions, which may lead to lower team performance, less communication, more disagreements, and the withdrawal of team members from the group.[25]

*Diversity enhances creativity and satisfaction.*

Social norms begin to develop in this first stage. They include the development of rules for interaction among members (e.g., tactics for resolving disagreements,

how meetings will be run, forms of communication) and guidelines for appropriate individual behavior (e.g., appropriate attire, personal items displayed on one's desk). Ground rules are often initially suggested by the leader, but over time they will need to be further developed and agreed upon as a team. Eventually, these expectations will evolve into generally accepted norms of behavior (stage 3).

#### Task-Oriented Leadership Behaviors in Forming

Alongside the process of promoting social cohesion, stage 1 is also important for establishing the team's task cohesion. **Task cohesion** refers to members' attachment and shared commitment to the group's purpose and the means for achieving it. Task cohesion can be fostered by ensuring that team members have a role in decision-making, such as being invited to participate in establishing the team's goals and the rules and procedures for achieving them. To encourage commitment, it is helpful for top managers to endorse the purpose and establishment of the team, and for the team leader to describe how the team's tasks fit with and contribute to the rest of the organization. Some companies create a formal or informal contract—signed by the manager and members—that states the goal of the team. Of the many task-related team-building activities leaders can exhibit in this stage, any activities that help members clarify the roles they and others will be playing may have the greatest impact on team performance.[26]

#### Differences in FBL, TBL, and SET Approaches to Forming

While there are many similarities among the three management approaches when forming a team, there are also noteworthy differences, many of which extend into subsequent stages of team development. First, each management approach describes how the team goals fit with the overall organization, but in addition a SET approach will also describe how the team goals fit with the larger socio-ecological realm. In this way the scope of task cohesion in SET management is broader than TBL management, which is in turn broader than in FBL management.

Second, each management approach seeks to develop both task cohesion and social cohesion, but consistent with its consequential utilitarian instrumental focus, an FBL approach is likely to place greater emphasis on task cohesion than on social cohesion. In contrast, given its virtue ethics focus, a SET approach is likely to place greater emphasis on social cohesion than an FBL approach would.

Third, each management approach draws attention to team boundaries, but for slightly different reasons. The FBL approach is likely to identify boundaries

to identify competitors, whereas the SET approach is more likely to identify boundaries to understand who the organization's *neighbors* are. Sometimes the FBL approach even advocates friendly competition within a firm, such as when the sales team in one geographic region competes against the sales team in another region. This competition is meant to motivate each team to sell more and thus increase overall company sales. The underlying logic is that each team will be more cohesive if its members feel that they must unite in order to do well compared to a different team. In contrast, SET managers are likely to increase social cohesion by showing how a team, through cooperation with others, can make a significant difference for the organization and its stakeholders.

*Do boundaries identify competitors, or neighbors?*

All three approaches affirm having a diversity of members on teams, but a SET approach is most likely to also invite input, and sometimes participation, from suppliers, customers, and possibly even community members. Also, a SET approach may deliberately design team membership to be more transient in this stage than an FBL approach would, as members move in and out to explore the team's purpose and to provide input. Recall that Semco had a "Lost in Space" program where new hires could participate in several teams before choosing one as their home (see Chapter 10). The emphasis for SET team members during this stage is *exploring* potential roles instead of having managers *defining* member's specific roles. Eventually, through discussion, a core of committed team members emerges, and the forming stage draws to a close.

### 16.3.2. Stage 2: Storming

The second stage of team development is storming. While conflict and disagreement are the hallmarks of this stage, it is important to note that disagreement and conflict are also evident in the other stages (though not as intensely) and that their ongoing management can be seen as a central aspect of the leading function. **Organizational conflict** occurs when one member or unit challenges another. In order to understand conflict, it is helpful to differentiate between a traditional versus an interactionist understanding of conflict, and to differentiate between relational versus task conflict.[27]

A traditional understanding of conflict considers it to be dysfunctional. From this perspective, conflict undermines organizational performance, and managers should reduce or eliminate conflict. Team conflict can be reduced by rewarding members for not challenging the status quo, and for socializing members to think along the same lines. However, minimizing conflict has some costs and can result in *groupthink*.[28] **Groupthink** is the tendency of team members to strive for and maintain unanimity in decision-making rather than thoroughly considering all alternatives. Too little conflict can reduce creativity and innovation, frustrate members, and lower the quality of decision-making. The causes of groupthink include pressures for team members to conform to the majority view, rationalizations that highlight the positive and discount the negative aspects of an issue, isolation of an insular group that has minimal contact with outsiders, stressful working conditions that promote quick decisions, and leaders who are controlling and dominating.

An interactionist understanding of conflict considers it to be functional and even necessary for organizations to flourish. According to this perspective, there is a bell-curve shaped relationship between conflict and organizational performance: too little conflict is dysfunctional because it creates groupthink and does not generate new ideas, whereas too much conflict is dysfunctional because it creates chaos. The right amount of conflict is somewhere in between, where it fosters a healthy amount of self-reflection, learning, and innovation. The challenge for leaders is to manage the tension between too little and too much conflict in a healthy way that nurtures well-being.

*The challenge is to manage the tension between too little and too much conflict.*

It is also helpful to distinguish between relationship conflict and task conflict. Relationship conflict is evident when team members have interpersonal, non–task-related incompatibilities. This might arise from personality, political, or religious differences. Relationship conflict may also happen when two members are competing for the same position or role on a team. Traditionally there has been some agreement that relationship conflict is generally negatively related to the performance of a team (akin to the traditional view of conflict), though there

is also some evidence to suggest that it can heighten members' self-awareness and a team's well-being (as described in opening case).

Task conflict is evident when members express differing views about the task being performed, or the best way to perform it. For example, should the team purchase existing software or develop its own? What is the best way to arrange the assembly line to build a car? Task conflict is sometimes called cognitive conflict, and is generally viewed as a positive if it does not occur in extremes (akin to the interactionist view).

Let us now consider the key aspects and behaviors at play in stage 2.

#### Relationship-Oriented Issues in Storming

In this stage, members are primarily concerned about whether they want to accept their role in the team and whether they trust their team members to work in the best interests of the team. Whereas in the forming stage, members tended to keep their differences to themselves, in the storming stage they become more open in expressing their concerns and disagreements. Conflict may arise when individual group members do not get along with one another, perhaps simply because of personality differences. Such differences are inevitable but can be disruptive if they get in the way of the everyday functioning of members.

A focal point in this stage is developing and disputing the group norms, formal and informal standards, and values that will guide the team in subsequent stages (norming and performing). In other words, a key task in this stage is to begin to develop agreed-upon organizational scripts that will guide future behavior of the team (see the discussion of organizational scripts in Chapter 7). Members will be able to engage more fully in the work of the team if the team's norms and demands are aligned with their own values, interests, and understanding of how the team can best fulfill its purpose. As part of this process, members may become more assertive in choosing or defining their desired social position or role on the team, which may include some jockeying for power and control.

*Members will engage in the work of the team if its norms and demands are aligned with their own values, interests, and understanding of how the team can best fulfill its purpose.*

#### Task-Oriented Issues in Storming

The task-oriented issues in the storming stage parallel the relationship-oriented issues. As the purpose of the team becomes clearer, members need to become comfortable with their role and expected contribution before they commit to it. This includes committing to their particular responsibilities on the team, which take place in the context of task interdependence. **Task interdependence** is the degree to which the actions and outputs of one task influence, and are influenced by, the actions and outputs of another. If team member A's task completion is not influenced by team member B, and B's task completion is not influenced by A, then those two tasks are independent of each other. However, tasks in teams are by definition interdependent. For example, task interdependence is common in student group projects, where each member of the group may be expected to complete a different part of the group's assignment, and each of the parts must be aligned. Conflict will arise if one member fails to complete their part of the assignment adequately, because this frustrates other members' ability to complete their parts of the project, especially when everyone's research and unique input are needed to solve a complex case. Generally speaking, the greater and more complex the task interdependence, the greater the likelihood for task conflict among team members.

#### Relationship-Oriented Leadership Behaviors in Storming

The manager's most important role in this stage is to manage interpersonal relationships and competing interests and agendas. Relationship conflict can be managed in a variety of ways, of which we will highlight four. First, leaders must avoid being the source of relationship conflict. This is very important, as leadership behavior is the most important factor in understanding member well-being.[29] For example, team leaders should exhibit relationship-oriented behaviors such as considerateness, and not only task- or change-oriented behaviors (see Chapter 15).

Second, team leaders should model healthy responses to interpersonal challenges in the workplace. This can be done by welcoming and trying to learn from members whom they might find personally challenging. This is related to being open-minded, non-judgmental, practicing critical self-reflection, and accepting negative feedback. This is not easy to do, but when managers demonstrate that they can control their emotions, not overreact, and even change as appropriate, it sends a powerful message to others on the team. Conversely, leaders send a nega-

tive message if they model pettiness, retribution. and intolerance toward views that differ from their own.

*Team leaders should model healthy responses to interpersonal challenges in the workplace.*

Third, team leaders must model tolerance of differences, but at the same time exhibit zero tolerance for bullying behavior in the workplace. Members must be able to trust leaders to ensure a safe workplace. Too often managers and others have turned a blind eye to unacceptable behavior in the workplace. Movements like #MetToo and improved training for managers and others in how to deal with bullying has helped, but there is still much work to be done. This includes ensuring the organization has supports in place for counseling and for holding bullies accountable.[30]

Fourth, team leaders can help members step back and reappraise events that have led to a specific relationship conflict and show when what was perceived as a personal attack was not intended that way. Such an event may happen when one member tells a colleague, "My way of performing a task is better than your way," and thinks of this as a (functional) task conflict, while the colleague interprets it as an attack on their ego and thus as a (dysfunctional) relationship conflict.[31] Once both members become aware of the misunderstanding, both will be more likely to avoid such misinterpretations in the future.

#### Task-Oriented Leadership Behaviors in Storming

While the danger in the storming stage is that there is too much conflict, it is important for leaders to remind themselves that having moderate amounts of task conflict is functional. Therefore, when leaders observe task conflict in a team, and especially when that task conflict is challenging the leader's views about the team's aims and means, the leader's first reaction should be to exhibit a receptive, listening posture. This serves two purposes. First, it models behavior that can de-escalate dysfunctional conflict throughout the team. It would be good if everyone listened to challenging views before judging them. Second, listening to others may help leaders improve their understanding of the team's task. In other words, the leader models behavior that promotes functional conflict.

One tool to accomplish this is called *transformational conflict resolution*, which emphasizes dialogue or conversation to help each person better understand the other's perspective, and to be mindful of the person behind the perspective. By reframing the conflict as an investigation of assumptions and a search for mutually beneficial alternatives, participants in the conflict can become more self-aware and empathetic.[32] Managers using a transformative approach address conflicts by asking questions and offering suggestions that prompt team members to look at conflicts from a higher level of abstraction, moving from individual concerns to system concerns, and from parts of an issue to a broader view.[33] When dysfunctional conflict is caused by task interdependencies among team members, a leader may be able to resolve the problem by redesigning and improving the underlying systems related to the interdependencies.. This could include, for example, re-engineering the production process so that team members are less reliant on others to complete their jobs. Thus, if you are working on a group project where you need to complete your part and hand it off to a team member by the 15th of the month, your team leader may ask you to submit it by the 14th of the month, so that if there are any last-minute difficulties it will not slow down the next step in the process.

*Transformational conflict resolution emphasizes dialogue to help understand other views, and to be mindful of the people behind those views.*

In sum, during the storming stage, it is critical for a manager to model healthy ways to deal with conflict, intentionally nurture mutual understanding and trust within the group, and affirm functional task conflict while defusing it when it's dysfunctional. At the same time, the manager needs to be sensitive to the possibility that team members will tire of working through these differences. Thus, managers should look for opportunities to celebrate progress and refresh relationships, perhaps by something as simple as scheduling a celebratory dinner for the team. However, if team-building activities and the manager's facilitative behavior fall short of alleviating the concerns of team members, the manager may need to disband the team (or remove some members) and form another team. In other words, some teams do not make it through stage 2, and thus never enter stage 3 of the team development process.

### Differences in FBL, TBL, and SET Approaches to Storming

Managing conflict is necessary in all three management perspectives, but there will be different orientations and approaches for each.[34] For example, all three management perspectives recognize the value of team diversity and task conflict for promoting innovation and creativity. However, a SET approach will place greater emphasis on diversity as it pertains to the social and ecological externalities associated with a team's activities than a TBL approach does, which will be greater than an FBL approach does. As a result, SET teams are more likely to be more innovative and creative in addressing social and ecological issues.

While all three approaches promote moderate amounts of task conflict, they have differing to relationship conflict. FBL management is the most likely to ignore relationship conflict, which allows it to fester and undermine social well-being in the workplace.[35] Moreover, managers who focus on instrumental outcomes, and who see interpersonal relationships primarily as a means to improve instrumental outcomes, are more prone to contribute to unhealthy workplace relationships themselves.[36] Taken together, such management contributes to the lack of social well-being many people experience at work (see Chapter 5).

In contrast, SET managers value healthy interpersonal workplace relationships because they are intrinsically valuable, not only because they can increase financial well-being. As a result, SET managers will be more likely to model healthy relationships and be more attuned to creating a space where other members can too. A SET perspective seeks to create teams where members agree on relationship-related norms that value members openly sharing disagreements with one another, where members are appreciated for their unique attributes, and have a mutual sense of responsibility to care for each other (see ethic of care, Chapter 15). Developing strong relationships provides the foundation for addressing task-related issues. This was at the heart of Kate Cassidy's experience as a member of the counseling team at camp: Cassidy had a greater sense of community with her team *because* of what she called healthy conflict. She and the other team members embraced their differences which, even when not directly related to their tasks, transformed the meaning of their tasks for themselves and for their campers.

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*Strong relationships can serve as the foundation for addressing task-related issues.*

### 16.3.3. Stage 3: Norming

As teams emerge from the storming stage and enter into the norming stage, the group identity and norms that they have been developing (and disputed) start to become established and accepted as guides for subsequent behavior. In the norming stage, members agree on norms or shared mental models of the best ways to complete tasks and the appropriate ways to interact with one another.[37] These shared norms can in turn promote group performance (stage 4) because they provide regularity, help the group avoid interpersonal problems, and signify the group's identity.[38]

#### Relationship-Oriented Issues in Norming

After successfully navigating the storming stage,[39] relationship issues become much less intense, and members come to feel secure and accepted and have an optimistic view of the future. They are motivated to show their support for each other and to contribute their skills and effort for the work of the team. There is strong participation and a commitment to work together in adhering to their team norms. Team norms can have informal aspects (e.g., dress code, whether members work overtime to help each other meet deadlines) and formal aspects (e.g., the frequency of group meetings, processes for sharing information). This is a time of harmony and high social cohesion, with members looking out for each other.

#### Task-Oriented Issues in Norming

A focus in this stage is on *completing* the development of —and then embracing—a shared vision of the team's purpose. The general purpose of the team has been introduced in stage 1, perhaps fought over and clarified in stage 2, and is now fine-tuned and supported in stage 3. This support is linked directly to a clear understanding of *how* the team will enact its purpose (means), and to ensuring that members' tasks and roles align to meet the team's goals. Two team norms (information sharing and workload sharing) are particularly important given the task interdependencies that are necessary to fulfill the team's purpose.

*Two team norms are of particular importance: information sharing, and workload sharing.*

With regard to information sharing, it is important that the lines of communication in a team remain open, and that team members don't unthinkingly accept the status quo (i.e., groupthink). The commitment to the norm of information sharing is essentially a commitment to continuous organizational learning and to ensuring that team members do not become too complacent. It means establishing a general norm that says that it is desirable for other norms to be changed when appropriate.

In terms of workload sharing, it is important that members perceive one another as doing their fair share of the team's work. This includes establishing norms regarding how much effort is expected from each team member, what sorts of competencies are necessary, and how much members will help one another (i.e., engage in organizational citizenship behavior).

#### Relationship-Oriented Leadership Behaviors in Norming

Leaders play a critical role in establishing and promoting team norms.[40] This includes providing reinforcement for positive norms, and knowing how and when to step back and facilitate self-managed teams where members themselves develop and take ownership of the norms that will guide their teamwork. It also includes explicitly planning times to celebrate successes in developing norms, and recognizing harmonious relations. These harmonious relationships are evident in Cassidy's team experience, where members welcomed and embraced the

differences among each other rather than expecting everyone to aspire to follow the scripts associated with a stereotypical counselor.

#### Task-Oriented Leadership Behaviors in Norming

Leaders can play an important role in setting the norms around task-related information sharing and workload sharing within teams. Regarding information sharing, the key is for leaders to develop norms that prevent both too little information sharing (e.g., hoarding of information, groupthink) and too much information sharing (e.g., being overwhelmed by unfiltered information sharing; see Chapter 17) as work practices are developed and fine-tuned in practice. Team members may withhold information for a variety of conscious and unconscious reasons. For example, when Cassidy was a rookie member of the counselor team, she was trying hard to fit in and not sharing ideas about how things could be improved. Sometimes team members may intentionally withhold information to speed up the decision-making process once a satisfactory option is presented, or withhold information that goes against their own self-interest.

With regard to workload sharing, if any team member is perceived not to be doing their fair share of the work, other team members will try to determine the cause. If the cause is perceived to be a lack of ability, then team members may be willing to help the poor performer.[41] If the lack of performance is perceived to be caused by an external factor (such as the actions of a supplier or customer, faulty equipment, and so on), then efforts will be made to change the external factor. But if poor performance is perceived to be due to a lack of effort—sometimes called *free riding*[42]—then team members are likely to punish the free rider in an attempt to correct the unacceptable behavior. Or they may withhold effort themselves lest they become a *sucker* ( someone whose hard work is taken advantage of by a free rider).[43] In this way one free rider can create a downward spiral of reduced effort throughout the team (see discussion of equity theory, Chapter 14). To avoid the sucker effect, a leader needs to be aware of and address issues of motivation within the team.[44] Free riding is most common when individual contributions are difficult to monitor or measure, when the team is perceived to be highly capable, or for team members who are low in conscientiousness.[45] Techniques to reduce free riding include developing norms that make contributions explicit, monitoring team member contributions, and requiring accountability for individual contributions. For example, when a camp counselor is not doing their share to ensure that the campers are having a good time, the camp director may take the counselor aside for a discussion, or perhaps give the counselor specific

assignments that are easier to monitor (e.g., put the counselor in charge of the evening's recreational activities).

Finally, a team's work-sharing norms can also influence and be influenced by *consistent contributors* who contribute to the team regardless of how little their teammates offer ( essentially the opposite of free riders).[46] It turns out that consistent contributors, in addition to not stooping to the level of free riders, may also benefit from other rewards for their efforts. For example, it seems that just as free riding may be contagious, consistent contributing can also be contagious, where a team's norm of consistent contributing increases over time (though this may take a long time and is not guaranteed to happen). Leaders may be able to enhance consistent contributing norms by modeling such behavior themselves.

*Free riders can create a downward spiral; consistent contributors can create an upward spiral.*

#### Differences in FBL, TBL, and SET Approaches to Norming

We can identify two differences among the approaches to norming. First, a SET approach tends to have a larger understanding of a team's purpose because it includes an emphasis on enhancing social and ecological well-being. Compared to FBL and TBL approaches, a SET approach to information sharing is therefore more likely to include a broader set of external stakeholders and include more information about ecological performance.

Second, a SET approach to workload sharing is more likely than the FBL and TBL approaches to seek to encourage consistent contributing rather than minimize free riding.[47] The SET approach involves explicitly recognizing, rewarding, and supporting positive behavior rather than establishing systems that are designed to identify and minimize negative behavior. For example, when managers at Semco (see Chapter 10) realized that team members were stealing equipment from the firm, it was suggested that they set up monitoring systems to catch the individuals to discourage future bad behavior. Instead of doing this, managers trusted that this behavior would be overcome by positive norms amongst team members and cease. Their trust was rewarded, and as a result costly monitoring was avoided (the managers never did find out precisely why the stealing stopped).

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### 16.3.4. Stage 4: Performing

If they are fortunate enough to enter the fourth stage—performing—team members have developed social and task cohesion, understanding and appreciation of the team's purpose, and practices that enable them to perform their interdependent tasks at a high level.

#### Relationship-Oriented Aspects in Performing

Ideally, team members in this stage feel that they are included and respected members of the team, have feelings of pride and confidence in their ability to reach the goals of the team, and experience a sense of belongingness and meaningful work.[48] They function as a cooperative community and have a positive group identity. Of course, many teams fall short of these ideals and continue to exhibit aspects of forming, storming, and norming.

#### Task-Oriented Aspects in Performing

In the performing stage, team members welcome recognition of a job well done along with feedback that will enable them to meet the challenges of improved performance and new goals. There is a healthy match between members' abilities and the tasks and roles they perform. Members are often willing to assume increasingly more responsibility in self-managing the team.

#### Relationship-Oriented Leadership Behaviors in Performing

Leaders do their part to ensure that the team remains a supportive community. This often means letting the team self-manage as much as possible, and stepping in only to provide uplifting feedback or when problems arise. Regardless of

whether these problems arise from tensions between members or with other stakeholders, the leader should carefully listen to the people involved and consider their counsel. When there are problems, managers should try not to engage in behaviors that promote blaming and defensiveness. Rather, they should reframe failures or shortcomings as problem solving and learning opportunities.[49] For example, a viral video on Twitter (now X) showing racial bias in a Starbucks prompted the development of new regulations and a company-wide training session to address racial bias.[50]

#### Task-Oriented Leadership Behaviors in Performing

One way that leaders can maintain and improve team performance is by managing the motivation of team members through providing appropriate rewards and feedback. These rewards can be based on individual or team performance, though team-based rewards are often preferred.[51] Focusing on team goals, feedback, and rewards unites members in pursuit of a common goal, encourages cooperative behavior, and facilitates increased collective effort and performance.[52] Another reason to provide team-based feedback and rewards is that team performance metrics may be more readily available and easier to quantify than individual performance metrics. Also, from a practical standpoint, it is often impossible to separate the contributions of each individual when members must work interdependently.[53]

Concerns about free riders in teams may encourage managers to provide feedback and rewards to individual team members, even though rewards based on individual performance may be a barrier to optimizing team performance.[54] Although most team members acknowledge that managers have a legitimate right to provide individual ratings (and most members believe managers to be less biased than fellow team members), they often believe that managers lack adequate information to rate their work accurately, especially in cases where a manager is external to the team or doesn't spend much time with the team.[55] Organizations often provide rewards and feedback at both individual and team levels. For example, athletes on sports teams may receive bonuses for individual performance and for team performance.

*Organizations often provide rewards and feedback at both individual and team levels.*

#### Differences in FBL, TBL, and SET Approaches to Performing

The differences between the three management approaches in this stage are consistent with many of the differences in the ongoing performance of organizational work, as described in other chapters (e.g., decision-making, goal-setting, organizational design, motivating, leading, and so on). Some distinctions related to key leadership behaviors include  FBL perspective would place the greater emphasis an FBL approach would place on the leader's direct role in managing the team and providing extrinsic reinforcement, whereas a SET manager would be more likely to offer ideas and feedback informally and emphasize learning and shared power as sources of intrinsic motivation. Furthermore, whereas an FBL-based management might be inclined to offer individual rewards, a SET-style approach will likely be more open to team-based rewards. If individual recognition or rewards are deemed necessary, a SET manager would be inclined to have teams decide these rewards. This is illustrated by how the company W. L. Gore (which manufactures GORE-TEX Fabric, among many other products) uses compensation teams to decide how individuals are rewarded for work within their teams as well as for work that spans several teams, including work like coaching and mentoring that has helped others to succeed.[56]

### 16.3.5. Stage 5: Adjourning

The fifth stage—adjourning—occurs when a team disbands. This fifth stage is not always discussed in the research but it is worthy of consideration. The adjourning and forming stages can be seen as opposite sides of the same coin. Just as in the forming stage, in the adjourning stage members are likely to experience anxiety about the uncertainty ahead of them, but they can also be excited for the transition to something new. And just as members in the forming stage are cautious about showing their true selves, some members in adjourning may be reluctant to show their true feelings of emotional attachment, while other members may be very expressive about their fondness for their team members. Members of high-performing teams will often gather socially long after having adjourned as a formal team (see this chapter's opening case).

With regard to the task-oriented dimension, whereas members in the forming stage are unsure what their purpose is and what their work will entail, members in the adjourning stage of a successful team look back with pride in having accomplished their team goals, in their collective ability to work together as a team, and in the skills and experience they acquired in their time together. Members may bask in the glow of their individual and team achievements and may be

saddened by the loss of friendship and camaraderie. It is important that leaders ensure that team members are recognized and that there is a “closure” event that clearly marks the end of the team’s formal activities together. It can also be appropriate to provide some sort of physical memento members can put on their desk to recall a job well done.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=116#h5p-81*

## 16.4. Entrepreneurial Implications

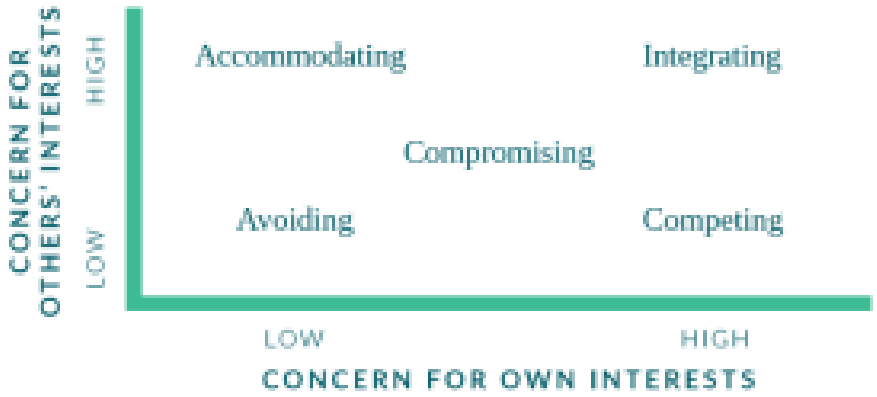
Teams are vitally important in entrepreneurship. This is true at two levels. First, new start-ups often share many characteristics associated with the development of a new team, as they are collections of people who are taking on a new purpose and task. Second, new start-ups are often created by a top management team of entrepreneurs (recall from Chapter 6 that start-ups with a management team are more likely to succeed than ones started by single entrepreneurs). A start-up organization needs the range of skills, experience, resources, and contacts that a team can provide. Information sharing and functional conflict are essential ingredients for entrepreneurship, but they demand strong leadership skills in managing conflict and team building. In a new organization with no history and few procedures, it is easy for conflict to lead to chaos, animosity, and poor performance.

*Entrepreneurs, even more than most managers, need to be able to address team conflict in a productive way.*

Entrepreneurs, even more than most managers, need to be able to address team conflict in a productive way. An important aspect of this is for entrepreneurs to

become aware of their preferred conflict management style and the preferred style of other team members. The specific way that someone deals with conflict depends on two factors: concern for one's own interests, and concern for others' interests.[57] A high concern for one's own interests tends to result in assertive behavior, whereas a high concern for others' interests tends to result in cooperative behavior. Figure 16.2 shows five conflict management styles that represent combinations of assertive and cooperative behavior.

**Figure 16.2. Five conflict management styles**




- *Avoiding* is a passive response to conflict that is both uncooperative and unassertive. Avoidance is marked by withdrawal from conflict or suppressing the reasons why the conflict has occurred.[58] This approach may be useful in situations where conflict may be too costly to resolve or where the issue is very trivial and not worth managing. The drawbacks of avoiding include missing opportunities to provide input and leaving both parties in the conflict frustrated.
- *Accommodating*—sometimes referred to as obliging—features a high level of cooperativeness but a low level of assertiveness. It places the other parties' needs first as a way to reconcile conflict.[59] Accommodating may be useful when harmony is important, for building social con-

nections, or if the issue is more important to the other party than to oneself. Drawbacks include failing to address legitimate personal interests, and unresolved and reduced cohesion because the accommodator feels used or taken advantage of. While accommodating team members may help the team move forward in the short term, their concerns must be addressed at some point if they are to be fully engaged in the team's work.

- *Competing*—sometimes called dominating—reflects a high level of assertiveness and a low level of cooperation. This conflict management style is characterized by a strong desire to satisfy one's own needs and to "win" the conflict in one's own favor.[60] A competing style may be useful if a quick decision is needed, or if a decision of importance needs to be made in a short time period. Drawbacks include overlooking others' legitimate concerns and damaging relationships such that the conflicting parties do not want to work together in the future. This is not a sustainable approach to develop a high-performing new venture.
- *Compromising* has a moderate level of both cooperativeness and assertiveness. It requires each side to give up and receive something of importance.[61] Compromise may resolve some issues, but it creates the potential for both parties to feel somewhat dissatisfied. It may be useful if both sides are equally powerful, if a temporary solution is needed, or when it is genuinely not possible to find a win-win solution. Drawbacks of compromising include lost creativity and arriving at suboptimal decisions by offering compromises too early in the discussion.
- *Integrating*—sometimes referred to as collaborating—reflects a high level of cooperation and a high level of assertiveness. This style focuses on creating a solution that satisfies all parties.[62] Integration is most useful when all interests in the conflict are too important to compromise and when consensus is needed. The drawbacks of this style of managing conflict include the risk of making an otherwise simple decision very complex, and the amount of time and effort that can be required.

