6 | Organizational Strategy

LEARNING OBJECTIVES

6-1 Specify the components of sustainable competitive advantage, and explain why it is important.

6-2 Describe the steps involved in the strategy-making process.

6-3 Explain the different kinds of corporate-level strategies.

6-4 Describe the different kinds of industry-level strategies.

6-5 Explain the components and kinds of firm-level strategies.

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6-1 SUSTAINABLE COMPETITIVE ADVANTAGE

Just seven years ago, there was no market for tablet computers. A number of computer makers sold touchscreen laptops, but other than some programs that allowed users to handwrite notes, there was little to distinguish these machines from traditional laptops. All of that changed when Apple released the iPad, a tablet computer that is controlled by a multitouch display and can run hundreds of thousands of applications allowing users to read books, watch movies, listen to music, check the weather, or play games. With its innovative product, Apple in effect created a new market for portable, touch-based tablet computers. The iPad is not without its competitors, however. There is, for example, the Amazon Kindle Fire, Barnes & Noble's Nook HD, and Samsung's Android-based Galaxy Tab S3. The latest competitor is the

Microsoft Surface, which comes with a touchscreen, a combination cover/detachable keyboard, and the Windows 10 operating system. Critics complain about the higher price ($2,099 for a 256GB Surface Pro 4 with a 12.3-inch screen, keyboard, and Surface Pen versus $1,350 for a 256GB iPad Pro with a 12.9-inch screen, keyboard, and the Apple Pencil), and the Surfaces's 40 percent shorter battery life. Despite its competitors, Apple still dominates tablet sales, selling 45.6 million iPads in 2016 compared to just 3.9 million Surfaces, 26.5 million Galaxies, and 12.1 million Kindle fires.[1]

How can a company like Apple, which dominates a particular industry, maintain its competitive advantage as strong, well-financed competitors enter the market? What steps can Apple and other companies take to better manage their strategy-making process?

Resources are the assets, capabilities, processes, employee time, information, and knowledge that an organization controls. Firms use their resources to improve organizational effectiveness and efficiency. Resources are critical to organizational strategy because they can help companies create and sustain an advantage over competitors.[2]

Resources the assets, capabilities, processes, employee time, information, and knowledge that an organization uses to improve its effectiveness and efficiency and create and sustain competitive advantage


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VS.


Source: Microsoft Corporation

Organizations can achieve a **competitive advantage** by using their resources to provide greater value for customers than competitors can. For example, the iPad's initial competitive advantage came partly from its sleek, attractive design and partly from the reputation of Apple's iPod and iPhone as innovative, easy-to-use products.

The goal of most organizational strategies is to create and then sustain a competitive advantage. A competitive advantage becomes a **sustainable competitive advantage** when other companies cannot duplicate the value a firm is providing to customers. Sustainable competitive advantage is *not* the same as a long-lasting competitive advantage, though companies obviously want a competitive advantage to last a long time. Instead, a competitive advantage is *sustained* if competitors have tried unsuccessfully to duplicate the advantage and have, for the moment, stopped trying to duplicate it. It's the corporate equivalent of your competitors saying, "We give up. You win. We can't do what you do, and we're not even going to try to do it anymore." Four conditions must be met if a firm's resources are to be used to achieve a sustainable competitive advantage. The resources must be valuable, rare, imperfectly imitable, *and* nonsubstitutable.

Competitive advantage providing greater value for customers than competitors can

Sustainable competitive advantage a competitive advantage that other companies have tried unsuccessfully to duplicate and have, for the moment, stopped trying to duplicate

Valuable resource a resource that allows companies to improve efficiency and effectiveness

Rare resource a resource that is not controlled or possessed by many competing firms

Valuable resources allow companies to improve their efficiency and effectiveness. Unfortunately, changes in customer demand and preferences, competitors' actions, and technology can make once-valuable resources much less valuable. Before the iPad was introduced, netbooks appeared to be the next big thing in mobile computing. These laptops were small and light, making them ultra portable; were very affordable, averaging anywhere from $200 to $500; and let users run basic programs such as web browsing and word processing on the go. At first, sales were brisk—in 2009, 7.5 million netbooks were sold in the United States and more than 34 million worldwide. But all that changed. The iPad had a touchscreen, an intuitive operating system, and a large selection of app software, while netbooks were often criticized for having small, hard-to-use keyboards, a slow operating system, and a lack of software options. While it took only 28 days for Apple to sell its first 1 million iPads, netbook sales fell by 40 percent in one year.[3] Only one year after netbook sales peaked, tablet sales passed them, and netbook sales have been steadily declining ever since.[4]

For sustained competitive advantage, valuable resources must also be rare resources. Think about it: How can a company sustain a competitive advantage if all of its competitors have similar resources and capabilities? Consequently, **rare resources**, resources that are not controlled or possessed by many competing firms, are necessary to sustain a competitive advantage. One of Apple's rare resources has been its ability to reconfigure existing technology into elegantly designed, easy to use systems. Apple leveraged its experience with the iPod, iPod touch, and iPhone to develop the iOS operating

system into a single platform giving users the same experience across multiple devices. Because of iOS, iPhone users instantly know how to use their new iPads. But, they might have trouble learning the macOS operating system on Apple Mac personal computers, which is substantially different. By contrast, with Windows 10, the Microsoft Surface 4 automatically and seamlessly switches apps from personal computer mode (when a keyboard is attached) to tablet mode. Detach the keyboard and Windows 10 asks if you want to switch into Tablet mode based on touch screen gestures, rather than mouse and keyboard clicks. In other words, Apple is no longer the only software/hardware provider to create an operating system that is easily used across multiple devices or input formats. *PC Magazine* even argues that Windows 10 "leads in innovation when it comes to desktop operating systems."[5]

As this example shows, valuable and rare resources can create temporary competitive advantage. For sustained competitive advantage, however, other firms must be unable to imitate or find substitutes for those valuable, rare resources. **Imperfectly imitable resources** are those resources that are impossible or extremely costly or difficult to duplicate. Microsoft, Google, Amazon, and other Apple competitors buy standard "off the shelf" computer chips from Intel and other chipmakers. Because they all use the same chip architectures, none has an advantage with the "digital engines" that power their devices. By contrast, for over a decade Apple's semiconductor team has designed the unique chips used in Apple iPhones, the latest being the A10 chip used in iPhone 7s. Why does this matter? Because it would take billions in investment and 5 to 10 years for competitors to catch up. Because the A10 chips are faster than the "off the shelf" chips from traditional semiconductor companies.[6] Because Apple takes the chips first designed for iPhones and then reuses them in other devices, such as iPads, Apple TVs, and Apple Watches. Tech analyst Steve Cheney says, "Because of Apple's scale in smart phones, and reuse of chips in other device categories like the watch and TV, Apple has massive influence with suppliers. They can plan three to five years out and decide what to license, build, invest in, or buy."[7] In short, it would be extremely costly and difficult for Apple's competitors to match its chip design capabilities. Apple's chip design advantage may be an imperfectly imitable resource.

Valuable, rare, imperfectly imitable resources can produce sustainable competitive advantage only if they are also **nonsubstitutable resources**, meaning that no other resources can replace them and produce similar value or competitive advantage. From 2007 to 2012, Google Maps was the iPhone's dominant navigation app. In 2012, 91 percent of iPhone owners used Google Maps because it gave them accurate information, voice-guided direction, and the ability to map routes by car, public transportation, and walking.[8] So for five years, nothing else on the iPhone came close to providing the simple, accurate, easy-to-use navigation found in Google Maps. With 7,000 people working on Google Maps as "street view drivers, people flying planes, people drawing maps, people correcting listings, and people building new products," Google Maps was a nonsubstitutable navigation resource on the iPhone.[9] Apple set out to change that in 2012 when the company released the first version of Apple Maps for iOS. However, it was so bad and inaccurate that CEO Tim Cook apologized, saying, "We are extremely sorry for the frustration," and that iPhone users could, while Maps was being improved, "try alternatives by downloading map apps from the App Store or use Google or Nokia (now called Here) maps."[10] By June 2015, after acquiring a number of mapping software companies, fixing incorrect map data, and largely matching the functionality found in Google Maps, Apple reported that iPhone owners used the Apple Maps app 5 billion times per week, 3.5 times more than the "next leading maps app," Google Maps.[11] Does this mean that Apple Maps has a sustainable competitive advantage over Google Maps? No—not even close. But it does mean that Apple Maps is a worthy substitute for Google Maps, and that Google Maps lost its previously sustainable competitive advantage among iPhone users.

In summary, Apple reaped the rewards of a first-mover advantage when it introduced the iPad. The company's history of developing customer-friendly software, the innovative capabilities of the iPad, the ease and uniformity of experience Apple's iOS operating system provides across devices, and its—so far—imperfectly imitable chip design, have made Apple the most profitable business in history. Indeed, in smartphones alone, Apple is estimated to earn 80 percent or more of the profits in the smartphone business! As demonstrated by the rise of Windows 10 and the stumble of Apple Maps, however, past success is no guarantee of future success. Apple needs to continue developing and improving its products or risk being unseated by more nimble competitors whose products are more relevant and have higher perceived value for consumers.

Imperfectly imitable resource a resource that is impossible or extremely costly or difficult for other firms to duplicate

Nonsubstitutable resource a resource that produces value or competitive advantage and has no equivalent substitutes or replacements

6-2 STRATEGY-MAKING PROCESS

To create a sustainable competitive advantage, a company must have a strategy.[12] Exhibit 6.1 displays the three steps of the strategy-making process:

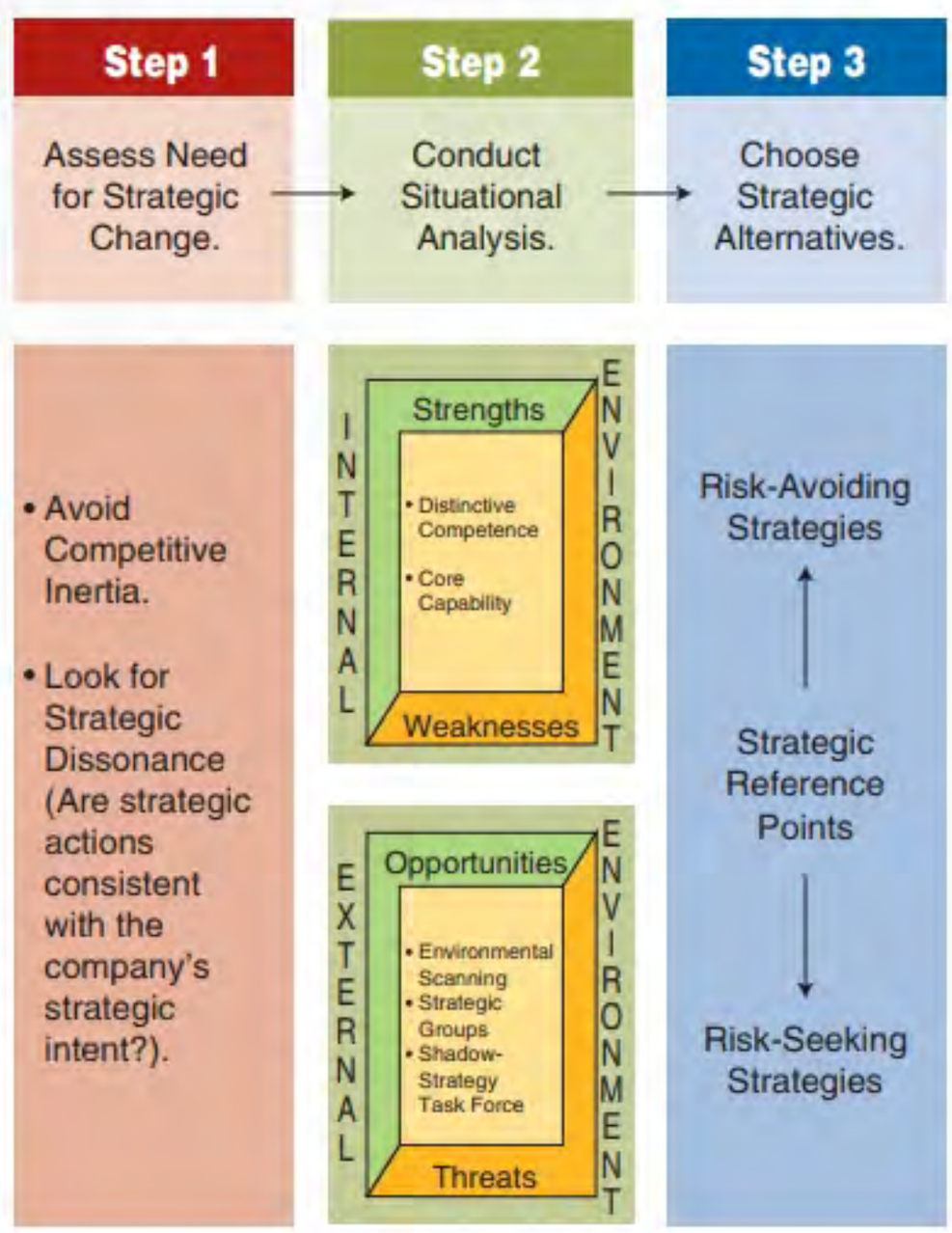
6-2a assess the need for strategic change, 6-2b conduct a situational analysis, *and then* ***6-2c choose strategic alternatives.*** *Let's examine each of these steps in more detail.*

6-2a Assessing the Need for Strategic Change

The external business environment is much more turbulent than it used to be. With customers' needs constantly growing and changing, and with competitors working harder, faster, and smarter to meet those needs, the first step in creating a strategy is determining the need for strategic change. In other words, the company should determine whether it needs to change its strategy to sustain a competitive advantage.[13]

Determining the need for strategic change might seem easy to do, but it's really not. There's a great deal of uncertainty in strategic business environments. Furthermore, top-level managers are often slow to recognize the need for strategic change, especially at successful companies that have created and sustained competitive advantages. Because they are acutely aware of the strategies that made their companies successful, they continue to rely on those strategies, even as the competition changes. In other words, success often leads to **competitive inertia**—a reluctance to change strategies or competitive practices that have been successful in the past. A decade ago, GameStop sold video game discs for personal computers (PC) and game consoles, such as the PlayStation or Xbox, that could only be purchased and picked up at its then 6,000 stores. GameStop sold each game twice, first as a new game and second as a used game (after the original buyer traded the new game in for

Exhibit 6.1
Three Steps of the Strategy-Making Process



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GameStop closed 150 stores in 2017, in part because of the increase in downloadable and streaming games.

store credit toward another game purchase). Double profit on each game was the competitive inertia that made GameStop reluctant to change. Today, however, video games can also be played online, on smartphones, on streaming devices like the Apple TV, or on budding virtual reality systems. What all of those different gaming platforms have in common is that more often than not, games are downloaded to the device (including the most recent consoles). In 2014, in the United States and 2016 in the United Kingdom, sales of digitally downloaded and streamed games exceeded sales of game discs for the first time.[14] Likewise, in 2016, sales from mobile games, which are all streamed or downloaded, also exceeded console game sales for the first time.[15] GameStop has diversified into trading and selling collectibles, but its core business of selling games and gaming systems continues to shrink while the gaming industry grows. In 2016, sales dropped 8% and profits sagged 22%. GameStop closed 150 stores in 2017.[16]

Sean Pavone/Shutterstock.com

Aldi's business model focuses on selling a limited number of groceries and household items in a small setting.