People choose among these different styles depending on the situation, though most people have a preferred style. Knowing the different types of conflict management styles and their benefits allows an entrepreneur to adopt the

most appropriate type for the situation at hand. For example, if the health of ongoing relationships is important, and if different interests and opinions are critical to effective decision-making, the entrepreneur should generally use an integrating style.

Knowing the different styles also enables the entrepreneur to recognize them in others. Research indicates that individuals' preferred conflict styles usually reflect their personality, culture, and history. For example, people with collectivist orientations are more likely to prefer integrating and compromising styles than people with individualistic orientations (see Chapter 5).[63] The opposite is true for avoiding, which individualistic people prefer more than collectivistic people do. When working with a team, it can be very helpful to consider how members are likely to react based on their preferred conflict management style.

With this knowledge, entrepreneurs can take steps to reduce the negative effects of team members' conflict styles. The entrepreneur can intentionally draw out some members (e.g., avoiders) and restrain others (e.g., competitors) to create a more productive discussion. In some cases, an outside facilitator or mediator may be helpful. For example, Tall Grass Prairie Bread Company makes frequent use of mediators for board decision-making and for training staff generally (see Chapter 7). Another useful approach to managing different conflict styles is to set out ground rules for handling conflict. A team may agree that before any decision is made all team members must share their thoughts on the alternatives, or that before a team member restates an opinion in a conflict, they must be able to verbalize the interests of the other parties to their satisfaction.

## Test Your Knowledge



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## Chapter Summary

1. Organizations contain both groups and teams. A group is a collection of three or more people who share a common interest or association, whereas a team is a collection of three or more people who share task-oriented goals, work interdependently as a unit, and are accountable to one another to achieve those goals.
2. Many teams (and groups) can be seen as progressing through a series of somewhat predictable developmental stages.
    - **Stage 1: Forming**. The team is created, and members are excited and apprehensive as they begin the process of developing social and task cohesion.
        - The *FBL approach* focuses on task cohesion more than on social cohesion; it draws attention to team boundaries and competitors, and describes how team goals fit with rest of the organization.
        - The *SET approach* focuses on social cohesion as much as on task cohesion; it draws attention to team boundaries and neighbors, and describes how team goals fit with the rest of the organization and with the socio-ecological realm.
    - **Stage 2: Storming**. Team members experience conflict as they try to influence how the group will function, the goals the group will pursue, and the roles and individual responsibilities that will emerge in trying to achieve those goals.
        - The *FBL approach* embraces moderate task conflict but tends to ignore relationship conflict.
        - The *SET approach* embraces moderate task conflict and relationship conflict.

- **Stage 3: Norming**. The team establishes norms and a shared vision as members fine-tune their roles and responsibilities.
    - The *FBL approach* focuses on information sharing related to the team's goals, and seeks to minimize free riding.
    - The *SET approach* focuses on information sharing related to the team's goals and to socio-ecological goals, and seeks to enhance consistent contributions.
- **Stage 4: Performing.** The team excels at its task and enjoys high social and task cohesion.
    - The *FBL approach* focuses on extrinsic reinforcers, often for members individually.
    - The *SET approach* focuses on intrinsic reinforcers, typically for the team collectively.
- **Stage 5: Adjourning**: The team disbands, celebrating its accomplishments and the sense of community that developed during its existence.In each of the five stages, a TBL approach is consistent with FBL practices, unless there is a business case supporting the adoption of SET practices.

3. Given the heightened opportunities for conflict in a new venture, it is particularly valuable for entrepreneurs to choose the particular conflict management styles appropriate for the various situations they will face.

## Questions for Reflection and Discussion

1. What is the difference between a group and a team? Provide an

example of each from your own personal experience.

2. Reflect back on your experiences as a member of school teams (e.g., sports teams or study teams). How consistent was your team experience with the stages of development described in this chapter? In what ways did your experience differ? Do you feel that you learned any important life lessons from your team experience?
3. As a manager, what actions would you take to improve the social and task cohesiveness of your team?
4. Identify your preferred conflict management style, and list and briefly describe the benefits and drawbacks of your style. When does it work best, and when might you want to use another style?
5. Suppose you are asked to head up a problem-solving team. Identify information sharing techniques that will reduce the likelihood of groupthink, and how their use will improve the decision-making of the team.
6. How do you typically respond to free riders in a team that is completing a group assignment? Does the perceived cause of free riding influence how you respond?
7. Have you ever been on a team with a consistent contributor? What effect did the consistent contributor have on the rest of the members? Were they treated like a sucker, or were their actions contagious?
8. Reflect on experiences where your performance was evaluated by your team members. If you have no experience in this area, how do you think you would respond to team members giving feedback that influences your grade?
9. List some of the differences in the techniques used by FBL and SET managers during each stage of team development. Where do you think TBL managers would be more likely to use FBL or SET techniques? Give examples and explain your answer.
10. If you were to start a new venture, would you prefer to do it on your own or as part of an entrepreneurship team? Explain pros and cons of both. Describe your preferred conflict management approach, and then describe what sort of conflict management approach you would like others in your start-up to have. Does it make a difference whether the others are part of the top management or if they are people hired to work for you?

## Notes

1. For research looking at different stages sports teams go through, see Kheel, S., & Kim, K. (2016). School based club sport experience from group developmental perspective. In *The 28th International Sports Science Congress* (pp. 102–103).
2. For an article looking at different stages camp teams go through, see Curiel, H. F. (2016). Group work camp memories: Group power. *Groupwork*, 26(3): 113–120. https://doi.org/10.1921/gpwk.v26i3.1047
3. The quotes and much of the description in the opening case are taken from Cassidy, K. J. (2013). *The essence of feeling a sense of community: A hermeneutical phenomenological inquiry with middle school students and teachers* [Doctoral dissertation]. Faculty of Education, Brock University, St. Catharines, Ontario. This quote is from page 5, and other quotes below are taken from pages 4 to 5, and pages 115 to 117.
4. For more thoughts on building a sense of community among diversity, see Cassidy's more recent publication: Cassidy, K. J. (2019). Exploring the potential for community where diverse individuals belong. In S. Habib & M. R. M. Ward (Eds.), *Identities, youth and belonging: International perspectives* (141–157). Palgrave Macmillan. https://doi.org/10.1007/978-3-319-96113-2_9
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9. Kohnová, L., and Salajova, N. (2021). Agile organizations: Introducing self-managed teams. In D. Cagáňová, N. Horňáková, J. Papula, K. Stachová, & L. Kohnová (Eds.), *Management Trends in the Context of Industry 4.0*. EAI. http://doi.org/10.4108/eai.4-12-2020.2303550.
10. Cohen, S., Ledford, G., Jr., & Spreitzer, G. (1996). A predictive model of self-managing work team effectiveness. *Human Relations*, 49(5): 643–676. http://doi.org/10.1177/001872679604900506
11. Sauer, S., & Nicklich, M. (2021). Empowerment and beyond: Paradoxes of self-organised work. *Work Organisation, Labour & Globalisation*, 15(2): 73–90. https://doi.org/10.13169/workorgalaboglob.15.2.0073
12. According to Sinclair , "the effectiveness of teams depends on the extent to which

their application is informed by ideology, on the one hand, or careful and critical appraisal, on the other. The extent to which the team ideology is unquestioningly embraced will determine how fruitful is the experience of participation with groups. It is the ideology, rather than the team itself, which tyrannizes, because it encourages teams to be used for inappropriate tasks and to fulfill unrealistic objectives. By developing a more critical appreciation of the costs and limitations of teams, they will be put to better use." Page 622 in Sinclair, A. (1992). The tyranny of a team ideology. *Organization Studies*, 13(4): 611–626. http://doi.org/10.1177/017084069201300405

13. Yee, M., & Edmondson, A. (2017). Self-managing organizations: Exploring the limits of less-hierarchical organizing. *Research in Organizational Behavior*, 37(1): 35–58. http://doi.org/10.1016/j.riob.2017.10.002

14. For example, this includes diversity regarding what members believe and value about the "should's" and "ought's" of life. Stahl, G. K., Maznevski, M. L., Voigt, A., & Jonsen, K. (2010). Unraveling the effects of cultural diversity in teams: A meta-analysis of research on multicultural work groups. *Journal of International Business Studies*, 41(4): 690–709. http://oi.org/10.1057/jibs.2009.85

15. Tolliver, J., & Sass, M. (2024, June 17). Hybrid work has changed meetings forever. *Harvard Business Review*. https://hbr.org/2024/06/hybrid-work-has-changed-meetings-forever. Kunert, P. (2025, Jan 15). Shove your office mandates, people still prefer working from home. *The Register*. https://www.theregister.com/2025/01/15/shove_your_mandates_people_still/

16. Tuckman, B. W. (1965). Developmental sequence for small groups. *Psychological Bulletin*, 63(6): 384–399. https://doi.org/10.1037/h0022100; Bonebright, D. A. (2010). 40 years of storming: A historical review of Tuckman's model of small group development. *Human Resource Development International*, 13(1): 111–120. https://doi.org/10.1080/13678861003589099. Research also suggests that the progress of the team has much, and perhaps more, to do with the pressure of meeting deadlines. Gersick, C. J. G. (1988). Time and transition in work teams: Toward a new model of group development. *Academy of Management Journal*, 31(1): 9–41. http://doi.org/10.2307/256496

17. Note that Table 16.2, and much of the discussion of each of the stages, draws from and builds upon Tuckman (1965); Tuckman, B. W., & Jensen, M. A. (1977). Stages of small-group development revisited. *Group & Organization Studies*, 2(4): 419–427. https://doi.org/10.1177/105960117700200404; Bonebright (2010); Cassidy, K. J. (2001). *Bringing clarity to group development: Synthesizing a meta-framework from practitioner-authored group-development models* [Master's thesis]. Faculty of Education, Brock University, St. Catharines, Ontario; Dyck, B., & Neubert, M. (2010). *Management: Current practices and new directions*. Cengage/Houghton Mifflin. For more work on the ongoing issues that team members address throughout the stages, see Cassidy, K. (2007). Tuckman revisited: Proposing a new model of group development for practitioners. *Journal of Experiential Education* 29(3): 413–417. http://doi.org/10.1177/105382590702900318

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Leadership as the keystone of team performance. In T. S. Burris-Melville & S. T. Burris, *Developing Effective and High-Performing Teams in Higher Education* (pp. 91–114). IGI Global; Courtright, S. H., Thurgood, G. R., Stewart, G. L., & Pierotti, A. J. (2015). Structural interdependence in teams: An integrative framework and meta-analysis. *Journal of Applied Psychology*, 100(6): 1825–1847. https://psycnet.apa.org/doi/10.1037/apl0000027; Adam, M. (2024). Perception and interpretation of team development phases and their changes: Factors influencing team development. *The Eurasia Proceedings of Educational & Social Sciences*, 37: 16–24. https://www.epess.net/index.php/epess/article/view/854/853

19. Belbin, R. M., & Brown, V. (2022). *Team roles at work* (3rd ed.). Routledge. https://doi.org/10.4324/9781003163152.
20. Social cohesion is positively related to performance at all levels in the four-stage model, though one study found that when measured at the individual member level, social cohesion was not related to performance in the norming stage. Hall, T. B. (2015). *Examining the relationship between group cohesion and group performance in Tuckman's (1965) group life cycle model on an individual-level basis* [Doctoral dissertation]. Regent University, Virginia Beach, Virginia.
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22. Greenfield, R. (2015). Startup vs. Wild. *Bloomberg Businessweek*, no. 4454: 9–101; Olsen, P. (2009, March 25). Team building exercises for tough times. *Harvard Business Review*. https://hbr.org/2009/03/teambuilding-exercises-for-tou; These examples are taken from Ektuna, T., & Van Heel, A. (2017). *Developing teams in startups: A case study on startup team dynamics*. [Master's in management degree project]. Lund University, Lund, Sweden.
23. Of course, there is no "one best number" of people to have on teams, and the optimal number will vary depending on a variety of considerations, such as the complexity of the task, the diversity among member, and the personality of members. Some research suggests that the optimal *group* size for enhancing social and ecological well-being is somewhere between 150 and 200. These groups are further subdivided into subgroups or teams. See Casari, M., & Tagliapietra, C. (2018). Group size in social-ecological systems. *Proceedings of the National Academy of Sciences*, 115(11): 2728–2733. https://doi.org/10.1073/pnas.1713496115. Other research based on the "Dunbar number" suggests that humans can typically maintain about 150 casual friends (similar to the optimal group size for social and ecological well-being). Of these, fifty might be "buddies," twelve "good friends," and up to five "confidantes" who represent and inner circle of trust, and an average of 1.5 people who are our closest friends (on average the number of confidantes people have decreased from 2.94 in 1985 to 2.08 in 2004). We can keep track of about 500 people, and match names to faces of about 1,500. Wayne, T. (2018, May 12). Are my

friends really my friends? *The New York Times*. https://www.nytimes.com/2018/05/12/style/who-are-my-real-friends.html

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26. Orgambídez, A., & Almeida, H. (2020). Social support, role clarity and job satisfaction: A successful combination for nurses. *International Nursing Review*, 67(3): 380–386. https://doi.org/10.1111/inr.12591.
27. For a review of this literature, see Dyck, B., Bruning, S., & Driedger, L. (1996). Potential conflict, conflict stimulus, and organizational performance: An empirical test. *The International Journal of Conflict Management*, 7: 295–313.
28. Janis, I. L. (1972). *Victims of Groupthink*. Houghton Mifflin; Forsyth, D. (1990). *Group dynamics*. Brooks/Cole Publishing; Kaplan M. F., & Miller, C. E. (1983). Group discussion and judgment. In P. B. Paulus (Ed.), *Basic group processes* (pp. 65–94). Springer-Verlag. To prevent groupthink, team members must be motivated to thoroughly examine a wide range of issues and alternatives. To ensure that this happens, leaders must refrain from stating personal opinions at the outset of the discussion, require a full analysis of each issue regardless of presumed consensus, invite criticism of ideas and suggestions, and use information-sharing and decision-making techniques that maximize input and minimize concerns about retribution. One simple technique that can help with these processes is to assign someone within the team (on a rotating basis) the role of the *critic* or *devil's advocate*. The role is publicly assigned to ensure that the role-player does not suffer as a result of challenging other people's opinions (and therefore being viewed as a jerk). The devil's advocate is *required* to raise issues, call into question premature decisions, and demand justification for positions that are taken. Another technique, *dialectical inquiry*, is a staged debate between a dominant perspective or opinion and a counter-opinion that represents an opposite or opposing point of view. A variation of this approach is to assign roles in the debate that are contrary to the expressed opinion of the participants. In other words, for the sake of discussion, a set of team members are required to defend a point of view whether or not they initially supported it. Katzenstein, G. (1996). The debate on structured debate: Toward a unified theory. *Organizational Behavior & Human Decision Processes*, 66(3): 316–332. https://doi.org/10.1006/obhd.1996.0059
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treating, and preventing mobbing and bullying in the workplace. In M. Duffy & D. C. Yamada (Eds.), *Workplace bullying and mobbing in the United States* (pp. 75–97); Ng, N. (2017). From the top down: How leadership can diminish workplace bullying. *Journal of Emergency Nursing*, 43(6): 586–587. https://www.jenonline.org/article/S0099-1767(17)30413-0/abstract

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# 17. Communication


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- 17.0. Opening Case – A Departure from FBL Management at an Airport
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- 17.3. Encode and Transmit the Message
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- 17.6. Entrepreneurial Storytelling
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 17 provides an overview of the four steps of the communication process, as summarized in the following table and in the whiteboard animation video.*

| Communication Process (Four Parts) | FBL | TBL | SET |
|---|---|---|---|
| **Identify** your message:<br>• Content of message<br>• Perspective<br>• Directionality | Focus on ideas that will enhance productivity:<br>• Task-oriented knowledge transfer to enhance profit<br>• Management; one voice<br>• "Sell" ideas to receivers | | Focus on ideas that improve various forms of well-being:<br>• Information and stories to build community; enhance ecological well-being<br>• Multiple stakeholders/ voices; dialogue<br>• Welcome ideas from others |
| **Encode and transmit** the message:<br>• Potential barriers<br>• Media | Based on analysis of barriers, available media, and channels<br>• Reduce noise and distractions from financial well-being<br>• Prefer lean media (low cost) | A TBL approach is consistent with FBL practices, unless there is a business case supporting the adoption of SET practices. | Based on analysis of barriers, available media, and channels:<br>• Reduce noise but welcome information about externalities<br>• Prefer rich media (face-to-face) |
| **Receive and decode** message:<br>• Perception bias<br>• Level of analysis | Overcome barriers in media and channels:<br>• "Tune out" non-instrumental ideas<br>• As individuals | | Emphasis on managers listening to subordinates:<br>• "Tune in" diversity, socio-ecological well-being<br>• As a community |
| **Information flow** from receiver to sender | *Feedback*: Confirm whether message was understood as intended | | *Feedforward*: Recognize that past communications provide basis for future messages |
| **Entrepreneurship implications** | Developing the story of a new start-up can help to attract stakeholders and provide a context for members' communications. | | |

*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=1294*

## Learning Goals

After reading this chapter, you should be able to:

1. Explain the four generic components of the communication process, and describe differences between the FBL, TBL, and SET approaches to management in each component.
2. Describe how messages can vary by content, perspective, and directionality.
3. Explain how the encoding of messages involves attending to potential barriers, media, and channels.
4. Explain the role of listening and perception biases in decoding messages.
5. Describe the difference between treating receiver-to-sender information flow as feedback and feedforward communication.
6. Describe how entrepreneurial storytelling can enhance organizational communication.

## 17.0. Opening Case – A Departure from FBL Management at an Airport

Sandra Montclair had an important message to communicate to others in her organization.[1] As the CEO of Lillum Airport, one of the fifty largest airports in the world, Montclair wanted to change the management of the airport from a traditional top-down style to an approach that emphasized teamwork and participative management. Montclair believed this change would help to improve the airport's productivity and efficiency, but that was not the ultimate issue for her: "I believed in it in terms of this issue of human dignity."

Based on a similar change she had implemented at a previous organization, Montclair knew that getting her message across to the several thousand employees at the airport would require a huge communication effort. The communication process started with her top management team of eight, but eventually included all the hierarchical levels in the organization. Montclair had eight managers reporting to her (e.g., terminal manager, cargo manager, commissary man-

ager), who in turn had duty managers reporting to them, who in turn had a host of supervisors reporting to them. For example, the terminal manager was responsible for three duty managers, twenty-two supervisors, and another 450 people below that.

In terms of getting the message out, Montclair knew that she would have a better chance of convincing senior managers of the merits of her planned change in management style if she exposed them to a whole range of experts from other organizations who had implemented similar changes and could talk to them about it. She pulled in a person from the human resource department and invited her senior management team to join her on a journey of learning: "I wanted us all to learn the stuff together." Of course, the senior managers did not really have a chance to opt out, but Montclair was trying to make it easier for them to opt in and accept her message. She wanted to transmit her message in a participative way, and she wanted to have some fun doing it. So the team went on retreats and conferences together and participated in learning experiences.

In terms of getting people to understand the message, this participative process helped senior managers to understand and agree with the message. They learned from the various speakers and from each other. Moreover, the very process that had been put in place to communicate the message was an example of the new management style, where team members worked together participatively and developed mutual understanding. Even so, feedback showed that further work was required. For example, special training was provided to at least one senior manager who was not aware of his autocratic management style.

After this communication cycle with the senior managers had been completed, a similar process took place at other levels within the organization. For example, the terminal manager went on retreats and learning events with his immediate subordinates. Once the message had been successfully communicated to the members of this group, they would develop plans and procedures for how to implement changes in their areas, figure out how to communicate with the staff, and so on. The terminal manager would then host information events for the rest of his department. This might require three or more sessions to accommodate the 500 members in his unit who were all doing shift work. Montclair explained:

> At those information sessions we would say, "Hey folks, we want to run this place differently in the future. This is what the implications we think are for you. This is what we need from you in order to work in this new way. This is what the advantage to you could be." So we would've done that three different times for each of the different departments. So this was a huge communications effort.
>
> These events were often planned alongside day-long sports or barbecue events

> with a dunk tank and so on, and then there would be opportunity to make speeches, and I would be there to do that. And I would also take my turn in the dunk tank.

The investment in the communication process was worthwhile. Members' quality of work life improved, as demonstrated by in-house employee surveys of job satisfaction, as did more conventional measures of success: "We had unprecedented performance, in terms of productivity, in terms of on-time departures, reduced line-ups at check-out counters, reduced damaged baggage claims, improved safety."

## 17.1. Introduction

**Communication** *is the process of transmitting information via meaningful symbols so that a message is understood by others*. In this chapter, we focus on the management of communication among organizational members, especially communication from managers to employees.[2] Communication is a critical part of all four management functions. Managers spend about 75 percent of their time communicating with others.[3] Managers communicate when they design and implement their plans and strategies, when they arrange resources, when they motivate others, and when they design and use information systems. This chapter uses a basic four-part framework to provide an overview of management communication within organizations, describing differences among Financial Bottom Line (FBL), a Triple Bottom Line (TBL), and a Social and Ecological Thought (SET) perspectives.

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*Managers spend about 75 percent of their time communicating with others.*

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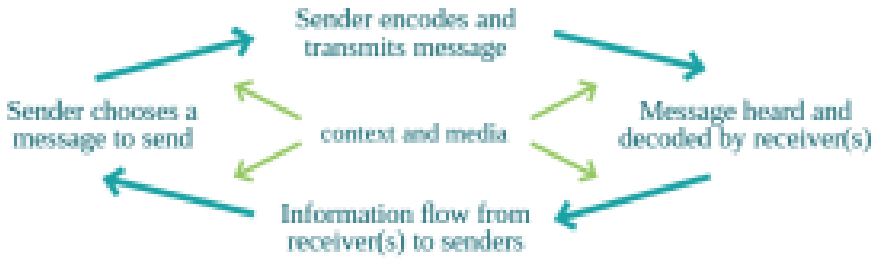
A classic model of the communication process presents it as four basic components that are connected, as shown in Figure 17.1.[4] These four components are traditionally described as unfolding in the following order:

1. The sender *identifies* an idea or a message that is to be communicated.
2. The sender *encodes and transmits* the message.

3. The receiver *receives and decodes* the message.
4. Information travels *from the receiver to the sender*, thus completing the communication cycle and ensuring the message has been understood (or that more clarification is needed).

As depicted by the arrows with dotted lines in Figure 17.1, communication is challenging because moving from one step to the next can be hampered by two basic factors: the overall *context* in which the communication takes place (e.g., a noisy room) and the *media* that are used to transmit the message (e.g., an email message does not convey as much information as a face-to-face conversation). In other words, context and media influence each of the four components.

**Figure 17.1. Four parts of the communication process**




We begin by noting two basic differences between FBL, TBL, and SET approaches to communication, which inform all four parts of the process discussed in this chapter. First, of the three approaches, the FBL perspective has the narrowest range regarding the *purpose and content* of information being communicated. The purpose of FBL communication is to maximize organizational financial well-being, and the focus is on transferring task-oriented content so that all organizational members will be able to work as efficiently and productively as possible. When the FBL approach includes relationship- and change-oriented information, it does so with an instrumental focus on enhancing financial well-being. The TBL approach embraces a somewhat broader range of information because it is more attentive to communicating with stakeholders about reducing

socio-ecological externalities to enhance the firm's financial well-being. Adding relevant information regarding socio-ecological externalities will increase the range of task-, relationship-, and change-oriented messages being communicated. The SET approach has the broadest range: it shares with the FBL and TBL communication approaches a desire to improve task-oriented operations but adds an interest in enhancing positive socio-ecological externalities. For example, SET management encourages relationship-oriented communications that facilitate achievement of the financial goals of the organization as well as those that develop a sense of community in the workplace and advance meaningful work. Similarly, SET management encourages task-oriented communication that not only contributes to the financial bottom line but also encourages exchanges about a wider array of change options, where financial considerations are secondary to the socio-ecological implications of how tasks are performed.

Second, there is also a fundamental difference in how the three approaches view the communication *process* as unfolding.[5] A traditional FBL or TBL approach tends to view the four components of the communication process depicted in Figure 17.1 as starting with the sender choosing a message, and then proceeding from there. This is consistent with the traditional description of communication as happening in four sequential steps, and as being a one-way flow of knowledge from sender to receiver (which is confirmed in the final step). In contrast to seeing communication as a one-way flow of information, the SET approach adopts a more holistic perspective that recognizes the importance of the four components but is more flexible about the starting point of the process. In particular, the SET perspective is more likely to view "information flows from receivers to sender" rather than "sender chooses a message to send" as the starting point. Thus, the SET view emphasizes that any new message must be understood in light of previous communication. Any message a sender communicates is informed by previous messages that have been sent and received. This makes it difficult to think of reducing communication to a simple four-step process that starts with the receiver choosing a message.

The implications of these two fundamental differences will become clearer in our discussion of the four components of the communication process.

## 17.2. Identify the Message to Be Transmitted

The classic communication process begins when a manager has a **message**—that is, *a specific idea or general information*—that they want to communicate to others. It may be a task-, relationship-, or change-oriented message. It can be about a

new strategic vision, or simply a story about what happened over the weekend. FBL and TBL managers typically focus on messages that they think will help the organization improve its profitability and efficiency; SET managers will have an additional interest in messages that optimize social and ecological well-being.

Managers (and others) must be selective in the messages they communicate, since time is a limited resource for both them and the target(s) of their communication. Put differently, managers must decide whether particular information is worth communicating to others.[6] The messages they choose will be influenced by their approach to management and their communication styles, which includes the level of filtering. **Filtering** *occurs when information is intentionally withheld or not communicated to others.* Filtering can have both positive and negative outcomes. Filtering is positive if managers withhold information that is not relevant to the other person. For example, a manager is filtering when they do not tell their boss what brand of coffee spilled on their ruined laptop computer. Filtering is negative if managers withhold information that could help the organization. For example, the manager whose computer was ruined by coffee is withholding information if they fail to mention that they spilled the coffee on purpose, hoping to get a new and improved computer like their colleague's.

*Managers must be selective in the messages they communicate.*

Managers' messages may range from one extreme of having too little filtering (the "spray and pray" approach) to the other extreme of having too much filtering (the "withhold and uphold" approach), or any of four additional variations that fall somewhere in-between:[7]

- *Spray and pray*: In this approach, managers shower members with a lot of data and hope that the members will be able to sort out any information that is relevant for them (see Chapter 18 and the relationship between information systems and data). This can overwhelm others and is particularly inadvisable when members lack the ability to identify which parts of the message are valuable to them.[8]
- *Trust and adjust:* Rather than give unfiltered information (spray and pray), managers communicating with a trust and adjust approach provide stakeholders all the relevant information they require to identify

key issues that need to be addressed. For example, in the opening case Montclair provided her management team with guest speakers and other resources to understand how a more participatively managed airport might operate, and then trusted the team members to discuss and learn how to adapt that knowledge for their situation.[9] Stakeholders trust managers to keep them informed, and managers trust stakeholders to use the information in good faith. Messages encourage everyone to express their view and to learn from others, thereby creating a flexible community where people are constantly adjusting to one another. These managers are more likely to see the information flow from receivers to sender as the first, instead of the final, stage in the communication process. This is the preferred approach among SET managers.

- *Tell and sell*: Rather than provide all the relevant information (trust and adjust), managers using a tell and sell approach identify and describe the key issues they think need to be addressed, and then seek to convince others to accept their preferred solution, often through elaborate and well-developed presentations. Managers who use a tell and sell approach generally do not solicit feedback and input from others to develop solutions, but only to seek to ensure that others have understood the their instructions (for these managers, the information flow from receivers to sender is the final stage of the communication process, not a formative stage).[10] FBL managers traditionally consider this one-way telling-and-selling to be the most efficient and effective way to communicate.[11] As one manager put it: "That's what management is: it's moving other people, getting them to think your idea was theirs."[12]
- *Underscore and explore*: As in tell and sell, in this approach managers identify and describe what they think are the key issues that need to be addressed, but unlike with the tell and sell approach, managers don't provide information about what they think the solution should be. Rather, managers who underscore and explore explicitly listen to feedback from other members so that they can develop better solutions. This communication style has been recommended by scholars,[13] and is the preferred approach among TBL managers who welcome input and participation from others, saying things like "I look to others to see what works and what doesn't."[14] Underscore and explore is also becoming increasingly accepted among FBL managers, especially

those who work in a dynamic environment.[15]

- *Identify and reply*: Here managers develop messages based on concerns and issues that followers identify, and reply to those issues. In short, employees set the agenda and managers respond to rumors, innuendos, and information leaks. As a result, messages tend to focus on day-to-day operational concerns, and followers lack the information to understand the long-term strategic issues facing their organization. This is consistent with passive management-by-exception leadership behavior, a variation of avoidance leadership (described in Chapter 15).
- *Withhold and uphold*: Compared to the other approaches, in this approach managers provide the least amount of information to others. Managers believe that they have all the answers and that others do not need to or are not able to understand the big picture. Even when responding to requests for information or to rumors, managers often simply repeat the "party line" messages that they had sent earlier.

### 17.2.1. FBL, TBL, and SET Approaches to Identifying the Message

The three approaches to management can be seen to vary along three dimensions related to identifying the message: content, perspective, and directionality. First, as has been mentioned, in terms of *content*, the FBL and TBL approaches generally prioritize task-oriented messages designed to enhance financial well-being, whereas the SET approach includes a broader range of messages that enhance a variety of forms of well-being. The FBL and TBL approaches emphasize messages that improve organizational productivity and competitiveness, whereas the SET approach adds messages that deliberately try to create positive ecological externalities and build relationships and community.[16]

*An ethic of care is evident in messages that tell stories of "sparkling moments."*

For example, SET leaders choose messages that foster an ethic of care.[17] This includes deliberately identifying and telling stories of "sparkling moments," where team members have been particularly good at working together and look-

ing out for each other. These messages draw attention to members' strengths and to specific instances where they brought out the best in each other. A SET approach engages in dialogue and seeks opportunities to listen to help meet members' needs, recognizing that people's private struggles often are grounded in a broader social context, and tells optimistic stories about a future characterized by mutual support that welcomes diversity and embodies collective ethics.[18] In the following quote, a manager who had been trained in an FBL approach shares how they deliberately expanded the messages they sent, so that instead of only communicating task-oriented concerns, they began to show concern for building relationships and community:

> I knew that I needed to become more interested in people. I remember, early on in our business, when I had arrogantly said to someone: "Well, our employees, they are people who come in and get the job done and then go home, and that's it." And even though [initially] I personally wasn't very interested in the people, I committed myself to try, every day, to say "hi" and set aside a few minutes with each person. Even if I didn't feel like it, I could force myself to do it. It was like on my "to do" list. And first thing in the morning I would go to so-and-so, who was a morning person, and say: "So, how is it going? What did you do last night?" And just talk with them. "Okay great, thanks." And then I'd move on, and through the day I would see everybody in that way. And after a while it changed from something that I had to do, to something that I was actually interested in.[19]

Second, concerning *perspective*, all three management approaches recognize that the organization is controlled by the people whose messages set the agenda.[20] An FBL approach assumes managers should determine what sorts of messages are sent in the organization: the messages should seek to maximize profits. A TBL approach offers a bit more voice to other stakeholders who can show how a firm can reduce negative socio-ecological externalities to optimize its financial well-being. A SET approach is even more inclined to invite multiple stakeholders to help set the organizational agenda for how best to enhance socio-ecological well-being while maintaining adequate financial well-being. This is consistent with the practices of deliberative dialogue. **Deliberative dialogue** *gathers a variety of stakeholders together to learn ideas from one another about how to address an issue*. Deliberative dialogue seeks to foster messages that promote collaboration and listening to find meaning and agreement. The messages are more concerned with showing concern for stakeholders and weighing alternatives than with defending the rightness of one's own views.[21] As a result, the process helps to set an organization's agenda that reflects the collective insights of its stakeholders.

*An organization is controlled by the people whose messages set its agenda.*

Third, with regard to *directionality*, although the underscore and explore approach favored by TBL managers (and increasingly by FBL managers) invites some two-way communication with stakeholders, it retains an emphasis on the manager's role in identifying key issues, persuading others, enabling meaning, and initiating change.[22] In contrast, as will be discussed more fully in the "information flow from receivers to sender" component of the communication process, SET managers prefer the trust and adjust perspective, understanding that if you develop a singular message where you "think you have it," you sacrifice the deeper understanding that comes from incorporating aspects of the truth held by others.[23] A SET approach also promises to increase the frequency of messages that promote justice in the workplace, ensuring that all stakeholders associated with a product or service receive their due and are treated fairly, being especially sensitive to the marginalized (see Chapter 1). James Despain, former manager of Caterpillar Inc.'s Track-Type Tractors 3,000-member division, describes his transition to the trust and adjust approach:

> The road to change for me began with the value of Trust. My epiphany was the realization that for my entire life I had trusted no one. I had been taught not to—not purposely, but in subtle ways. Over many years, I was encouraged to write things down for the purpose of "proving" my innocence later if conflict or failure should occur. I had learned to not discuss certain things with certain people, to "spin" information to make things seem better, and to never fully admit being responsible for mistakes or failure. And I was a very good student. After struggling most of one night with what I should do, I decided to trust everyone—everyone. [If I had information I thought others might find relevant] I decided to share what I knew without thinking of any particular motive for sharing. If I were going to get hurt from this, then hurt I would get. This decision at this moment liberated me! From then on, I saw people differently. I began to care for them and was willing to listen to them without judgment. Later I would see how feelings of trust would permeate our organization and would witness the power of it.[24]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
https://pressbooks.openedmb.ca/management/?p=1294#h5p-83

## 17.3. Encode and Transmit the Message

After determining what message they want to communicate, managers must determine how to encode and communicate that message. **Encoding** *refers to choosing the symbols and media that are used to develop and transmit a message*. Messages are typically encoded using words, whether written or spoken, but messages are also sent using nonverbal communication and by things that are left unsaid.[25] When encoding, managers must (a) identify communication barriers to overcome; and (b) choose the medium and channel that will be used to transmit the message. A **communication medium** *refers to the means used to deliver and receive information.* Examples of different media include face-to-face conversations, telephone calls, and emails. A **communication channel** *is the organizational path that information travels via a medium*. Channels can be formal (upward or downward on the organization's chain of command) or informal (lateral or diagonal across the chain of command).

When it comes to encoding and fine-tuning messages, managers are increasingly using generative artificial intelligence (AI) software like ChatGPT. Managers use generative AI to help with drafting and revising messages and reports, including as a tool to help do research and generate ideas. Frequent users of AI suggest that with the potential to automate drafting and revising this tool offers, business students need to increase their interpersonal and oral communication skills, as well as listening skills and teamwork. Integrity will become even more important, as well as ability to develop a strategic vision.[26]

### 17.3.1. Identify and address communication barriers

When choosing how to encode a message, managers must be aware of potential barriers, sometimes called noise. **Noise** *is anything that interferes with the transmission of a message.*[27] Noise can impede communication at all four steps of the communication process. Sometimes noise can be literal, such as when workers

are trying to talk over the noise of machinery, or when there is a poor phone connection. At other times, noise is more figurative, such as when a manager sends an email to someone who is already overwhelmed with emails. Noise may also occur when there are personality differences or ongoing conflicts between the sender and receiver, or when there is a history of distrust among members. Some barriers to communication are related to organizational factors (e.g., time pressures, communicating across departments or within a team to people with different functional backgrounds), while others are related to individual factors (e.g., language and cultural differences, personality and background differences that contribute to differing perceptions).

*Noise can impede communication at all four steps of the communication process.*

Time pressures are a general barrier to communication, including the time needed to craft and encode a message, and the time it takes for a receiver to decode it. Managers often underestimate how long it takes to fully communicate a message that involves major organizational change; this can often take a year or more.[28] We saw evidence of this in the opening case, where Montclair invested a lot of time and resources into communicating the change at the airport. It can be hard work to take complex ideas and present them as succinct messages, as noted in a long letter by Blaise Pascal in 1657: "I have made this longer than usual because I had not had the time to make it shorter."[29] Just as an organization's mission and vision statements should be short and punchy, so also should managers describe plans for change in the fewest words possible.[30]

Ambiguous words and symbols can also be a barrier to communication, such as when the body language of a person does not fit the words they are speaking (e.g., if a manager is smiling when they announce the number of people to be laid off). These problems are magnified when communicating across cultures, where similar gestures or actions may be interpreted very differently. For example, in many countries a "thumbs up" gesture means a job well done, but in other places it can mean something rude.[31]

Even people who speak the same language may have difficulty understanding one another. **Semantic problems** *arise when words have different meanings for different people*. Part of this may be related to the cohort group one belongs

to. For example, for older people the word “sick” means “not healthy,” but for younger people, the word “sick” may mean “good” (as in, “this textbook is really sick”). Similarly, jargon and technical language that is relevant in one profession may not be relevant in another. For example, after reading this book you will be able to have an intelligent conversation with your classmates about the differences between FBL, TBL, and SET managers, but it may not be reasonable to expect people at your workplace to know what you mean by these terms when you refer to your boss’s management style. How often have you intended to send one message, only to be misperceived by a receiver?

The challenge for managers is to anticipate which barriers to communication need to be overcome and then encode their message accordingly. This involves conveying messages using language and symbols that are easy to understand, clear, and unambiguous.[32] For example, chapters in this textbook have been written, revised, and edited many times before the book was published. As authors we have tried to be sensitive to the fact that readers come from a variety of backgrounds and countries, and that many readers may not speak English as their first language. Even so, you may find minor typographical errors and ambiguous sentences. These shortcomings can be overcome, in part, if you have helpful professors and peers to help you understand and learn the material in the book. Indeed, the context in which the book is read will influence the message readers get from it.

This brings us to the observation that, in addition to expressing the message clearly, an important part of encoding involves choosing the best communication medium and channel.

*The challenge is to anticipate the possible barriers, and then encode the message accordingly.*

### 17.3.2. Choose communication media and channels

#### Communication media

Marshall McLuhan famously observed, “The medium is the message.”[33] McLuhan’s observation points out that a message cannot be separated from the medium that transmits it. For example, the message of “I love you” means some-

thing different if you hear it from your mother, your sibling, a romantic partner, or a three-year-old nephew. In a workplace setting, an employee who has achieved something noteworthy should be recognized, but it may mean different things if the CEO sends an email with congratulations, personally presents the employee with a plaque at a departmental meeting, or features the employee on the company's web page.

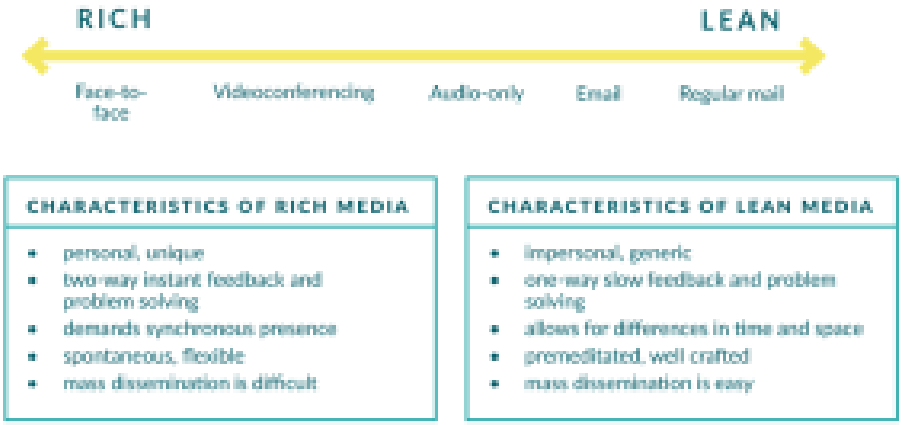
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*A message cannot be separated from the medium that is used to transmit it.*

---

An important consideration in choosing a communication medium is media richness.[34] **Media richness** *refers to a medium's ability to resolve ambiguity*. Media richness is determined by the speed and accuracy of feedback that is possible, the verbal and nonverbal cues that are employed, and the level of language used.[35] As shown in Figure 17.2, face-to-face communication is the richest medium because it allows participants to not only hear the content of each other's messages and their tone of voice but to also see subtle body language. It also allows for immediate feedback and the personalizing of messages. Face-to-face communication can take place one-on-one (preferred by 85 percent of frontline supervisors[36]) or within a group. Face-to-face communication has a positive effect on employee satisfaction.[37] Research suggests that in some cases the actual words spoken in a face-to-face exchange may account for less than 20 percent of the total information that is communicated. As much as another 30 percent may be accounted for by the vocal characteristics of the message, and about 50 percent by the accompanying facial and body language.[38] Videoconferencing is a less rich medium than face-to-face, and audio-only communication is less rich than videoconferencing (but richer than non-audio media).

**Figure 17.2. Communication media along the rich vs. lean continuum**




Email and other forms of written communication are less rich than video or audio, but it is possible for authors to add visual and emotional content to the written communication via emoticons or emojis. Research suggests that communication via email is more effective when used by organizational members who have previously established a strong working relationship with one another.[39] Emails are particularly useful when managers need to transmit a lot of detailed information, especially if it is information that the receiver will need to reference in the future. Because emails are faster and amenable to attaching large document files, they are richer than regular mail.

Overall, the volume of information that is being communicated in the workplace has increased by at least fifteen times over pre-internet days, but there has been a decrease in richness and personalized correspondence.[40] This has contributed to information overload. As one manager overwhelmed by email put it: "Previously I did not know what I was missing, and I was really happy in that ignorance. Now I get information, and I think 'I really should read this,' and I can't, I really don't have the time, and I feel really inadequate."[41] Impersonal formal written documents, including unaddressed bulletins or mass emails, are very lean communication media because they do not build on known interpersonal relationships and understandings.

*"Previously I did not know what I was missing, and I was really happy in*

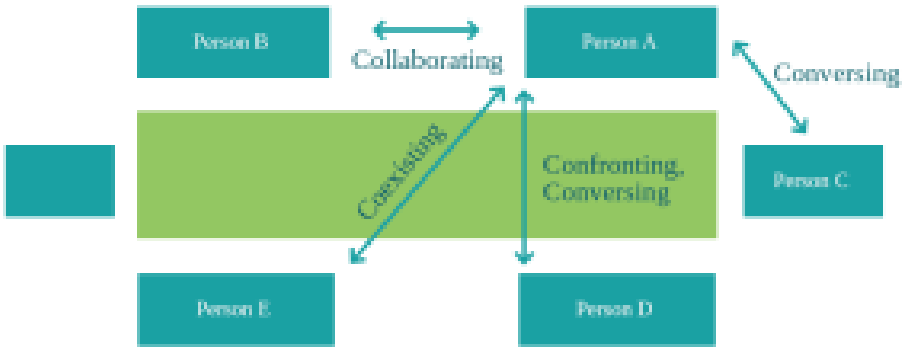
*that ignorance."*

Different managers will have different skill and comfort levels in different media. Some will be great at face-to-face meetings, others at writing compelling reports, and so on. Similarly, recipients will prefer some media over others (some prefer emails, others face-to-face meetings). Communication works best when there is a match between the preferred media of the manager and members. Often it is a good idea for a message to be sent via various media, and carried by various channels, to appeal to more recipients.

*Communication works best when there is a match between the preferred media of the manager and members*

Perhaps the most pervasive yet least acknowledged communication medium is evident in the messages symbolically embedded in organizational processes, culture, structures, and systems (see Chapter 11). For example, the physical layout or *proxemics* (i.e., the use of interpersonal space to convey a message) in an organization represents an important form of nonverbal communication.[42] Figure 17.3 shows how seating arrangements around a table can influence the nature of the communication that takes place between participants. Sitting next to a person signals collaboration, sitting at a corner with someone is associated with conversation, sitting directly across from someone can be perceived as either conversational or confrontational, and sitting diagonally across a table is the preferred position if two people need to share the same space but do not wish to interact.[43]

**Figure 17.3. Effects of seating on communication**




**Communication channels**

Along with choosing appropriate communication medium, managers must also select the appropriate channel, or the path that a message travels. In addition to messages sent to members within the same team or department, researchers have identified two basic types of channels: formal (upward and downward), and informal (lateral and diagonal).

An organization's *formal communication channels* follow the lines of authority that are shown on an organization chart (Chapter 11). Formal downward channels are used when messages are sent from bosses to subordinates along the chain of command, such as when managers provide instructions or information to employees. This is the most studied channel. Unfortunately, a message can lose as much as 25 percent of its intended meaning each time it moves one hierarchical level down the chain of command.[44] This might help to explain why employees would much prefer receiving information from their immediate supervisor rather than from senior managers—they feel more confident that they will understand what the message is intended to mean.[45] More meaning is retained (a) the lower the number of hierarchical levels a message travels; (b) the lower the status and power differences between levels; (c) the greater the level of trust among organizational members at different levels; and (d) the greater the subordinates' desire for upward mobility.[46] Formal upward channels are used when messages are sent up the chain of command, such as when subordinates provide feedback to managers, confirm that tasks have been completed, convey financial information, or seek to influence managerial deci-

sion-making. As will be discussed more fully in the fourth component of the communication process (information flow from receivers to sender), many employees complain that their manager is not receptive to their feedback.

An organization's *informal communication channels* exist outside of the formal chain of command. An informal lateral channel is being used when, for example, a member of the accounting department directly contacts a member of the sales department (who is at the same hierarchical level but in a different department) in order to clarify a sales invoice (this is quicker and potentially more accurate than going through the formal chain of command, which would involve the heads of the two departments). An informal diagonal channel is being used when a member of the accounting department directly contacts the head of the sales department (who is at a higher hierarchical level but in a different department) to clarify a sales invoice (this is also quicker and likely more accurate than going through the formal chain of command, which would involve the heads of the two departments). One study found that communication worked especially well in organizations where members were divided into smaller groups or teams of ten to fifteen members (to facilitate face-to-face interaction), and each of the groups was in turn connected to each other via informal go-between members (these "social butterflies" were not formally assigned to act as go-betweens, rather they were an important part of the organization's grapevine).[47]

A *grapevine* is an informal diagonal and lateral communication channel that can carry both organizational information (e.g., rumors about an impending merger) and personal information (e.g., who gets along with whom). The grapevine helps employees meet their needs for social interaction, and it is a fast and efficient channel of communication that provides a valuable window into what is important to organizational members.[48] Sometimes the grapevine transmits inaccurate information, but generally it is about 80 percent accurate.[49] Managers should assume that the grapevine will be active and not try to suppress it, but they should be quick to correct misinformation.

*The grapevine is about 80 percent accurate*

### 17.3.3. FBL, TBL, and SET Approaches to Encoding

FBL, TBL, and SET approaches to encoding parallel one another, but with two

important differences. First, there will be different understandings of noise and barriers to communication. For example, whereas a SET approach values information about socio-ecological externalities associated with a firm's product or service, from an FBL perspective that same information may be treated as unnecessary noise that distracts members from the core purpose of the firm. Similarly, an FBL approach may emphasize the importance of similarities among team members to facilitate communication, whereas from a SET perspective differences among members provide an opportunity for a richer understanding of issues.

Second, although FBL, TBL, and SET managers may use the exact same media or channels to communicate messages, they often do so with different intentions and outcomes. For example, productivity-oriented FBL managers generally choose leaner media that allow them to communicate with many people at once (e.g., a report sent by email) because they deem this to be the most efficient use of their time.[50] In contrast, even though SET managers generally prefer richer media, they may choose to send a report by email for socio-ecological reasons (e.g., because it reduces greenhouse gas emissions that would arise from traveling to different sites to communicate face-to-face). Research suggests that when new communication media are introduced in an organization, they reinforce existing communication and power structures, which suggests that their use in FBL firms will contribute to a greater emphasis on financial well-being, whereas their use in SET firms will contribute to a greater emphasis on socio-ecological well-being.[51]

That said, there may be features embedded within different media that make them more attractive to and more prone to support one management approach over another. For example, on the one hand social media is touted for its ability to enhance financial well-being at a low cost (consistent with an FBL approach). On the other hand, the transparency and opportunities for multi-stakeholder collaboration and engagement offered by social media are very appealing to SET managers. Perhaps social media will be equally beneficial to all organizations. However, it also has potential negatives: it has been noted that social media can have unprecedented, far-reaching implications for both managers and employees in terms of monitoring and surveillance, and it may enable new forms of bullying in the workplace.[52]

## Test Your Knowledge



*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1294#h5p-84*

*The use of social media has pros and cons.*

## 17.4. Receive and Decode the Message

In this step, *the receiver attributes meaning to the message through a process called* **decoding**. The decoding process mirrors the encoding process, and thus has two components. First, the communication medium and the channel chosen can affect the richness and meaning of a message. For example, a face-to-face "thank you for a job well done" from a CEO is decoded differently than being named on a list of employees in a company newsletter.

Second, as with the encoding process, the decoding process works best when receivers are aware of potential noise and barriers to communication that may impede their understanding of the message. Unfortunately, people often fail to consider such barriers. Everyone decodes (and encodes) messages through the lens of their own unique needs, experiences, values, culture, abilities, shortcomings, aspirations, goals, and attitudes. The greater the mismatch between sender and receiver, the greater the likelihood that the meaning of the message will differ between them.[53] For example, if a receiver does not trust a sender, the receiver will tend to interpret the message with skepticism.

Researchers have identified two kinds of perception biases that can act as barriers to understanding when decoding a message. The first kind of perception problem is related to *stereotyping*—making assumptions about other people based solely on their gender, race, age, or some other characteristic. Stereotyping distorts reality by suggesting that all people in a particular category share the same characteristics, which simply is not true. Communication is hampered when people apply unhelpful or inaccurate stereotypes. For example, communication can come to a standstill if a union leader perceives managers to be concerned only about making more money and not caring about the welfare of workers, or if

managers perceive union members as being lazy and not caring about a firm's profitability.

Consider your views about business and management. How would you describe a typical business, or a typical manager? Where did your views come from, how were they shaped, and how accurate are they? Of course, it is in the interest of businesses for people to have positive views about business and look up to managers. Perhaps this helps to explain why managers have traditionally been expected to dress professionally and are paid well. Businesses are also interested in promoting positive views in the media. For example, at one time Procter & Gamble created the following rules for where it would place its television advertisements: "There will be no material on any of our programs which could in any way further the concept of business as cold, ruthless, and lacking all sentiment and spiritual motivation." If managers were to be cast in the role of villains, "it must be made clear" that this was not typical and was despised by other managers as much as by society in general.[54]

A second kind of perception problem is related to *selective perception*, which occurs when people (often unintentionally) screen out or filter information. This is evident, for example, when people "tune out" ads on television or the internet. Selective perception helps us to focus on our areas of expertise and to avoid distractions, but it is a problem when we tune out things that are important. Remember Dennis Gioa (opening case in Chapter 7)? He was so intent on following scripts that would help him get promoted within the Ford Motor Company that he lost sight of the burn deaths his decisions were contributing to. People often tune out bad news or negative feedback. Managers therefore need to be creative in finding ways to listen to and to convey such messages so that selective perception does not occur. For example, if a manager thinks that people are tuning out information that appears in the weekly newsletter, then they may want to use a different medium (e.g., personalized email or face-to-face meetings) to ensure that messages don't get overlooked.

*Selective perception can help to tune out distractions, but sometimes it can also tune out important things.*

The most important decoding skill is being a good listener, which includes but goes beyond not falling prey to perception biases. Good listening means being

attuned to the words being communicated as well as to any other signals (tone, body language, word choice, what is not being said, etc.). Being a good listener is difficult—talking is easier. We often confuse "hearing" a message with "receiving" a message. Good listeners can focus on and absorb what another person is trying to communicate.[55] Table 17.1 describes the hallmarks of active (good) and poor listeners. Listening well is related to well-being and quality of relationships, and also to job knowledge, job performance, job attitudes, and leadership.[56]

**Table 17.1. Hallmarks of active and poor listening**

| Active listening | Poor listening |
|---|---|
| • attend to both verbal and nonverbal messages<br>• keep an open mind, assimilate information<br>• make good eye contact, nod, mirror body language<br>• provide feedback, paraphrase message, clarify | • allow mind to wander, think of what to say next<br>• prejudge what a person will say; impatient<br>• be easily distracted (e.g., start multi-tasking)<br>• assume message is understood as intended |

Given the traditional assumptions about the importance of one-way manager-to-subordinate communication, it should not come as a surprise that most studies focus on how subordinates listen to managers, and very little research looks at how managers listen to their employees.[57] This is unfortunate because it is important for managers to be good listeners. Listening improves communication and promises to improve the quality of decision-making in organizations (see the discussion of feedback below). Listening provides an inexpensive positive reinforcement for other members and helps to create general positive feelings that can increase their support for a manager.[58] But these benefits don't appear if managers fail to *show* that they are listening.

Finally, it is important to note that decoding happens at both the individual and collective levels in all organizations. While decoding is traditionally discussed at the individual level of analysis (how an individual receiver decodes a message), decoding also commonly takes place at a collective level of analysis (how a group of receivers decode a message). Consider what happened when Larry Mauws, then CEO of Westward Industries (see Chapter 18), announced to his employees that they were going to completely redesign their main product, a three-wheeled car used by parking patrol officers throughout the United States. This simple message triggered a time of collective decoding. At a basic level, everyone in the organization understood the message: they needed to redesign the car to have specific additional features. But the implications of this message

required a deeper level of decoding that took months of work, because manufacturing the redesigned product required members not only to make changes in their individual tasks but also to understand changes in how their co-workers performed their specific tasks. At this deeper level, the implications of the message could not have been fully decoded by any one person, including Mauws himself. Rather, to understand the meaning of manufacturing the redesigned car required members to relearn their own tasks in the context of their interrelationships with the work of the people around them.[59] The notion of collective decoding enables members to develop a shared understanding of their combined work and how their individual tasks contribute to it. Collective decoding is related to organizational change and learning (see Chapter 13).

### 17.4.1. FBL, TBL, and SET Approaches to Decoding

There are many similarities among FBL, TBL, and SET approaches to decoding, but also two differences. First, as is evident throughout this book, the three approaches to management have different *selective perception* biases. FBL decoding focuses on task-related issues like productivity and efficiency, TBL adds a focus on socio-ecological externalities that may help a firm to enhance profits, and SET is receptive to messages that optimize socio-ecological well-being that goes beyond profit maximization.

Second, because of their grounding in individualism, FBL and TBL perspectives are more likely emphasize individual decoding as compared to the SET approach, which is more likely to emphasize collective decoding on account of its tendency to embrace multiple forms of well-being and to encourage diverse voices. The SET approach emphasizes the merit in decoding a message in community, so that it is understood and shared more broadly. The SET approach to decoding is thus oriented toward achieving mutual understanding (how is a message understood collectively), which is more than simply the linear transfer of knowledge from one person to the next.[60] Collective decoding recognizes and respects the unique knowledge that each member brings to the organization, and thereby provides the opportunity for creating new meanings that are richer than either the sender or an individual receiver could come up with on their own.[61] This will be discussed further in the next section.

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*Collective decoding recognizes the unique knowledge each member brings.*

## 17.5. Information Flow from Receivers to Sender

From an FBL or TBL perspective, the information flow from receivers to sender is seen as the *final* step in the communication process (feedback), and the focus is on determining whether the sender's message was received as intended. But from a SET perspective, the information flow from receivers to sender is seen as the *first* step in the communication process (feedforward), and the focus is on whether the senders are attuned to intended receivers, which in turn helps senders to develop their messages. Of course, both views can be true at the same time and both operate among all managers, but which view is emphasized will have an effect on communication practices and content. We will examine each of these views.

### 17.5.1. Feedback regarding whether a message was successfully received

The receiver-to-sender information flow has traditionally focused on how the receiver lets the sender know whether the message has been received and interpreted as intended. Feedback can be as simple as hitting reply and saying, "I received your message and will comply." Or maybe, "I received your message but don't understand it, please clarify." Or, "I have received your message and have some follow-up questions for clarification, and perhaps a suggestion you might want to consider." Sometimes feedback is evident in the nonverbal communication of a receiver. A puzzled look, for example, implies that additional information is needed. Face-to-face communication is excellent for providing immediate feedback, and facilitates the opportunity for paraphrasing messages

and asking questions of clarification. In this sense feedback is like active listening, where the receiver paraphrases the message and provides nonverbal cues of attention. Other times feedback is much more complicated, especially when the receiver does not fully understand what the message means or how to respond to it. In such cases, it is often helpful to choose a richer medium to provide feedback rather than the medium that was used to transmit the original message. For example, if an organizational member is unclear about how to interpret an email written by a colleague, the member would be well-advised to talk with the colleague face-to-face or over the phone.

Feedback has two key benefits. First, it can confirm that the original message was received and interpreted as intended, and thereby complete the four-part communication process. Of course, sometimes recipients may *think* they understand a message, but their understanding differs from the message that was intended by the sender. For example, there may be a difference between what a parent and what a child think it means to have a clean room. Noncompliance with a request is another signal that the original message has not been understood.