Besides being aware of the dangers of competitive inertia, what can managers do to improve the speed and accuracy with which they determine the need for strategic change? One method is to actively look for signs of strategic dissonance. **Strategic dissonance** is a discrepancy between a company's intended strategy and the strategic actions managers take when actually implementing that strategy.[17] Google has long been a leading innovator in voice technology, that is, using voice commands and natural language to interact with computer devices. Indeed, 20 percent of mobile searches ("Hey Google…") are done by voice. So it was surprising that Amazon's Echo, which uses voice commands to search for information ("Hey Alexa, what's the weather today?") and order things on amazon.com ("Hey Alexa, order barbecue potato chips."), beat Google Home, Google's voice-activated assistant, to market by nearly two years. Professor Scott Galloway said, "Amazon got there first, which is super impressive, and it has been a huge hit."[18] Google was seriously invested in bringing voice capabilities to market. Its largest team was working on a standalone voice app for different smartphones. The Android team was working on building voice directly into the Android operating system for phones and tablets. But Google's hardware divisions, which manufacture the phones, tablets, and Chromecast TV devices, never coordinated with those teams. So, in a clear case of strategic dissonance, no one was actually working on a voice device for people's homes, despite Google's strategic commitment to voice processing.[19]

Note, however, that strategic dissonance is not the same thing as when a strategy does not produce the results that it's supposed to. Airbus created the wide-body, double decker A380, the largest passenger jet in the world capable of flying 853 passengers. The idea was that airlines would use the A380 for their most profitable, heavily traveled, long-haul international flights. But even with low jet fuel prices, the A380 is expensive to operate, which means it has to fly as full as possible to cover costs. So airlines are canceling orders and leases for the A380. Airbus delivered 27 planes last year, but will only make 14 in 2017 and 12 in 2018.[20]

6-2b Situational Analysis

A situational analysis can also help managers determine the need for strategic change. A **situational analysis**, also called a **SWOT analysis**,

Competitive inertia a reluctance to change strategies or competitive practices that have been successful in the past

Strategic dissonance a discrepancy between a company's intended strategy and the strategic actions managers take when implementing that strategy

Situational (SWOT) analysis an assessment of the strengths and weaknesses in an organization's internal environment and the opportunities and threats in its external environment

SHADOW-STRATEGY TASK FORCE

When looking for threats and opportunities, many managers focus on competitors in the external environment. Others, however, prefer to examine the internal environment through a **shadow-strategy task force**. This strategy involves a company actively seeking out its own weaknesses and then thinking like its competitors, trying to determine how they can be exploited for competitive advantage. To make sure that the task force challenges conventional thinking, its members should be independent-minded, come from a variety of company functions and levels, and have the access and authority to question the company's current strategic actions and intent.

Source: W. B. Werther, Jr., and J. L. Kerr, "The Shifting Sands of Competitive Advantage," *Business Horizons* (May–June 1995): 11–17.

for *strengths*, *weaknesses*, *opportunities*, and *threats*, is an assessment of the strengths and weaknesses in an organization's internal environment and the opportunities and threats in its external environment.[21] Ideally, as shown in Step 2 of Exhibit 6.1, a SWOT analysis helps a company determine how to increase internal strengths and minimize internal weaknesses while maximizing external opportunities and minimizing external threats.

An analysis of an organization's internal environment, that is, a company's strengths and weaknesses, often begins with an assessment of its distinctive competencies and core capabilities. A **distinctive competence** is something that a company can make, do, or perform better than its competitors. For example, *Consumer Reports* magazine consistently ranks Toyota and Subaru cars as tops in quality, reliability, and owner satisfaction.[22] Similarly, *PC Magazine* ranked Intuit's TurboTax the best tax preparation software for its user experience, thorough coverage of tax topic, and robust help resources.[23]

Shadow-strategy task force a committee within a company that analyzes the company's own weaknesses to determine how competitors could exploit them for competitive advantage

Distinctive competence what a company can make, do, or perform better than its competitors

Core capabilities the internal decision-making routines, problem-solving processes, and organizational cultures that determine how efficiently inputs can be turned into outputs

Strategic group a group of companies within an industry against which top managers compare, evaluate, and benchmark strategic threats and opportunities

Whereas distinctive competencies are tangible—for example, a product or service is faster, cheaper, or better—the core capabilities that produce distinctive competencies are not. **Core capabilities** are the less visible, internal decision-making routines, problem-solving processes, and organizational cultures that determine how efficiently inputs can be turned into outputs. Distinctive competencies cannot be sustained for long without superior core capabilities.

Walmart's distinctive competence, what it does better than competitors, is sell items at low prices. But that's no longer true in groceries, as prices at Aldi grocery stores are consistently 20 percent lower than Walmart's. What core capabilities help Aldi sell at such dramatically lower prices? It focuses on selling a limited number of groceries and household items in a small setting. Aldi stores are just 16 percent the size of a typical Walmart store and carry just 1,500 or so items, compared to 100,000 items in a superstore. Furthermore, most items are private brands—that is, goods that Aldi buys and packages itself. Hundreds of other small decisions keep costs and prices low. Instead of employees returning carts from parking lots, it charges customers a 25-cent deposit, which is paid inside Aldi stores. Likewise, Aldi charges 4 cents for paper bags and $1.99 for reusable shopping bags. Together, these decisions allow Aldi to run a store with just four to five employees. Aldi is growing strongly at 15 to 20 percent a year.[24]

After examining internal strengths and weaknesses, the second part of a situational analysis is to look outside the company and assess the opportunities and threats in the external environment. In Chapter 3, you learned that *environmental scanning* involves searching the environment for important events or issues that might affect the organization, such as pricing trends or new products and technology. In situational analysis, however, managers use environmental scanning to identify specific opportunities and threats that can either improve or harm the company's ability to sustain its competitive advantage. Identification of strategic groups and formation of shadow-strategy task forces are two ways to do this (see box "Shadow-Strategy Task Force").

Strategic groups are not groups that actually work together. They are companies—usually competitors—that managers closely follow. More specifically, a **strategic group** is a group of other companies within an industry against which top managers compare, evaluate, and benchmark their company's strategic threats and opportunities.[25] (*Benchmarking* involves identifying outstanding practices, processes, and standards at other companies and adapting them to your own company.) Typically, managers include companies as part of their strategic group if they compete directly with

Exhibit 6.2

Core and Secondary Firms in the Home Improvement Industry

iStock.com/Tom McNemar

	# of Stores	# of States	Countries	Size of Typical Store (sq. feet)
Home Depot	2,200	50	3	104,000
Lowe's	2,355	50	3	112,000
Ace Hardware	4,800	50	60	10,000–14,000
84 Lumber	249	30	1	33,000

those companies for customers or if those companies use strategies similar to theirs. The U.S. home improvement industry has annual sales in excess of $364 billion. This market is divided into professional and consumer markets, both of which were forecast to grow roughly 4 percent in 2017.[26] It's likely that the managers at Home Depot, the largest U.S. home improvement and hardware retailer, assess strategic threats and opportunities by comparing their company to a strategic group consisting of the other major home improvement supply companies. Exhibit 6.2 shows the number of stores, the size of the typical new store, and the overall geographic distribution (states, countries) of Home Depot stores compared with Lowe's, Ace Hardware, and 84 Lumber.

In fact, when scanning the environment for strategic threats and opportunities, managers tend to categorize the different companies in their industries as core, secondary, and transient firms.[27] **Core firms** are the central companies in a strategic group. Home Depot operates 2,200 stores covering all 50 states, Puerto Rico, the U.S. Virgin Islands, Guam, Mexico, and Canada. The company has more than 400,000 employees and annual revenues of $94.6 billion. By comparison, Lowe's has more than 2,129 stores and 285,000 employees in the United States, Canada, and Mexico; stocks about 36,000 products in each store; and has annual revenues of $65 billion.[28] Clearly, Lowe's is the closest competitor to the Home Depot and is the core firm in Home Depot's strategic group. Even though Ace Hardware has more stores (4,800) than Home Depot and appears to be a bigger multinational player (60 different countries), Ace's different franchise structure and small, individualized stores (10,000–14,000 square feet, with each store laid out differently with a different mix of products) with 80,000 employees keep it from being a core firm in Home Depot's strategic group.[29] Likewise, Home Depot's management probably doesn't include Aubuchon Hardware in its core strategic group, because Aubuchon has only 110 stores in New England and upstate New York.[30]

When most managers scan their environments for strategic threats and opportunities, they concentrate on the strategic actions of core firms, not unrelated firms such as Aubuchon. Where does a firm like Ace Hardware fit in? As a retailer-owned cooperative, Ace Hardware is a network of independently owned stores. Ace's 20/20 vision employs a customer-focused strategy to grow the brand and improve store performance.[31]

Secondary firms are firms that use strategies related to but somewhat different from those of core firms. 84 Lumber has roughly 250 stores in 30 states, but even though its stores are open to the public, the company focuses on supplying professional

Core firms the central companies in a strategic group

Secondary firms the firms in a strategic group that follow strategies related to but somewhat different from those of the core firms

contractors, to whom it sells 85 percent of its products. Without the wide variety of products on the shelves or assistance available to the average consumer, people without expertise in building or remodeling probably don't find 84 Lumber stores very accessible. Home Depot would most likely classify 84 Lumber as a secondary firm in its strategic group analysis.[32] Managers need to be aware of the potential threats and opportunities posed by secondary firms, but they usually spend more time assessing the threats and opportunities associated with core firms.

6-2c Choosing Strategic Alternatives

After determining the need for strategic change and conducting a situational analysis, the last step in the strategy-making process is to choose strategic alternatives that will help the company create or maintain a sustainable competitive advantage. According to *strategic reference point theory*, managers choose between two basic alternative strategies. They can choose a conservative, *risk-avoiding strategy* that aims to protect an existing competitive advantage. Or they can choose an aggressive, *risk-seeking strategy* that aims to extend or create a sustainable competitive advantage.

The choice to seek risk or avoid risk typically depends on whether top management views the company as falling above or below strategic reference points. **Strategic reference points** are the targets that managers use to measure whether their firm has developed the core competencies that it needs to achieve a sustainable competitive advantage. If a hotel chain decides to compete by providing superior quality and service, then top management will track the success of this strategy through customer surveys or published hotel ratings such as those provided by the prestigious *Mobil Travel Guide*. If a hotel chain decides to compete on price, it will regularly conduct market surveys to check the prices of other hotels. The competitors' prices are the hotel managers' strategic reference points against which to compare their own pricing strategy. If competitors can consistently underprice them, then the managers need to determine whether their staff and resources have the core competencies to compete on price.

Strategic reference points the strategic targets managers use to measure whether a firm has developed the core competencies it needs to achieve a sustainable competitive advantage

As shown in Exhibit 6.3, when a company is performing above or better than its strategic reference points, top management will typically be satisfied with the company's strategy. Ironically, this satisfaction tends to make top management conservative and risk-averse. Because the company already has a sustainable competitive advantage, the worst thing that could happen would be to lose it, so new issues or changes in the company's external environment are viewed as threats. By contrast, when a company is performing below or worse than its strategic reference points, top management will typically be dissatisfied with the company's strategy. In this instance, managers are much more likely to choose a daring, risk-taking strategy. If the current strategy is producing substandard results, the company has nothing to lose by switching to risky new strategies in the hope that it can create a sustainable competitive advantage. Managers of companies in this situation view new issues or changes in the external environment as opportunities for potential gain.

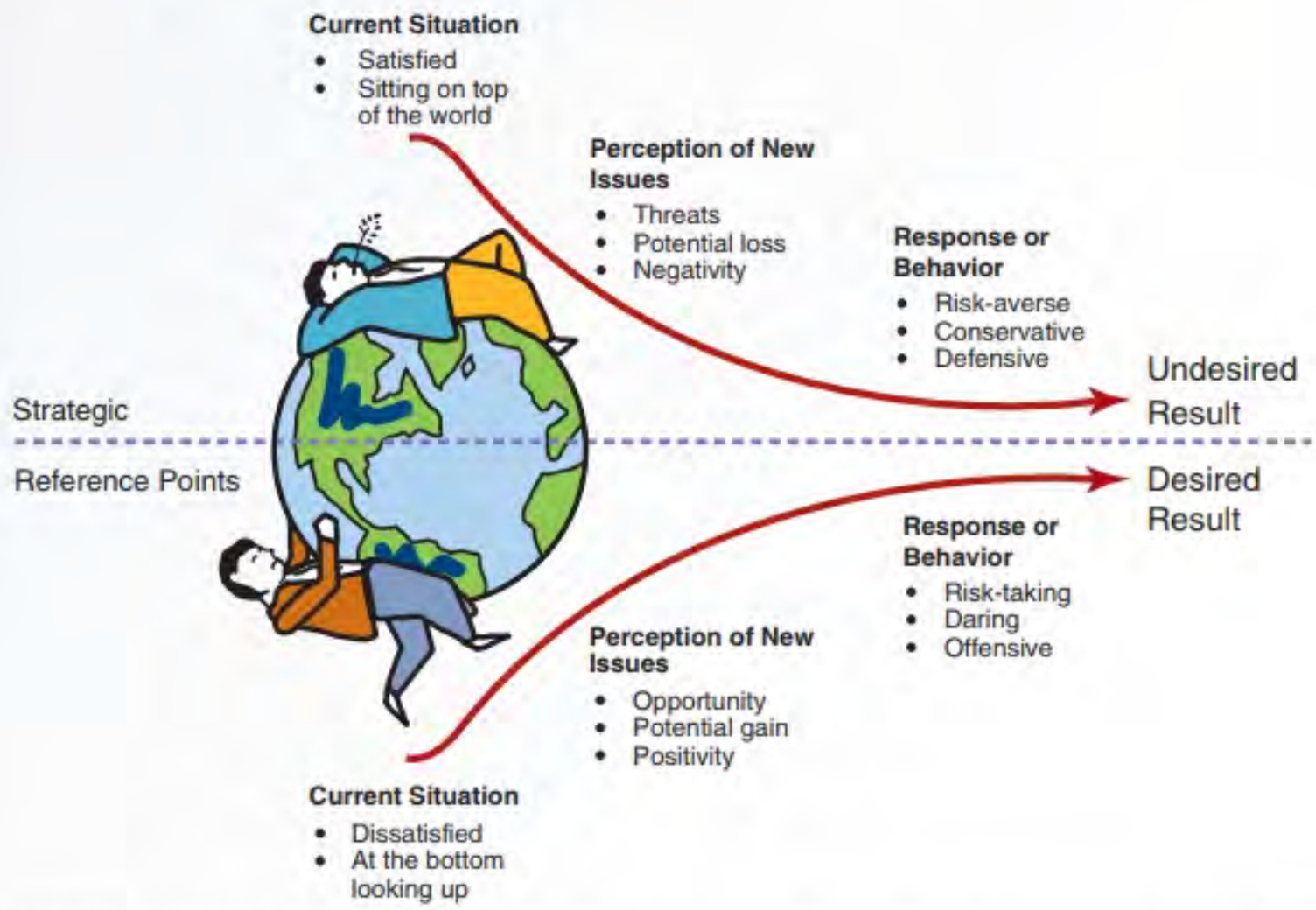
Strategic reference point theory is not deterministic, however. Managers are not predestined to choose risk-averse or risk-seeking strategies for their companies. In fact, one of the most important elements of the theory is that managers *can* influence the strategies chosen by their company by *actively changing and adjusting* the strategic reference points they use to judge strategic performance. If a company has become complacent after consistently surpassing its strategic reference points, then top management can change from a risk-averse to a risk-taking orientation by raising or changing the standards of performance (that is, the strategic reference points).

This is just what happened at Comcast Cable, long known for terrible customer service, being late to appointments, aggressively raising rates, and generally not addressing customer concerns. Vice chairman Neil Smit decided this needed to change. "As a company, we haven't always put the customer first and we need to do a better job. We need to look at everything we do through a customer lens."[33] Comcast budgeted $300 million for improving customer service via a 10-point Customer Experience Action Plan. A key point was "Being on Time, Every Time." So Comcast linked a new phone app to improved scheduling software indicating when technicians would arrive. The app also let customers immediately rate the technician's timeliness and service.[34] And, if the technician was still late, customer accounts were credited $20 for the inconvenience. Smit concluded, "Transformation isn't going to happen overnight. In fact, it may take a few years before we can honestly say that a great customer experience is something we're known for. But that is our goal and our number one priority … and that's what we are going to do."[35]

So even when (perhaps *especially* when) companies have achieved a sustainable competitive advantage, top managers must adjust or change strategic reference

Exhibit 6.3

Strategic Reference Points



Source: A. Fiegenbaum, S. Hart, and D. Schendel, "Strategic Reference Point Theory," *Strategic Management Journal* 17 (1996): 219–235.

points to challenge themselves and their employees to develop new core competencies for the future. In the long run, effective organizations will frequently revise their strategic reference points to better focus managers' attention on the new challenges and opportunities that occur in their ever-changing business environments.

6-3 CORPORATE-LEVEL STRATEGIES

To formulate effective strategies, companies must be able to answer these three basic questions:

- What business are we in?
- How should we compete in this industry?
- Who are our competitors, and how should we respond to them?

These simple but powerful questions are at the heart of corporate-, industry-, and firm-level strategies.

Corporate-level strategy is the overall organizational strategy that addresses the question, "What business or businesses are we in or should we be in?" IBM CEO Virginia (Ginni) Rometty knows exactly what business her company is in: "When people say, 'What's IBM?' I say, 'it's an enterprise innovation company.'"[36] Similarly, Dr. Pepper is in the "flavored beverage business."[37]

There are two major approaches to corporate-level strategy that companies use to decide which businesses they should be in: ***6-3a portfolio strategy*** *and* ***6-3b grand strategies.***

6-3a Portfolio Strategy

One of the standard strategies for stock market investors is **diversification**, or owning stocks in a variety of companies in different industries. The purpose of this strategy is to reduce risk in the overall stock portfolio (the entire

Corporate-level strategy the overall organizational strategy that addresses the question "What business or businesses are we in or should we be in?"