*Feedback can confirm that a message was received and interpreted as intended.*

Second, feedback provides an opportunity for the original sender to learn something new that will enable them to improve subsequent messages (this is elaborated on in the following section on feedforward communication).[62] Perhaps the most important aspect of feedback is the opportunity for managers to learn from constructive criticism of their original message. However, many managers are not very receptive to constructive criticism from their subordinates.[63] One study found that when ranking forty-nine items of managerial effectiveness, subordinates rated their manager's receptivity to upward feedback at the bottom. Indeed, receptivity to upward feedback was identified as a strength for only 16 percent of managers.[64]

When managers are unable or unwilling to learn from the feedback they receive from others, they are prone to repeating ineffective messages and holding unrealistic ideas about their organization. Indeed, senior managers of failing organizations often have a much rosier view of their organization than do outsiders, and senior managers often see fewer organizational problems than their

junior colleagues.[65] In such cases, the communication process becomes like an echo chamber, with managers limiting the kind of information they send and receive (i.e., regarding what they pay attention to versus what they dismiss as noise). To prevent echo chambers, managers can use a variety of techniques to nurture feedforward communication. As will be describe more fully in the next section, these techniques include deliberately inviting ideas from others and listening to them, acknowledging and thanking team members who challenge the status quo, and seeking to build on the positive aspects of others' ideas rather than demonstrate their shortcomings.[66]

Research suggests that managers who seek genuine feedback tend to be perceived as more interested in nurturing community, in developing positive working relationships, and in demonstrating consideration and concern for others. They are also perceived to be more friendly, approachable, and empathetic. Such managers tend to value differences and to work well with people who have different points of view, find ways to enhance multiple views, are open to new ideas and ways of doing things, and have excellent listening skills (including avoiding criticizing others before giving them a fair hearing, and listening to perspectives that are different than their own). Such managers are also known for giving honest and direct feedback.[67]

*Managers who seek feedback tend to be more considerate, approachable, and empathetic.*

### 17.5.2. Feedforward communication that informs subsequent messaging

A feedforward understanding of receiver-to-sender information flow emphasizes how, before a sender chooses and encodes a message, they first consider previous communication with the intended receiver(s) of their message. While all managers do this to some extent, those operating within a SET perspective think about it more deliberately. For example, recall (from Chapter 13) that prior to talking to supervisors about the need to hire more women and promote more minorities, AT&T corporate vice president Robert Greenleaf deliberately reminded himself and the supervisors of their previous interactions, shared experiences, and accomplishments. Greenleaf also reminded himself that he was part of the problem, part of the ongoing communication and work practices that had

caused women to be underrepresented in the workforce and minorities to be underrepresented in various positions at AT&T.[68]

At a more philosophical level, an emphasis on feedforward communication can be seen as having four key elements. First, this approach recognizes that an organization exists only because of prior communications of members, and this prior communication provides the basis for any subsequent communication.[69] This is illustrated by Greenleaf's example, even though he may not have been thinking in these abstract terms. From a feedforward perspective, organizations are a communicative accomplishment, where organizational realities are socially constructed by stakeholders through communicating.[70]

Second, in its ideal form, a SET approach to feedforward communication does not privilege managers over other members and stakeholders. It recognizes that without followers there are no leaders, and without customers and suppliers there are no organizations. Feedforward communication sensitizes managers to the views and needs of the larger organization and community, just as it sensitizes followers and others to the views and needs of managers. In the Greenleaf example, he de-emphasized his authority and status, and instead deliberately assumed a servant leadership role where he listened to and supported the ideas of supervisors who were much further down the hierarchy. Moreover, he attended to the (unspoken) messages sent by the marginalized (in this case, underrepresented women and minorities).

Third, a SET approach to feedforward communication recognizes that communication is a basic life process, much more than simply an exchange of information or a tool used by managers to achieve particular goals.[71] Yes, organizational communication is about achieving organizational goals, but it goes beyond that. It also relates to meaningful work and relationships with co-workers and other stakeholders. And the parameters of feedforward communication go beyond the organization itself, extending to people's home life, past generations and hopes for future generations, and the messages we get from and send to the natural world.

*Communication is more than an exchange of information.*

Finally, and perhaps of more practical relevance, feedforward communication draws attention to the idea that the transmission of specific messages takes place

in the context of, and contributes to, a larger organizational story. A challenge for managers is to understand that larger story and to send messages that will be compelling and inspirational for others participating in the story. This is a particular challenge facing entrepreneurs, which we will look at in the section about entrepreneurial storytelling toward the end of the chapter.

### 17.5.3. FBL, TBL, and SET approaches to feedback/forward

While all three management approaches recognize the importance of feedback and feedforward communication from receivers-to-senders, their emphases are different. FBL and TBL approaches tend to see receiver-to-sender information flow as the final step in the communication process, emphasizing that this step is about feedback. While managers are fine at receiving feedback at a basic level (i.e., to determine whether their message was received as intended), research suggests that managers are generally perceived to be poor at receiving constructive feedback from subordinates (e.g., how can they improve their messages going forward). Managers who are good at receiving constructive feedback often share some behaviors that are emphasized in SET management (e.g., being interested in nurturing community, seeking to enhance multiple views, being open to new ideas and ways of doing things).[72] In general, the SET management approach is more likely than FBL and TBL approaches to see the receiver-to-sender information flow as the starting point of the communication process.

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## 17.6. Entrepreneurial Storytelling

The question of whether communication starts with a sender choosing a message to send or starts with information flowing from intended receivers of the message lies at the crux of understanding the communication challenges facing entrepre-

neurs. On the one hand, entrepreneurs need to be experts in listening to the information coming from the key stakeholders for whom the start-up is trying to create value. The better entrepreneurs are at this, the more attuned their new ventures will be to the market. On the other hand, entrepreneurs need to be masterful at developing and transmitting their organizational message. In particular, the better entrepreneurs are at telling the story of what their new venture represents, the more likely they will be to inspire the participation of key stakeholders (employees, suppliers, and customers). Establishing the basic *story* of the start-up provides the context for subsequent communication within and about it.[73]

In general, regardless of management style or entrepreneurial stage, it is essential for all entrepreneurs to be able to communicate their ideas to others, and to get other people excited about their ideas.[74] Their communications need to inspire people. Research reveals factors that can help the entrepreneur to be more inspiring.[75] The most important factors in inspirational communication are behavioral; the words and structure and tone determine how inspirational a communication will be. The most inspirational communications make use of symbolic language, concrete images, and value-based positions. And what's the best way to do all these things? Tell stories.

*The most inspirational communications make use of symbolic language, concrete images, and value-based propositions. The best way to do all these things? Tell stories*

We have evolved to make sense of the world in terms of stories.[76] If you have ever had the experience of not knowing where to start, of feeling as though you need to say several things at the same time to express your meaning, then you have encountered a significant problem with language: it is serial in nature. That is, you can only say one word at a time, and to make sense, those words must come in a sequential order. In contrast to the serial nature of language, our brains are connectionist: we can hold several thoughts at the same time and any particular thought can simultaneously produce many reactions in our brains. When someone says "dog," your mind may immediately picture your family pet, famous dogs from pop culture, memories of high humidity summer days ("the dog days of summer"), or any number of other related ideas—plus all the emotions that attach to each idea.

Traditional language cannot easily express the complexity of our thinking, which is why poetry breaks the rules of writing and why we often say that "a picture is worth a thousand words." But the most powerful way to communicate complex ideas, especially for entrepreneurs, is through stories. The *Homo sapiens* (modern human) species has been identified through African fossils as more than 200,000 years old. In contrast, the oldest known writing is only 10,000 years old, and writing probably wasn't consistently practiced until thousands of years after that. This means that humanity has spent more than 95 percent of its history without writing. During that time knowledge was shared in the form of stories, and it still is now. Think about the fairy tales and other lessons you learned as a child even before you could read. Think of the parts of class lectures that are most interesting and memorable. Our brains have evolved to make sense of the world through stories, and we have been trained to do so since birth.

As a result, stories are how we think. We remember information better when we hear it in the form of a story.[77] We pay more attention, we find information more interesting, and we notice more details when we hear stories.[78] And because we already have simple generic story plots in our memories as scripts, we require less mental energy to make sense of a story and to see how its parts connect. In fact, stories are so important to our thinking that we sometimes misremember in ways that improve the story rather than reflect the true facts.[79]

*Stories are how we think. We remember information better when we hear it in the form of a story.*

Entrepreneurs will be more successful if they can tell compelling stories about their goals and their vision. Stories can help others to see the potential in their ideas for a new venture. For example, **initial public offerings** (*when a firm's ownership shares are sold for the first time on a public securities exchange*) gain more support when the founders are effective storytellers.[80] Entrepreneurial stories can also encourage others to act on behalf of a start-up. Stakeholders are more likely to engage with good stories,[81] and they will usually do better retelling a vivid story than they will developing their own argument to support the entrepreneurial goal.[82] Concrete details, word pictures, and a clear plotline are keys to

powerfully communicating an entrepreneurial goal. When investors ask you "What's your story?" they mean it literally.

A study of storytelling associated with new start-ups on the crowdsourcing site Kickstarter found that there were two types of successful stories: *results-in-progress*, and *ongoing journey*.[83] The first type, results-in-progress stories—more likely to be associated with FBL entrepreneurs—tend to focus on materially valuable outcomes, to rely on advanced technology, and to have little concern for the social well-being of the larger community. These stories focus on past accomplishments and future steps, seeking to establish a transactional engagement. A typical results-in-progress story might go like this: "ZZ is a result of YY years/months of . . . We've produced/built XX . . . Now we are ready to . . . We need your support in order to . . . ."

Ongoing journey stories—more likely to be used by SET entrepreneurs—tend to have a high social orientation (benefit to people in need), a low emphasis on material outcomes, and a lower need for sophisticated technology. Ongoing journey stories focus on past developments and a vision for the future, seeking to establish emotional engagement with the listener. A typical ongoing journey story might go like this: "XX years ago we realized/started thinking about . . . We hired YY. who noted that . . . We would like this project to be . . . Our project is to promote ZZ . . . We ask you to become part of/join this journey."

*Stories provide the all-important context for the subsequent communication that takes place within and about them.*

Of particular relevance for this chapter, organizational stories provide the all-important context for the subsequent communication that takes place within and about them.[84] In terms of the communication cycles associated with the four components of the communication process described in this chapter, entrepreneurs draw ideas from stakeholders (feedforward) to develop their message, which they encode as a story in order to inspire stakeholders (decoding), who in turn provide new feedback to improve the message, enhance the story, and create more engaged stakeholder listeners.

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=1294#h5p-87*

## Chapter Summary

1. Managers spend about 75 percent of their time communicating with others.
2. The communication process consists of the following four components:(i) Message is identified
    - An FBL approach emphasizes transmitting task-oriented knowledge that will help to enhance an organization's financial well-being; the focus is on messages managers send to other organizational members; the goal of managers is to convince other members to accept their message.
    - A SET approach emphasizes messages that enhance socio-ecological well-being; the focus is on messages all stakeholders send to one another; the goal of managers is to facilitate the exchange of ideas and identification of the best ones.

    (ii) Message is encoded and transmitted (through chosen media and channels)

    - FBL managers seek to reduce noise that comes from potential barriers and differences among recipients, and to send messages in the most financially cost-effective way.
    - SET managers seek to reduce noise but welcome information about socio-ecological externalities

(which would be noise from an FBL perspective), and to use the richest communication medium that is practical.

(iii) The message is received and decoded

- An FBL approach focuses on how individuals decode messages and tune out non-instrumental distractions.
- A SET approach focuses on how groups decode messages and tune in matters related to socio-ecological well-being.

(iv) Information flow from receivers to the sender

- An FBL approach prefers feedback communication that confirms that messages are understood as intended by senders.
- A SET approach prefers feedforward communication as the first step in developing subsequent messages.

For each of the four components, a TBL approach is consistent with FBL practices, unless there is a business case supporting the adoption of SET practices.

3. Entrepreneurs who provide an organizational story provide context for subsequent communications within and about the start-up.

## Questions for Reflection and Discussion

1. Identify and briefly describe the four steps in the communication process. What are the key differences between the FBL, TBL, and SET approaches to the communication process? What are the key similarities? Explain.
2. Generative AI is spreading through the workplace. What are the pros and cons of this increasing use? What workplace skills do you think will become more important going forward, and which will become less important? Have you ever worked on group projects where some members' contributions are largely based on generative AI? What effect do you think this had on group dynamics and on the quality of

the final report?

3. Think of a time when you participated in collective decoding, that is, when your own understanding of a message was enhanced because you were interpreting it during conversations with others. Was the sender of the message part of the process of decoding it? Do you think the message that you understood after this process was more multifaceted and clearer than the sender's own understanding of the original message?
4. Describe the difference between rich and lean media. What criteria should managers use to select a medium for their message? What effect do you think social media has had on the relative power of managers and subordinates in organizations? How about on their mental health? Explain your answer.
5. Explain why it might be challenging for FBL managers to accept constructive feedback. Would this be different for TBL or SET managers? Explain.
6. Have you ever worked with others whose communication style promoted an ethic of care in the workplace? Did other co-workers follow their example? Based on your experience, what is the proper balance between task-oriented and care-oriented messages in organizations? What are reasons you personally would, and would not, deliberately increase care-oriented communications in an organization.
7. Consider the following statement:

   > "In this era of globalization and intense competition, managers really don't have any alternative but to communicate in ways consistent with FBL management. If they don't continually focus on the importance of productivity and profitability in their communications, their subordinates will not get the message, and thus their company's profitability and productivity will suffer because other companies are relentlessly pursuing these goals. The SET approach to communication sounds good, but it simply will not work."

   Do you agree or disagree with the statement? Explain your reasoning.
8. Think about a new venture you might be interested in starting. Which stakeholders should you listen to as you develop your ideas for the new organization? What is the basic story that you would tell others about the new venture? Describe how it would inspire stakeholder engagement, and what context you would want it to provide for subsequent communication within and about your start-up. Is yours an FBL, TBL, or SET story? Explain.

## Notes

1. This case is based on a personal interview with one of the authors (March 27, 2001). Names and other details have been changed for reasons of confidentiality and pedagogy.
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# Part 5: Controlling

# 18. Control


- Learning Goals
- 18.0. Opening Case – Like Father, Unlike Son
- 18.1. Introduction
- 18.2. Four Steps of the Control Process
- 18.3. Control in Entrepreneurship
- 18.4. Appendix
- Chapter Summary
- Questions for Reflection an Discussion


*Chapter 18 provides an overview of the four steps of organizational control, as summarized in the following table and in the whiteboard animation video.*

| Four steps of control | FBL | TBL | SET |
|---|---|---|---|
| **1. Establish performance standards** | Use value chains help to identify key control points and standards (profitability, efficiency, productivity, quality) | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | Use value loops help to identify key performance standards (living wage, zero GHG emissions, hire people facing multiple barriers) |
| **2. Monitor performance** | Use top-down information systems, especially accounting | | Use bottom-up information systems, all the SET business functions |
| **3. Evaluate performance** | Use top-down approach: rational, quantitative | | Multiple stakeholders: relational, qualitative |
| **4. Respond accordingly** | Managers take action, focus on shareholders | | Managers draw on and trust others, may reinvent business functions |
| **Entrepreneurial implications** | Attend to founder effects and to post–start-up decisions about ownership and possible delegation of control process. | | |



*One or more interactive elements has been excluded from this version of the text. You can view them online here: https://pressbooks.openedmb.ca/management/?p=42*

## Learning Goals

After reading this chapter, you should be able to:

1. Outline the purpose of management control and management control systems.
2. Understand the components of a value chain and the distinguishing features of a value loop.
3. Describe the four-step process of organizational control.
4. Explain how the control process varies in FBL, TBL, and SET management.
5. Explain the difference between data and information, and why this is key to controlling.
6. Explain why entrepreneurs need to consider founder effects and post–start-up decisions about ownership and delegation of control processes.

## 18.0. Opening Case – Like Father, Unlike Son

Michael Mauws was completing a graduate degree in business when his father, Larry, asked him to manage his company, Westward Industries Ltd.[1] The company designed and manufactured three-wheeled cars used by police forces throughout the United States for traffic control and parking enforcement. Its

three-wheeled GO-4 vehicle had taken the market by storm and was a leader in its market segment.

Larry wanted Michael to take over the firm so that Larry could focus on his favorite part of the business, which was redesigning the car and inventing new products. Michael agreed to help his father and had visions of making the company a self-managed organization where workers had as much control as possible.

Michael knew that he and his father had different visions for how Westward should be managed. Larry was an entrepreneur who liked to invent things, but he did not like paperwork. He was always tinkering with the car, improving it because he enjoyed responding to customer feedback. For him, the best way to grow Westward was by improving the design of its product. It was his company, his car, and he called the shots. There were few written policies and a very limited paper trail. Inventory and parts were especially problematic, and often the assembly line had to wait for a rush order of missing parts.

Westward's employees were happy that the firm was going to be managed by someone with Michael's administrative and organizational skills, and glad that Larry would stay on as vice-president of research and development. Michael's management style was the opposite of his father's. Rather than top-down control, Michael wanted to manage the firm from the bottom up, with members having control over their work. Michael wanted to be treated like a member of the team, a team where everyone in the organization performed their role and respected each other. He wanted everyone to have ownership of their jobs and to enjoy their work. He also wanted everyone to be empowered to make decisions about their jobs, including what time they arrived in the morning and when they left at the end of their shift. After all, they were the experts in the work that they did. Michael created a "What's Happening" binder that he left on the staffroom table; it contained letters to suppliers and customers, and financial reports. He wanted everyone to know what was going on.[2] Michael started to hold weekly staff meetings, where problems were discussed and decisions made.

Michael's most important contribution was to overhaul the information systems at Westward. He revamped everything from human resource management to accounting to operations management. He knew that getting the right information into the hands of employees was key to his vision of a self-managed organization. His new systems provided basic information that had not been available at Westward before—like how many parts there were in inventory—and it was welcomed by everyone. At first Larry despised the system, because it demanded that everyone—even Larry—had to account for each part and piece of material being used. Michael also overhauled the accounting system, which made it easier to

find out which custom orders were more profitable, what the costs were for adding special features to the vehicle, and which components to produce in house and which to buy from suppliers.

Compared to his entrepreneurial father, Michael had a different set of values and ideas about control, and a different way of relating to others and making decisions. This, in turn, resulted in his developing different information systems. However, even six months after his arrival and making all these changes, most employees at Westward had not embraced Michael's management approach. They had spent years working under Larry's approach, and most did not buy into his son's vision for a self-managed organization.

Then unexpectedly Michael left Westward, and Larry took over the management duties again. Although Larry appreciated the systems improvements that Michael had made, Larry was quick to revert to his "old school" approach to managing the company. And employees, who were very familiar with Larry's management style, were ready to embrace it. Michael's vision for a self-managed firm and his changes seemed destined to fail.

However, the story does not end there. One year after his departure, Michael's idea of a self-managed organization started to take hold at Westward. This happened in large part because of the way that Michael had designed Westward's management information systems, which Larry had not changed after Michael's departure. By working in accordance with these information systems—which Michael had created to support his vision of a self-managed organization—workers at Westward began to experience firsthand what Michael had been trying to accomplish. They grew to enjoy the empowerment that the information systems provided.

Gradually employees began to challenge Larry, in large part because Michael's systems provided them with information to make better decisions than Larry could make. For example, ordering supplies and parts was no longer based on Larry's guesstimates but rather on the more accurate information provided by Michael's information systems. In sum, the information systems that Michael had developed and implemented were shaping a self-managed organization, where control that had formerly been held by the manager was now available to workers.

## 18.1. Introduction

Michael's efforts to create a self-governing organization and the systems he designed to make this possible in Westward's accounting, operations, and human

resource management functions illustrate the importance of information systems in understanding the control process in organizations. **Controlling** seeks to ensure that an organization's activities serve to accomplish its goals. Controlling is usually taught as the fourth function of management (after planning, organizing, and leading). However, at its best, controlling may represent the most thoughtful, reflective, and forward-looking of Fayol's four functions of management, and could easily be taught before the other management functions. Controlling demands that managers consider the "big picture" of an organization's operations and ensure that all the different activities accomplish what they set out to do.

As will be described in greater detail in the chapter, this big-picture understanding can be facilitated by thinking about how an organization manages its inputs, its conversion processes, and its outputs. In other words, it involves seeing an organization as a system that interacts with its larger environment (see Chapter 2 on open systems thinking). Managing *inputs* includes how the organization sources the things it requires to do its work (e.g., hiring employees, securing necessary financing from investors, and procuring resources like energy, raw materials, and other supplies). Managing *conversion processes* involves turning inputs into outputs, the actual work the organization does to manufacture goods or provide services (e.g., training and motivating workers, managing cash flow, maintaining equipment). And managing *outputs* refers to all the things that a firm produces (e.g., goods and services for clients, earnings for owners, and waste and pollution). There is a lot to control! Indeed, controlling involves each of the functions of business: supply chain management, human resource management, accounting and finance, operations, and marketing.

In the next section we describe the four-step control process, highlighting differences among the Financial Bottom Line (FBL), Triple Bottom Line (TBL), and Social and Ecological Thought (SET) approaches.

## 18.2. Four Steps of the Control Process

The four steps of the control process are (1) establish performance standards, (2) monitor performance, (3) evaluate performance, and (4) respond accordingly. This process will unfold somewhat differently for FBL, TBL, and SET managers, but it also will be informed by other factors, especially the organization's design—simple, defender, prospector, or analyzer type (see Chapter 11). For example, defender organizations favor using written performance standards to control internal organizational operations, whereas prospector organizations lean

toward informal performance standards and relationships with external stakeholders. In other words, some organizations emphasize bureaucratic control (e.g., rules, standard operating procedures), others market control (e.g., industry standards and benchmarks), and others clan control (e.g., organizational values and culture).[3]

### 18.2.1. Step 1: Establish Performance Standards

Because managers cannot control everything that happens in an organization, they must be selective when they design control systems. In the first step of the control process, managers identify the most important activities that need to be controlled. This involves developing a short list of key performance standards that serve as indicators of whether a firm is meeting its overall goals (i.e., its mission, vision, and strategy; see Chapter 8). Recall from Chapter 9 that performance standards refer to metrics used to determine how well a particular employee, department, or organization is doing its work.

Developing an organization's key performance standards can be challenging. To meet this challenge, managers have found it helpful to consider three dimensions of organizational activities that managers must control, as shown in Figure 18.1. *Inputs* (e.g., hiring employees with needed skills, acquiring adequate financing, accessing supplies, etc.) provide resources that are combined in a *conversion process* (e.g., manufacturing) to produce *outputs* (e.g., goods and services) for specific markets that the organization serves. This **value chain**—the sequence of activities needed to convert an organization's inputs into outputs—is a crucial tool that helps managers choose key performance standards. Value chains help managers design control systems by identifying critical factors that determine whether goals are met, and anticipating major problems such as waste,[4] over-production, and defects.[5]

**Figure 18.1. A conventional value chain**



Figure 18.1 includes three important mechanisms of control—feedforward, concurrent, and feedback—that are connected to the three steps of the value chain. First, managers need to determine the inputs required for their organization to create its goods and services. **Feedforward control** is designed to determine whether an organization's inputs meet its performance standards. Feedforward control helps an organization's operations to run smoothly and to identify potential problems related to inadequate inputs. It allows managers to reduce problems from occurring by anticipating and preventing them. For example, managers ensure that the people they hire have proper training and experience, that the financing they acquire is affordable and legitimate, and that the raw materials come from trustworthy suppliers and are available in a timely manner. Feedforward control will often draw from and be related to an organization's supply chain function (sourcing inputs), human resource management function ( hiring practices), and finance function (ensuring adequate funding).

**Concurrent control** is designed to determine whether an organization's conversion processes meet its performance standards. This helps managers to ensure operations meet expected quality metrics and to identify and correct problems as they occur. This might include things like ensuring employees are provided with and follow standard operating procedures, adequate cash flow to meet operational needs, and quality control. Concurrent control will often draw from and be related to an organization's human resource management function (training practices, compensation), and accounting function (production costs), and operations management (quality control).

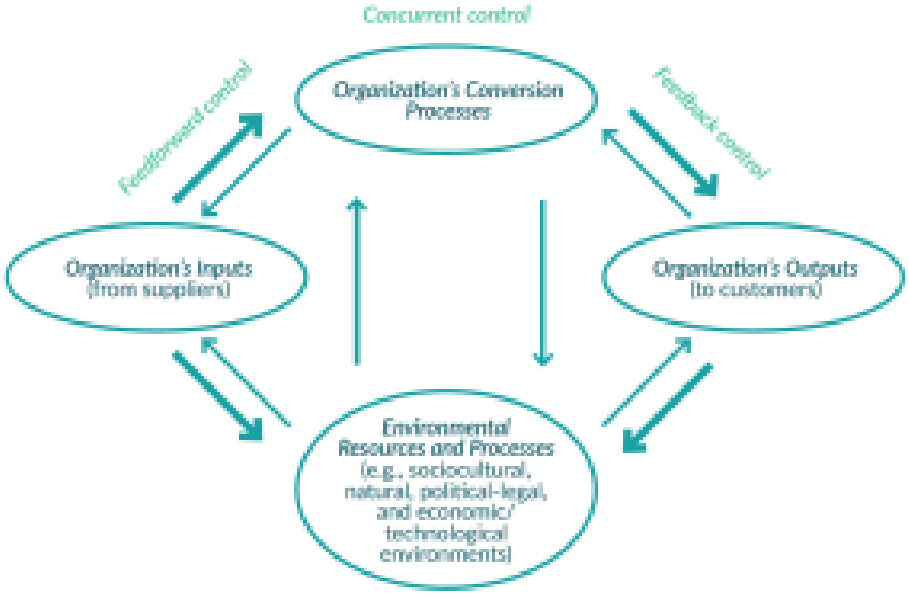
**Feedback control** is designed to determine whether an organization's outputs meet its performance standards. This might include performing exit interviews with employees who leave the organization, ensuring the return rate on financial investments meets targets, and monitoring customer satisfaction and sales for trends and surprises. Feedback control will often draw from and be related to an organization's supply chain management (delivery), and finance and accounting function (profit margin), and marketing function (customer satisfaction). If performance standards are not met, then corrective action can be taken to avoid future problems.

To illustrate how these controls work together across the organization, imagine that you manage a business that manufactures medical devices. Your control system needs to ensure that the devices meet technical, operational, and safety performance standards. This requires establishing performance standards and *feedforward control* related to inputs (e.g., to ensure that suppliers follow stringent quality control; that all raw materials are traceable, and a recall system is in place to identify which products need to be removed from the market in case of

problems related to suppliers). It also requires developing *concurrent control* related to the conversion process (e.g., to ensure that products meet technical specifications; that staff have proper training in and follow safety standards). And finally, it means requires developing *feedback control* related to output (e.g., packaging materials are not contaminated; shipping occurs under proper environmental conditions, including temperature and humidity; once received by customer, products are inspected for possible damage during shipping and tested prior to use).[6]

Despite the merits and extensive use of value chains within FBL management, they are increasingly being replaced by ideas like value loops, which are related to cradle-to-cradle thinking (see Chapter 4)[7] and the circular economy—that is, an economy that is regenerative and restorative and where so-called waste is transformed into valuable inputs.[8] A **value loop** *describes how an organization's inputs are converted into outputs, which in turn are linked to the organization's future inputs.* Like a value chain, the value loop concept depicts the organization as an open system in relationship with its external environment, but expands considerably the scope of the external environment (see Figure 18.2). Adding a fourth node—"Environmental Resources and Processes"—to value chains, value loops draw attention to social and ecological externalities associated with inputs and outputs. Value loops help managers understand how organizational activities contribute to and resolve social and ecological problems in the larger system. "Completing the circle" from outputs to inputs also adds meaning to the nature of feedforward, concurrent, and feedback control.

**Figure 18.2. A generic value loop**




Whereas value chains move in only one direction (i.e., from inputs to conversion processes to outputs[9]), value loops explicitly recognize that the flow of resources travels in *both* directions between the nodes. The thicker arrows in Figure 18.2 indicate the direction that managers usually see the resources flowing, while the thinner arrows indicate that managers must also be sensitive to how resources and information flow in the opposite direction. These "opposite direction" flows affect the control process. For example, when managers in fast food restaurants began to receive unsolicited requests for food prepared in a healthier fashion (i.e., grilled not fried, fruit instead of fries, veggies instead of meat), this affected the companies' conversion processes. Customer inquiries regarding the environmental impact of packaging influenced managers' input decisions (such as looking for suppliers who used recycled paper). Managers have much to gain by developing control systems that adapt to changes in customer preferences or trends in the larger environment.

Consider how value loops are evident at Interface Inc., the carpet manufacturer described in the opening case of Chapter 13, which went from being an FBL- to a TBL- and eventually a SET-managed company.[10] In particular, we will focus on the different subcomponents within the "Environmental Resources

and Processes" circle at the bottom of Figure 18.2 and briefly describe how each is related to Interface's inputs, conversion process, and outputs. In terms of the *natural* environment, Interface uses natural materials as inputs, and at the same time its managers strive to minimize the amount of pollution or waste it creates and to maximize the reusability of its outputs (e.g., cradle-to-cradle product design). In terms of the *socio-cultural* environment, managers at Interface recognize that societal values shape their employees and provide the legitimacy that allows the company to do its work (inputs), and Interface contributes to the socio-cultural environment by creating jobs and products that provide symbolic and social meaning (outputs). Interface also affects the socio-cultural environment by providing a compelling example of how SET management principles can be applied in large organizations. In terms of the *political-legal* environment, managers at Interface depend on the legal institutions and regulations that allow it to exist as a corporation (inputs), and it in turn provides taxes to support the infrastructure created and maintained by government (outputs). Finally, in terms of the *economic and technological* environments, Interface requires investment capital and existing technology (inputs), and it pays out dividends and develops more sustainable technologies that create benefits for others (outputs).