Diversification a strategy for reducing risk by buying a variety of items (stocks or, in the case of a corporation, types of businesses) so that the failure of one stock or one business does not doom the entire portfolio

collection of stocks). The basic idea is simple: if you invest in ten companies in ten different industries, you won't lose your entire investment if one company performs poorly. Furthermore, because they're in different industries, one company's losses are likely to be offset by another company's gains. Portfolio strategy is based on these same ideas. We'll start by taking a look at the theory and ideas behind portfolio strategy and then proceed with a critical review which suggests that some of the key ideas behind portfolio strategy are *not* supported.

Portfolio strategy is a corporate-level strategy that minimizes risk by diversifying investment among various businesses or lines.[38] Just as a diversification strategy guides an investor who invests in a variety of stocks, portfolio strategy guides the strategic decisions of corporations that compete in a variety of businesses. For example, portfolio strategy could be used to guide the strategy of a company such as 3M, which makes 55,000 products for five different business groups: Consumer (Post-its, Scotch tape); Electronics and Energy (electronic devices, telecoms equipment, renewable energy solutions); Health Care (medical, surgical, and dental products, health information systems); Industrial (tapes, abrasives, adhesives, specialty materials, filtration systems); and Safety and Graphics (safety and security products, track and trace solutions, graphic solutions).[39]

Just as investors consider the mix of stocks in their stock portfolio when deciding which stocks to buy or sell, managers following portfolio strategy try to acquire companies that fit well with the rest of their corporate portfolio and to sell those that don't. **Procter & Gamble** used to have a diverse portfolio of food, beverage, household, beauty, health care, pharmaceutical, pet food, and battery brands. However, when it decided to focus on its core business of household, beauty, and health care products, it began selling off brands that did not relate to its core business, a process that included the sale of Duracell to Warren Buffett's **Berkshire Hathaway** for $4.7 billion and Iams and Eukanuba pet foods to **Mars** for $2.9 billion.[40]

Portfolio strategy a corporate-level strategy that minimizes risk by diversifying investment among various businesses or product lines

Acquisition the purchase of a company by another company

Unrelated diversification creating or acquiring companies in completely unrelated businesses

BCG matrix a portfolio strategy developed by the Boston Consulting Group that categorizes a corporation's businesses by growth rate and relative market share and helps managers decide how to invest corporate funds

Star a company with a large share of a fast-growing market

First, according to portfolio strategy, the more businesses in which a corporation competes, the smaller its overall chances of failing. Think of a corporation as a stool and its businesses as the legs of the stool. The more legs or businesses added to the stool, the less likely it is to tip over. Using this analogy, portfolio strategy reduces 3M's risk of failing because the corporation's survival depends on essentially five different business sectors. Managers employing portfolio strategy can either develop new businesses internally or look for **acquisitions**, that is, other companies to buy. Either way, the goal is to add legs to the stool.

Second, beyond adding new businesses to the corporate portfolio, portfolio strategy predicts that companies can reduce risk even more through **unrelated diversification**—creating or acquiring companies in completely unrelated businesses (more on the accuracy of this prediction later). According to portfolio strategy, when businesses are unrelated, losses in one business or industry should have minimal effect on the performance of other companies in the corporate portfolio. For example, German-based Merck KGaA, founded in 1668, the world's oldest pharmaceutical and chemical firm, has long sold prescription drugs and over-the-counter medicines. But in the last few years it has embarked on a strategy of unrelated diversification, growing a specialty chemical business that makes liquid crystals used to produce in LCD and OLED display screens, and spending $17 billion to acquire Sigma-Aldrich, which makes laboratory equipment for life sciences research and product development.[41]

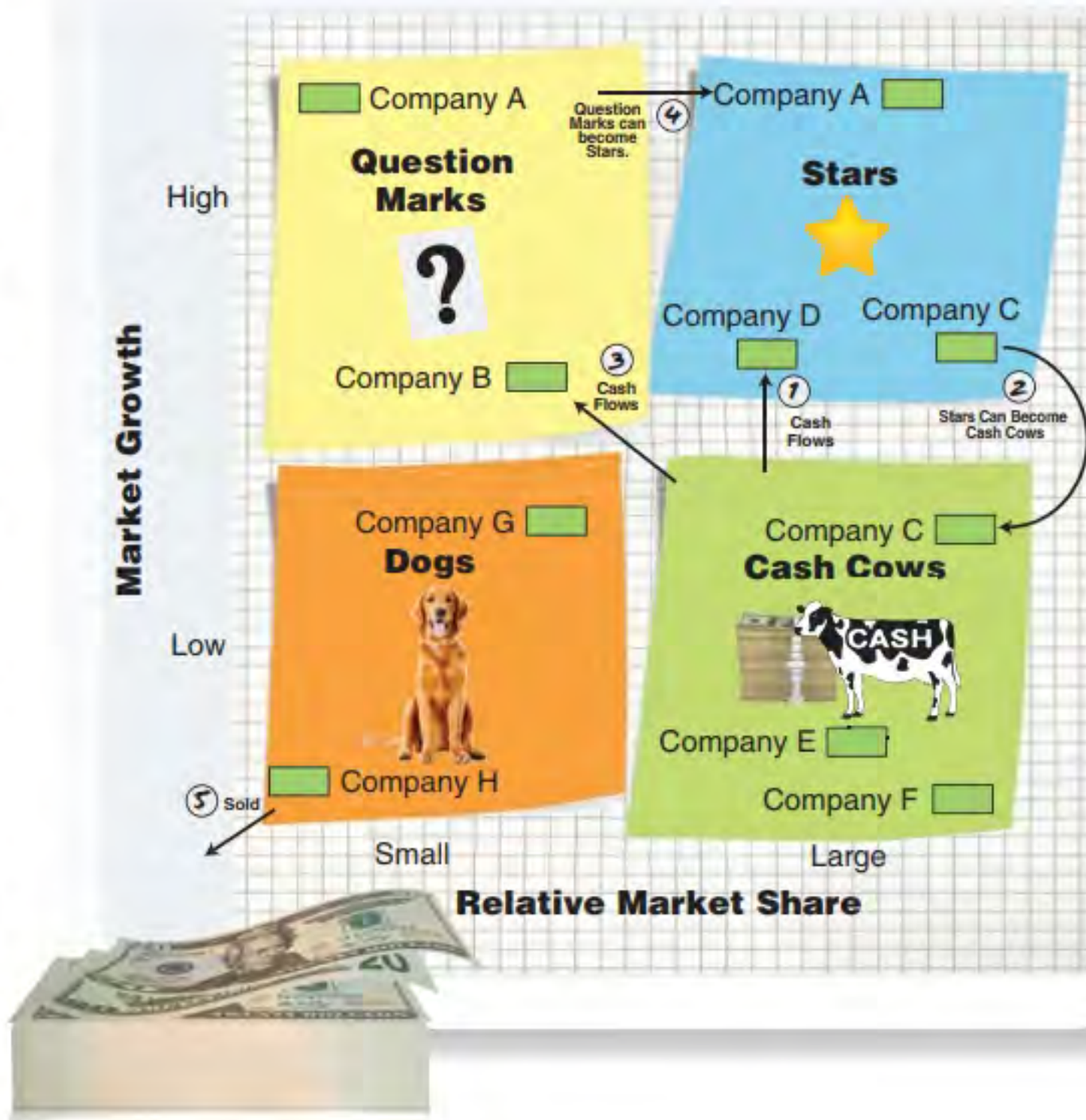
Because most internally grown businesses tend to be related to existing products or services, portfolio strategy suggests that acquiring new businesses is the preferred method of unrelated diversification.

Third, investing the profits and cash flows from mature, slow-growth businesses into newer, faster-growing businesses can reduce long-term risk. The best-known portfolio strategy for guiding investment in a corporation's businesses is the Boston Consulting Group (BCG) matrix.[42] The **BCG matrix** is a portfolio strategy that managers use to categorize their corporation's businesses by growth rate and relative market share, which helps them decide how to invest corporate funds. The matrix, shown in Exhibit 6.4, separates businesses into four categories based on how fast the market is growing (high growth or low growth) and the size of the business's share of that market (small or large). **Stars** are companies that have a large share of a fast-growing market. To take advantage of a star's fast-growing market and its strength in that market (large share), the corporation must invest substantially in it. The investment is usually worthwhile, however, because many stars produce

sizable future profits. **Question marks** are companies that have a small share of a fast-growing market. If the corporation invests in these companies, they may eventually become stars, but their relative weakness in the market (small share) makes investing in question marks riskier than investing in stars. **Cash cows** are companies that have a large share of a slow-growing market. Companies in this situation are often highly profitable, hence the name "cash cow." Finally, **dogs** are companies that have a small share of a slow-growing market. As the name suggests, having a small share of a slow-growth market is often not profitable.

Exhibit 6.4

Boston Consulting Group Matrix



Question mark - Flat Design/Shutterstock.com / Star - Olga Knutova/Shutterstock.com / Dog - Andresr/Shutterstock.com / Cow - SoRad/Shutterstock.com /Money next to cow - iStock.com/Mosichev / Money in lower left corner - iStock.com/Claudio Baldin / Graph paper background - iStock.com / Post-it notes - iStock.com/sutrjug

Because the idea is to redirect investment from slow-growing to fast-growing companies, the BCG matrix starts by recommending that while the substantial cash flows from cash cows last, they should be reinvested in stars (see 1 in Exhibit 6.4) to help them grow even faster and obtain even more market share. Using this strategy, current profits help produce future profits. Over time, as their market growth slows, some stars may turn into cash cows (see 2). Cash flows should also be directed to some question marks (see 3). Though riskier than stars, question marks have great potential because of their fast-growing market. Managers must decide which question marks are most likely to turn into stars and therefore warrant further investment and which ones are too risky and should be sold. Over time, managers hope some question marks will become stars as their small markets become large ones (see 4). Finally, because dogs lose money, the corporation should "find them new owners" or "take them to the pound." In other words, dogs should either be sold to other companies or closed down and liquidated for their assets (see 5).

Although the BCG matrix and other forms of portfolio strategy are relatively popular among managers, portfolio strategy has some drawbacks. The most significant drawback is that contrary to the predictions of portfolio strategy, the evidence suggests that acquiring unrelated businesses is *not* useful. As shown in Exhibit 6.5, there is a U-shaped relationship between diversification and risk.[43] The left side of the curve shows that single businesses with no diversification are extremely risky (if the single business fails, the entire business fails). So, in part, the portfolio strategy of diversifying is correct—competing in a variety of different businesses can lower risk. However, portfolio strategy is partly wrong, too—the right side of the curve shows that conglomerates composed of completely unrelated businesses are even riskier than single, undiversified businesses.

A second set of problems with portfolio strategy has to do with the dysfunctional consequences that can occur when companies are categorized as stars, cash cows, question marks, or

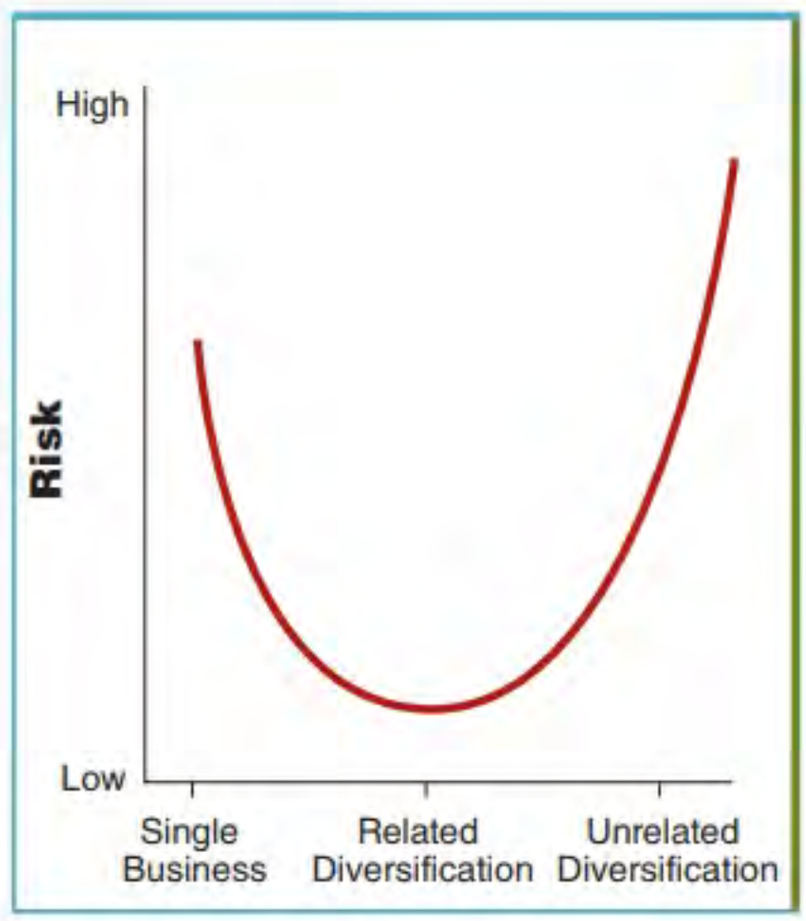
Question mark a company with a small share of a fast-growing market

Cash cow a company with a large share of a slow-growing market

Dog a company with a small share of a slow-growing market

Exhibit 6.5

U-Shaped Relationship between Diversification and Risk



Source: M. Lubatkin & P.J. Lane, "Psst! . . . The Merger Mavens Still Have It Wrong," *Academy of Management* Executive 10 (1996) 21–39.

dogs. Contrary to expectations, the BCG matrix often yields incorrect judgments about a company's potential. In other words, managers using the BCG matrix aren't very good at accurately determining which companies should be categorized as stars, cash cows, questions marks, or dogs. The most common mistake is simply miscategorizing highly profitable companies as dogs.[44] In part, this is because the BCG matrix relies on past performance (previous market share and previous market growth), which is a notoriously poor predictor of future company performance. More worrisome, however, is research that indicates the BCG matrix actually makes managers worse at judging the future profitability of a business. A study conducted in six countries over five years gave managers and business students clear information about the current and future profits (that is, slow or fast growth) of three companies and asked them to select the one that would be most successful in the future. Although not labeled this way, one company was clearly a star, another was a dog, and the last was a cash cow. Just exposing people to the ideas in the BCG matrix led them to incorrectly categorize less profitable businesses as the most successful businesses 64 percent of the time, while actually *using* the BCG matrix led to making the same mistake 87 percent of the time.[45]

Related diversification
creating or acquiring companies that share similar products, manufacturing, marketing, technology, or cultures

Furthermore, using the BCG matrix can also weaken the strongest performer in the corporate portfolio: the cash cow. As funds are redirected from cash cows to stars, corporate managers essentially take away the resources needed to take advantage of the cash cow's new business opportunities. As a result, the cash cow becomes less aggressive in seeking new business or in defending its present business.

The Office productivity suite (Word, PowerPoint, Excel) has long been one of Microsoft's two cash cows (the other is its Windows operating system).[46] But with free alternatives, such as Google Docs, Apache's Open Office, and Apple's Pages, Numbers, and Keynote apps (free on every Mac computer, iPhone and iPad), and strongly declining sales of PCs worldwide, Office, while still highly profitable, is facing major challenges that threaten its long-time dominance and ability to throw off cash.[47] These threats come at a time when Microsoft needs to divert cash from Office into its cloud-based file storage and Azure (cloud services, big data, servers, virtual machines, and website hosting) platforms to turn those questions marks into future stars, as well as its Surface tablets, a business which it hopes to transform from a dog to a question mark (and eventually a star). The risk, however, is that diverting cash from Office may make it less able to defend its current business or to grow by seeking new business.[48]

Finally, labeling a top performer as a cash cow can harm employee morale. Cash-cow employees realize that they have inferior status and that instead of working for themselves, they are now working to fund the growth of stars and question marks.

So, what kind of portfolio strategy does the best job of helping managers decide which companies to buy or sell? The U-shaped curve in Exhibit 6.5 indicates that, contrary to the predictions of portfolio strategy, the best approach is probably **related diversification**, in which the different business units share similar products, manufacturing, marketing, technology, or cultures. The key to related diversification is to acquire or create new companies with core capabilities that complement the core capabilities of businesses already in the corporate portfolio. Hormel Foods is an example of related diversification in the food business. The company both manufactures and markets a variety of foods, from deli meats to salsa to the infamous SPAM.