#### FBL, TBL, and SET Approaches to Establishing Performance Standards

As we described above, managers draw from the various functions of business when developing performance standards. For example, feedforward control may often draw from supply chain management, concurrent control will draw from production and operations, and feedback control from marketing. Even so, the nature of the performance standards managers develop will vary based on management approach.

Of the three approaches to management, FBL management is the most likely to emphasize controls that can be quantified and written down, and is known for placing particular emphasis on performance standards rooted in accounting.[11] From an FBL perspective this makes sense, insofar as accounting tends to measure things in financial terms.

This emphasis on measuring the financial performance of a firm is evident in the illustrative standards shown in Table 18.1. For example, when it comes to feedforward control, FBL managers seek low-cost suppliers (to reduce expenses), dependable quality (to minimize unexpected costs), stable relationships with suppliers (to reduce the expenses associated with switching from one supplier to another), a strong applicant pool (to reduce search costs related to recruitment), and access to low-cost financing (low interest costs). Similarly, when it comes to

concurrent control, FBL managers seek training and development programs that minimize costs while ensuring employees are adequately trained, and standardized performance and compensation practices that are efficient. Finally, FBL managers are also particularly interested in the financial implications of feedback controls.

**Table 18.1. Illustrative FBL performance standards from select business functions**

| *Business function* | Feedforward control | Concurrent control | Feedback control |
|---|---|---|---|
| **Supply chain management** | • low-cost purchasing<br>• dependable quality<br>• stable relationship | | • low-cost delivery<br>• dependable delivery |
| **Human resource management** | • strong applicant pool | • effective training and development programs<br>• routine performance appraisal<br>• satisfactory compensation | • low employee turnover |
| **Finance and accounting** | • available financing<br>• cost of capital | • per-unit costs | • net profit |
| **Operations management** | | • quality control<br>• on-time production<br>• minimize inventory | • low return rates |
| **Marketing** | • awareness of consumer market trends | | • sales<br>• market share<br>• customer satisfaction/ loyalty |

TBL managers use many of the same performance standards associated with FBL management, but in situations where it is in their financial interests to do so, they also include standards more closely associated with SET management that consider social and ecological factors and link an organization's outputs and inputs (see in Table 18.2). This is consistent with TBL management's emphasis on reducing negative externalities when there is a business case to do so. A TBL approach is evident in many tools being used in the field, including variations of ESG (economic, social, and governance) reporting, the balanced scorecard approach, and social and ecological audits.[12]

A SET approach also uses performance standards associated with FBL and

TBL approaches, but rather than concentrating on maximizing financial interests, efficiency, and achieving competitive advantage, a SET perspective is more likely to prioritize things like interpersonal trust, the flow of empowering information, and enhanced ecological well-being. This is not to say that SET management ignores the kinds of performance standards listed in Table 18.1, but rather that compared to FBL and TBL managers, SET managers place more emphasis on the kinds of performance standards shown in Table 18.2.

**Table 18.2. Illustrative SET performance standards**

| *Business function* | Feedforward control | Concurrent control | Feedback control |
|---|---|---|---|
| **Supply chain management** | • practice social procurement<br>• monitor suppliers (& suppliers' suppliers) externalities for<br>- pollution/waste<br>- GHG emissions<br>- local<br>- organic<br>- ESG score<br>- B Corp | | • monitor distribution practices:<br>- pollution/waste<br>- GHG emissions |
| **Human resource management** | • monitor suppliers (& suppliers' suppliers) externalities:<br>- pay living wage<br>- hire multi-barriered employees<br>- provide life-skills training | • pay living wage<br>• hire multi-barriered employees<br>• provide life-skills training<br>• treat employees with dignity | • promote work-life balance<br>• offer job security<br>• offer paid time to volunteer in community |
| **Finance and accounting** | • attract SET-minded investors<br>• foster local multiplier effect | • account for externalities:<br>- in financial statements/reports<br>- when calculating - inputs<br>- conversion processes<br>- outputs | • seek genuine profit<br>• inspire/enable other firms to relax need to maximize profits |
| **Operations management** | | • reduce genuine costs (i.e., take externalities into account) | • ensure products are:<br>- easy to use<br>- easy to repair,<br>- cradle-to-cradle product design |
| **Marketing** | • be aware of unmet needs in the market | | • improve clients' quality of life (meet needs vs. merely wants)<br>• de-commodify products<br>• practice transparency<br>• minimize GHG emission in use and post-use<br>• foster community |

Note that Table 18.2 also contains feedforward and feedback controls which, from an FBL value chain perspective may seem unnecessary and impossibly complicated. However, some of these previously "unnecessary" considerations are already being included in practice and regulations. For example, consider the

performance standard related to measuring GHG (greenhouse gas) emissions through the entire supply chain. This sounds challenging. Yet this is a challenge worth accepting from a SET perspective. And this view seems to be gaining momentum. From 2025 onward, large corporations doing business in Europe have to report on their Scope 3 emissions,[13] which include GHG emissions related to transportation (including transport of raw materials, business travel, employee commuting), production and use of the outputs (including those of customers and disposal of products), and even from the investments a firm makes (e.g., whether it invests in fossil fuel companies or in regenerative agriculture companies).[14] Moreover, Scope 3 emissions include not only those of a firm's suppliers but also of its suppliers' suppliers.[15] In other words, if Company A buys electricity from Company B, and Company B bought the electricity from Company C who produced it by burning coal, then Company A's Scope 3 report must include the GHGs emitted by Company C. "Organizations' supply chains emissions are, on average, 11.4 times higher than operational emissions, which equates to approximately 92 percent of an organization's total GHG emissions."[16]

Note that some important SET performance standards may be challenging to quantify, such as treating people with dignity, developing mutual trust and community, and enhancing biodiversity. This difficulty is consistent with SET performance standards being based on SMART 2.0 rather than SMART principles (see Chapter 9). Following a SET approach, the development and meaning of performance standards are often fleshed out by organization members and other stakeholders rather than by managers imposing standards on others.

For example, recall the lack of written regulations and performance standards at Semco (Chapter 10), including not having a written mission statement, though Ricardo Semler did have a mission: "to find a gratifying way of spending your life doing something you like that is useful and fills a need."[17] For Semler, productivity and the financial bottom line are a *means*—obviously an important means—to achieve this larger *end*.[18] One reason for Semco's lack of a formal mission statement was Semler's desire for Semco's mission, and its key values, to be constantly socially (re)created by the workers and other stakeholders. Inviting a variety of stakeholders (owners, members, customers, suppliers, and neighbors) to participate in shaping an organization's "barometers of success" is another hallmark of SET management.[19] As Semler noted: "By evaluating success from everyone's point of view, we believe we'll land on the new list of companies that unite sustainability with all-around satisfaction. Let's call this list the Fortunate 500. . . . Redesigning the workplace for the twenty-first century means letting in fresh air and giving up control."[20]

## Test Your Knowledge

*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=42#h5p-88*

*"By evaluating success from everyone's point of view, we believe we'll land on the new list of companies that unite sustainability with all-around satisfaction. Let's call this list the Fortunate 500."*

### 18.2.2. Step 2: Monitor Performance

Once managers understand their organization as an open system and have located critical steps in its value chain or loop that enable identification of key performance standards, they must develop appropriate information systems to monitor performance. An organization's **information system** consists of its mechanisms that identify, collect, organize, and disseminate information. Information systems are important for each of Fayol's four functions of management: planning, organizing, leading and controlling. Spending on information technology accounts for more than half of all the money organizations spend on capital annually (over $1 trillion).[21] Information systems are important in each phase of the control process, but perhaps most evident in allowing managers to monitor performance.

Perhaps the most important attribute of information systems is that they determine what is valuable information and what are merely data (see also Chapter 17 on filtering which messages to communicate). **Data** are facts and figures, some of which managers deem useful but the majority are not. Organizations are filled with almost infinite amounts of data, including what clothes people are wearing on a particular day, what they are eating for lunch, how many words are used in email messages, the tone of someone's voice, the color of the ceiling, and so on. Most data are ignored because they are not seen as important enough to pay attention to.

**Information** refers to data that have been given meaning and value. Managers design control and information systems to monitor meaningful data. For FBL and TBL management, meaningful data are those that help to maximize productivity and financial well-being, and thus are deemed to be information. Data that do not help to achieve these goals are not considered information from an FBL perspective. For example, for many years managers at fast food restaurants found that data about the price of paper used to wrap their burgers provided useful information (to allow managers to reduce costs and thus increase profits), but these managers did not have any interest in whether the paper was recycled. Today, thanks to changes in consumer demand, information about whether the paper has been recycled is recognized as valuable information along with the price of the paper.

It is precisely this process of deciding which data are meaningful that makes information systems an essential part of the controlling function. By creating an organization's information system, managers are signaling what is meaningful and valued in the organization and what is not. For example, FBL managers may design information systems that monitor and collect financial data, but they typically pay much less attention to social and ecological well-being.

Fortunately, managers do not typically need to develop information systems "from scratch" in this second step of the control process. Rather, because performance standards (first step of control process) are related to the different business functions, systems may already be available for managers to use. For example, the human resources department may already collect data on how many hires were facing multiple barriers, how many employees are earning below a living wage, and how often and why employees leave the firm. And the supply chain department may already be collecting information about the hiring practices, working conditions, and GHG emissions of suppliers. Of course, if information about some of these performance standards is not already being collected, then an important part of the control process is to identify the relevant data as important information and request that it start being collected. And once it is collected, managers and employees throughout the organization will give it more attention. This matter is discussed further in step four of the control process.

Again, remember that just because you have data about something does not mean that it is a source of valuable information. Advanced computing systems are at the heart of most control systems in larger-scale organizations, something Henri Fayol could not have envisioned a century ago when he first introduced this management function. We live in a time of supercomputers and "big data,"[22] and managers have an overwhelming amount of data available to them.[23] In this technologically driven era, there is great need to develop information systems

judiciously, to minimize "noise" and focus attention on the information that really matters (see Chapter 17).

#### FBL, TBL and SET Approaches to Monitoring Performance

Compared to SET and TBL approaches, FBL management pays the most focused attention to information that helps maximize productivity, efficiency, and financial well-being. It also places the greatest emphasis on top-down control systems. FBL management favors the efficiencies associated with digital information systems, which enable and thus often encourage monitoring performance using quantifiable information. For example, **transaction processing systems** are used to record customer orders, track purchases from suppliers, and so on. Most organizations use transaction processing systems to manage tasks like customer billing, supplier payment, and payroll preparation and payment.[24] Grocery stores use scanners to record the sale of items and track inventory levels. The information collected with transaction processing systems is often used in **operations information systems**, where software helps managers to monitor and coordinate the flow of work between various organizational subunits and their suppliers. Such systems help to identify and overcome potential bottlenecks, shortages in inventory, and overproduction. The information drawn from transaction processing systems is also helpful in **decision support systems** that allow managers to gather and manipulate data from a variety of sources to help evaluate performance. For example, managers might want to examine past sales data considering seasonality and the timing of new product introductions by competitors to learn how much these factors influence performance. Finally, managers may access and purchase information about customers (and employees) from social media giants like Facebook and Instagram, and monitor what people say online, what purchases they make, and maybe even what they talk about when Apple's virtual assistant Siri is eavesdropping.[25] TBL management is attracted to the same efficiencies as FBL management, while being more aware of the need to regard some socio-ecological data as information, and using less of a top-down approach in situations where it is profitable to do so.

*We live in a time of supercomputers and "big data," which increases the need for managers to discern what subset of those data are deemed to be valuable information.*

SET management is more aware of the possible negative effects of using information systems to monitor people. This may be especially relevant in a post-COVID era, as more employees are working from home and use of surveillance tools is increasing (an estimated 60 percent of businesses with remote workers use software to monitor employee's performance).[26] Whereas tech companies suggest that monitoring employees' mouse movements, keyboard strokes, and website histories will make them more productive, loyal, happy, collaborative and innovative, experience suggests the practice can lower trust and dehumanize the workplace, reduce autonomy and dignity, increase resentment, and create other negative social externalities that undermine productivity.[27]

A SET approach is particularly aware that members treat one another more respectfully when there are no monitoring systems.[28] For example, Semco—which places primary emphasis on nurturing trust, dignity, and information sharing—does not set up structures and systems like internal audits or inspections to monitor whether workers are complying with organizational regulations (though they must comply with governmental regulations). A SET approach is most likely to design management information systems that empower workers. Ricardo Semler believes that information is power, and he does not want to use that power as a form of hierarchical control. Instead, Semco favors a transparent information system where, for example, everyone has access to the company's financial books (including company profits and every employee's salary), which are also open for audit by their unions. This willingness to share information also spills over to Semco's external environment, such as occasions where customers are sometimes told exactly how much profit Semco will earn from a given sale.

Although SET companies like Velo (Chapter 9) and Semco deliberately minimize many aspects of traditional top-down performance monitoring (e.g., Semco monitors profits and inventories but does not monitor the performance or hours worked by individual employees), they do use bottom-up performance monitoring systems. Semco employees annually fill out an anonymous survey about the company, its future, and its managers. Every six months members fill out a "Seen from Below" questionnaire that asks thirty-six questions, such as whether a manager treats subordinates and peers in the same way.[29]

It should come as no surprise that the SET approach requires the transformation of information systems associated with traditional business functions, in part because SET management monitors the widest scope of socio-ecological performance. This may be most evident in the accounting function. Recall that accounting systems focus on the financial activities going on *within* the boundaries of an organization. This may be why Max Weber identified accounting as the key to

enabling FBL capitalism. From an FBL accounting perspective, a firm is encouraged to not provide benefits to its employees, to export manufacturing overseas to exploit lower labor costs, and to build factories in countries where pollution laws are not enforced. These actions reduce the financial expenses of the firm (and thus increase profits) by increasing the externalities paid by others (e.g., for medical expenses, poverty, and pollution). Indeed, far from being a neutral approach to measuring performance, accounting is set up in a way that contributes to an increasing gap between rich and poor. The rich (the few who can afford shares in corporations) gain when the corporations they own create negative externalities for the rest of the world. Recall from Chapter 1 that the largest 1,200 corporations created $5 trillion of negative ecological externalities in 2018 (a 50 percent increase from five years earlier),[30] an amount greater than their total profits. From an accounting perspective, a firm's profits increase the more it can offload its expenses to others.

Of course, accounting can be reinvented to have firms measure their social and ecological externalities. For example, assume that a loaf of bread at Tall Grass Prairie Bread Company costs $6.00 and that a similar loaf at Factory Bakery costs $5.00. Let's further assume that the Tall Grass loaf is made with local, organic flour, that Tall Grass hires multi-barriered employees and pays them a living wage, and that Factory Bakery does none of these things. If we calculate the financial value of the positive effect on externalities associated with Tall Grass practices (e.g., lower cancer rate due to reduced use of pesticides, reduced recidivism, increased soil health, benefits of local multiplier effect) it amounts to a benefit of at least $2.00 per loaf. In other words, if you included the value of externalities in the bread from Factory Bakery, it would cost $7 per loaf. Which loaf would you purchase? Would you like such information to be available for all the items you purchase (e.g., the externalities embedded in imported vs. local vegetables, in a regular vs. an electric car, in different pairs of jeans, and so on)?[31]

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*An interactive H5P element has been excluded from this version of the text. You can view it online here:*
*https://pressbooks.openedmb.ca/management/?p=42#h5p-89*

### 18.2.3. Step 3: Evaluate Performance

In this step, managers compare the information collected in the second step (monitoring performance) to the goals or standards established in the first step (establishing standards). This allows managers to answer questions such as: Have quality standards been met? Is the "liquidity ratio" within the desired range? Are inventory levels acceptable? Have our GHG emissions decreased? Have we contributed to a sense of community in the neighborhood we operate in? Have we decreased the gap between rich and poor?

While carrying out this step, managers must decide whether extenuating circumstances help to explain variations in performance. For example, did a competitor introduce a new product, or go bankrupt? Were there unforeseen shifts in the industry, or in the overall economic picture? Were any employees experiencing health problems that affected their performance?

Managers must also understand where the variation in performance is a factor of the systems people are working in, and not just a result of the effort or competency of the workers themselves. This is another reason it is important for controlling to be rooted in an understanding of the organization's key systems. Perhaps the best example of this comes from **Total Quality Management (TQM)**, which emphasizes how managers can continuously improve organizational work systems so that products and services better meet the quality desired by customers.[32] This is illustrated by the "Red Bead Experiment" that W. Edwards Deming, a founding father of the quality movement, often used at his four-day seminars.[33] In the experiment, ten volunteers are recruited to work in an "organization" that includes six workers, two inspectors, an inspector of the inspectors, and one recorder. The experimenter then pours 3,000 white beads and 750 red beads into a box (a 4:1 ratio), where they mix together. Each worker scoops beads out of the box with a scoop that holds fifty beads. Each full scoop is considered a day's production: white beads are acceptable, but red beads are defects. Workers are asked to scoop out only white beads and no red beds. Of course, due to the laws of statistical variability, each worker scoops out some red beads (on average ten beads), regardless of how motivated they are to get only white beads or how much their "manager" exhorts them not to or praises workers who scoop fewer-than-average red beads.

The message of the experiment is simple. From a statistical point of view, it is foolish for a manager to utilize *data* about the number of red beads any particular worker produces as the only *information* for evaluating performance. Statistically speaking, there will always be variation in any process or system, so there

will always be variations in the performance of workers, with some performing well and others performing not as well. Put differently, there will be differences in individual workers' performances because performance is often influenced by systemic factors outside a worker's control. It is therefore up to management to improve the systems rather than to evaluate workers' performance using standards that have random variation inherently built into them.[34]

#### FBL, TBL, and SET Approaches to Evaluating Performance

FBL managers are most likely to measure performance standard relaying on quantitative metrics, assuming that numbers don't lie. They are also more likely to consider financial measures, and to evaluate the performance of individuals more than of groups. This is evident in piece-rate compensation systems, where employees are paid based on how many widgets they produce or by how many sales they make, by giving "employee of the month" awards to top performers, by paying bonuses to employees who meet certain targets, and so on (see also Chapter 14).

Because of their greater attention to larger systems (e.g., value loops over value chains), TBL and SET managers are more likely to recognize that the performance of individuals is often influenced by systemic factors outside of their control. TBL and SET managers extend TQM ideas by applying them to ecological, political-legal, and socio-cultural systems evident in value loops. For example, TBL managers often evaluate performance based on ESG measures, which include evaluating things like GHG emissions and the number of people with diverse backgrounds on their boards. And while strong ESG scores have been related to profitability, unfortunately they often become "box-checking" exercises that do not move the needle much on sustainability.[35]

A SET approach relaxes the emphasis on maximizing financial well-being (which reduces its need for ESG-washing), is more likely to consider qualitative evaluations, and involves more stakeholders in evaluating performance. An example of the latter is evident when an organization's annual report includes social audits prepared by external evaluators, when managers are evaluated by the people who report to them, and when external stakeholders are invited to participate in decision-making processes. A SET approach will place greater emphasis on evaluating performance holistically, and is consistent with intelligent product systems that evaluate organizational performance more positively when organizations adopt cradle-to-cradle processes that minimize waste (see Chapter 4).

Overall, SET management places greater emphasis on relational and qualita-

tive measures of performance (SMART 2.0 goals) than on the rational and quantifiable measures associated with the FBL approach (SMART goals). One reason that FBL management is so popular is because of its emphasis on rational and objectively measurable goals like productivity and profits, which seem comparatively easy to measure in monetary terms. It appears more difficult to monitor or evaluate SET goals like trust, ecological biodiversity, social justice, and so on. However, upon closer inspection the so-called rational financial measures that characterize FBL management may be less objective than people think, or they may measure things that people don't see as important to them. A company's annual report has the appearance of objectivity and reality, but numbers and reports are poor representations of the human, intellectual, social, and spiritual capital that make up an organization. And even a measure as basic and seemingly non-controversial as "profit" can be manipulated, as evident in the case of the British chemical company ICI, when top management deliberately changed how it calculated and reported the company's profits to show the company's first loss in 100 years. That "loss" was designed to get the attention and support of employees to implement a transformational change that top management thought the company needed.[36]

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*Upon closer inspection the so-called rational financial measures that characterize FBL management may be less objective than people think.*

### 18.2.4. Step 4: Respond Accordingly

Responding accordingly is an ongoing activity that can happen during any step in the control process, and it provides feedback information to the control process.

For example, if input standards are not being met, then it may be time to reconsider suppliers. If the conversion process standards or output standards are not being met, it may mean offering training or professional development to correct the behavior or transferring staff to other jobs that they are more capable of handling. In short, responding accordingly serves as a feedback loop in the control process, and describes how managers use information provided by the control process to improve an organization's operational systems and activities.

Sometimes responding accordingly may prompt managers to reconsider an organization's entire value chain or cycle, which would trigger the organizational change process described in Chapter 13. As is evident in the opening case of this chapter, it may take a long time before comprehensive changes to an organization's information or control systems result in noticeable changes in members' worldviews or performance. Unfortunately, it is not unusual for managers to become disappointed when changes they have implemented do not immediately yield the improvements they had hoped for; this may cause them to become impatient and jump from one fad to another. Indeed, expected performance improvement may take three or more years to materialize, and it is therefore important that changes are not implemented on an ad hoc or piecemeal basis. Thus, to respond accordingly may mean that managers must be patient and ensure that their approach to control is implemented consistently throughout the organization and in all four steps of the control process.[37]

*It can take three years or longer before changes to an organization's information or control systems result in noticeable improvements in performance, so managers need to be patient and not jump from one fad to another.*

#### FBL, TBL, and SET Approaches to Responding Accordingly

FBL managers are most likely to focus narrowly on whether a firm's financial performance standards are being met, and to take a short-term, financially driven, unilateral, top-down approach to responding accordingly. FBL managers are famous for so-called rank and yank systems, where employees are ranked from highest to lowest performing, and responding accordingly means firing the lowest-performing employees or closing the least-profitable division or business. For

example, former General Electric CEO Jack Welch was infamous for shutting down divisions were profitable but not profitable enough (i.e., they were not in the top three of their industries), with little regard for socio-ecological consequences.[38]

Compared to managers following an FBL approach, TBL and SET managers give more attention to sustainable development, and on a relational, multilateral, bottom-up approach to responding accordingly whenever these enhance an organization's financial well-being.[39] When TBL managers encounter inadequate performance, they are more likely than FBL managers to seek help from others to understand why it occurred and to develop a way to resolve the problem. Rather than assume that problems must be solved from the top down, TBL managers often take a more relational approach that welcomes bottom-up input. Because TBL and SET managers treat stakeholders with respect and foster community when it is profitable to do so, stakeholders often have a greater interest in helping to solve organizational problems.[40]

SET management places an even greater emphasis on socio-ecological well-being and on having members get involved in responding accordingly when performance standards are not met.[41] This is consistent with designing information systems that empower the members, as in this chapter's opening case featuring Westward Industries. Ricardo Semler has often been asked: "How do you control a system like the one at Semco?" He answers: "I don't. I let the system work for itself."[42] Trust was threatened at Semco when equipment theft started to be a problem in the workplace, but then resolved itself without intervention from management (see Chapter 16).

As evident at Interface, Westward, and Semco, sometimes responding accordingly means wholesale change across a firm's business functions. For example, new requirements for firms to report Scope 3 emissions demand a transformational change in the accounting function, which will need to consider externalities related to GHG emissions. This in turn will demand transformational change in supply chain management (which will need to collect information about GHG emissions associated with suppliers), operations management (which will need to collect information about GHG emissions associated with operations), and marketing (which will need to collect information about GHG emissions associated with use and disposal of a firm's products). All this will in turn change what an organization's business functions focus on and value in the decisions managers make.

While we cannot describe a SET approach to each of the business functions (which would take more than one book), the end-of-chapter appendix suggests in broad brushstrokes the key difference between FBL and SET approaches to sup-

ply chain management, human resource management, accounting, finance, operations management and marketing. The challenge facing Michael Mauws in the opening case was to design SET-minded information systems for Westward's business functions. And you may face similar challenges in your career as businesses increasingly play their part in enhancing social and ecological well-being, relaxing the pursuit of profit maximization for those who can afford shares. Best wishes!

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## 18.3. Control in Entrepreneurship

As we noted at the start of the chapter, the control process plays a vital role in every aspect of managing an organization. It is relevant for entrepreneurs, who from the beginning need to be thinking about issues such as their value chain or loop, performance standards, and information systems. Therefore, the all the information in this chapter is directly applicable to entrepreneurs. However, there are two additional considerations distinctive to entrepreneurship that can influence the control process: founder effects in the start-up phase, and long-term involvement and goals of entrepreneurs in the post–start-up phase.

### Founder Effects

Entrepreneurs who start organizations are referred to as founders, and the specific qualities of founders can have important and long-lasting effects on their organizations' control processes.[43] The chapter's opening case discussion of Westward Industries highlights these founder effects: Michael Mauws, the new CEO, had trouble changing operations because members were more familiar with the old way of operating under the founding CEO, Larry Mauws. Even if Michael's new ideas were "better," members tended to stick with the old ways because they were familiar and "normal" (consistent with the discussion of organizational

social scripts in Chapter 2).[44] Founder effects are an example of **organizational imprinting**, which is the tendency for organizations to take on qualities that reflect conditions when they were founded and to continue displaying those qualities after the founding stage.[45] Because of imprinting, idiosyncrasies of an organization's founder(s) are often reflected in the organization's culture, strategy, and control process even after decades after the departure of the founder.[46]

The power of founder effects has important implications for entrepreneurs. Those starting new organizations should think carefully about the practices they create and use. A behavior that is "good enough for right now" may become institutionalized and resistant to change in the future. In particular, the control systems that entrepreneurs use in the early days can come to define what is normal for far longer than the entrepreneur may wish. Interface Inc. is an example of an organization that was able to change from an FBL to a SET management approach (Chapter 13), but such changes are difficult even if led by the founder. The way an organization operates influences who is a member, both in terms of who is hired and who remains. People who like the current ways of working and succeed under them will remain, while those who do not will leave. In addition, time and use will turn the current ways of working into habits. As a result, most organizational members will resist change, because doing something new leads to uncertainty and possible loss (recall also discussion of threat-rigidity response in Chapter 13). Indeed, even outside parties tend to contribute to the strength of founder effects. For example, firms receive more support from external investors when led by their founder than when led by someone else.[47]

*A behavior that is "good enough for right now" may become institutionalized and resistant to change in the future.*

#### Entrepreneurial Ownership, Goals, and Involvement

Entrepreneurs who retain ownership beyond the start-up phase influence how the organization's control processes are managed in the longer term. This continuing influence draws attention to the question of entrepreneurs' interest in and competence to manage the organization once it is operating and facing its post–start-up challenges. Recall that organizations typically develop in a predictable sequence that takes them from a simple organizational design to a defender design (Chap-

ter 13). This change often involves becoming more mechanistic in structure, with jobs becoming more narrowly specialized, rules becoming more formalized, and many other changes that reduce the free-form operation of a simple start-up. The managerial skill set required for these two organization designs is different in important ways.

Some entrepreneurs enjoy the start-up phase of establishing an organization's operations and demonstrating its promise but, like Larry Mauws, have little interest in developing the information systems to take the organization to the next step. As Michael noted, "Larry was more interested in building a car than in building an organization." A *micropreneur* may be content with a small organization that does not need to have formal, well-developed control processes. In comparison, a *serial entrepreneur* may know that they are good at and enjoy the start-up phase, and once its operations have been established and shown to be viable, they are happy to sell the firm to someone who has the skills to develop information systems and control processes to take it to the next level. And a *monopreneur* may have or develop the necessary skills themselves to design and implement the information systems and control processes to take a firm to the next level, or hire someone else with the necessary skills to do so (e.g., someone like Michael Mauws). However, it is not unusual for start-ups to fail when entrepreneurs lack the required skills to develop adequate control processes but are unwilling to cede control to someone else.

*Start-ups often fail because the founding entrepreneurs, who may be excellent at getting an organization started, lack the skills or attitudes required to manage an ongoing business.*

When entrepreneurs consider what sorts of control processes should be developed, it is important for them to think about their long-term aspirations for the organization. Do they want to grow the firm as large as possible to maximize potential financial returns (a classic FBL approach)? This is sometimes called "scaling up,"[48] and has metaphorically been likened to "going viral." Or is the goal to optimize social and ecological well-being by developing relationships with stakeholders to take increasingly better care of the natural environment and foster healthy communities (aligned with a SET approach)? This is sometimes called "scaling deep" and likened to "growing like an oak tree" (deeply rooted in

place, providing resilience and resources to the ecosystem surrounding it). Research suggests that start-ups that go viral may provide higher financial returns to investors, but oak trees are better for enriching the surrounding community.[49] The scaling deep approach is evident in Tall Grass Prairie Bread Company, which started by sourcing only local organic flour but over time developed relationships with farmers to grow and provide other local organic grains, and then eventually encouraged and supported the start-up of like-minded bakeries that also source local organic flour.

When entrepreneurs do give up ownership control of an organization, they enable the new owners to manage its control processes. The transfer between founding and new owners is the final opportunity for owners to imprint their legacy on control processes. The transactional approach of FBL entrepreneurs who seek to maximize their financial gain from a sale may increase the likelihood that the organization is purchased by equally transaction-minded investors who prefer FBL control systems. In the FBL approach, selling a start-up is called **harvesting**, which is withdrawing one's financial investment (i.e., ownership) in an organization with the intent of achieving financial gain by doing so. Harvesting is also common for TBL entrepreneurs, who also aim to maximize their financial gains from having owned the organization. Start-ups can be sold to larger firms, or perhaps through an Initial Public Offering (IPO), which involves the selling of ownership shares on a public securities exchange for the first time (see Chapter 17).

In contrast, SET entrepreneurs may be more interested in ensuring their organizations remains SET-oriented after they sell. As a result, the typical SET approach is better reflected by **seeding**, which is transferring one's ownership to new owners with the intent of facilitating further socio-ecological well-being. For example, some organizations use employee stock ownership plans to transfer control of the organization from the founder to the members. In these plans—as part of retirement contributions, bonus programs, or profit-sharing—the current owner's stocks are transferred to employees. Cora Wiens, an entrepreneur who was the founding owner of Eadha Bakery in Winnipeg, Manitoba, eventually created a workers' co-operative to own the bakery.[50] And in 2022 Patagonia's co-founders, Yvon and Malinda Chouinard, and their two children, donated ownership of the multi-billion company to a trust to oversee its mission and values (2 percent) and to a nonprofit organization (98 percent) that "will use every dollar received to fight the environmental crisis, protect nature and biodiversity, and support thriving communities."[51] Imagine the effect this will have an effect on the performance standards in Patagonia's control processes going forward, versus selling the firm to a fast fashion giant.

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## Chapter Summary

1. Organizations are *open systems* that interact continuously with the external environment:
    - (i) *Value chains* illustrate these interactions as a three-step process by which businesses produce valued goods and services: *inputs ® conversion ® outputs*.
    - (ii) *Value loops* extend the model by adding a fourth step that completes the cycle, incorporating the *environmental resources and processes* upon which businesses depend, and considering the *dynamic flows* between four system parts.
2. In the FBL approach to the four-step control process, managers do the following:

- (i) Establish key organizational performance standards related to financial performance by understanding the overall value chain, and identifying the key activities and outcomes that need to be monitored.
- (ii) Monitor performance by developing top-down information systems to measure the key performance standards.
- (iii) Evaluate performance, remembering that organizational systems themselves may be a cause of poor performance.
- (iv) Respond accordingly using a top-down, rational process.

3. In the TBL approach to the four-step control process, managers rely on FBL practices and, in situations where it is in their financial interests to do so, they work with key stakeholders to do the following:

   - (i) Establish key organizational performance standards, balancing triple bottom line performance measures by understanding the overall value loop, and identifying the key activities and processes that need to be monitored.
   - (ii) Monitor performance by developing information systems to measure the key performance standards.
   - (iii) Evaluate performance, remembering that organizational systems and how they interact with socio-ecological systems may be a cause of poor performance.
   - (iv) Respond accordingly using a multilateral, bottom-up approach.

4. In the SET approach to the four-step control process, managers work with stakeholders to do the following:

   - (i) Establish key organizational performance standards with a focus on enhancing socio-ecological well-being by understanding the overall value loop, and identifying the key activities and processes that need to be monitored.
   - (ii) Monitor performance by developing bottom-up information systems to measure the key performance standards.
   - (iii) Evaluate performance, remembering that organizational systems and how they interact with socio-ecological systems may be a cause of poor performance.
   - (iv) Respond accordingly using a multilateral, bottom-up approach, where members often make needed changes on their own.

5. Entrepreneurial start-ups need control systems just as any other organization does. Attempts to implement appropriate changes to the initial systems as the organization matures can be difficult because of founder effects and the founder's ability and desire to manage the organization once it moves past the start-up phase.

## Questions for Reflection and Discussion

1. Draw a value loop that describes a key economic transaction in your personal life (e.g., purchasing food, transportation, clothing, etc.).
2. Consider the following statement: “Because value chains are simpler than value loops, and because managers opt for the simplest cause-and-effect relationships that are relevant, learning about value loops is of little interest to most managers.” Do you agree or disagree with the statement? Explain your reasoning.
3. Describe the four steps of the control process. Compare and contrast the managerial actions and assumptions that are evident in FBL, TBL, and SET approaches for each of the four steps in the process.
4. What is the difference between *data* and *information*? Describe a situation at an organization that you know about where what were formerly data are now treated as valuable pieces of information. Can you think of the reverse situation, that is, where information has become data? Explain your answer.
5. Describe the difference between feedforward, concurrent, and feedback control. What are the management challenges associated with each?
6. Now that you have read the chapter, consider again the opening case. Why was were employees unwilling to change their views about how Westward was managed while Michael Mauws was CEO, but hanged their views after he left? What might this tell us about the importance of information systems versus the importance of leadership?
7. Consider the following statement: “Thanks to computer-based technology there is a de-emphasis on things that are difficult to measure quantifiably, such as compassion, empathy, meaningful work, aesthetic beauty, and neighborliness. As a result, higher-order virtues and noble goals like peace, love, joy, prudence, wisdom, and so on have also been de-emphasized. Because these ideas are difficult to measure with computer-based information systems, they are not included in the category of meaningful information in organizations. When we do not look into the eyes of workers on the shop floor in low-income countries we miss out on a whole lot of meaning, and our information systems have failed us.” Do you agree or disagree with the statement? Explain your reasoning.
8. Through the course of this book you may have been developing an

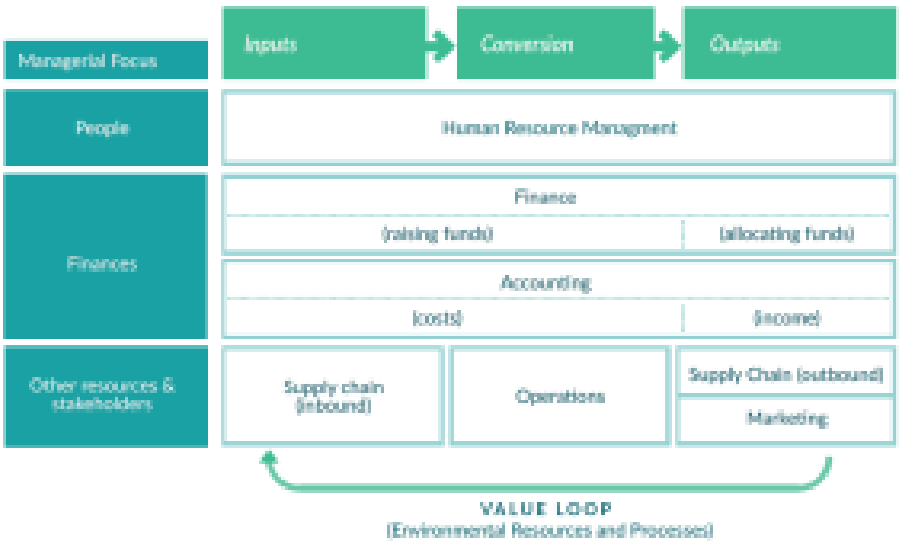
ESUP (Entrepreneurial Start-Up Plan) for an organization you might like to create. Based on your work in previous chapters, design the control systems for this potential organization. What performance standards will you use? How will you monitor them and evaluate them? What is your plan for responding when those standards are not being met? Explain your answers.

## 18.4. Appendix

### 18.4.1. FBL, TBL, and SET Approaches to the Functions of Business

This appendix provides a brief overview of FBL, TBL, and SET approaches to the main functions of business: human resource management, supply chain management, accounting, finance, operations management, and marketing. Before briefly describing each of these functions in turn, we begin with an overview of how they are related to the inputs ® conversion ® outputs framework that underpins the control process. As shown in Figure 18.3, some functions are more related to inputs, others to the conversion process, others to outputs, while some overlap two or more of these.

**Figure 18.3. Business functions across the value chain/loop**




Note also that Figure 18.3 indicates how the business functions relate to different parts of the value chain for three main areas of managerial concern: people, finances, and other resources and stakeholders.[52] *Human resource management* (HRM) concerns the people aspect of the business, ensuring that organizations are well-staffed, that members are well-trained and motivated to do their work, and adequately compensated. HRM supports employees across the entire value chain. *Finance* also works across the organization, ensuring sufficient funds are available (inputs) and that funds are allocated prudently to capital projects and operational needs (conversion process, outputs). *Accounting* is the organization's financial measurement system used to track expenses (inputs, conversion) and income (outputs) across the entire organization. *Supply chain management* (SCM) facilitates the sourcing and distribution of material resources in the organization (inputs) and the movement of finished goods out of it (outputs), and often involves coordinating a complex global network of suppliers and customers. O*perations management* attends to the internal production mechanisms that turn resources into goods and services (conversion process). Finally, *marketing* aims to ensure that the organization's goods and services are valued and well-received by customers (outputs).

For convenience, and because the functions naturally pertain to the internal aspects of the organization, Figure 18.3 tends to foreground the *value chain* con-

ception. The *value loop* arrow linking outputs to inputs is our visual reminder of the continuous, back-and-forth flows taking place between all aspects of the organization and its environment in this complex, open system. It is also important to recognize that this graphic is a stylized representation of where the functions fit. In reality, the boundaries between the functional areas are not so well-defined, and there is considerable overlap and integration between functions. This should not be a surprise, because all the pieces (functions) work together to create a unified whole (the organization).

### 18.4.2. Human Resource Management

As described in Chapter 12, HRM information systems help managers hire members (inputs), train and motivate them (conversion process), and compensate them (outputs). Table 18.3 provides a brief overview of how these three key steps in HRM differ between FBL, TBL, and SET approaches.

**Table 18.3. Comparison of approaches to primary human resource management activities**

| | FBL | TBL | SET |
|---|---|---|---|
| **Inputs**<br>Job analysis and staffing | HRM professionals (a) identify the knowledge, skills, abilities, and other characteristics (KSAOs) that an organization needs; then (b) recruit and select members who have the desired KSAOs. | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | A SET approach is more likely to develop KSAOs for *teams* (rather than *individuals*) and to gather input from team members and other stakeholders (customers, other departments in the organization), rather than rely on HRM professionals. A SET approach is also more likely to recruit members from groups who are chronically underemployed. |
| **Conversion process**<br>Training, development, motivation | Organization provides members with appropriate opportunities for job-based training and development. | | Organization provides members with job-based and beyond-job-based training and development (e.g., SET manager may pay for employees' schooling even when it does not develop a specific KSAO for the firm[54]). |
| **Outputs**<br>Performance appraisals, compensation | HRM professionals set up and carry out performance appraisals linked to compensation systems (includes salary and benefits). | | Employee performance appraisals are designed to stimulate members' growth and development, rather than merely used to decide on pay raises and promotions. Compensation packages seek to minimize the differences between hierarchical levels (income inequality) and to pay above-industry-level wages for lower-paid positions.[53] |

Notes: 53 54

### 18.4.3. Finance

The business function of *finance* addresses the financial resource needs of the organization. This involves acquiring, allocating, and, in larger firms, investing funds. With regard to acquiring funds (i.e., raising money), there are two basic options: *debt financing* (a firm borrows money) and *equity financing* (a firm sells ownership shares to investors). The type of financing chosen is determined in part by the firm's short-term and long-term monetary needs. With regard to investing money, financial managers look at issues of risk, return, and diversification. Table 18.4 compares FBL, TBL, and SET approaches to the four axioms of finance.[55]

**Table 18.4. Comparison of approaches to the four axioms of finance**

| Axiom | FBL | TBL | SET |
|---|---|---|---|
| **Inputs** The risk-return trade-off | Investors will accept extra financial risk only if there is a higher potential financial payoff. | | Investors will accept additional risk if they expect higher non-financial returns (e.g., if the investment enhances socio-ecological well-being). |
| **Inputs** The time value of money | A dollar *available* today is more valuable than a dollar available in the future, because the dollar available today can collect interest or be invested in a profitable project, thereby making it worth more in the future. | | A dollar spent today on a worthwhile cause is worth more than a dollar available in the future because the dollar *spent* today can save a life that would be gone tomorrow, or provide employment for someone who needs a job and wants to become a contributing member of society ("a stitch in time saves nine"). |
| **Outputs** The challenge of markets | Because of the competitive dynamics inherent in a well-functioning and efficient financial marketplace, earning exceptional financial returns can only be accomplished by achieving a sustainable competitive advantage and/or a monopoly. | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | Because of the cooperative dynamics inherent in a well-functioning and holistic market, any member who takes exceptional financial returns and creates dysfunctional income inequality is seen as threatening community well-being and frowned upon.[56] (Recall that the original idea of a market was a place where members of a community would gather, visit, and arrange to buy and sell goods and services.) |
| **Outputs** The challenge of agency (managers as agents acting on behalf of owners) | *Agency problem*: Because they are not owners, managers will be tempted to act in their own self-interests rather than to maximize the owners' financial interests. Compensation packages should align managers' financial self-interests with those of owners. | | *Agency solution*: Because managers (unlike typical owners) have a daily involvement in the firm, they may thus be more sensitive and can be more responsive to employees, suppliers, customers, neighbors, the environment, and so on. |

Note: 56

### 18.4.4. Accounting

*Accounting* systems collect, analyze, and communicate information about an organization's activities in financial terms. Most business schools offer two basic accounting courses: (1) *managerial accounting*, which supports managers' internal decision-making by making financially relevant information readily available to them (e.g., the cost of different parts or services, the cost of keeping inventory in stock); and (2) *financial accounting*, which provides financial reports (profit-loss statements, balance sheets) about the company as a whole to shareholders and the general public. A helpful way to compare managerial approaches to accounting is to consider the fundamental assumptions each makes about accounting. Table 18.5 shows the four assumptions that underpin what are known as generally accepted accounting principles (GAAP). GAAP provides the basis for accounting standards at national and international levels.[57]

**Table 18.5. Comparison of approaches to basic assumptions underpinning GAAP**

| Assumption | FBL | TBL | SET |
|---|---|---|---|
| **Entity**<br>What unit of analysis is being held accountable? | The entity is the organization, narrowly defined as an individual unit clearly separated from its owners, members, and society. | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | The entity is the organization, broadly defined as a multifaceted entity intimately connected with its owners, members, and society. |
| **Unit of measure**<br>What is the firm held accountable for? | The unit of measure is money, and the organization is accountable to maximize its financial well-being (i.e., its assets minus its liabilities). | | There are multiple measures (e.g., money, neighborliness, ecological footprint, providing meaningful work), and the firm is accountable to balance multiple forms of well-being for multiple stakeholders. |
| **Periodic reporting**<br>How often is accounting information presented? | Reporting is according to calendar time (linear, quarterly, annual), serving the interests of short-term investors. | | Reporting takes into account the natural rhythms and seasons of organizational life, serving the interests of long-term stakeholders. |
| **Going concern assumption**<br>What criteria are used to decide whether an entity is viable? | The assessment of whether an organization is a financially viable "going concern"<br>(i) has a short-term time horizon (one year)<br>(ii) focuses on financial measures and<br>(iii) is at the level of analysis of the single entity (ignoring non-financial externalities). | | The assessment of whether an organization is a holistically sustainable "going concern"<br>(i) has a long-term time horizon (e.g., considers future generations);<br>(ii) takes into account multiple forms of well-being; and<br>(iii) considers the organization's positive and negative socio-ecological externalities. |

### 18.4.5. Supply Chain Management

*Supply chain management* (SCM) traditionally focuses on the flow of material resources into the organization, which requires networking and coordination with external suppliers. It is common for resources to pass through a number of suppliers before arriving at the firm, hence a *supply chain*. In the modern business environment, many firms exist somewhere in the middle of a globally integrated supply chain, and SCM also facilities the outflow of goods to the next entity in the chain, which may or may not be the final customer. Primary SCM activities include *strategic purchasing* (supplier selection, evaluation, and development;

single vs. multiple sourcing) and the management of *interorganizational relationships* (e.g., supplier partnerships).[58] A comparison of these activities is provided in Table 18.6.[59]

**Table 18.6. Comparison of approaches to primary supply chain management activities**

| | FBL | TBL | SET |
|---|---|---|---|
| **Strategic purchasing** | Choose suppliers who offer the best combination of<br>• quality inputs (e.g., they have required features and meet specific standards)<br>• dependable delivery (e.g., on-time delivery, reliable transportation network)<br>• price (also includes factors like just-in-time delivery) | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | Choose suppliers who offer the best combination of<br>• inputs that have a holistic range of qualities (including consideration of socio-ecological externalities)<br>• dependable delivery, including sustainable transportation networks<br>• low total costs (including externalities) |
| **Inter-organizational relationships** | Develop long-term relationships with suppliers that nurture<br>• trust (increased access to supplier knowledge helps to develop products and services)<br>• supplier confidence to make long-term investments that enhance ability to supply<br>• stable and integrated transportation of incoming logistics (lower financial costs) | | Develop long-term relationships with suppliers that nurture<br>• trust and healthy relationships (facilitates virtue and nurtures community)<br>• supplier confidence to invest in environmentally friendly and socially just technologies<br>• development of incoming logistics that take externalities into account |

### 18.4.6. Operations Management

*Operations management* is at the heart of the conversion process and encompasses the technologies and processes that transform raw materials (inputs) into finished goods and services (outputs).[60] In general, FBL operations will be opti-

mized to maximize efficiency and minimize costs internal to the firm. The quality of goods and services is likewise optimized to maintain continuous and profitable revenue streams through practices such as planned obsolescence. By contrast, SET operations aim to meet people's needs in ways that holistically optimize long-term social and environmental well-being, both inside and outside the firm. The quality of goods and services is likewise optimized for functional longevity at lowest total social-environmental cost, through practices such as cradle-to-cradle design and service or maintenance programs. Table 18.7 provides a comparison of four key dimensions of operations management: *costs*, *quality*, *customization*, and *delivery*.

**Table 18.7. Comparison of approaches to the four dimensions of operations management**

| | FBL | TBL | SET |
|---|---|---|---|
| **Costs** | Aim for the lowest *financial* costs to the firm. | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices. | Aim for the lowest total *social*, *environmental*, and *financial* costs, inside and outside the firm. |
| **Quality** | Quality is defined in terms of production design standards (i.e., minimum defects, waste, reliability) in relation to consumer market expectations. | | Quality is defined in terms of functionality, durability, and serviceability in relation to people's needs (vs. wants), and taking into after-use recyclability. |
| **Customization** | Ensure that products and services can be customized or changed profitably in response to consumer demand. | | Ensure that products and services are adaptable to people's specific and changing needs (and the needs of society beyond the customer). |
| **Delivery** | Deliver products/services, reliably optimizing speed and cost. | | Deliver products/services reliably, optimizing social and environmental well-being. |

### 18.4.7. Marketing

Marketing establishes information systems related to the communication (promotion), distribution (place), exchange (price), and offerings (products and services)

that have value for customers, buyers, clients, partners, and the overall society.[61] The marketing function has been famously broken down into four elements called the four P's of marketing: product, price, place, and promotion.[62] As described in Table 18.8,[63] the way these four P's are understood and managed differs between FBL, TBL, and SET approaches. FBL management is more likely to view (1) *product* as a self-contained commodity an organization offers (rather than the relationships embedded in the product); (2) *price* as the financial price paid by the consumer (rather than the costs and benefits borne by the rest of society); (3) *place* as finding a competitive position in the marketplace (rather than finding a position that fosters mutual cooperation in society); and (4) *promotion* as actions that help to sell the product (rather than to learn from others and thus offer products that essentially sell themselves).

**Table 18.8. Three approaches to the four P's of marketing**

| Four Ps | FBL | TBL | SET |
|---|---|---|---|
| **Product** Goods and services sold in the marketplace | Offer products that satisfy *needs or wants* and have maximum consumer market demand (or potential). | A TBL approach is consistent with FBL practices, unless there is a business case that supports the adoption of SET practices | Offer products that focus on meeting *needs rather than wants*, and on creating positive socio-ecological externalities. |
| **Price** The amount of money paid for a product | Set the *highest price* customers will pay.[64] | | Set a *fair price* that maximizes social and ecological well-being for all stakeholders. |
| **Place** Physical and virtual marketplaces where consumers can purchase goods and services | Place products/ services where they have *maximum sales potential*. | | Offer socio-ecologically sustainable places (e.g., energy-efficient buildings) and distribution channels (e.g., cradle-to-cradle designs), recognizing that a firm is not a self-contained unit competing with others but rather belongs to a network of stakeholders. |
| **Promotion** Unified messages regarding a firm's product and service offerings | Develop *persuasive messaging* to generate maximum demand and sales. | | Develop *honest, transparent messaging* that facilitates informed choice and voice by customers, and trust-building in the marketplace. |

Note: 64

## Notes

1. This case is based on the lead authors' observations and research. Some of the details have been altered, and it is offered for pedagogical purposes only. Starke, F. A., Sharma, G., Mauws, M. K., Dyck, B. & Dass, P. (2011). Exploring archetypal change: The importance of leadership and its substitutes. *Journal of Organizational Change Management*, 24(1): 29–50. https://doi.org/10.1108/09534811111102274; Dyck, B., Starke, F., Mischke, G. & Mauws, M. (2008). Designing and producing a three-wheeled car: An exploratory examination of intra-organizational knowledge flows. *Journal of Small Business & Entrepreneurship*, 21(1): 37–58; Mischke, G. A., Mauws, M. K., Starke, F. & Dyck, B. (2001). Westward Industries Ltd. *Case Research Journal*, 21(1): 15-42.
2. Michael also developed a profit-sharing plan, where some of the profits were to be spent in ways that benefited everyone in the firm as a group (e.g., a staff benefits program) and another portion to benefit the outside community (e.g., a play structure for a nearby playground).
3. Ouchi, W. (1980). Markets, bureaucracies, and clans. *Administrative Science Quarterly*, 25(1):129–141. http://doi.org/10.2307/2392231; Mosmann, P. C., & Klutt, J. (2020). Market, hierarchy, or clan? Types of governance in the sharing economy. In In I. Maurer, J. Mair, & A. Oberg (Eds.), *Theorizing the sharing economy: Variety and trajectories of new forms of organizing* (pp. 25–54). Emerald. https://doi.org/10.1108/S0733-558X20200000066003; Powell, W. (1990). Neither markets nor hierarchy: Network forms of organization. In *Research in Organizational Behavior*, 12: 295–336. https://www.researchgate.net/publication/301840604_Neither_Market_Nor_Hierarchy_Network_Forms_of_Organization
4. Manos, T. (2006). Value stream mapping: An introduction. *Quality Progress*, 39(6): 64–69.
5. Bhasin, S., & Burcher, P. (2006). Lean viewed as a philosophy. *Journal of Manufacturing Technology Management*, 17(1): 56–72. http://doi.org/10.1108/17410380610639506
6. This example draws from and elaborates Rooney, J. J. (2001). 7 steps to improved safety for medical devices. *Quality Progress*, 34(9): 33–41.
7. McDonough, W., & Braungart, M. (2010). *Cradle to cradle: Remaking the way we make things*. North Point Press; Hoang, K.-M., & Böckel, A. (2024). Cradle-to-cradle business model tool: Innovating circular business models for startups. *Journal of Cleaner Production*, 467: 142949. https://doi.org/10.1016/j.jclepro.2024.142949
8. This is a simplified definition; the circular economy has been notoriously difficult to define, with many definitions being used. Abu-Bakar, H., Charnley, F., Hopkinson, P., & Morasae, E. K. (2024). Towards a typological framework for circular economy roadmaps: A comprehensive analysis of global adoption strategies. *Journal of Cleaner Production*, 434: 140066. http://doi.org/10.1016/j.jclepro.2023.140066
9. For an interesting history of how and why things unfolded this way within management theory and practice, see Sheer, S. A. (2005). From supply-chain management

to value network advocacy: Implications for e-supply chains. *Supply Chain Management*, 10(2): 77–83. https://www.researchgate.net/

10. For additional information on Interface, see Anderson, R. C. (1998). *Mid-course correction: Toward a sustainable enterprise: The Interface model*. Peregrinzilla Press.
11. For example, textbooks sometimes place accounting and controlling in the same chapter, including Laasch, O. (2024). *Principles of business and responsible management: Practicing ethics, responsibility, sustainability*. (3rd ed.). Sage.
12. Tawse, A., & Tabesh, P. (2023). Thirty years with the balanced scorecard: What we have learned. *Business Horizons*, 66(1): 123–132. http://doi.org/10.1016/j.bushor.2022.03.005; Kaplan, R., & Norton, D. (1996). *The balanced scorecard*. Harvard Business School Press; Kaplan, R., & Norton, D. (2006). How to implement a new strategy without disrupting your organization. *Harvard Business Review*, 84(3): 100; Chopra, S. S., Senadheera, S. S., Dissanayake, P. D., Withana, P. A., Chib, R., Rhee, J. H., & Ok, Y. S. (2024). Navigating the challenges of environmental, social, and governance (ESG) reporting: The path to broader sustainable development. *Sustainability*, 16(2): 606. http://doi.org/10.3390/su16020606
13. "In the EU, large, listed companies need to begin reporting in 2025 under CSRD [Corporate Sustainability Reporting Directive]. In the US, California mandates Scope 3 reporting for any company operating in the state with more than billion in annual revenue." Aligned Incentives. (2024, April 26). *Navigating mandatory Scope 3 emissions reporting in the EU, US, and beyond*. https://alignedincentives.com/mandatory-scope-3-emissions-reporting-eu-us-uk-international/
14. Yale Sustainability. (2023, November 14). *Yale experts explain Scope 3 emissions*. https://sustainability.yale.edu/explainers/yale-experts-explain-scope-3-emissions
15. For more on Scope 3 emissions, see EPA Centre for Corporate Climate Leadership. (2025). *Scopes 1, 2 & 2 emissions inventorying and guidance*. United States Environmental Protection Agency. https://www.epa.gov/climateleadership/scope-3-inventory-guidance#
16. EPA Centre for Corporate Climate Leadership (2025).
17. Vogl, A. J. (2004). The anti-CEO. *Across the Board*, May/June: 30–36.
18. Lloyd, B. (1994). Maverick! An alternative approach to leadership, company organization and management. *Leadership & Organization Development Journal*, 15(2): 8–12. https://doi.org/10.1108/01437739410055308. Semler describes the practice of Jack Welch, former CEO of General Electric, of firing the lowest-performing 10 percent of the workforce as "microterrorism." See Vogel (2004: 35).
19. Page 98 in Semler, R. (2004). *The seven-day weekend*. Portfolio/Penguin Group.
20. Semler (2004: 98, 234).
21. Greenwald, C. (2004). *WITSA study: World IT spending rebounds thanks largely to developing world*. World Information Technology and Services Alliance.
22. Big data has been defined in the Oxford Dictionary as "extremely large data sets that may be analyzed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions." (cited in Akoth, S. (2023,

March 13). Bid data trends in the financial services for 2023 and beyond. *Strathmore University Business School*. https://sbs.strathmore.edu/big-data-trends-in-the-financial-services-for-2023-and-beyond/

23. The following are two interesting book-length treatments examining the science of quantity versus quality, with much relevance to management decision making: Schwartz, B. (2004). *The paradox of choice: Why more is less*. ECCO; Klotz, L. (2022). *Subtract*. Flatiron Books.
24. Page 594 in Jones, G. R., & George, J. M. (2003). *Contemporary management*. (3rd ed.). McGraw-Hill Irwin.
25. Liedtke, M. (2025, January 2). Apple to pay USM to settle lawsuit accusing Siri of snoop eavesdropping. *Winnipeg Free Press*, B6.
26. Rachnya-Kyselova, H. (2024, February 23). *Top 17 employee monitoring software industry trends 2024*. WorkTime. https://www.worktime.com/employee-monitoring-software-industry-trends
27. Mettler, T. (2024). The connected workplace: Characteristics and social consequences of work surveillance in the age of datification, sensorization, and artificial intelligence. *Journal of Information Technology*, 39(3): 547–567. http://doi.org/10.1177/02683962231202535
28. Even weak monitoring systems undermine interpersonal respect. Note also that introducing sanctions tends to make members see decisions more in terms of business rather than ethical terms. Tenbrunsel, A. E. & Messick, D. M. (1999). Sanctioning systems, decision frames, and cooperation. *Administrative Science Quarterly*, 44(4): 684–707. https://doi.org/10.2307/2667052
29. Other numerical measures are also available. For example, observations that only three of its 3,000 members left Semco on their own over a two-year period, and that 1,400 engineers responded to a job advertisement suggest that Semco is seen as a good place to work.
30. Makower, J., et al. (2020). *2020 state of green business*. GreenBiz Group.
31. For more on Tall Grass and the externalities baked into a loaf of bread, see Ridley, N. (Producer). (2024, June 12). *Beyond Profit: Seeking Sustainability* [Video]. https://www.youtube.com/watch?v=xzkn9Mm1X84
32. Note the emphasis is on systems, not on motivating individuals per se.
33. Gartner, W. B., & Naughton, M. J. (2000). Out of crisis. In J. L. Pierce & J. W. Newstrom (Eds.), *The manager's bookshelf* (pp. 53–58). Prentice Hall.
34. Deming originally had greater influence in Japan than in Western countries, perhaps because Western countries place a higher emphasis on individualism (the Japanese initially thought Deming was showing them how it was already being done in America). Many organizations have enjoyed improved performance when implementing the sorts of control systems consistent with Deming's principles. For example, Ford Motor Company found that transmissions manufactured according to these principles resulted in warranty repairs decreasing tenfold, and that "things gone wrong" customer reports dropped by 50 percent over a period of five years.