We began this section with the example of 3M and its 55,000 products sold in five different business groups. While seemingly different, most of 3M's product

Hotels Respond: Fighting Back against Expedia and Airbnb

Travelers use Airbnb.com to rent private rooms, flats or houses directly from homeowners. Roughly a third of leisure travelers choose private accommodations, like those through Airbnb, over hotels. Thirty-one percent of business travelers have done the same in the last two years. Likewise, 81 percent of hotel rooms are booked through online travel sites like Expedia.com. When that happens, hotel chains pay travel sites a 15 to 25 percent commission, which means they make make less money per room. Hotels are fighting back by offering discounts and benefits to customers enrolled in hotel member rewards accounts who make direct room reservations using the hotel's website. Hilton's "Stop Clicking Around" plan offered 10 percent member discounts, whereas Marriott's "It Pays to Be Direct" plan offered 2 to 5 percent discounts. Members benefit from "best price guarantees" on hotel websites. Hotels benefit because member discounts are smaller than commissions paid to travel sites. Hotels also offer members additional benefits that are only available through direct reservations on hotel websites, such as free Wi-Fi, digital check-in, and rewards points than can be used to pay for future reservations.

Source: R. Chhatwal, "Marriott And Hilton Fight Back Against Priceline And Expedia," Seeking Alpha, March 21, 2016, accessed April 1, 2017, https://seekingalpha.com/article/3959946-marriott-hilton-fight-back-priceline-expedia; D. Fitzgerald, "Hotels Turn to 'Member' Discounts to Battle Travel Websites," *Wall Street Journal*, July 7, 2016, accessed April 1, 2017, https://www.wsj.com/articles/hotels-turn-to-member-discounts-to-battle-travel-websites-1467907475; E. Glusac, "Hotels vs. Airbnb: Let the Battle Begin," *New York Times*, July 20, 2016, accessed April 1, 2017, https://www.nytimes.com/2016/07/24/travel/airbnb-hotels.html.

Africa Studio/Shutterstock.com

divisions are based in some fashion on its distinctive competencies in adhesives and tape (for example, wet or dry sandpaper, Post-it notes, Scotchgard fabric protector, transdermal skin patches, and reflective material used in traffic signs). Furthermore, all of 3M's divisions share its strong corporate culture that promotes and encourages risk taking and innovation. In sum, in contrast to a single, undiversified business or unrelated diversification, related diversification reduces risk because the different businesses can work as a team, relying on each other for needed experience, expertise, and support.

6-3b Grand Strategies

A **grand strategy** is a broad strategic plan used to help an organization achieve its strategic goals.[49] Grand strategies guide the strategic alternatives that managers of individual businesses or subunits may use in deciding what businesses they should be in. There are three kinds of grand strategies: growth, stability, and retrenchment/recovery.

The purpose of a **growth strategy** is to increase profits, revenues, market share, or the number of places (stores, offices, locations) in which the company does business. Companies can grow in several ways. They can grow externally by merging with or acquiring other companies in the same or different businesses. Marriott International, with hotel brands such as Marriott, JW Marriott, Courtyard, and Renaissance, paid $12.2 billion to acquire Starwood Hotels & Resorts, which is known for its Westin, St. Regis, Sheraton, and Meridien hotels, among others. Marriott's CEO Arne M. Sorenson said, "We've got an ability to offer just that much more choice. A choice in locations, a choice in the kind of hotel, a choice in

Grand strategy a broad corporate-level strategic plan used to achieve strategic goals and guide the strategic alternatives that managers of individual businesses or subunits may use

Growth strategy a strategy that focuses on increasing profits, revenues, market share, or the number of places in which the company does business

the amount a customer needs to spend."[50] Starwood's CEO Adam Aron agreed, noting that, "To be successful in today's lodging space, a wide distribution of brands and hotels across price points is critical. Today, size matters."[51] Together the two firms will be the largest hotel business in the world, with $2.7 billion in revenue, 1.1 million rooms and 30 well-regarded hotel brands.

Another way to grow is internally, directly expanding the company's existing business or creating and growing new businesses. In 2015, Amazon expanded its online e-tail business with several new selling platforms. Handmade at Amazon, a handicraft marketplace similar to Etsy.com, launched with 5,000 artisans from sixty countries selling 80,000 handmade items. Amazon charges vendors a 12 percent commission, but provides them with the same shipping services it offers its Marketplace sellers. Amazon Home Services, a referral service similar to Angie's List, connects consumers with professionals who perform home repairs, upkeep, and upgrades. More than 700 different services can be booked through the service, and rather than charge its customers, Amazon collects a commission on the value of the services from the professionals who provide them. Finally, in its first move away from e-commerce, Amazon recently opened the first of 400 planned brick-and-mortar stores selling books, Kindle e-readers, and Fire tablets.[52]

The purpose of a **stability strategy** is to continue doing what the company has been doing, just doing it better. Companies following a stability strategy try to improve the way in which they sell the same products or services to the same customers. Vanguard Group, one of the world's largest investment firms was designed at its founding in 1975 to offer low-cost investing options. Because it is client-owned, it returns profits to customers by lowering costs. Vanguard's stability strategy to reduce costs means that Vanguard's investment fees have dropped from $0.89 per $100 in 1975 to $0.12 today. Since the typical investment fund charges $1.01 per $100 invested in 2017, an investor with $100,000 invested would save $890 in fees per year with Vanguard.[53]

Stability strategy a strategy that focuses on improving the way in which the company sells the same products or services to the same customers

Retrenchment strategy a strategy that focuses on turning around very poor company performance by shrinking the size or scope of the business

Recovery the strategic actions taken after retrenchment to return to a growth strategy

The purpose of a **retrenchment strategy** is to turn around very poor company performance by shrinking the size or scope of the business or, if a company is in multiple businesses, by closing or shutting down different lines of the business. The first step of a typical retrenchment strategy might include making significant cost reductions: laying off employees; closing poorly performing stores, offices, or manufacturing plants; or closing or selling entire lines of products or services.[54] Before search engines like Google, Yahoo's directories were the fastest way to find things on the Internet.[55] Yahoo's early success led to the company being valued at $125 billion in 2000. Flush with cash, it expanded into dozens of different businesses, and even made an unsuccessful bid to buy Google. But with Google dominating web search and advertising, Yahoo's revenues declining for over a decade, and various strategies to reinvigorate Yahoo's brand not working, CEO Marissa Mayer began shrinking Yahoo, closing down different lines of business. In 2016 alone, Yahoo closed seven digital magazines (most started just 2 years before), laid off 15 percent of employees, took a $230 million accounting write down on blog site Tumblr for which it paid $1 billion in cash three years ago, closed five offices to save $400 million in costs, and then sold its core Internet operations (Yahoo Mail, Yahoo Search, and websites such as Yahoo Finance) to Verizon Communications for $4.8 billion. After the sale closed in 2017, what's left of Yahoo is called Altaba, reflecting a multibillion-dollar investment in China's alibaba.com, and Yahoo Japan, which was not part of the sale to Verizon.[56]

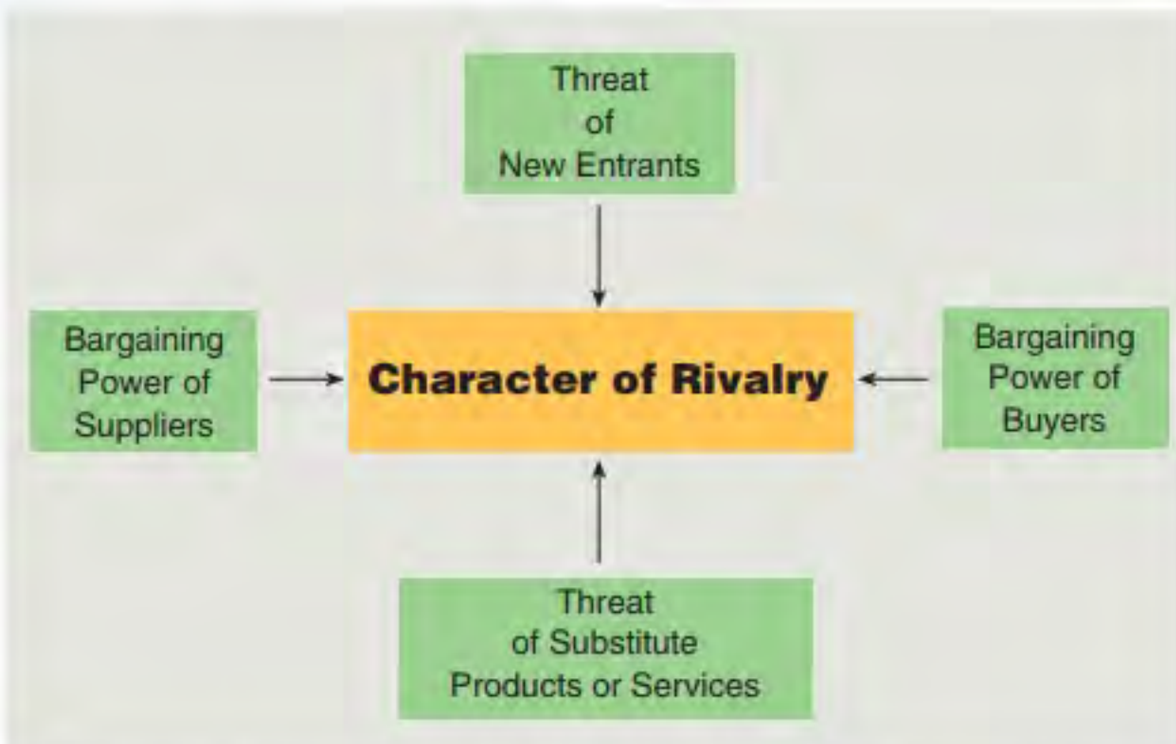
After cutting costs and reducing a business's size or scope, the second step in a retrenchment strategy is recovery. **Recovery** consists of the strategic actions that a company takes to return to a growth strategy. This two-step process of cutting and recovery is analogous to pruning roses. Prior to each growing season, roses should be cut back to two-thirds their normal size. Pruning doesn't damage the roses; it makes them stronger and more likely to produce beautiful, fragrant flowers. The retrenchment-and-recovery process is similar.

Like pruning, the cuts are made as part of a recovery strategy intended to allow companies to eventually return to a successful growth strategy. When company performance drops significantly, a strategy of retrenchment and recovery may help the company return to a successful growth strategy.

After three years of slumping sales due to an overly complex menu and increased competition from fast-casual restaurants, McDonald's returned to basics with a recovery strategy called "Plan to Win." In addition to simplifying its menu, McDonald's took several bold steps under this initiative:

- Renovate existing locations rather than build new ones.
- Increase font sizes on orders so that cooks can read them correctly.

Exhibit 6.6
Porter's Five Industry Forces



Source: Based on the Simon & Schuster, Inc. Porter, M. E. *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Free Press, 1980.

- Make the most of the core menu (by, for example, toasting hamburger buns longer and searing hamburgers so they're juicier).
- Institute all-day breakfast (which used to end at 10:30 a.m.).
- Reduce employee turnover by increasing crew pay.

CEO Steve Easterbrook said about the new strategy, "Our goal is net simplification. We want to focus on fewer, bigger decisions that generate bigger reward."[57] After nine months, same-store sales rose 6.2 percent and profits soared by 35 percent.[58]

6-4 INDUSTRY-LEVEL STRATEGIES

Industry-level strategy addresses the question, "How should we compete in this industry?"

Let's find out more about industry-level strategies by discussing ***6-4a the five industry forces that determine overall levels of competition in an industry*** *as well as* ***6-4b the positioning strategies*** *and* ***6-4c adaptive strategies that companies can use to achieve sustained competitive advantage*** *and* ***above-average profits.***

6-4a Five Industry Forces

According to Harvard professor Michael Porter, five industry forces determine an industry's overall attractiveness and potential for long-term profitability: the character of the rivalry, the threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, and the bargaining power of buyers. The stronger these forces, the less attractive the industry becomes to corporate investors because it is more difficult for companies to be profitable. Porter's industry forces are illustrated in Exhibit 6.6. Let's examine how these forces are bringing changes to several kinds of industries.

Character of the rivalry is a measure of the intensity of competitive behavior among companies in an industry. Is the competition among firms aggressive and cutthroat, or do competitors focus more on serving customers than on attacking each other? Both industry attractiveness and profitability decrease when rivalry is cutthroat. For example, selling cars is a highly competitive business. Pick up a local newspaper on Friday, Saturday, or Sunday morning, and you'll find dozens of pages of car advertising ("Anniversary Sale-A-Bration," "Ford March Savings!" and "$99 Down, You Choose!"). In fact, competition in new-car sales is so intense that if it weren't for used-car sales, repair work, and replacement parts, many auto dealers would actually lose money.

The **threat of new entrants** is a measure of the degree to which barriers to entry make it easy or difficult for new companies to get started in an industry. If new companies can enter the industry easily, then competition will increase, and prices and profits will fall. Altos Research provides real-time statistics and analysis of real estate markets for investors and news services such as Bloomberg Financial. Because its business relies on access to terabytes of market data, it leases computing power and data storage from Amazon Web Services (AWS), the

Industry-level strategy a corporate strategy that addresses the question, "How should we compete in this industry?"

Character of the rivalry a measure of the intensity of competitive behavior between companies in an industry

Threat of new entrants a measure of the degree to which barriers to entry make it easy or difficult for new companies to get started in an industry

market leader in cloud services. Without any negotiation, AWS cut its costs in half, enough to pay for two new programmers. On the other hand, if there are sufficient barriers to entry, such as large capital requirements to buy expensive equipment or plant facilities or the need for specialized knowledge, then competition will be weaker, and prices and profits will generally be higher. The automobile industry has traditionally had a high barrier to entry. So when Tesla entered the market in 2003 to manufacture a completely electric sports car, it was the first new car company in a generation. With billions of dollars in startup funding, the company hired thousands of engineers, built new manufacturing facilities, and created a complex supply chain to source, manufacture, and assemble 10,000 component parts. While its stock is valued at $30 billion, Tesla has never made a profit. In fact, the company has burned through $100 million a month in expenses since going public in 2010. With six new competitors poised to enter the automotive industry (including Apple, Google, and an upstart founded by a team of former Tesla executives), the barrier to entry is falling and competition is rising. Becoming profitable may take longer than Tesla planned as barriers to entry fall and competition rises.[59]

The **threat of substitute products or services** is a measure of the ease with which customers can find substitutes for an industry's products or services. If customers can easily find substitute products or services, the competition will be greater, and profits will be lower. If there are few or no substitutes, competition will be weaker, and profits will be higher. Overnight delivery companies like UPS and DHL deliver millions of items every day. What would happen to these businesses if, instead of buying products and having them delivered, people could use 3-D printers to manufacture what they needed right at work or home? This new technology led UPS chief information officer Dave Barnes to wonder, "Should we be threatened by it or should we endorse it?[60] To answer that question, UPS created a 3-D printing test center at its Louisville, Kentucky hub. There, UPS explored the feasibility of local production and delivery of 3-D printed items. The center's 100 industrial 3-D printers create everything from iPhone cases to replacement parts for UPS's fleet of Airbus A300 jets. DHL's initial studies show that just 2–4 percent of shipped products can reliably be 3-D printed. UPS, however, is purchasing 900 more 3-D printers for other locations. According to Barnes, "We saw the capability of a logistics company to be challenged on one side but on the other [to] be an enabler."[61]

Threat of substitute products or services a measure of the ease with which customers can find substitutes for an industry's products or services

Bargaining power of suppliers a measure of the influence that suppliers of parts, materials, and services to firms in an industry have on the prices of these inputs

Bargaining power of buyers a measure of the influence that customers have on a firm's prices

Jarek Kilian/Shutterstock.com

By leasing its own fleet of trucks, Amazon saves as much as 40 percent on shipping costs.

Bargaining power of suppliers is a measure of the influence that suppliers of parts, materials, and services to firms in an industry have on the prices of these inputs. When companies can buy parts, materials, and services from numerous suppliers, the companies will be able to bargain with the suppliers to keep prices low. On the other hand, if there are few suppliers, or if a company is dependent on a supplier with specialized skills and knowledge, then the suppliers will have the bargaining power to dictate price levels. On the flip side, the **bargaining power of buyers** is a measure of the influence that customers have on the firm's prices. If a company sells a popular product or service to multiple buyers, then the company has more power to set prices. By contrast, if a company is dependent on just a few high-volume buyers, those buyers will typically have enough bargaining power to dictate prices.