Other research claimed a fourfold increase in productivity when systems like TQM are introduced. For other examples, see Bhasin & Burcher (2006).

35. Kathan, M. C., Utz, S., Dorfleitner, G., Eckberg, J., & Chmel, L. (2025). What you see is not what you get: ESG scores and greenwashing risk. *Finance Research Letters*, 74(2): 106710. http://doi.org/10.1016/j.frl.2024.106710; Todaro, D. L., & Torelli, R. (2024). From greenwashing to ESG-washing: A focus on the circular economy field. *Corporate Social Responsibility & Environmental Management,*13. http://doi.org/10.1002/csr.2786; Serafeim, G. (2020). Social-impact efforts that create real value. *Harvard Business Review*, 98(5): 38–48. https://hbr.org/2020/09/social-impact-efforts-that-create-real-value; Chopra et al. (2024).
36. Pettigrew, A. M. (1985). *The awakening giant: Continuity and change in ICI*. Basil Blackwell.
37. Bhasin & Burcher (2006). Deming has suggested that the process of transforming an entire organization to his approach can take a minimum of ten years (Gartner & Naughton, 2000).
38. O'Boyle, T. F. (1998). *At any cost: Jack Welch, General Electric, and the pursuit of profit*. Alfred A. Knopf.
39. Nielsen, R. P. (1998). Quaker foundations for Greenleaf's servant-leadership and "friendly disentangling" method. In L. C. Spears (Ed.), *Insights on leadership* (pp. 126–144). John Wiley & Sons.
40. For example, the suppliers and key customers of Malden Mills were very gracious in allowing delays and extending credit when the firm burned down, thanks in large part to SET management at Malden Mills, where employees received pay even though they could not work during the time when the factory was being rebuilt. Batstone, D. (2003). *Saving the corporate soul and (who knows?) maybe your own*. Jossey-Bass; Leung, R. (2003, July 3). The mensch of Malden Mills. *60 Minutes*. CBSNews.com. https://www.cbsnews.com/news/the-mensch-of-malden-mills/
41. Of course, there are times when SET managers must make decisions and take action without having time to consult widely. However, this is not the default mode—the default in the SET approach is the much more challenging and rewarding mode of trusting the instincts of others. From an FBL perspective this may seem like managers are shirking their responsibility, while from a SET perspective it is part of treating others with dignity and respect. This respect is evident and built into each one of the four parts of the SET approach to the control process.
42. Semler (2004: 122).
43. For examples, see Lu, J. W. (2002). Intra-and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies*, 33(1): 19–37. http://doi.org/10.1057/palgrave.jibs.8491003; see also Nelson, T. (2003). The persistence of founder influence: Management, ownership, and performance effects at initial public offering. *Strategic Management Journal*, 24(8): 707–724. http://doi.org/10.1002/smj.328
44. Sydow, J., Schreyögg, G., & Koch, J. (2009). Organizational path dependence: Opening the black box. *Academy of Management Review*, 34(4): 689–709.

https://www.researchgate.net/publication/228807334_Organizational_Path_Dependence_Opening_the_Black_Box

45. Marquis, C., & Tilcsik, A. (2013). Imprinting: Toward a multilevel theory. *Academy of Management Annals*, 7(1): 195–245. https://doi.org/10.5465/19416520.2013.766076. Imprinting effects can also influence subsequent intrapreneurial behavior in organizations: Dyck, B. (1997). Exploring organizational family trees: A multi-generational approach for studying organizational births. *Journal of Management Inquiry*, 6(3): 223–233. https://doi.org/10.1177/105649269763007
46. Boeker, W. (1989). Strategic change: The effects of founding and history. *Academy of Management Journal*, 32(3): 489–515. https://doi.org/10.2307/256432
47. Nelson, T. (2003). The persistence of founder influence: Management, ownership, and performance effects at initial public offering. *Strategic Management Journal*, 24(8): 707–724. https://doi.org/10.1002/smj.328
48. Shourkaei, M. M., & Dyck., B. (2023). *Scaling sustainability in businesses with a post-growth orientation: An exploratory empirical study* [Working paper under third review].
49. Kim, S., & Kim, A. (2022). Going viral or growing like an oak tree? Towards sustainable local development through entrepreneurship. *Academy of Management Journal*, 65(5): 1709–1746. https://doi.org/10.5465/amj.2018.0041
50. See the Eadha Bakery Co-op company website at https://eadhacoop.com. See also Dyck, B., Manchanda, R. V., Vagianos, S., & Bernardin, M. (2023). Sustainable marketing: An exploratory study of a sustain-centric, versus profit-centric, approach. *Business & Society Review*, 128(2): 195–216. https://doi.org/10.1111/basr.12314
51. McCormick, E. (2022, September 15). Patagonia's billionaire owner gives away company to fight climate crisis. *The Guardian*. https://www.theguardian.com/us-news/2022/sep/14/patagonias-billionaire-owner-gives-away-company-to-fight-climate-crisis-yvon-chouinard
52. Since the time of the Roman empire, management theory has looked at these three basic domains or relationships that need to be managed. For more on the three main domains of management through history, see *oikonomia*, *chrematistics* and patron-client relations in Dyck, B. (2013a). *Management and the Gospel: Luke's radical message for the first and twenty-first centuries*. Palgrave-Macmillan.
53. For example, at Reell Precision Manufacturing, executive pay is limited to roughly seven to ten times that of the lowest-paid employee; see page 21 in Benefiel, M. (2005). *Soul at work*. Seabury Books.
54. Anon. (2006). Training best practices. *Training*, 43(3): 60–63. Previously found at http://www.astd.org/. Supporting a person who is completing a general education degree may or may not have instrumental value in the workplace, but it enhances the dignity of the person who earns it.
55. "These axioms are as much statements of common sense as they are theoretical statements." Taken from pages 11–23 in Keown, A., Petty, W., Scott, D., Martin, J.

(1998). *Foundations of finance: The logic and practice of financial management* (2nd ed.). Prentice Hall. Parts of this Table 18.4 also appear on page 158 in Dyck, B. (2013b). A proven way to incorporate Catholic Social Thought in business school curriculae: Teaching two approaches to management in the classroom. *Journal of Catholic Higher Education*, 32(1): 145–163; and in Dyck (2013a).

56. Antagonism and dysfunctional status differentials would be created if one neighbor were to start to make exceptional profits due to having a virtual "monopoly" (which is what having a unique product or service that others couldn't imitate was called long before it was dubbed "competitive advantage").

57. Table 18.5 and the discussion of the four assumptions of accounting draws heavily from Dyck (2013a: 175; 2013b: 157), which in turn draws from and builds on Christie, N., Dyck, B., Morrill, J. & Stewart, R. (2013). CSR and accounting: Drawing on Weber and Aristotle to rethink generally accepted accounting principles. *Business & Society Review*, 118(3): 383–411. https://doi.org/10.1111/basr.12015

58. Larson, P. D., & Halldorsson, A. (2004). Logistics versus Supply chain management: An international survey. *International Journal of Logistics: Research & Applications*, 7(1): 17–31. http://dx.doi.org/10.1080/13675560310001619240

59. Table 18.6 adapted from Dyck (2013a).

60. Operations management includes methods of (a) break-even analysis (determine the sales volume and prices required to earn a profit, decide which product lines to keep and which to drop, set prices for products and services); (b) forecasting (projections that help plan for production targets, whether and when to expand production facilities); (c) inventory modeling (help managers decide on timing and quantity for ordering supplies to maintain an optimal inventory, how much end-product inventory to keep on hand); (d) linear programming (how to allocate scarce resources among competing uses); and (e) simulations (mathematical models that permit testing the outcomes associated with making different decisions).

61. American Marketing Association. (n.d.). Definitions of Marketing. Retrieved May 2016, from https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx

62. The four P's were developed by McCarthy, E. J. (1964). Basic marketing: A managerial approach. R. D. Irwin; Kotler and Keller add that the "right" four P's create a fifth P, profits, and that "one of the shortest good definitions of marketing is meeting needs profitably." Page 25 in Kotler, P. T., & Keller, K. L. (2012). *Marketing management* (14th ed.). Pearson.

63. This table draws heavily from Dyck, B., & Manchanda, R. (2021). Sustainable marketing based on virtue ethics: Addressing socio-ecological challenges facing humankind. *Academy of Marketing Science Review*, 11(1): 115–132. http://doi.org/10.1007/s13162-020-00184-7. See also Dyck et al. (2023); Dyck (2103a, 2013b); and Kotler, P., Kartajaya, H., & Setiawan, I. (2010). *Marketing 3.0: From products to customers to the human spirit*. John Wiley & Sons.

64. Mohammed, R. (2012). How to find out what customers will pay. *Harvard Business Review*. Retrieved December 30, 2024, from https://hbr.org/2012/09/how-to-find-out-what-customers-will-pay

# Appendix 1: Student Resources

## Supplementary Student Resources

This book is accompanied by a complete set of supplementary resources to enhance student learning. These include:

- Whiteboard animation videos (embedded in the chapter content of the online text)
- End-of-chapter review questions
- NotebookLM AI-based tools:
    - Interactive Chatbot
    - Podcasts

## Using This Text with NotebookLM

The content of this book has been linked to NotebookLM, an AI-based study and research tool. Readers can chat with NotebookLM to ask questions about the content of the book. For each chapter, readers can also access AI-generated podcasts which explores key concepts and learning goals.

To access NotebookLM, you will need to login using a Google-enabled institutional account or personal GMail account.

**Chat with the full textbook here.**

Follow the links below to access chat and podcasts for individual chapters:

- Chapter 1. Introduction to Management
- Chapter 2. A Short History of Management Theory and Practice
- Chapter 3. Management and Financial Well-Being: Jobs, Goods and Services, and Profits
- Chapter 4. Management and Ecological Well-Being: Energy, Food Sys-

tems, and Health

- Chapter 5. Management and Social Well-Being: Meaningful Work, Meaningful Relationships, and Peace
- Chapter 6. Entrepreneurship
- Chapter 7. The Decision-Making Process
- Chapter 8. Formulating Strategy
- Chapter 9. Implementing Strategy
- Chapter 10. Fundamentals of Organizing
- Chapter 11. Organization Design
- Chapter 12. Human Resource Management
- Chapter 13. Organizational Change
- Chapter 14. Motivation
- Chapter 15. Leadership
- Chapter 16. Groups and Teams.
- Chapter 17. Communication
- Chapter 18. Control

**Please Note:** Use of the NotebookLM chatbot is subject to Google Terms of Service and any policies related to the use of Generative AI technology. In using this chatbot you acknowledge the limitations of Generative AI and that it is an evolving technology. The Authors and University of Manitoba do not guarantee the undisrupted use of this chatbot, nor are they responsible for the output, or your use of the output, of this chatbot. This chatbot should not be relied on for any business, legal, health or other advice.

# Appendix 2: Instructor Resources

This book is accompanied by a set of resources for instructors, including chapter slide decks and a comprehensive test bank. These have all been prepared with input from the authors of the book. To request permission for instructor-only access to these resources, please go to: https://borealisdata.ca/dataverse/management.

The chapters in this book have been written with three things in mind:

- **Ease of adoptability**. The authors performed content analyses of leading management textbooks to ensure the book covers all the mainstream material, and is organized in chapters that follow a traditional planning, organizing, leading and controlling format.
- **Relevance to the social and ecological challenges students will face during their careers**. Each chapter presents differences between FBL, TBL, and SET management. In particular, the book recognizes that the Triple Bottom Line has become the new dominant approach, and provides chapters on each of the three bottom lines: financial, ecological, and social well-being. The book also recognizes that many practitioners and scholars are pointing to the need for SET management if humankind is to address the social and ecological crises it is facing.
- **Engagement with students**. In addition to a reader-friendly format, each chapter starts with a short whiteboard animation video, provides an engaging opening case, and concludes with an opportunity for students to consider the material in an entrepreneurial context (note that the book has been designed so that instructors who do not wish to have an entrepreneurial focus can easily drop that portion of the chapter). Each chapter also includes interactive “Test Your Knowledge” questions for students to assess their reading comprehension.

# Glossary

**accountability**

The expectation that a member is able to provide compelling reasons for the decisions that they make. (See section 10.4)

**acquisitive economics**

The management of property and wealth in such a way that the short-term monetary value for owners is maximized (profit maximization focus). (See section 3.2)

**adaptability culture**

A culture that tends to place greater value on flexibility and change. (See section 11.2.2)

**administrative appraisals**

The basis for pay, promotion, and termination decisions. (See section 12.5)

**administrative inertia**

When existing structures and systems persist simply because they are already in place. (See section 7.5.2)

**agency costs**

Expenses that owners pay to ensure that managers act in the interests of the firm rather than in their own self-interest. (See section 6.2.2)

**agreement on aims and means**

The level of consensus among decision-makers about the goals of an organization and the best way to achieve those goals. (See section 7.4.2)

**analyzer organization design**

Tends to have a dual (cost leader plus differentiator) or compounder (minimizer plus transformer) strategy, an outreach structure and market culture, an oasis environment, and an engineering technology. (See section 11.3)

**authority**

The formal power given to specific members (usually managers) to arrange resources and/or to assign tasks and direct the activities of other members in ways that help to achieve organizational goals. (See section 10.4.1)

**BCG matrix**

Classifies each strategic business unit (SBU) according to (a) its market share, and (b) the rate at which its industry is growing. (See section 8.5.2)

**behavior modification**

A set of techniques by which reinforcement theory is used to modify human motivation and behavior. (See section 14.3.1)

**behavioral interview questions**

Asking applicants to draw from their experience to share an example of their work-related actions. (See section 12.3.2)

**benefit corporation**

A for-profit corporate entity that has legally defined and recognized social or environmental goals. (See section 6.3.4)

**bounded rationality**

The tendency to make suboptimal decisions because individuals lack complete information and have limited cognitive ability to process information. (See section 2.3.3)

**bureaucratic organizing**

Emphasizes the design and management of organizations on an impersonal,

rational basis via methods like clearly defined lines of authority and responsibility, formal record keeping, and rule-based decision-making. (See section 2.3.1)

**business case**

A justification, often documented, that shows how a proposed new organizational initiative will enhance the organization's financial bottom line. (See section 1.3.2)

**business model**

Describes the inputs and processes an organization uses to create, deliver, and capture value. (See section 6.3.3)

**business plan**

A written document that describes the key features, actions, structure, and systems for a proposed new organization that is designed to take advantage of an entrepreneurial opportunity. (See section 6.3.3)

**business-level strategy**

The combination of goals, plans, and actions that an organization in a specific industry uses to accomplish its mission. (See section 8.5.1)

**capitalism**

An economic system based on rewarding entrepreneurs for profitably combining resources in ways that create valued goods and services. (See section 2.2.5)

**cash cow**

An organization that enjoys a high market share in a low growth or mature industry. (See section 8.5.2)

**centralization**

The extent to which decision-making authority resides atop the organization's hierarchy. (See section 10.4.1)

**certainty**

Certainty exists when managers know exactly what outcomes are associated with each alternative they are choosing among, the possible payoffs associated with each possible outcome for each alternative, and the probability or likelihood that each pay-off will occur. (See section 7.4.1)

**change agent**

Someone who acts as a catalyst and takes leadership and responsibility for managing part of the change process. (See section 13.3.3)

**change-oriented behavior**

Monitoring and understanding the work unit's larger environment, discovering innovative ways of working within it, and promoting the implementation of major changes in strategy, structures, and systems, or in the array of goods and services that are offered. (See section 15.3.3)

**classic entrepreneur**

Individual who starts an entirely new organization to pursue a new product or service idea. (See section 1.4.2)

**classical rational decision-making approach**

Listing all possible options to choose from, determining the costs and benefits associated with each, and then choosing the best option. (See section 7.4.3)

**closed systems**

Looking at managing activities as though the organization were a self-contained and self-sufficient unit. (See section 2.3.3)

**co-operative**

An organization that is owned and democratically run directly by its members. (See section 6.3.3)

**coercive power**

The ability to influence the behavior of others through the threat of punishment. (See section 14.3.4)

**cognitive scripts**

Learned guidelines or procedures that help people interpret and respond to what is happening around them.

**collective agreement**

A contract negotiated by employers and unions that specifies and regulates duties and responsibilities that employees and employers have to one another. (See section 12.1)

**collective bargaining**

The process used when management negotiates wages and other terms of employment with a union or organized group of workers. (See section 12.1)

**communication**

The process of transmitting information via meaningful symbols so that a message is understood by others. (See section 17.1)

**communication channel**

The organizational path that information travels via a medium. (See section 17.3)

**communication medium**

The means used to deliver and receive information. (See section 17.3)

**compassion**

Standing alongside people who are suffering and doing what you can to support them. (See section 5.3.3)

**compensation**

Monetary payments such as wages, salaries, and bonuses as well as other goods, commodities, and intangible rewards that are given to organizational members. (See section 12.5.2)

**competitors**

Other organizations that offer similar products or services, or that offer products or services that meet the same customer need. (See section 6.3.3)

**compounder strategy**

When an organization simultaneously follows both a minimizer and a transformer strategy, both reducing negative externalities and enhancing positive externalities. (See section 8.5.1)

**conceptual skills**

The ability to think about complex and broad organizational issues. (See section 1.2)

**concurrent control**

Determines whether an organization's conversion processes meet its performance standards. (See section 18.2.1)

**conglomerates**

Diversified organizations with SBUs in unrelated industries. (See section 8.5.2)

**consequential utilitarianism**

Optimizing an action's rightness (and limiting its wrongness) as measured by its effect on the net overall happiness outcome for everyone involved. (See section 1.3.2)

**content school**

The rational-analytic, top-down, and linear aspects of strategy formulation. (See section 9.5)

**contingency plans**

How managers will respond to possible future events that could disrupt existing plans. (See section 9.3.2)

**contingency theory**

A theory the best way to manage a specific organization depends on, and is determined by, identifying the optimal fit between its structure, culture, environment, technology, and strategy. (See section 2.3.3)

**contingent workers**

Individuals who are contracted for a specific project or fixed time period but are not considered to be permanent employees of the host organization. (See section 12.6)

**continuous improvement**

Making many small, incremental improvements with regard to how things are done in an organization. (See section 7.4.3)

**controlling**

Seeks to ensure that an organization's activities serve to accomplish its goals. (See section 18.1)

**conventional profit**

The difference between a firm's financial expenses and its financial revenues. (See section 3.3.3)

**core competency**

A resource or ability that is essential for the achievement of organizational goals. (See section 8.3.2)

**corporate social responsibility**

Managers' obligations to act in ways that enhance societal well-being even if there are no direct benefits to the firm's financial well-being by doing so. (See section 2.3.5)

**corporate-level strategy**

Determines the combination of industries in which a diversified organization will have an SBU. (See section 8.5.2)

**corporation**

A business that enjoys many of the privileges and legal rights of a person, is considered by law to be an entity separate from its owners, and where the financial liability of its owners is limited to the value of their investment in the firm. (See section 2.2.5)

**cost leadership strategy**

When an organization has lower financial costs than rivals do for similar products, so that it can capture more profit and/or a higher market share via lower prices. (See section 8.5.1)

**cradle-to-cradle design**

Ensuring that the material content of products at the end of their useful life can be reused to make new products and that new products are made from expired products. (See section 4.2.1)

**crises**

Events that have a major effect on the ability of an organization's members to carry on their daily tasks. (See section 9.3.2)

**crowdfunding**

Involves entrepreneurs receiving small amounts of money from a large number of people, often in exchange for a reward (but typically not repayment of the funds or a role in management). (See section 6.3.4)

**customer power**

How much influence customers have on an organization. (See section 8.4.2)

**data**

Facts and figures, some of which managers deem useful but the majority are not. (See section 18.2.2)

**debt financing**

When entrepreneurs borrow money from a bank, family and friends, or a financial institution that must be paid back at some future date. (See section 6.3.3)

**decision**

A choice that is made among a number of available alternatives to address a problem or opportunity. (See section 7.1)

**decision support systems**

Used to gather and manipulate data from a variety of sources to help evaluate performance. (See section 18.2.2)

**decoding**

When the receiver attributes meaning to the message. (See section 17.4)

**defender organization design**

Tends to have a cost leader or minimizer strategy, a programmed structure and hierarchy culture, a barren environment, and a routine technology. (See section 11.3)

**delegation**

The process of giving authority to a person or group to make decisions in a specified sphere of activity. (See section 10.4.1)

**deliberative dialogue**

Gathering a variety of stakeholders together to learn ideas from one another about how to address an issue. (See section 17.2.1)

**departmentalization**

How members and resources are grouped together to achieve the work of the larger organization. (See section 10.5.1)

**development**

Learning activities that result in broad growth and training beyond the scope of one's current job. (See section 12.4.2)

**developmental appraisals**

Feedback on progress toward expectations and identify areas for improvement. (See section 12.5.1)

**differentiation strategy**

When an organization offers products or services with unique features that cost less for it to provide than the extra price that customers are willing to pay for the features. (See section 8.5.1)

**dignification**

Treating everyone with dignity and respect in community. (See section 10.4.2)

**dilemmas**

Situations in which one must choose when there is no obvious best choice. (See section 5.5.2)

**discrimination**

When someone is treated unjustly or badly based on characteristics such as their race, age, gender, or disability. (See section 12.1)

**distinctive competency**

A competency that an organization has that is superior to that of its competitors. (See section 8.3.2)

**diversified organization**

Competes in more than one industry or sector, or serves customers in several different product, service, or geographic sectors. (See section 8.5.2)

**divestment**

The process of decreasing the number of industries in which a diversified firm operates an SBU. (See section 8.5.2)

**divisional structure**

Where members work together as a subunit that provides a specific kind of product or service, serves similar customers, or operates in the same geographic region. (See section 10.5.1)

**documentational capitalism**

Capitalism that is characterized by an emphasis on detailed contracts, public financial reports, short-term maximization of financial performance, management independence and rights, stringent anti-trust legislation, rewarding a labor force that is mobile and has transferable skills, and using stock options to motivate managers. (See section 3.2.1)

**dual strategy**

When an organization combines both a cost leadership and a differentiation strategy. (See section 8.5.1)

**ecological footprint**

The amount of the Earth's natural resources that are required to sustain a particular lifestyle or activity. (See section 4.2)

**ecological well-being**

A condition evident when the Earth's natural systems are functioning in a way that sustains and enhances the flourishing of life. (See section 4.2)

**economics**

How goods and services are produced, distributed, and consumed. (See section 3.2.2)

**economies of scale**

Cost savings that arise from producing a large volume of output. (See section 6.2.1)

**egalicentrism**

Characterized by two-way, give-and-take communication that fosters mutual understanding and community. (See section 5.4.4)

**elevator pitch**

A succinct description of the entrepreneur's plan and the value it offers. (See section 6.3.2)

**employee relations**

Activities that are necessary to effectively manage the relationship between employers and employees. (See section 12.1)

**encoding**

Choosing the symbols and media that are used to develop and transmit a message. (See section 17.3)

**enlightened centralization**

A variation of FBL centralization that embraces SET dignification on a piecemeal basis when it profitably reduces negative socio-ecological externalities. (See section 10.4.2)

**enlightened consequential utilitarianism**

Suggests that ethical management seeks to improve an organization's financial well-being, especially via reducing negative social and ecological externalities. (See section 1.3.2)

**enlightened departmentalization**

A variation of FBL departmentalization coupled with some SET participation in cases where the latter enhances the organization's financial well-being. (See section 10.5.2)

**enlightened specialization**

A variation of FBL specialization that embraces SET sensitization in instances where it profitably reduces negative socio-ecological externalities. (See section 10.3.1)

**enlightened standardization**

A variation of FBL standardization that embraces SET experimentation when it profitably reduces negative socio-ecological externalities. (See section 10.2.2)

**entrepreneur**

Someone who conceives of new or improved goods or services and exhibits the initiative to develop that idea by making plans and mobilizing the necessary resources to convert the idea into reality. (See section 1.4)

**entrepreneurial start-up plan (ESUP)**

Identifies an entrepreneurial opportunity and describes a detailed management plan for acting on that opportunity. (See section 1.4.2)

**entropy**

The natural tendency for a closed system to fail because it is unable to acquire the inputs and energy it requires. (See section 2.3.3)

**environmental munificence**

The availability of resources in the environment that enable organizations to grow and change. (See section 11.2.3)

**environmental stability**

The prevalence and speed of change among key resources and stakeholders in an organization's external environment. (See section 11.2.3)

**equity financing**

When investors in a new venture receive shares and become part owners of the organization. (See section 6.3.3)

**equity theory**

A theory based on the logic of social comparisons and the idea that people are motivated to seek and preserve social equity in the rewards they expect for performance. (See section 14.3.2)

**escalation of commitment**

When a manager perseveres with the implementation of a poor decision in spite of evidence that it is not working. (See section 7.5.2)

**ethics**

Principles one uses to choose the right action, particularly when the action affects others. (See section 5.5.2)

**ethnocentric orientation**

When managers enter a foreign country with the belief that practices from their home country offer the best way to manage in a foreign country. (See section 5.4.2)

**expectancy**

The probability perceived by an individual that exerting a given amount of effort will lead to a certain level of performance. (See section 14.3.1)

**expectancy theory**

Describes how motivation can be increased by increasing employees' expectations that they can achieve certain goals, and that the achievement of those goals will be linked to rewards that they value. (See section 14.3.1)

**experimentation**

Members' ongoing voluntary implementation of new and possibly better ways of performing tasks on a trial basis. (See section 10.2.2)

**expert power**

The ability to influence the behavior of others based on special knowledge, skills, and expertise that one possesses. (See section 14.3.4)

**explicit knowledge**

Information that can be codified or articulated. (See section 7.4.1)

**external focus culture**

Prioritizes organizational objectives over employee needs. (See section 11.2.2)

**external focus structure**

Characterized by an emphasis on how stakeholders beyond an organization's boundaries engage in experimentation, sensitization, dignification, and participation. (See section 11.2.1)

**externalities**

Positive and negative effects that organizations have on society that are not reflected in their financial statements. (See section 1.3.2)

**extrinsic motivation**

Behavior that is exhibited because of the promise of some desired outcome (reward) from someone else. (See section 14.1)

**fair trade**

An approach to trade that tries to ensure that workers in low-income countries are paid a fair price for the products they produce. (See section 3.4.1)

**family**

A group of people—typically connected by marriage or kinship ties—who have a shared history, who feel a sense of collective belonging, and who are committed to helping each other build a shared future. (See section 6.2.2)

**family business**

An organization controlled by two or more members of a single family, in cooperation or in succession. (See section 6.2.2)

**FBL management**

An approach that emphasizes maximizing an organization's financial well-being, which is typically achieved by appealing to individual self-interests. (See section 1.3.2)

**feedback control**

Determines whether an organization's outputs meet its performance standards. (See section 18.2.1)

**feedforward control**

Determines whether an organization's inputs meet its performance standards. (See section 18.2.1)

**filtering**

When information is intentionally withheld or not communicated to others. (See section 17.2)

**first-mover advantage**

A performance advantage enjoyed by the first organization or product to reach a large portion of the potential market. (See section 6.3.3)

**fixed costs**

Business expenses that do not vary with the quantity of organizational output. (See section 6.2.1)

**focus strategy**

The portion of an overall market that an organization is targeting to serve. (See section 8.5.1)

**formalization**

The written documentation in an organization. (See section 10.2.1)

**fragile player**

An organization that creates both positive and negative externalities. (See section 8.5.2)

**franchising**

Involves a franchisor selling a franchisee a complete package to set up an organization, including such things as using its trademark and trade name, its products and services, its ingredients, its technology and machinery, as well as its management and standard operating systems. (See section 1.4.2)

**free trade**

The idea that goods and services can flow across national and international boundaries without financial barriers (i.e., tariffs, quotas, or subsidies). (See section 3.4.1)

**frustration-regression principle**

When people who are unable to satisfy some needs at a basic level compensate by focusing on over-satisfying other needs. (See section 14.2.2)

**functional structure**

Where members are placed in the same department based on their having

similar technical skills and using similar resources to perform their tasks. (See section 10.5.1)

**Gantt chart**

A bar graph that managers could use to schedule and allocate resources for a production job. (See section 2.3.1)

**genuine profit**

The difference between a firm's financial expenses and its financial revenues after considering its socio-ecological externalities. (See section 3.3.3)

**globalization**

Changes in economics, technology, politics, and culture that result in increasing interdependence and integration among organizations and people around the world. (See section 3.4.1)

**goal displacement**

When people become so focused on specific goals that they lose sight of other, more important goals. (See section 9.2.2)

**goals**

Objectives or desired results that members in an organization are pursuing. (See section 7.4.2)

**greenwashing**

Deliberately using misleading information in order to present a false image of ecological responsibility. (See section 3.3.2)

**gross domestic product (GDP)**

The total financial value of all the goods and services produced within a country. (See section 3.3.2)

**group**

A collection of three or more people who share a common interest or association. (See section 16.2.1)

**group efficacy**

Group members' belief that they are able to complete a task successfully. (See section 14.3.1)

**groupthink**

The tendency of team members to strive for and maintain unanimity in decision-making rather than thoroughly considering all alternatives. (See section 16.3.1)

**growth-oriented entrepreneurs**

Distinguished by a strong and clear intention to grow a new organization into a large and influential force in their industry. (See section 1.4.2)

**harvesting**

Withdrawing one's financial investment (i.e., ownership) in an organization with the intent of achieving financial gain by doing so. (See section 18.3)

**Hawthorne effect**

Suggests that giving workers special treatment increases their productivity. (See section 2.3.2)

**horizontal integration**

When an organization's services or product lines are expanded or offered in new markets. (See section 8.5.2)

**human relations movement**

Managerial actions aimed at increasing employee satisfaction in order to improve productivity. (See section 2.3.2)

**human resource management (HRM)**

The set of organizational activities directed at attracting, developing, and maintaining a well-functioning workforce. (See section 12.1)

**hybrid economics**

Managing property and wealth to maximize monetary value for owners, while simultaneously reducing negative socio-ecological externalities for key stakeholders (harm reduction focus). (See section 3.2.2)

**hybrid structure**

Seeks the advantages of the functional structure (by achieving internal efficiencies and developing internal expertise in some areas) and the advantages of the divisional structure (by being able to adapt to changes in a dynamic external environment. (See section 10.5.1)

**hygiene factors**

Address issues of work context; they include working conditions, pay, company policies, and interpersonal relationships. (See section 14.2.2)

**idea champion**

Someone who actively and enthusiastically supports a new idea. (See section 13.3.3)

**ideal type of management**

A specified constellation of concepts and theory that collectively identifies what effective management means and how it is practiced. (See section 1.3.3)

**imitation**

The application of existing ideas, which may come from other units within the organization or from outside of the organization. (See section 13.2.3)

**incremental change**

When an existing organization design is fine-tuned. (See section 13.2.1)

**individualism**

Placing a high value on self-interests. (See section 2.2.5)

**industry**

All organizations that are active in the same sector of social, political, and/or economic activity. (See section 8.4)

**information**

Data that have been given meaning and value. (See section 18.2.2)

**information distortion**

The tendency to overlook or downplay feedback that makes a decision look bad, and instead to focus on feedback that makes the decision look good. (See section 7.5.2)

**information system**

Mechanisms that identify, collect, organize, and disseminate information. (See section 18.2.2)

**inimitable resources**

Resources that cannot be copied or developed by other organizations, or are costly or difficult to do so. (See section 8.3.2)

**initial public offerings**

When a firm's ownership shares are sold for the first time on a public securities exchange. (See section 17.5.3)

**initiating structure**

Behaviors like determining tasks and roles and assigning them to members,

coordinating members' actions, and maintaining the standards for task performance. (See section 15.3.1)

**innocent bystander**

An organization that has high sustainable development but low restorativeness. (See section 8.5.2)

**innovation**

The development and implementation of new ideas and practices. (See section 13.2.3)

**institutionalization**

When certain practices or rules have become valued in and of themselves. (See section 2.3.4)

**instrumentality**

The perceived probability that successfully performing to a certain level will result in attaining a desired outcome. (See section 14.3.1)

**intensity of rivalry**

The extent or strength of competition among the organizations in an industry. (See section 8.4.5)

**internal focus culture**

Places relatively more value on the needs of employees as compared to overall organizational goals. (See section 11.2.2)

**internal focus structure**

Characterized by an emphasis on how stakeholders within an organization's boundaries engage in experimentation, sensitization, dignification, and participation. (See section 11.2.1)

**intrapreneurs**

Individuals who exhibit entrepreneurship within an existing organization. (See section 1.4.2)

**intrinsic motivation**

Behavior that is exhibited because the task is inherently satisfying, enjoyable, or meaningful to the person. (See section 14.1)

**intuition**

Making decisions based on tacit knowledge, which can be based on experience, hunches, or "gut feel." (See section 7.4.1)

**invisible hand**

The idea that the good of the community is increased when every individual is permitted to pursue their own self-interested goals. (See section 1.3.2)

**job analysis**

The investigative process of gathering and interpreting information to identify the requirements of a particular job. (See section 12.2)

**job description**

A document that specifies what tasks are to be performed in a particular position, as well as the knowledge, skills, education and training, credentials, prior experience, physical abilities, and other characteristics that are required. (See section 12.2)

**job-based pay**

A standardized system where employees receive financial rewards based on their position title. (See section 12.5.2)

**jobs**

Opportunities to get paid by an organization in return for doing work that produces goods and services. (See section 3.3.1)

**labor union**

An organization that represents workers and negotiates with their employers (and in some countries, with the government) on the workers' behalf. (See section 12.1)

**lavish actors**

Organization that are low on both sustainability and restorativeness. (See section 8.5.2)

**leading**

The process of influencing others so that their work efforts lead to the achievement of organizational goals. (See section 15.1)

**legitimate power**

The capacity of someone to influence other people by virtue of one's position in an organization's hierarchy of authority. (See section 14.3.4)

**liability of newness**

New organizations' greater chance of failing compared to older organizations in the same industry or situation. (See section 6.2.1)

**liability of smallness**

Small organizations' greater chance of failing compared to larger organizations in the same industry or situation. (See section 6.2.1)

**life-cycle assessment**

Areas where there could be ecological benefits and financial savings in the overall process of how an organization sources raw materials, transforms them into new products, sells them to customers, and how they are used, maintained, and disposed of by consumers. (See section 4.2.1)

**line authority**

The formal power to direct and control immediate subordinates. (See section 10.4.1)

**living wage**

Enough money to pay for the basic amenities of life, including adequate housing, food, clothing, education, and healthcare. (See section 3.3.1)

**local multiplier effect**

The enhanced financial well-being a community gains when it supports locally owned businesses. (See section 3.5.2)

**locavores**

People whose diet consists only or principally of locally grown or produced food. (See section 4.2.3)

**locus of control**

A person's beliefs about the sources of success and failure. (See section 14.4.1)

**management**

(a) The process of planning, organizing, leading, and controlling human and other organizational resources toward (b) the effective achievement of organizational goals. (See section 1.3)

**market**

The impersonal laws of supply and demand that dictate what firms can and cannot do. (See section 3.1)

**market cannibalization**

The negative effect that a new product or service has on an organization's existing products and services. (See section 13.4.2)

**materialism**

Placing a high value on physical possessions, financial well-being, and productivity. (See section 2.2.5)

**matrix departmentalization**

When an organization has both divisional and functional departments, and members are simultaneously assigned to both. (See section 10.5.1)

**meaningful work**

An activity that enhances the meaning of life for those doing the work. (See section 5.2.2)

**mechanistic structure**

Characterized by standardization, narrow specialization, centralization, and functional departmentalization. (See section 11.2.1)

**media richness**

A medium's ability to resolve ambiguity. (See section 17.3.2)

**message**

A specific idea or general information. (See section 17.2)

**micropreneurs**

Those who seek to develop successful and viable organizations but not large ones; they do not include size in their definition of success. (See section 1.4.2)

**minimizer strategy**

When an organization minimizes negative socio-ecological externalities while ensuring that it remains financially viable. (See section 8.5.1)

**mission statement**

Identifies the fundamental purpose of an organization, and often describes

what an organization does, whom it serves, and how it differs from similar organizations. (See section 8.2)

**monopreneurs**

Individuals who start a viable organization in order to manage it for the rest of their career. (See section 1.4.2)

**moral hazard**

The risk that managers might use the firm's resources to benefit other interests to the detriment of the owners' financial gain. (See section 6.2.2)

**motivation**

A psychological force that helps to explain what arouses, directs, and maintains human behavior. (See section 14.1)

**motivator factors**

Address issues of work content; they include interesting work, autonomy, responsibility, being able to grow and develop on the job, and having a sense of accomplishment. (See section 14.2.2)

**natural environment**

All living and non-living things that have not been created by human technology or human activity. (See section 4.2)

**natural management of money**

Enhancing overall well-being by using money to facilitate the transfer of valued goods in a community-sustaining way.

**negative reinforcement**

The removal of an unpleasant consequence following a desired behavior. (See section 14.3.1)

**nepotism**

Preferential treatment of relatives and friends, especially by giving them jobs for which they are not the most qualified. (See section 6.2.2)

**net productivity**

The growth in the total goods and services created per the number of hours worked. (See section 3.3.1)

**network structure**

When an organization enters fairly stable and complex relationships with a variety of other organizations that provide essential services, including manufacturing and distribution. (See section 10.5.1)

**noise**

Anything that interferes with the transmission of a message. (See section 17.3.1)

**non-governmental organization (NGO)**

A non-profit organization whose primary mission is to model and advocate for social, cultural, legal, or environmental change. (See section 9.6.1)

**non-programmed decision**

Developing and choosing a new way of dealing with a problem or opportunity. (See section 7.3)

**non-substitutable resources**

Resources that cannot be easily substituted with other resources. (See section 8.3.2)

**omission**

The absence of any reinforcement, positive or negative, following the occurrence of a behavior. (See section 14.3.1)

**on-the-job training**

When someone who knows how to perform a particular task shows and teaches someone else how to do it. (See section 12.4.1)

**open systems**

An emphasis on the organization's place in the larger environment, and how the organization takes inputs from the environment and transforms them into outputs that go into the environment. (See section 2.3.3)

**operational goals**

Outcomes to be achieved by an organizational department, workgroup, or individual member. (See section 9.2)

**operational plans**

Specifying what activities will be used to meet a goal, when they should be accomplished (in light of existing commitments and constraints), and how the required resources will be acquired. (See section 9.3)

**operations information systems**

Used to monitor and coordinate the flow of work between various organizational subunits and their suppliers. (See section 18.2.2)

**opportunities**

Conditions in the external environment that have the potential to help managers meet or exceed organizational goals. (See section 8.4)

**opportunity identification**

The process of selecting promising entrepreneurial ideas for further development. (See section 6.3.1)

**organic structure**

Characterized by little standardization, broad specialization, limited centralization, and divisional departmentalization. (See section 11.2.1)

**organization**

A goal-directed, deliberately structured group of people working together to provide specific goods and services. (See section 1.3.1)

**organization chart**

A diagram that depicts the reporting relationships and authority structure of the organization. (See section 1.3.1)

**organization design**

The process of ensuring that there is a good "fit" between an organization's structure, culture, environment, technology, and strategy. (See section 11.1)

**organization design type**

A coherent alignment of an organization's structure, culture, and strategy to fit the prevailing environment and technology. (See section 11.1)

**organizational change**

The substantive modification of some aspect of an organization. (See section 13.2)

**organizational citizenship behavior (OCB)**

Going above and beyond normal, required practices in order to serve organizational stakeholders. (See section 14.3.1)

**organizational commitment**

A motivational force that binds a person to a particular organization. (See section 14.3.3)

**organizational conflict**

When one member or unit challenges another. (See section 16.3.2)

**organizational culture**

The set of shared values and norms that influence how members perceive

and interact with each other and with other stakeholders. (See section 11.2.2)

**organizational environment**

All the actors, forces, and conditions outside the organization. (See section 11.2.3)

**organizational imprinting**

The tendency for organizations to take on qualities that reflect conditions when they were founded and to continue displaying those qualities after the founding stage. (See section 18.3)

**organizational life cycle theory**

How organizations, as they grow in age and size, move in a predictable progression from one generic organizational design type to another. (See section 13.2.1)

**organizational norms**

The informal rules that guide social and task behavior in a group. (See section 11.2.2)

**organizational values**

The foundational beliefs that members hold about the goals of the organization and how those goals should be achieved. (See section 11.2.2)

**outsourcing**

Using contracts to transfer some of an organization's recurring internal activities and decision-making rights to outsiders. (See section 10.5)

**participation**

Mutual decision-making that gives stakeholders a voice in how the organization is managed and how jobs are performed. (See section 10.5.2)

**partnership**

When two or more entrepreneurs own and operate the firm and are responsible for all of its debts. (See section 6.3.3)

**pay for performance**

A system where employees' compensation is based on activities and outputs of individual employees, and/or their workgroup, and/or the entire organization. (See section 12.5.2)

**performance appraisal**

Specifies, assesses, and provides feedback to jobholders regarding what they are expected to do. (See section 12.5.1)

**performance management**

HRM processes designed to ensure that individual and team activities and outputs are aligned with the organization's strategic goals. (See section 12.5)

**performance standards**

Metrics used to determine how well a particular employee, department, or organization is doing its work. (See section 9.2)

**persistence**

Remaining committed to a course of action despite obstacles. (See section 7.5.2)

**pet**

An organization that has a low market share in a low growth industry. (See section 8.5.2)

**place-based organizing**

An organizational approach characterized by having ownership, productive activities, and resources located in a specific geographic location. (See section 4.2.1)

**plans**

The steps and actions that are required to achieve goals. (See section 7.4.2)

**policies**

Guidelines for making decisions and taking action in various situations. (See section 9.3.1)

**political decision-making approach**

Negotiations about which means and ends to pursue, identifying costs and benefits associated with various options, with the final choice often reflecting a compromise that partially satisfies the competing interests of those involved. (See section 7.4.3)

**political-legal environment**

The prevailing philosophy and objectives of the various levels of government, as well as their ongoing laws and regulations. (See section 3.2)

**polycentrism**

When managers enter another country recognizing that the best way to manage involves attending to and adapting practices and customs from the host country. (See section 5.4.3)

**positive reinforcement**

The administration of a pleasant and rewarding consequence following a desired behavior. (See section 14.3.1)

**power**

The potential that one person has to influence and control someone else's behavior or to change the course of events. (See section 14.3.4)

**praxis**

A combination of critical reflection and practical action that facilitates positive change. (See section 13.3.2)

**precautionary principle**

A principle that states that before anyone undertakes on action that has a reasonable risk of harming others or the environment, that person must demonstrate that the action is not harmful. (See section 4.2.4)

**predictability culture**

A culture that tends to place greater value on stability and control. (See section 11.2.2)

**proactive change**

Change that is designed and implemented in an orderly and timely fashion. (See section 13.2.2)

**process school**

An approach that emphasizes that strategy formulation and implementation are ongoing and iterative, where one aspect influences the other. (See section 9.5)

**programmed decision**

A response to an organizational problem or opportunity chosen from a set of standard alternatives. (See section 7.3)

**prospector organization design**

Tends to have a differentiator or transformer strategy, a pioneer structure and adhocracy culture, a prolific environment, and a non-routine technology. (See section 11.3)

**psychological contract**

An unwritten expectation related to the exchanges between an employee and the organization. (See section 13.3.2)

**punishment**

The application of an unpleasant consequence after an undesirable behavior has occurred. (See section 14.3.1)

**question mark**

An organization that has a low market share but operates in a rapidly growing industry. (See section 8.5.2)

**quotas**

Restrictions on the quantity of specific goods or services that can be imported (or exported). (See section 3.4.2)

**random decision-making approach**

Negotiations among decision-makers about which means and ends to pursue, and then making a choice even though decision-makers are unable to determine the costs and benefits associated with possible options. (See section 7.4.3)

**rare resources**

Resources that few other organizations have. (See section 8.3.2)

**reactive change**

Change that makes ad hoc or piece-meal responses to unanticipated events or crises as they occur. (See section 13.2.2)

**realistic job preview**

Provides job applicants with information regarding both the positive and negative aspects of a position they are applying for. (See section 12.3.1)

**recruitment**

The process of identifying and attracting people with the KSAOs an organization needs. (See section 12.3.1)

**referent power**

The ability to influence the behavior of others on account of their loyalty to or desire to imitate or identify with the power holder. (See section 14.3.4)

**reinforcement theory**

An explanation of how to motivate employees to change their on-the-job behavior through the appropriate use of rewards and punishments. (See section 14.3.1)

**related diversification**

Expanding an organization's activity into industries that are related to its current activities. (See section 8.5.2)

**relational capitalism**

Capitalism that is characterized by an emphasis on relational contracts, the long-term reputation and financial performance of an organization, employee rights, satisfying the needs of many different stakeholder groups, and investment in developing the skills of employees. (See section 3.2.1)

**relationship-oriented behavior**

Showing concern and respect for group members, being friendly and approachable, treating other members as equals, and being open to their input. (See section 15.3.2)

**resources**

Assets, capabilities, processes, attributes, and information that are controlled by an organization and that enable it to formulate and implement a strategy. It is helpful for managers to look at three different types of internal resources: physical, human, and intangible. (See section 8.3.1)

**responsibility**

The obligation or duty of members to perform assigned tasks. (See section 10.4.1)

**reward power**

The ability to influence the behavior of others by giving or withholding positive benefits or rewards. (See section 14.3.4)

**risk**

Risk is evident when decision-makers have at least some knowledge about the likelihood of the different possible outcomes that might occur if they choose to implement a particular alternative, and the pay-offs associated with each outcome. (See section 7.4.1)

**rules and regulations**

Prescribed patterns of behavior that guide work tasks. (See section 9.3.1)

**satisficing**

Evident when decision-makers do not attempt to develop an optimal solution to a problem, but rather collect enough information and develop enough alternatives until they feel they are able to choose one that provides an adequate solution. (See section 7.4.3)

**scalar chain**

Where clear lines of authority extend from the top to the bottom of an organization's hierarchy and include every employee. (See section 2.3.1)

**scientific management**

A management approach that focuses on determining the best way to carry out specific jobs via designing the optimal process for performing a job, selecting people with the required abilities, training them to improve their efficiency, and developing reward systems that will optimize productivity. (See section 2.3.1)

**scripts**

Learned guidelines or procedures that help people interpret and respond to what is happening around them. (See section 2.3.4)

**seeding**

Transferring one's ownership to new owners with the intent of facilitating further socio-ecological well-being. (See section 18.3)

**selection**

The process of choosing whom to hire among a pool of recruited job applicants. (See section 12.3.2)

**selection reliability**

The ability of a selection method or tool to consistently provide accurate assessments. (See section 12.3.2)

**selection validity**

The relationship between the scores applicants receive during assessment and their subsequent job performance. (See section 12.3.2)

**self-efficacy**

The confidence and belief that one can accomplish a task successfully. (See section 6.3.4)

**self-fulfilling prophecies**

To shape and control people's actions by channeling behavior in a scripted direction rather than in alternative (possibly more positive) directions. (See section 2.3.4)

**semantic problems**

When words have different meanings for different people. (See section 17.3.1)

**sensitization**

Members' active awareness of how their work fits with that of co-workers and others, with an eye toward improving practices via experiments that take advantage of opportunities or address needs. (See section 10.3.1)

**serial entrepreneurs**

Individuals who start many organizations. (See section 1.4.2)

**served available market (SAM)**

Everyone in the total available market (TAM) who is likely to actually use the product or service. (See section 6.3.3)

**SET management**

An approach that emphasizes enhancing social and ecological well-being while maintaining financial viability. (See section 2.3)

**simple organization design**

Tends to have a focus strategy, a familial structure and clan culture, a harsh environment, and a craft technology. (See section 11.3)

**situational interview questions**

Asking applicants to respond to a specific scenario that is likely to arise on the job in the future. (See section 12.3.2)

**social cohesion**

The attachment and attraction of team members to one another. (See section 16.3.1)

**social construction of reality**

When something is perceived to be an objective reality and people allow it to shape their thinking and actions, even though its meaning has been subjectively created by humans and must be constantly recreated by humans in order to continue to exist. (See section 2.1)

**social enterprises**

Entrepreneurial organizations created intentionally and specifically to pursue a social or environmental well-being mission. (See section 1.4.1)

**social skills**

Abilities in getting along with people, leadership, helping others to be motivated, communication, and conflict resolution. (See section 1.2)

**socially responsible investing**

Investment decisions that seek to maximize "financial returns via strategically reducing negative social and ecological externalities." (See section 3.4.3)

**sole proprietorship**

A business that is owned and operated by one entrepreneur who is responsible for all of its debts. (See section 6.3.3)

**span of control**

The number of members that report directly to a given manager. (See section 10.4.1)

**specialization**

Selecting subsets of standardized organizational tasks and allocating them to separate jobs. (See section 10.3.1)

**staff authority**

The formal power to advise and provide technical support for others but not to tell them what to do. (See section 10.4.1)

**staffing**

The HRM process of identifying, attracting, hiring, and retaining people with the necessary KSAOs to fulfill the responsibilities of current and future jobs in the organization. (See section 12.3)

**stakeholder map**

A description of the organizational resources a new start-up has (and needs)

to manage the key forces in its industry, and the key relationships it needs to establish and maintain. (See section 9.6)

**stakeholders**

Parties that have an interest in what an organization does because they contribute resources to the organization and/or are affected by its operations. (See section 1.3.1)

**standard operating procedures**

Specific steps that must be taken when performing recurring tasks. (See section 9.3.1)

**standardization**

Developing uniform practices for organizational members to follow in doing their jobs. (See section 10.2.1)

**standing plans**

Operational plans for activities that are performed repeatedly. (See section 9.3.1)

**star**

Enjoys a high market share in a rapidly growing industry. (See section 8.5.2)

**strategic alliance**

Pooling organizational resources and know-how to share the risks and rewards for developing a market. (See section 8.4.2)

**strategic business unit**

Has its own mission statement, industry, products and services, business-level strategy, and financial statements. (See section 8.5.2)

**strategic learning**

Using insights from an organization's actual strategy to improve its intended strategy. (See section 9.5)

**strategic management**

The analysis and decisions that are necessary to formulate and implement strategy. (See section 8.1)

**strategy**

The combination of goals, plans, and actions that are designed to accomplish an organization's mission. (See section 8.1)

**strengths**

Valuable or unique resources that an organization has or any activities that it does particularly well. (See section 8.3)

**subsidies**

Direct or indirect payments to domestic businesses that help them compete with foreign companies. (See section 3.4.2)

**substitutes**

Products or services that are similar or that meet the same needs of a customer but come from a different industry. (See section 8.4.3)

**succession plan**

Identifying and grooming talented employees who have the potential of doing well in jobs of increased responsibility within the organization. (See section 12.4.2)

**supplier power**

How much influence suppliers have over an organization. (See section 8.4.1)

**sustainability hero**

An organization that minimizes negative externalities (high sustainable development) and enhances positive externalities (high restorativeness). (See section 8.5.2)

**sustainable development**

Meeting the needs of the present generation without compromising the ability of future generations to meet their needs. (See section 1.3.2)

**sustainable impact investing**

Investment decisions that "seek to optimize social and ecological well-being without a need to maximize financial returns." (See section 3.4.3)

**sustenance economics**

Managing property and wealth to increase the long-term overall well-being for owners, members, and other stakeholders (well-being focus). (See section 3.2.2)

**synergy**

When the performance gain that results from two or more units working together—such as two or more organizations, departments, or people—is greater than the simple sum of their individual contributions. (See section 8.5.2)

**tacit knowledge**

Information or other insight that people have that is difficult to codify or articulate. (See section 7.4.1)

**target market**

Everyone in the served available market (SAM) that the organization will intentionally try to make into a customer or client in the near future. (See section 6.3.3)

**tariffs**

Taxes on goods or services entering a country. (See section 3.4.2)

**task cohesion**

Team members' attachment and shared commitment to the group's purpose and the means for achieving it. (See section 16.3.1)

**task forces**

Teams that disband when their work has been completed, with members "floating" from one task force to the next as the need arises. (See section 10.5)

**task interdependence**

The degree to which the actions and outputs of one task influence, and are influenced by, the actions and outputs of another. (See section 16.3.2)

**task-oriented behavior**

Designing, implementing, and explaining organizational structures and systems that enable and motivate members to perform their tasks. (See section 15.3.1)

**TBL cost leadership strategy**

When an organization has lower financial costs than its rivals, thanks to reductions in its ecological and/or social negative externalities, thereby contributing to its financial well-being. (See section 8.5.1)

**TBL differentiation strategy**

When an organization offers products or services with socio-ecological benefits that cost less for it to provide than the extra price that customers are willing to pay for them. (See section 8.5.1)

**TBL management**

Enhancing an organization's financial well-being while simultaneously reducing its negative socio-ecological externalities. (See section 1.3.2)

**team**

A collection of three or more people who share task-oriented goals, work toward those goals interdependently, and are accountable to one another to achieve those goals. (See section 10.5.1)

**technical skills**

Expertise in a particular area like marketing, accounting, finance, or human resources. (See section 1.2)

**technology**

The combination of equipment (e.g., computers, machinery, tools) and skills (e.g., techniques, knowledge, processes) that are used to acquire, design, produce, and distribute goods and services. (See section 11.2.4)

**Theory X**

The assumption that people are inherently lazy, dislike work, will avoid working hard unless forced to do so, and prefer to be directed rather than accept responsibility for getting their work done. (See section 2.3.2)

**Theory Y**

The assumption that work is as natural as play, that people are inherently motivated to work, and that people will feel unfulfilled if they do not have the opportunity to work and thereby make a contribution to society. (See section 2.3.2)

**threat of new entrants**

The extent to which conditions make it easy for other organizations to enter or compete in a particular industry. (See section 8.4.4)

**threat-rigidity response**

Where people who face a crisis, whether as individuals or in groups, tend to revert to familiar patterns of behavior that they perceive to have been successful in the past. (See section 13.3.1)

**threats**

Conditions in the external environment that have the potential to prevent managers from meeting organizational goals. (See section 8.4)

**time and motion studies**

Precisely measuring how long it takes to perform a task in different ways, and using these data to identify the best way to do a task. (See section 2.3.1)

**total available market (TAM)**

Everyone who could potentially benefit from the product or service. (See section 6.3.3)

**Total Quality Management**

How managers can continuously improve organizational work systems so that products and services better meet the quality desired by customers. (See section 18.2.3)

**training**

Learning activities that improve a jobholder's skills or performance. (See section 12.4.1)

**traits**

Personal characteristics that are relatively stable. (See section 14.2.1)

**transaction costs**

Expenses that do not contribute directly to producing an organizational output, but exist only to reduce threats from opportunism and uncertainty. (See section 7.6)

**transaction processing systems**

Systems used to record customer orders, track purchases from suppliers, and so on. (See section 18.2.2)

**transformational change**

When an organization shifts from one type of organizational design to another. (See section 13.2.1)

**transformer strategy**

When an organization creates positive externalities, often by adding value to resources that were previously underappreciated or wasted. (See section 8.5.1)

**trial-and-error decision-making method**

Involves listing possible incremental options to choose from, attempting to determine the costs and benefits associated with each, and then choosing the option that offers the greatest opportunity for improvement with the lowest chance of making a mistake. (See section 7.4.3)

**turnover**

The rate at which employees leave an organization and are replaced. (See section 12.3.1)

**uncertainty**

Uncertainty exists when managers do not know what outcomes are associated with each alternative they are choosing among, do not know the possible payoffs associated with each possible outcome for each alternative, and do not know the probability or likelihood that each pay-off will occur. (See section 7.4.1)

**unity of command principle**

Where each employee reports to only one superior. (See section 2.3.1)

**unnatural management of money**

Maximizing financial well-being by using money to make money. (See section 2.2.4)

**unrelated diversification**

When an organization grows by investing in or establishing SBUs in an industry unrelated to its current activity. (See section 8.5.2)

**valence**

The value an individual attaches to an outcome. (See section 14.3.1)

**valuable resources**

Resources that managers can use to neutralize threats or to exploit opportunities to meet their organization's mission in light of conditions in the external environment. (See section 8.3.2)

**value capture**

Acquiring part of the financial benefits associated with the value being created. (See section 1.2)

**value chain**

The sequence of activities needed to convert an organization's inputs into outputs. (See section 18.2.1)

**value creation**

Offering goods and services that are valued by society. (See section 1.2)

**value proposition**

A statement of why a customer should choose the organization's specific product or service. (See section 9.6.1)

**venture capitalists**

Companies or individuals that invest money in an organization in exchange for a share of the ownership and profits. (See section 6.3.3)

**vertical integration**

When an organization produces its own inputs (upward integration) or sells its own outputs (downward integration). (See section 8.5.2)

**virtual organization**

Where work is done by people who come and go on an as-needed basis and who are networked together with an information technology architecture that enables them to synchronize their activities. (See section 10.5.1)

**virtue ethics**

Focuses on how happiness is achieved by practicing virtues in community. (See section 1.3.2)

**vision statement**

Describes what an organization is striving to become and thus provides guidance to organizational members. (See section 8.2)

**weaknesses**

A lack of specific resources or abilities that an organization needs in order for it to do well. (See section 8.3)

# Versioning History

We appreciate the feedback of readers and are always seeking to improve our open textbook. Please submit your suggestions, recommendations, and/or corrections to bruno.dyck@umanitoba.ca.

This page lists major changes to this book with major changes marked with a 1.0 increase in the version number and minor changes marked with a 0.1 increase.

| Version | Date | Change |
|---|---|---|
| 1.0-beta | 22 April 2025 | Early release for peer review and pilot course use. |
| 1.1-beta | 5 Sept. 2025 | Updates to correctly display tables in PDF export; interactive Test Your Knowledge questions added to all chapters; minor formatting issues corrected. |
| 1.0 | March 2026 | Minor updates and corrections throughout, based on feedback from reviewers. Added appendicies with details on student and instructor resources. |