We can see how the bargaining power of suppliers and buyers changes by examining the relationship between Amazon and its key delivery suppliers, UPS and FedEx. Since 2009, Amazon's shipping costs have risen each year, from 7.5 percent of sales to 10.8 percent of sales, indicating UPS and FedEx's growing supplier bargaining power. Amazon relies on them for package delivery, especially to Amazon Prime customers, who pay $99 a year for two-day, no charge deliveries. Prime members, who buy three times as much from Amazon as non-Prime customers, drove Amazon's revenue growth from $89 billion in 2014 to $136 billion in 2016.[62] As Amazon has grown, it has reinvested profits into establishing 70 warehouses in 21 states, and leasing 40 Boeing

767s for "Prime Air" logistics and hundreds of "Prime Now" trucks, the latter of which promise free two-hour delivery. Why does Amazon appear to be establishing its own delivery service capabilities? Perhaps because the average shipping cost of $7.81 a package with FedEx and UPS could be reduced by 40 percent if Amazon delivered packages to customer on its own. With these moves, Amazon's bargaining power as a buyer is clearly getting stronger.[63]

6-4b Positioning Strategies

After analyzing industry forces, the next step in industry-level strategy is to protect your company from the negative effects of industry-wide competition and to create a sustainable competitive advantage. According to Michael Porter, there are three positioning strategies: cost leadership, differentiation, and focus.

Cost leadership means producing a product or service of acceptable quality at consistently lower production costs than competitors so that the firm can offer the product or service at the lowest price in the industry. Cost leadership protects companies from industry forces by deterring new entrants, who will have to match low costs and prices. Cost leadership also forces down the prices of substitute products and services, attracts bargain-seeking buyers, and increases bargaining power with suppliers, who have to keep their prices low if they want to do business with the cost leader. With entry-level surfboards costing $300 and top-of-the-line, handmade longboards going for $1,000 or more, surfing is expensive. Those high prices inspired Matt Zilinskas to create Wavestorm, an 8-foot, mass-produced soft-foam surfboard that sells for $99 at Costco. Now the industry's best-selling surfboard, Wavestorm's sales are so strong that other retailers have stopped selling more expensive soft-foam boards altogether. "Why even bother when you can go to Costco [and get one for] $100?" asked Cody Quarress, manager at the Huntington Surf & Sport.[64] Zilinkas has received complaints from competitors, but he sees his product as beneficial to the industry: "How many of the hundreds of thousands of people who bought our board have moved on to higher-end product? Ask any surfer in the water about Wavestorm. They probably own one."[65]

Differentiation means making your product or service sufficiently different from competitors' offerings that customers are willing to pay a premium price for the extra value or performance that it provides. Differentiation protects companies from industry forces by reducing the threat of substitute products. It also protects companies by making it easier to retain customers and more difficult for new entrants trying to attract new customers. Would you pay $290 for an Amazon Kindle Oasis ebook reader when the $119 Kindle Paperwhite and the $199 Kindle Voyage have identical high-resolution displays? Perhaps you'd pay more for the included leather cover? Because at 3.4 mm, it's the thinnest ebook reader you can buy? Because it weighs a feather-light 4.6 ounces, versus 6.3 ounces for the Voyage and 7.2 ounces for the Paperwhite? Because it has 60 percent more LED lighting, physical buttons to turn pages, and a battery that lasts twice as long? *Engadget's* Devindra Hardawar says there's no practical reason to pay more for the Oasis, which he describes as, "A feast with the world's finest caviar. It's an all-you-can-eat Wagyu steak dinner. It's an $80 cup of coffee."[66] *ZDNet's* Jason Perlow calls the Oasis the "'Executive Kindle,' much like the

Cost leadership the positioning strategy of producing a product or service of acceptable quality at consistently lower production costs than competitors can, so that the firm can offer the product or service at the lowest price in the industry

Differentiation the positioning strategy of providing a product or service that is sufficiently different from competitors' offerings that customers are willing to pay a premium price for it

STRATEGIC PLANNING, NOT STRATEGIC PLANS?

Winston Churchill, Britain's WWII prime minister, said, "Plans are of little importance, but planning is essential." U.S. President Dwight Eisenhower, who worked closely with Churchill during WWII as the Allied Supreme Commander, said, "Plans are useless, but planning is everything." What they mean is that uncertainty makes it impossible for planners to anticipate and plan for much of what actually happens. The mistake that managers make, according to consultant Graham Kenny, is thinking of strategic plans like travel plans. ("After we go here, we go there. After we do this, we'll do that.") Instead, he says, think of plans as guides, things you might do, and assume all plans are a work in progress, meaning they need to be updated and revised. Be committed to strategic planning, not strategic plans.

Source: G. Kenny, "Strategic Plans Are Less Important than Strategic Planning," *Harvard Business Review*, June 21, 2016, accessed April 1, 2017, https://hbr.org/2016/06/strategic-plans-are-less-important-than-strategic-planning.

Rob Kim/Getty Images Entertainment/Getty Images

HGTV's "Fixer Upper," and hosts Chip and Joanna Gaines, have strong appeal with the cable channel's target customer.

big iPad Pro is the 'Executive iPad.'"[67] Finally, Jason Snell of SixColors.com says, "The Oasis is the ebook reader equivalent of a luxury sedan, but it's overkill for most people."[68]

With a **focus strategy**, a company uses either cost leadership or differentiation to produce a specialized product or service for a limited, specially targeted group of customers in a particular geographic region or market segment. Focus strategies typically work in market niches that competitors have overlooked or have difficulty serving. Cable channel HGTV shows *Property Brothers and Fixer Upper* have a common theme: A couple shops for an outdated house, buying one of the three homes shown to viewers. The contractor takes out a wall, creating an open floor plan, and has an overbudget surprise. The couple moves in, crying with joy at the redesign of their beautiful home. HGTV's target customer is very specific. She's a college educated suburbanite with an $84,000 household income and an insatiable interest in home improvement. Chief programming officer Kathleen Finch says, "We super-serve our viewer what she likes, and we give her more and more of it." HGTV's focus strategy works. As the third-most popular cable network, it deliver twice as much web traffic for advertisers like Wayfair, an online retailer of furniture, home furnishings, and decor.[69]

Focus strategy the positioning strategy of using cost leadership or differentiation to produce a specialized product or service for a limited, specially targeted group of customers in a particular geographic region or market segment

Defenders companies using an adaptive strategy aimed at defending strategic positions by seeking moderate, steady growth and by offering a limited range of high-quality products and services to a well-defined set of customers

Prospectors companies using an adaptive strategy that seeks fast growth by searching for new market opportunities, encouraging risk taking, and being the first to bring innovative new products to market

6-4c Adaptive Strategies

Adaptive strategies are another set of industry-level strategies. Whereas the aim of positioning strategies is to minimize the effects of industry competition and build a sustainable competitive advantage, the purpose of adaptive strategies is to choose an industry-level strategy that is best suited to changes in the organization's external environment. There are four kinds of adaptive strategies: defenders, prospectors, analyzers, and reactors.[70]

Defenders seek moderate, steady growth by offering a limited range of products and services to a well-defined set of customers. In other words, defenders aggressively "defend" their current strategic position by doing the best job they can to hold on to customers in a particular market segment.

Not surprisingly, ultra-premium carmakers, such as **Ferrari** and **Aston-Martin**, are not as interested in growth as they are in retaining the luxury brand image. That's because higher sales volume leads to ubiquity, which makes it harder to charge premium pricing. The retail price of a new Ferrari California is roughly $200,000, but a new LaFerrari model has an MSRP of $1.4 million. To retain is exclusivity, Ferrari has a self-imposed production cap of 7,000 vehicles a year. At Aston Martin, the level is much lower, at 4,000 cars per year. "This is not a car company that is ever going to be selling a lot of cars," said Andy Palmer, CEO of Aston Martin. "Part of its mystique is its exclusivity."[71]

Prospectors seek fast growth by searching for new market opportunities, encouraging risk taking, and being the first to bring innovative new products to market. Prospectors are analogous to gold miners who "prospect" for gold nuggets (that is, new products) in hope that the nuggets will lead them to a rich deposit of gold (that is, fast growth). 3M has long been known for its innovative products, particularly in the area of adhesives. Since 1904, it has invented sandpaper; masking, cellophane, electrical, and Scotch tapes; the first commercially available audiotapes and videotapes; and its most famous invention, Post-it notes. Lately, 3M has invented a film that increases the brightness of LCD displays on laptop computers; developed a digital system for construction companies to detect underground telecommunication, gas, water, sewer, or electrical lines without digging; and created a pheromone spray that, by preventing harmful insects from mating, will protect apple, walnut, tomato, cranberry, and grape crops. For more on 3M's innovative products,

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Aston Martin remains an exclusive automobile by limiting its production to 4,000 cars each year.

see the 3M innovation archive (http://solutions.3m.com/innovation/en_US/).

Analyzers are the blend of the defender and prospector strategies. They seek moderate, steady growth and limited opportunities for fast growth. Analyzers are rarely first to market with new products or services. Instead, they try to simultaneously minimize risk and maximize profits by following or imitating the proven successes of prospectors.

Facebook admits to using an analyzer strategy in copying the key features of Snapchat, the popular social media app in which users share pictures and videos. Facebook product manager Connor Hayes said, "The way people create content is changing to be from text to photos and videos. This is in turn changing the way they're sharing with one another and interacting online. This is something that Snapchat has really pioneered." Facebook has copied Snapchat's features four times. First, Snapchat opens in camera view. Facebook made the camera available with one swipe. Second, it added the one-swipe capability to take and post picture and videos to its Instagram, WhatsApp, and Messenger apps. Third, similar to Snapchat stories, it named these features Facebook Stories. Fourth, just like in SnapChat, users can choose to create photos and stories that only exist for 24 hours. Facebook's adoption of SnapChat features has already slowed Snapchat's user growth. Instagram Stories has 150 million daily users, while Snapchat's daily user base is 158 million.[72]

Finally, unlike defenders, prospectors, or analyzers, **reactors** do not follow a consistent strategy. Rather than anticipating and preparing for external opportunities and threats, reactors tend to react to changes in their external environment after they occur. Not surprisingly, reactors tend to be poorer performers than defenders, prospectors, or analyzers. A reactor approach is inherently unstable, and firms that fall into this mode of operation must change their approach or face almost certain failure.

6-5 FIRM-LEVEL STRATEGIES

Apple unveils its Apple Watch with advanced fitness tracking and FitBit counters with the Blaze, which has a color touchscreen and syncs automatically with your phone. Starbucks Coffee opens a store, and nearby locally run coffeehouses respond by improving service, increasing portions, and holding the line on prices. In the German luxury car industry, **BMW**, **Audi**, and **Mercedes** have an intense three-way rivalry that goes well beyond sales volume to include investments in technology, quality rankings, and profitability. According to one Audi executive, to get approval for a new project, "I just have to say BMW is already doing it, and it goes through." The rivalry is just as heated over at BMW. When it comes to Audi, one BMW executive said, "We like to stick it to them."[73] Attack and respond, respond and attack. **Firm-level strategy** addresses the question, "How should we compete against a particular firm?"

Let's find out more about the firm-level strategies (direct competition between companies) by reading about ***6-5a the basics of direct competition*** *and* ***6-5b the strategic moves involved in direct competition between companies.***

6-5a Direct Competition

Although Porter's five industry forces indicate the overall level of competition in an industry, most companies do not compete directly with all the firms in their industry. For example, McDonald's and Red Lobster are both in the restaurant business, but no one would characterize them as competitors. McDonald's offers low-cost, convenient fast food in a seat-yourself restaurant, while Red Lobster offers mid-priced seafood dinners complete with servers and a bar.

Analyzers companies using an adaptive strategy that seeks to minimize risk and maximize profits by following or imitating the proven successes of prospectors

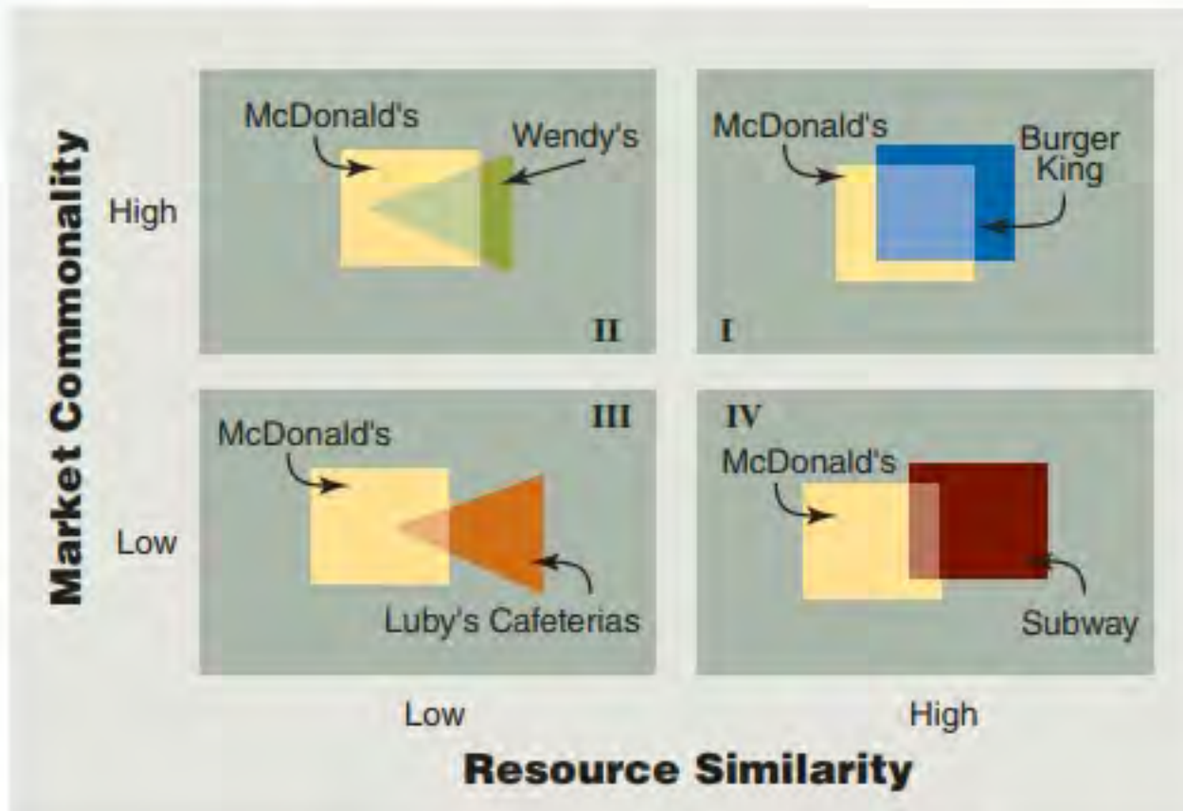
Reactors companies that do not follow a consistent adaptive strategy but instead react to changes in the external environment after they occur

Firm-level strategy a corporate strategy that addresses the question, "How should we compete against a particular firm?"

Instead of competing with an entire industry, most firms compete directly with just a few companies within it. **Direct competition** is the rivalry between two companies offering similar products and services that acknowledge each other as rivals and take offensive and defensive positions as they act and react to each other's strategic actions.[74] Two factors determine the extent to which firms will be in direct competition with each other: market commonality and resource similarity. **Market commonality** is the degree to which two companies have overlapping products, services, or customers in multiple markets. The more markets in which there is product, service, or customer overlap, the more intense the direct competition between the two companies. **Resource similarity** is the extent to which a competitor has similar amounts and kinds of resources, that is, similar assets, capabilities, processes, information, and knowledge used to create and sustain an advantage over competitors. From a competitive standpoint, resource similarity means that your direct competitors can probably match the strategic actions that your company takes.

Exhibit 6.7

A Framework of Direct Competition



Source: M. Chen, "Competitor Analysis and InterFirm Rivalry: Toward a Theoretical Integration," *Academy of Management Review* 21 (1996): 100–134.

Exhibit 6.7 shows how market commonality and resource similarity interact to determine when and where companies are in direct competition.[75] The overlapping area in each quadrant (between the triangle and the rectangle, or between the differently colored rectangles) depicts market commonality. The larger the overlap, the greater the market commonality. Shapes depict resource similarity, with rectangles representing one set of competitive resources and triangles representing another. Quadrant I shows two companies in direct competition because they have similar resources at their disposal and a high degree of market commonality. These companies try to sell similar products and services to similar customers. McDonald's intends to intensify its direct competition with Burger King by partnering with Uber to deliver food via UberEATS. In its top five markets, 75 percent of the population lives within three miles of a McDonald's. Globally, one billion people live within 10 minutes of a McDonald's. Senior vice president Lucy Brady said, "Delivery is the most significant disruption in the restaurant industry in our lifetime."[76]

In Quadrant II, the overlapping parts of the triangle and rectangle show two companies going after similar customers with some similar products or services but doing so with different competitive resources. McDonald's and Wendy's restaurants would fit here. Wendy's is after the same lunchtime and dinner crowds that McDonald's is. Nevertheless, with its more expensive hamburgers, fries, shakes, and salads, Wendy's is less of a direct competitor to McDonald's than Burger King is. For example, Wendy's has recently rebranded itself more like a casual dining restaurant, redesigning its locations with lounge seating, fireplaces, Wi-Fi, and digital menu boards.[77] Wendy's goal is to convert 85 percent of its company-owned locations and 35 percent of its franchised stores by 2017.[78] Even though it competes less directly with Wendy's, McDonald's is taking aim at Wendy's by switching from frozen to fresh beef in its Quarter Pounder hamburgers. Wendy's has long touted its fresh beef as a key difference. Indeed, when McDonald's announced the change to fresh beef, Wendy's tweeted, "So you'll still use frozen beef in MOST of your burgers in ALL of your restaurants? Asking for a friend."[79]

Direct competition the rivalry between two companies that offer similar products and services, acknowledge each other as rivals, and act and react to each other's strategic actions

Market commonality the degree to which two companies have overlapping products, services, or customers in multiple markets

Resource similarity the extent to which a competitor has similar amounts and kinds of resources

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McDonald's has partnered with UberEats to beef up its competitive edge.

In Quadrant III, the very small overlap shows two companies with different competitive resources and little market commonality. McDonald's and Luby's cafeterias fit here. Although both are in the fast-food business, there's almost no overlap in terms of products and customers. Luby's sells baked chicken, turkey, roasts, meat loaf, and vegetables, none of which are available at McDonald's. Furthermore, Luby's customers aren't likely to eat at McDonald's. In fact, Luby's is not really competing with other fast-food restaurants, but with eating at home. Company surveys show that close to half of its customers would have eaten at home, not at another restaurant, if they hadn't come to Luby's.[80]

Finally, in Quadrant IV, the small overlap between the two rectangles shows that McDonald's and Subway compete with similar resources but with little market commonality. In terms of resources, sales at McDonald's are much larger, but Subway has grown substantially in the past decade and now has 44,830 stores in 98 countries, compared to McDonald's with 36,899 stores in more than 100 countries.[81]

Though Subway and McDonald's compete, they aren't direct competitors in terms of market commonality in the way that McDonald's and Burger King are because Subway, unlike McDonald's, sells itself as a provider of healthy fast food. Thus, the overlap is much smaller in Quadrant IV than in Quadrant I. With detailed nutritional information available in its stores, and its close relationships with the American Heart Association, the American College of Cardiologists, and Heart Research UK, Subway has long focused on healthy eating and well being.[82]

6-5b Strategic Moves of Direct Competition

While corporate-level strategies help managers decide what business to be in, and industry-level strategies help them determine how to compete within an industry, firm-level strategies help managers determine when, where, and what strategic actions should be taken against a direct competitor. Firms in direct competition can make two basic strategic moves: attack and response. These moves occur all the time in virtually every industry, but they are most noticeable in industries where multiple large competitors are pursuing customers in the same market space.

An **attack** is a competitive move designed to reduce a rival's market share or profits. Gillette dominates the $3.3 billion U.S. shaving business, earning an enormous 32 percent profit on each blade. Dollar Shave Club, an online service selling razor blades via subscription plans, attacked Gillette with substantially lower prices. While Gillette cartridges cost $3.50 to $6.00 each, Dollar Shave Club's entry-level plan, the Humble Twin, charges only $0.20 per cartridge and $2.00 per month for shipping. Dollar Shave Club quickly amassed nearly 53 percent of the online market for razors and blades.[83] Likewise, four-year old Harry's Razor Co., which also sells razors via online monthly plans, already has 2 percent of the overall market for men's razors. However, sales jumped when Target featured Harry's products in its stores. Within weeks, Harry's had 10 percent of Target's cartridges sales and half of its handle sales, mostly at the expense of Gillette.[84]

A **response** is a countermove, prompted by a rival's attack, that is designed to defend or improve a company's market share or profit. There are two kinds of responses.[85] The first is to match or mirror your competitor's move. This is what Gillette did when it launched the online Gillette Shave Club, which offers three subscription plans, free shipping on all orders, loyalty rewards, and sweepstakes for entertainment and major-league sports tickets. Gillette ran ads on Facebook and Twitter promoting the Gillette Shave Club, saying "Going to the store to buy blades is so 2014."[86]

The second kind of response, however, is to respond along a different dimension from your competitor's move or attack. Wireless carriers, such at

Attack a competitive move designed to reduce a rival's market share or profits

Response a competitive countermove, prompted by a rival's attack, to defend or improve a company's market share or profit

Northfoto/Shutterstock.com

T-Mobile has launched a strategic initiative aimed at removing key restrictions found in its competitors' wireless services.

AT&T, Verizon, and Sprint, have typically responded to competitors' attacks by cutting prices, expanding coverage, or speeding up their networks. T-Mobile, the smallest of the major wireless carriers, faired poorly on those dimensions and lost 2 million customers as a result five years ago.[87] In the past three years, however, T-Mobile has grown from 33 million to 71.5 million customers, increasing its share of the U.S. wireless market from 10 to 17 percent. The company achieved this remarkable growth by responding with an "uncarrier" strategy that removes key restrictions found in its competitors' wireless services.[88] Overage charges? Not at T-Mobile, which offers unlimited minutes and texts. Exorbitant roaming charges for international plans? T-Mobile charges a meager 20 cents per minute for international calls, while providing unlimited international data and texts at no extra charge in 140 countries. Moreover, with 35 percent of U.S. international calls and 55 percent of U.S. international travel to Mexico and Canada, T-Mobile has consolidated all three countries into one North American market in which access to data plans, 4G LTE fast connections, and calling are included—at no extra cost—for T-Mobile customers. Finally, are low data caps preventing music and streaming video on your phone? T-Mobile One introduced unlimited data, with music and HD streaming. T-Mobile then cut the price of its unlimited plans by including sales taxes and regulator fees in the advertised prices (not in addition to), and by reducing plans $5 a month if customers used autopay and by $10 a month when a phone uses less than 2GB a month (T-Mobile Kickback.)[89]

Market commonality and resource similarity determine the likelihood of an attack or response, that is, whether a company is likely to attack a direct competitor or to strike back with a strong response when attacked. When market commonality is large, and companies have overlapping products, services, or customers in multiple markets, there is less motivation to attack and more motivation to respond to an attack. The reason for this is straightforward: When firms are direct competitors in a large number of markets, they have a great deal at stake.

Airlines Air France-KLM and Lufthansa once dominated highly lucrative routes between Europe's and Asia's largest cities. That is, until Middle Eastern carriers such as Emirates Airlines and Etihad Airways attacked their market shares and profits by offering high-end amenities such as private suites, onboard showers, and a bar in first class. The European carriers quickly took note, with Air France-KLM CEO Alexandre de Juniac saying, "The Gulf carriers have significantly captured market share."[90] Market commonality is extensive in the airline industry. With so much at stake, Germany-based Lufthansa responded by spending $3.4 billion for 650 new first-class seats, 7,000 business-class seats that lie flat (for sleeping), and upgrades to premium economy seating and in-flight entertainment. Air France-KLM responded similarly, spending $1.1 billion to install private, first-class suites on 44 planes and replace economy-class seating.[91]

Whereas market commonality affects the likelihood of an attack or a response to an attack, resource similarity largely affects response capability, that is, how quickly and forcefully a company can respond to an attack.

When resource similarity is strong, the responding firm will generally be able to match the strategic moves of the attacking firm. Consequently, a firm is less likely to attack firms with similar levels of resources because it is unlikely to gain any sustained advantage when the responding firms strike back. On the other hand, if one firm is substantially stronger than another (that is, there is low resource similarity), then a competitive attack is more likely to produce sustained competitive advantage.

In general, the more moves (that is, attacks) a company initiates against direct competitors, and the greater a company's tendency to respond when attacked, the better its performance. More specifically, attackers and early responders (companies that are quick to launch a retaliatory attack) tend to gain market share and profits at the expense of late responders. This is not to suggest that a full-attack strategy always works best. In fact, attacks can provoke harsh retaliatory responses.

Amazon uses automated pricing algorithms to search competitors' retail websites for prices. When competitors lower prices, Amazon retaliates by aggressively lowering its prices to match or beat competitors' prices. For example, the Star Shower Motion is a light projector sold during holiday season, which projects decorative light patterns on the outside of homes. It sells to retailers for a wholesale price of $30, retails for a suggested price of $49.99, and thus offers the possibility of a $19.99 profit. But once Amazon's algorithm found lower prices on competitors' websites, it began cutting Amazon's price. When competitors repeated lowered prices in response, the algorithm eventually cut Amazon's price to just below $31, or less than a dollar above cost. A. J. Khubani, CEO of Telebrands, which sells the Star Shower Motion, said that traditional brick and mortar retailers were angry that Amazon retaliated by cutting the price to $31. He said, "Keeping everybody happy while we are selling on Amazon has become a challenge."[92]

Amazon's aggressive retaliatory responses, driven by its web search algorithm, followed by competitors' retaliatory price cuts, followed by more retaliatory price cutting from Amazon, eliminated all of the profit [after shipping costs] on the hot-selling Star Shower Motion projector. Because the pricing algorithm does this so often, Amazon calls these CRaP products, meaning "Can't Realize a Profit."[93] Despite the hit to its bottom line, Amazon has no plans to stop selling CRaP products. Amazon spokesperson Julie Law said, "We find the lowest prices and meet or beat them every day."[94] Consequently, when deciding when, where, and what strategic actions to take against a direct competitor, managers should always consider the possibility of retaliation.

STUDY TOOLS 6

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it wanted to launch a handset that could function seamlessly across India's 20 official languages, Micromax released the Unite. Priced at just $110, the 2017 model, the Unite 4 Plus, allows users to communicate using 21 different scripts, including Gujarati, Marathi, and Tamil, as well as English and Hindi. The Unite 4 Plus, which has a fingerprint sensor, a 5-inch HD screen, 4G LTE upload and download speeds, and an 8MP rear camera and a 5MP front camera, is just one of dozens of Micromax cellphones designated for release in 2017. Others include models built on Windows, models with six-inch screens for doodling, models that boast long battery life, no-frills models, and more. According to Micromax CEO Vineet Taneja, "We turn around faster than any other company."[51]

In a sequential design process, each step must be completed before the next step begins. But sometimes multiple development steps can be performed at the same time. *Overlapping steps* shorten the development process by reducing delays or waiting time between steps.

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7-3 ORGANIZATIONAL DECLINE: THE RISK OF NOT CHANGING

Founded in 1921 in Boston as a store for ham radio enthusiasts, **RadioShack** grew to more than 7,000 stores by stocking a wide range of components used to build or repair various electronic devices. In fact, before starting **Apple**, co-founders Steve Jobs and Steve Wozniak bought parts at RadioShack to make a "blue box" device that illegally switched on free long distance calling (which mattered when long distance calls were 40 cents a minute).[52] RadioShack's growth was first propelled by hobbyists (nerds like Jobs and Wozniak), then by battery sales, computers, and cell phones. The TRS-80, introduced in 1977, was one of the first broadly popular PCs. Following computers, which it stopped making in 1993, its next growth cycle came from cell phones. The phone companies at first relied on RadioShack to sign up and service customers, but this changed as they eventually established their own retail stores. RadioShack moved away from its focus on serving technology power users and hobbyists by opening unsuccessful big-box electronics and appliance stores, such as Computer City and Incredible Universe, on which it lost hundreds of millions of dollars in the 1990s. Outmaneuvered by BestBuy in brick-and-mortar retailing, and never really competitive on the Web, RadioShack filed for bankruptcy in spring 2015 after losing $936 million since 2011, the last year it was profitable.[53]

Businesses operate in a constantly changing environment. Recognizing and adapting to internal and external changes can mean the difference between continued success and going out of business. Companies that fail to change run the risk of organizational decline.[54] **Organizational decline** occurs when companies don't anticipate, recognize, neutralize, or adapt to the internal or external pressures that threaten their survival. CEO of **Netflix** Reed Hastings, whose company successfully bridged from its DVD-by-mail business to Internet streaming, said, "Most companies that are great at something—AOL dial-up or Borders bookstores—do not become great at new things people want (streaming for us) because they are afraid to hurt their initial business. Eventually, these companies realize their error of not focusing enough on the new thing, and then the company fights desperately and hopelessly to recover. Companies rarely die from moving too fast, and they frequently die from moving too slowly."[55] In other words, decline occurs when organizations don't recognize the need for change. There are five stages of organizational decline: blinded, inaction, faulty action, crisis, and dissolution.

In the *blinded stage*, decline begins because key managers fail to recognize the internal or external changes that will harm their organizations. This blindness may be due to a simple lack of awareness about changes or an inability to understand their significance. It may also come from the overconfidence that can develop when a company has been successful.

In the *inaction stage*, as organizational performance problems become more visible, management may recognize the need to change but still take no action. The managers may be waiting to see if the problems will correct themselves. Or, they may

Organizational decline a large decrease in organizational performance that occurs when companies don't anticipate, recognize, neutralize, or adapt to the internal or external pressures that threaten their survival

Ken Wolter/Shutterstock.com

"RadioShacks filed for bankruptcy in 2015 and was acquired by its largest lender, hedge fund, Standard General." And then filed for bankruptcy again in 2017!

find it difficult to change the practices and policies that previously led to success. Possibly, too, they wrongly assume that they can easily correct the problems, so they don't feel the situation is urgent.

In the *faulty action stage*, faced with rising costs and decreasing profits and market share, management will announce belt-tightening plans designed to cut costs, increase efficiency, and restore profits. In other words, rather than recognizing the need for fundamental changes, managers assume that if they just run a tighter ship, company performance will return to previous levels.

In the *crisis stage*, bankruptcy or dissolution (breaking up the company and selling its parts) is likely to occur unless the company completely reorganizes the way it does business. At this point, however, companies typically lack the resources to fully change how they run their businesses. Cutbacks and layoffs will have reduced the level of talent among employees. Furthermore, talented managers who were savvy enough to see the crisis coming will have found jobs with other companies, often with competitors. At this stage, hoping to generate enough cash to fund a much-needed redesign of its remaining stores, RadioShack took out $835 million in loans and closed 1,100 stores, However, during the 2014 holiday season, its corporate finances amounted to the equivalent of just $15,000 cash per store.[56]

Change forces forces that produce differences in the form, quality, or condition of an organization over time.

Resistance forces forces that support the existing conditions in organizations.

Resistance to change opposition to change resulting from self-interest, misunderstanding and distrust, and a general intolerance for change

In the *dissolution stage*, after failing to make the changes needed to sustain the organization, the company is dissolved through bankruptcy proceedings or by selling assets to pay suppliers, banks, and creditors. At this point, a new CEO may be brought in to oversee the closing of stores, offices, and manufacturing facilities; the final layoff of managers and employees; and the sale of assets. It is important to note that decline is reversible at each of the first four stages and that not all companies in decline reach final dissolution. RadioShack declared bankruptcy in February 2015, and was acquired by its largest lender, hedge fund Standard General. Initially, 1,700 stores remained open, with 1,400 featuring Sprint/RadioShack signage and branding. Sprint used one-third of each store to sell and display Sprint mobile phones and related products.[57] By 2017, Radio Shack filed for bankruptcy again, laying off headquarters staff, closing 200 stores, and "evaluating options" on the remaining stores.[58]

7-4 MANAGING CHANGE

According to social psychologist Kurt Lewin, change is a function of the forces that promote change and the opposing forces that slow or resist change.[59] **Change forces** lead to differences in the form, quality, or condition of an organization over time. In contrast to change forces, **resistance forces** support the status quo, that is, the existing conditions in an organization. Change is difficult under any circumstances. Production schedules on movie sets have changed dramatically as a result of directors having switched from film to digital recordings. When shooting with film, a new film reel has to be loaded every ten minutes, creating frequent breaks when stars would return to their trailers to read, rehearse, or rest. Because there are no film reels with digital recording, shooting can occur continuously, significantly reducing film production time and costs. A number of famous actors, however, don't like the change. Actor Robert Downey Jr. complained, "I can't work like this. I never get to go to my trailer … I'm on my feet 14 hours a day. I'm shooting all the time."[60]

Resistance to change is caused by self-interest, misunderstanding and distrust, and a general intolerance for change.[61] People resist change out of *self-interest* because they fear that change will cost or deprive them of something they value. Resistance might stem from a fear that the changes will result in a loss of pay, power, responsibility, or even perhaps one's job.

People also resist change because of *misunderstanding and distrust*; they don't understand the change or the reasons for it, or they distrust the people—typically management—behind the change. Resistance isn't always visible at first. In fact, some of the strongest resisters may initially support the changes in public, nodding and smiling their agreement, but then ignore the changes in private and do their jobs as they always have. Management consultant Michael Hammer calls this deadly form of resistance the "Kiss of Yes."[62]

Resistance may also come from a generally low tolerance for change. Some people are simply less capable of handling change than others. People with a *low tolerance for change* feel threatened by the uncertainty associated with change and worry that they won't be able to learn the new skills and behaviors needed to successfully negotiate change in their companies.

Because resistance to change is inevitable, successful change efforts require careful management.

In this section, you will learn about ***7-4a managing resistance to change, 7-4b what not to do when leading organizational change,*** *and* ***7-4c different change tools and techniques.***

Roman Märzinger/AGE Fotostock

The Kiss of Yes occurs when some of the strongest resisters support changes in public, but then ignore them in private.

7-4a Managing Resistance to Change

According to psychologist Kurt Lewin, managing organizational change is a basic process of unfreezing, change intervention, and refreezing. **Unfreezing** is getting the people affected by change to believe that change is needed. During the **change intervention** itself, workers and managers change their behavior and work practices. **Refreezing** is supporting and reinforcing the new changes so that they stick.

Resistance to change is an example of frozen behavior. Given the choice between changing and not changing, most people would rather not change. Because resistance to change is natural and inevitable, managers need to unfreeze resistance to change to create successful change programs. The following methods can be used to manage resistance to change: education and communication, participation, negotiation, top-management support, and coercion.[63]

When resistance to change is based on insufficient, incorrect, or misleading information, managers should *educate* employees about the need for change and *communicate* change-related information to them. Managers must also supply the information, funding, or other support employees need to make changes. For example, resistance to change can be particularly strong when one company buys another company. This is because one company in the merger usually has a higher status due to its size or its higher profitability or the fact that it is the acquiring company. These status differences are important to managers and employees, particularly if they're in the lower-status company, who worry about retaining their jobs or influence after the merger. That fear or concern can greatly increase resistance to change.[64] When PMA Companies, an insurance risk management firm, was acquired by Old Republic International, an insurance company, PMA's CEO Vince Donnelly communicated frequently with PMA's employees about the merger. Four months before the acquisition became official, he traveled to each of the company's 20 offices and gave employees a detailed description of how their day-to-day operations would change and why the acquisition was good for everyone involved. He also held quarterly

Unfreezing getting the people affected by change to believe that change is needed

Change intervention the process used to get workers and managers to change their behaviors and work practices

Refreezing supporting and reinforcing new changes so that they stick

updates with employees via videoconference. Said Donnelly, "It's not just one and done. Communication needs to be continual. You need to continue to reinforce the messages that you want people to internalize. So you need to understand that communication is a continuous process and not something that you do just once." He went on to say, "What you are asking people to do is trust you, [trust] that you have the best interest of everybody in mind, and [trust that] when there is news to tell, you're going to hear it directly from the CEO—good, bad, or indifferent."[65]

Another way to reduce resistance to change is to have those affected by the change *participate in planning and implementing the change process*. Employees who participate have a better understanding of the change and the need for it. Furthermore, employee concerns about change can be addressed as they occur if employees participate in the planning and implementation process. It took Kaiser Permanente, a large healthcare provider, five years to transition from paper records to digital medical records and telemedicine services (for patients in remote locations). CEO Bernard Tyson said, "The biggest problem was our physicians had a bond with the patient. It was the personal touch, the personal voice, the personal phone call. The physician is the advocate of the patient. Then you have the nurses and others. And they had a way of working. There was a lot of concern about breaking that trusted relationship, a lot of questions as to whether it would really work in the health-care industry. It took a lot of buy-in, and conversations and engaging the physicians in particular but the other health-care workers, too. So, ultimately, it wasn't done to them. They were a part of it. But I would not kid you. It was extremely difficult."[66]

Employees are also less likely to resist change if they are allowed *to discuss and agree on who will do what* after change occurs. Craig Durosko, founder of **Sun Design Home Remodeling Specialists** in Burke, Virginia, says, "Unfortunately, the way most employees find out when a company isn't doing well is when their paychecks bounce or when they show up and the front doors are locked. When changes go down and they don't know about it, they can't do anything about it." So, when Sun Design's business shrank dramatically during the recession, Durosko explained the problem, sharing detailed financial information, and then asked his employees what could be done to minimize losses. He says, "No less than 20 employees gave line-by-line specific *things they could do* to make a difference."[67]

Coercion the use of formal power and authority to force others to change

Resistance to change also decreases when change efforts receive *significant managerial support*. Managers must do more than talk about the importance of change, though. They must provide the training, resources, and autonomy needed to make change happen. Finally, resistance to change can be managed through **coercion,** or the use of formal power and authority to force others to change. Because of the intense negative reactions it can create (for example, fear, stress, resentment, sabotage of company products), coercion should be used only when a crisis exists or when all other attempts to reduce resistance to change have failed.

7-4b What Not to Do When Leading Change

So far, you've learned about the basic change process (unfreezing, change intervention, refreezing) and managing resistance to change. Harvard Business School professor John Kotter argues that knowing what *not* to do is just as important as knowing what to do when it comes to achieving successful organizational change.[68]

Managers commonly make predictable errors when they lead change. The first two errors occur during the unfreezing phase, when managers try to get the people affected by change to believe that change is really needed. The first and potentially most serious error is *not establishing a great enough sense of urgency*. In fact, Kotter estimates that more than half of all change efforts fail because the people affected are not convinced that change is necessary. People will feel a greater sense of urgency if a leader in the company makes a public, candid assessment of the company's problems and weaknesses.

In 1973, Nordstrom launched Nordstrom Rack, a lower-cost outlet version of its nameplate store. Neiman Marcus Last Call, Filene's Basement, and Saks Off Fifth quickly followed.[69] While Macy's currently accounts for 40 percent of U.S. department store sales, it made a critical mistake by debating what to do about off-price stores for six years before finally opening its own version, Macy's Backstage, in 2015. While the company deliberated, off-price behemoth TJX—parent company of T.J.Maxx, Marshalls, and Homegoods—shot past it on three key financial metrics. TJX has been more profitable than Macy's since 2008 and has had higher sales revenue since 2014. Since 2005, Macy's market capitalization has shrunk by $5 billion, while TJX's has risen by $35 billion, making it three times larger than Macy's. According to researcher Craig Johnson, "Macy's has been so successful for so long with its core format that it blinded them to the ways that consumer shopping behaviors were changing . . . The fix isn't going to happen overnight."[70]

The second mistake that occurs in the unfreezing process is *not creating a powerful enough coalition*. Change often starts with one or two people. But change

has to be supported by a critical and growing group of people to build enough momentum to change an entire department, division, or company. Besides top management, Kotter recommends that key employees, managers, board members, customers, and even union leaders be members of a *core change coalition* that guides and supports organizational change. For GE's Ecomagination initiative, that core change coalition included a group of engineers who were responsible for finding ways to achieve the company's overall goals of reducing emissions and water usage while increasing energy efficiency. Initiative leader Lorraine Bolsinger said, "We started doing what we called 'treasure hunts' [to] see if there were ways to use our own products at our own facilities to improve efficiency."[71] Many of these treasure hunts paid off. For example, one team at a jet engine testing facility figured out how to save 3 million gallons of jet fuel per year by moving engine tests indoors, reducing the run times needed for accurate testing, and better calculating the placement of weights used to balance the hundreds of fans on jet engines, resulting in a smoother, easier-turning, more efficient jet engine.[72]

The next four errors that managers make occur during the change phase, when a change intervention is used to try to get workers and managers to change their behavior and work practices. *Lacking a vision* for change is a significant error at this point. As you learned in Chapter 5, a *vision* (defined as a *purpose statement* in Chapter 5) is a statement of a company's purpose or reason for existing. A vision for change makes clear where a company or department is headed and why the change is occurring. Change efforts that lack vision tend to be confused, chaotic, and contradictory. By contrast, change efforts guided by visions are clear, are easy to understand, and can be effectively explained in five minutes or less.

Undercommunicating the vision by a factor of ten is another mistake in the change phase. According to Kotter, companies mistakenly hold just one meeting to announce the vision. Or, if the new vision receives heavy emphasis in executive speeches or company newsletters, senior management then undercuts the vision by behaving in ways contrary to it. Successful communication of the vision requires that top managers link everything the company does to the new vision and that they "walk the talk" by behaving in ways consistent with the vision. Furthermore, even companies that begin change with a clear vision sometimes make the mistake of *not removing obstacles to the new vision*. They leave formidable barriers to change in place by failing to redesign jobs, pay plans, and technology to support the new way of doing things. Chapter 1 discussed how CEO Mark Fields was moving Ford Motor Company toward its new "Smart Mobility" vision as an "auto and mobility"

AP Images/Brian Ach

Macy's executives debated off-price stores for six years before finally opening Macy's Backstage in 2015.

company.[73] "Smart Mobility," said Fields, "is our plan to use innovation to take Ford to the next level in connectivity, mobility, autonomous vehicles, the customer experience, and big data."[74] Ford, however, is clearly *avoiding* the mistake of undercommunicating and undercutting this vision. Indeed, Ford's commitment to "Smart Mobility" is evident in the 25 mobility experiments it's conducting, such as in London and Shanghai, where plug-in devices used to track live parking and traffic data are linked to smartphone apps helping drivers find and pay for the nearest available parking space.[75] Likewise, Ford spent $1 billion to become the majority owner in Argo AI, a startup founded by executives who formerly managed self-driving car teams at Uber and Google. Ford will combine its software engineers with Argo AI's to develop the virtual driver system for Ford's self-driving cars. Finally, Ford's board of director's changed CEO Field's financial incentives to reward him for eventually creating a new division, Ford Smart Mobility LLC.[76]

Another error in the change phase is *not systematically planning for and creating short-term wins*. Most people don't have the discipline and patience to wait two years to see if the new change effort works. Change is threatening and uncomfortable, so people need to see an immediate payoff if they are to continue to support it. Kotter recommends that managers create short-term wins by actively picking people and projects that are likely to work extremely well early in the change process.

The last two errors that managers make occur during the refreezing phase, when attempts are made to support and reinforce changes so that they stick. *Declaring victory too soon* is a tempting mistake in the refreezing phase. Managers typically declare victory right after the first large-scale success in the change process. Declaring success too early has the same effect as draining the gasoline out of a car: It stops change efforts dead in their tracks. With success

declared, supporters of the change process stop pushing to make change happen. After all, why push when success has been achieved? Rather than declaring victory, managers should use the momentum from short-term wins to push for even bigger or faster changes. This maintains urgency and prevents change supporters from slacking off before the changes are frozen into the company's culture.

The last mistake that managers make is *not anchoring changes in the corporation's culture*. An *organization's culture* is the set of key values, beliefs, and attitudes shared by organizational members that determines the accepted way of doing things in a company. As you learned in Chapter 3, changing cultures is extremely difficult and slow. According to Kotter, two things help anchor changes in a corporation's culture. The first is directly showing people that the changes have actually improved performance. The second is to make sure that the people who get promoted fit the new culture. If they don't, it's a clear sign that the changes were only temporary.

7-4c Change Tools and Techniques

Imagine that your boss came to you and said, "All right, genius, you wanted it. You're in charge of turning around the division." Where would you begin? How would you encourage change-resistant managers to change? What would you do to include others in the change process? How would you get the change process off to a quick start? Finally, what approach would you use to promote long-term effectiveness and performance? Results-driven change, the General Electric fastworks approach and organizational development are different change tools and techniques that can be used to address these issues.

One of the reasons that organizational change efforts fail is that they are activity oriented rather than results oriented. In other words, they focus primarily on changing company procedures, management philosophy, or employee behavior. Typically, there is much buildup and preparation as consultants are brought in, presentations are made, books are read, and employees and managers are trained. There's a tremendous emphasis on doing things the new way. But, with all the focus on "doing," almost no attention is paid to *results*, to seeing if all this activity has actually made a difference.

Results-driven change change created quickly by focusing on the measurement and improvement of results

General Electric fastworks quickly experimenting with new ideas to solve customer problems and learn from repeated tests and improvements

Sara De Marco/Shutterstock.com

By contrast, **results-driven change** supplants the emphasis on activity with a laser-like focus on quickly measuring and improving results.[77] At Zara, the Spain-based retailer known for "fast fashion," 350 designers send brand new styles to stores and Zara.com twice a week. Because designers get daily data on what's selling, they can react to fashion trends by going from concept to ready-for-sale clothing in just three weeks. If daily reports show surging demand for particular products, Zara airlifts them (the most expensive way to ship) to get them in stores as fast as possible.[78] Furthermore, retailers don't need anyone's approval to make changes. They decide on the spot. Ann Critchlow, an analyst at Société Générale, says, "The root of Inditex's success [Inditex own's Zara] is its predominantly short lead time, which gives a greater level of newness to its collections."[79]

Another advantage of results-driven change is that managers introduce changes in procedures, philosophy, or behavior only if they are likely to improve measured performance. In other words, managers and workers actually test to see if changes make a difference. A third advantage of results-driven change is that quick, visible improvements motivate employees to continue to make additional changes to improve measured performance. Exhibit 7.4 describes the basic steps of results-driven change.

General Electric fastworks approach is a special kind of results-driven change. With fastworks, companies improve results in an uncertain business environment by quickly experimenting with new ideas to solve customer problems and learn from repeated tests and improvements. Because things change quickly in uncertain business environments, the idea is to move as fast, if not faster than competitors. For example, it normally takes GE Healthcare two to four years to bring a new

Exhibit 7.4
How to Create a Results-Driven Change Program

1. Set measurable, short-term goals to improve performance.
2. Make sure your action steps are likely to improve measured performance.
3. Stress the importance of immediate improvements.
4. Solicit help from consultants and staffers to achieve quick improvements in performance.
5. Test action steps to see if they actually yield improvements. If they don't, discard them and establish new ones.
6. Use resources you have or that can be easily acquired. It doesn't take much.

Source: R. H. Schaffer and H. A. Thomson, "Successful Change Programs Begin with Results," *Harvard Business Review on Change* (Boston: Harvard Business School Press, 1998), 189–213.

Exhibit 7.5
General Steps for Organizational Development Interventions

1. Entry	A problem is discovered, and the need for change becomes apparent. A search begins for someone to deal with the problem and facilitate change.
2. Startup	A change agent enters the picture and works to clarify the problem and gain commitment to a change effort.
3. Assessment & feedback	The change agent gathers information about the problem and provides feedback about it to decision makers and those affected by it.
4. Action planning	The change agent works with decision makers to develop an action plan.
5. Intervention	The action plan, or organizational development intervention, is carried out.
6. Evaluation	The change agent helps decision makers assess the effectiveness of the intervention.
7. Adoption	Organizational members accept ownership and responsibility for the change, which is then carried out through the entire organization.
8. Separation	The change agent leaves the organization after first ensuring that the change intervention will continue to work.

Source: W. J. Rothwell, R. Sullivan, and G. M. McLean, *Practicing Organizational Development: A Guide for Consultants* (San Diego: Pfeiffer & Co., 1995).

PET/CT scanner to market. But because of customer feedback under fastworks, it cut development time in half.[80]

Fastworks also focuses on solving customer problems. Viv Goldstein, director of innovation acceleration at GE Corporate, says, "We don't assume that we know what features create the best solution. We start speaking to customers much earlier in the cycle so we can test solutions quickly and inexpensively… It's about achieving customer outcomes, as opposed to selling products."[81]

Finally, repeated testing and improvements depend on putting a minimum viable product in front of customers. When GE Appliances was redesigning its high-end Monogram refrigerators, it listened to feedback from home designers and then built a new refrigerator (that is, a minimum viable product). Customers disliked it because the stainless steel was too dark. They fixed that. Next, customers disliked the lighting. GE fixed that. After 6 prototypes, GE built 75 versions for broader testing and feedback. Five versions later, it was ready to begin manufacturing. Fastworks resulted in a refrigerator developed in half the time, for half the cost, and which is selling twice as fast as the typical new model.[82]

Organizational development is a philosophy and collection of planned change interventions designed to improve an organization's long-term health and performance. Organizational development takes a long-range approach to change; assumes that top-management support is necessary for change to succeed; creates change by educating workers and managers to change ideas, beliefs, and behaviors so that problems can be solved in new ways; and emphasizes employee participation in diagnosing, solving, and evaluating problems.[83] As shown in Exhibit 7.5, organizational development interventions begin with the recognition of a problem. Then, the company designates a **change agent** to be formally in charge of guiding the change effort. This person can be someone from within the company or a professional consultant. The change agent clarifies the problem, gathers information, works with decision makers to create and implement an action plan, helps to evaluate the plan's effectiveness, implements the plan throughout the company, and then leaves (if from outside the company) after making sure the change intervention will continue to work.

Organizational development a philosophy and collection of planned change interventions designed to improve an organization's long-term health and performance

Change agent the person formally in charge of guiding a change effort

Exhibit 7.6
Different Kinds of Organizational Development Interventions

Large-System Interventions	
Sociotechnical systems	An intervention designed to improve how well employees use and adjust to the work technology used in an organization.
Survey feedback	An intervention that uses surveys to collect information from the members of the system, reports the results of that survey to the members, and then uses those results to develop action plans for improvement.
Small-Group Interventions	
Team building	An intervention designed to increase the cohesion and cooperation of work group members.
Unit goal setting	An intervention designed to help a work group establish short- and long-term goals.
Person-Focused Interventions	
Counseling/coaching	An intervention designed so that a formal helper or coach listens to managers or employees and advises them on how to deal with work or interpersonal problems.
Training	An intervention designed to provide individuals with the knowledge, skills, or attitudes they need to become more effective at their jobs.

Source: W. J. Rothwell, R. Sullivan, and G. M. McLean, *Practicing Organizational Development: A Guide for Consultants* (San Diego: Pfeiffer & Co., 1995).

Organizational development interventions are aimed at changing large systems, small groups, or people.[84] More specifically, the purpose of *large-system interventions* is to change the character and performance of an organization, business unit, or department. *Small-group intervention* focuses on assessing how a group functions and helping it work more effectively to accomplish its goals. *Person-focused intervention* is intended to increase interpersonal effectiveness by helping people to become aware of their attitudes and behaviors and to acquire new skills and knowledge. Exhibit 7.6 describes the most frequently used organizational development interventions for large systems, small groups, and people.

STUDY TOOLS 7

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15 | Managing Communication

LEARNING OUTCOMES

15-1 Explain the role that perception plays in communication and communication problems.

15-2 Describe the communication process and the various kinds of communication in organizations.

15-3 Explain how managers can manage effective one-on-one communication.

15-4 Describe how managers can manage effective organization-wide communication.

After you finish this chapter, go to PAGE 351 for STUDY TOOLS

15-1 PERCEPTION AND COMMUNICATION PROBLEMS

It's estimated that managers spend over 80 percent of their day communicating with others.[1] Indeed, much of the basic management process—planning, organizing, leading, and controlling—cannot be performed without effective communication. If this weren't reason enough to study communication, consider that effective oral communication—achieved by listening, following instructions, conversing, and giving feedback—is the most important skill for college graduates who are entering the workforce.[2] **Communication** is the process of transmitting information from one person or place to another. While some bosses sugarcoat bad news, smart managers understand that effective, straightforward communication between managers and employees is essential for success.

Communication the process of transmitting information from one person or place to another

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One study found that when *employees* were asked whether their supervisor gave recognition for good work, only 13 percent said their supervisor gave a pat on the back, and a mere 14 percent said their supervisor gave sincere and thorough praise. But when the *supervisors* of these employees were asked if they gave recognition for good work, 82 percent said they gave pats on the back, while 80 percent said that they gave sincere and thorough praise.[3] Given that these managers and employees worked closely together, how could they have had such different perceptions of something as simple as praise?

Let's learn more about perception and communication problems by examining ***15-1a the basic perception process, 15-1b perception problems, 15-1c how we perceive others,*** *and* ***15-1d how we perceive ourselves.*** *We'll also consider how all of these factors make it difficult for managers to communicate effectively.*

15-1a Basic Perception Process

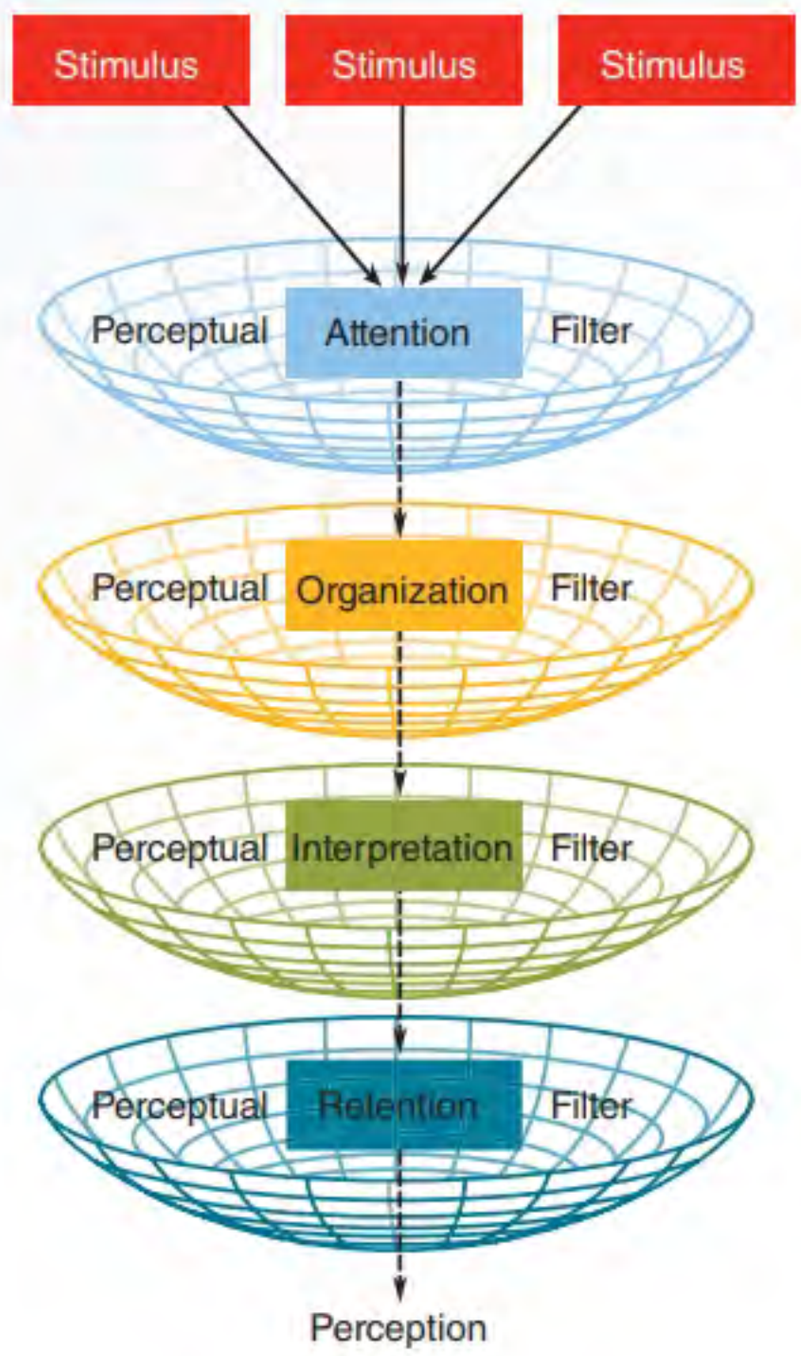
As shown in Exhibit 15.1, **perception** is the process by which individuals attend to, organize, interpret, and retain information from their environments. And because communication is the process of transmitting information from one person or place to another, perception is obviously a key part of communication. Yet perception can also be a key obstacle to communication.

As people perform their jobs, they are exposed to a wide variety of informational stimuli such as emails, direct conversations with the boss or coworkers, rumors heard over lunch, stories about the company in the press, or a video broadcast of a speech from the CEO to all employees. Just being exposed to an informational stimulus, however, is no guarantee that an individual will pay attention or attend to that stimulus. People experience stimuli through their own **perceptual filters**—the personality-, psychology-, or experience-based differences that influence them to ignore or pay attention to particular stimuli. Because of filtering, people exposed to the

Perception the process by which individuals attend to, organize, interpret, and retain information from their environments

Perceptual filters the personality-, psychology-, or experience-based differences that influence people to ignore or pay attention to particular stimuli

Exhibit 15.1
Basic Perception Process



same information will often disagree about what they saw or heard. As shown in Exhibit 15.1, perceptual filters affect each part of the *perception process*: attention,organization, interpretation, and retention.

Attention is the process of noticing, or becoming aware of, particular stimuli. Because of perceptual filters, we attend to some stimuli and not others. For instance, a study at the University of Illinois asked viewers to watch people in black shirts and white shirts toss a basketball back and forth and to count the number of times someone in a black shirt tossed the basketball. Because their perceptual filters had narrowed to track the activities of people in black shirts, half of the viewers did not notice when the experimenters had someone in a gorilla suit walk through the midst of the people tossing the basketball back and forth.[4] *Organization* is the process of incorporating new information (from the stimuli that you notice) into your existing knowledge. Because of perceptual filters, we are more likely to incorporate new knowledge that is consistent with what we already know or believe. *Interpretation* is the process of attaching meaning to new knowledge. Because of perceptual filters, our preferences and beliefs strongly influence the meaning we attach to new information (for example, "This decision must mean that top management supports our project"). Finally, *retention* is the process of remembering interpreted information. Retention affects what we recall and commit to memory after we have perceived something. Of course, perceptual filters affect retention as much as they do organization and interpretation.

For instance, imagine that you miss the first 10 minutes of a TV show and turn on your TV to see two people talking to each other in a living room. As they talk, they walk around the room, picking up and putting down various items. Some items, such as a ring, watch, and credit card, appear to be valuable, while others appear to be drug-related, such as a water pipe for smoking marijuana. In fact, this situation was depicted on videotape in a well-known study that manipulated people's perceptual filters.[5] Before watching the video, one-third of the study participants were told that the people were there to rob the apartment. Another third were told that police were on their way to conduct a drug raid and that the people in the apartment were getting rid of incriminating evidence. The remaining third of the participants were told that the people were simply waiting for a friend.

After watching the video, participants were asked to list all of the objects from the video that they could remember. Not surprisingly, the different perceptual filters (theft, drug raid, and waiting for a friend) affected what the participants attended to, how they organized the information, how they interpreted it, and ultimately which objects they remembered. Participants who thought a theft was in progress were more likely to remember the valuable objects in the video. Those who thought a drug raid was imminent were more likely to remember the drug-related objects. There was no discernible pattern to the items remembered by those who thought that the people in the video were simply waiting for a friend.

In short, because of perception and perceptual filters, people are likely to pay attention to different things, organize and interpret what they pay attention to differently, and, finally, remember things differently. Consequently, even when people are exposed to the same communications (for example, organizational memos, discussions with managers or customers), they can end up with very different perceptions and understandings. This is why communication can be so difficult and frustrating for managers. Let's review some of the communication problems created by perception and perceptual filters.

THE POWER OF PERCEPTION

Perception is a powerful influence on human behavior. A group of researchers testing the relationship between the size of a wine glass and the amount of wine consumed discovered that people who are served wine in a large glass drink more wine overall in one sitting than do people served the same amount of wine in a smaller wine glass. Why does this happen? Even though they are being served the same amount, the people drinking from the larger glass perceive

Oksana Klimenkova/Shutterstock.com

that there is less wine in the glass. To compensate, they order more glasses throughout the evening.

Source: D. Rowland, "Large Wine Glasses Encourage More Drinking, Study Finds," *Wall Street Journal*, December 13, 2015, accessed May 7, 2016, http://www.wsj.com/articles/larger-wine-glasses-encourage-more-drinking-study-finds-1450696305.

15-1b Perception Problems

Perception creates communication problems for organizations because people exposed to the same communication and information can end up with completely different ideas and understandings. Two of the most common perception problems in organizations are selective perception and closure.

At work, we are constantly bombarded with sensory stimuli: phones ringing, people talking in the background, computers dinging as new email arrives, people calling our names, and so forth. As limited processors of information, we cannot possibly notice, receive, and interpret all of this information. As a result, we attend to and accept some stimuli but screen out and reject others. This isn't a random process.

Selective perception is the tendency to notice and accept objects and information consistent with our values, beliefs, and expectations, while ignoring or screening out inconsistent information. For example, in a research study, pedestrians are stopped on a sidewalk by a man who asks for directions. Ten seconds into giving directions, two people carrying a door walk between the man who asked for directions, on the left, and the pedestrian, on the right. When the door goes by, the man who asked for directions quickly switches places with one of the young men carrying the door. The pedestrian, however, doesn't see this switch because the door blocks the view. Like the invisible gorilla example cited earlier, 50 percent of the time people don't even notice that they're talking to a different man and go right back to giving directions. Selective perception, is one of the biggest contributors to misunderstandings and miscommunication, because it strongly influences what people see, hear, read, and understand at work.[6]

After we have initial information about a person, event, or process, **closure** is the tendency to fill in the gaps where information is missing, that is, to assume that what we don't know is consistent with what we already do know. If employees are told that budgets must be cut by 10 percent, they may automatically assume that 10 percent of employees will lose their jobs, too, even if that isn't the case. Not surprisingly, when closure occurs, people sometimes fill in the gaps with inaccurate information, which can create problems for organizations.

15-1c Perceptions of Others

Attribution theory says that we all have a basic need to understand and explain the causes of other people's behavior.[7] In other words, we need to know why people do what they do. According to attribution theory, we use two general reasons or attributions to explain people's behavior: an *internal attribution*, in which behavior is thought to be voluntary or under the control of the individual, and an *external attribution*, in which behavior is thought to be involuntary and outside of the control of the individual.

If you've ever seen someone changing a flat tire on the side of the road and thought to yourself, "What rotten luck—somebody's having a bad day," you perceived the person through an external attribution known as the defensive bias. The **defensive bias** is the tendency for people to perceive

Selective perception the tendency to notice and accept objects and information consistent with our values, beliefs, and expectations, while ignoring or screening inconsistent information

Closure the tendency to fill in gaps of missing information by assuming that what we don't know is consistent with what we already know

Attribution theory the theory that we all have a basic need to understand and explain the causes of other people's behavior

Defensive bias the tendency for people to perceive themselves as personally and situationally similar to someone who is having difficulty or trouble

Exhibit 15.2

Defensive Bias and Fundamental Attribution Error

Defensive Bias—
the tendency for people to perceive themselves as personally and situationally similar to someone who is having difficulty or trouble

Defensive Bias—
the tendency for people to perceive themselves as personally and situationally similar to someone who is having difficulty or trouble

Fundamental Attribution Error—
the tendency to ignore external causes of behavior and to attribute other people's actions to internal causes

themselves as personally and situationally similar to someone who is having difficulty or trouble.[8] When we identify with the person in a situation, we tend to use external attributions (that is, features related to the situation) to explain the person's behavior. For instance, because flat tires are common, it's easy to perceive ourselves in that same situation and put the blame on external causes such as running over a nail.

Now, let's assume a different situation, this time in the workplace:

> *A utility company worker puts a ladder on a utility pole and then climbs up to do his work. As he's doing his work, he falls from the ladder and seriously injures himself.*[9]

Answer this question: Who or what caused the accident? If you thought, "It's not the worker's fault. Anybody could fall from a tall ladder," then you interpreted the incident with a defensive bias in which you saw yourself as personally and situationally similar to someone who is having difficulty or trouble. In other words, you made an external attribution by attributing the accident to an external cause or some feature of the situation.

Fundamental attribution error the tendency to ignore external causes of behavior and to attribute other people's actions to internal causes

Most accident investigations, however, initially blame the worker (that is, an internal attribution) and not the situation (that is, an external attribution). Typically, 60–80 percent of workplace accidents each year are blamed on "operator error," that is, on the employees themselves. In reality, more complete investigations usually show that workers are responsible for only 30–40 percent of all workplace accidents.[10] Why are accident investigators so quick to blame workers? The reason is that they are committing the **fundamental attribution error**, which is the tendency to ignore external causes of behavior and to attribute other people's actions to internal causes.[11] In other words, when investigators examine the possible causes of an accident, they're much more likely to assume that the accident is a function of the person and not the situation.

Which attribution—the defensive bias or the fundamental attribution error—are workers likely to make when something goes wrong? In general, as shown in Exhibit 15.2, employees and coworkers are more likely to perceive events and explain behavior from a defensive bias. Because they do the work themselves and see themselves as similar to others who make mistakes, have

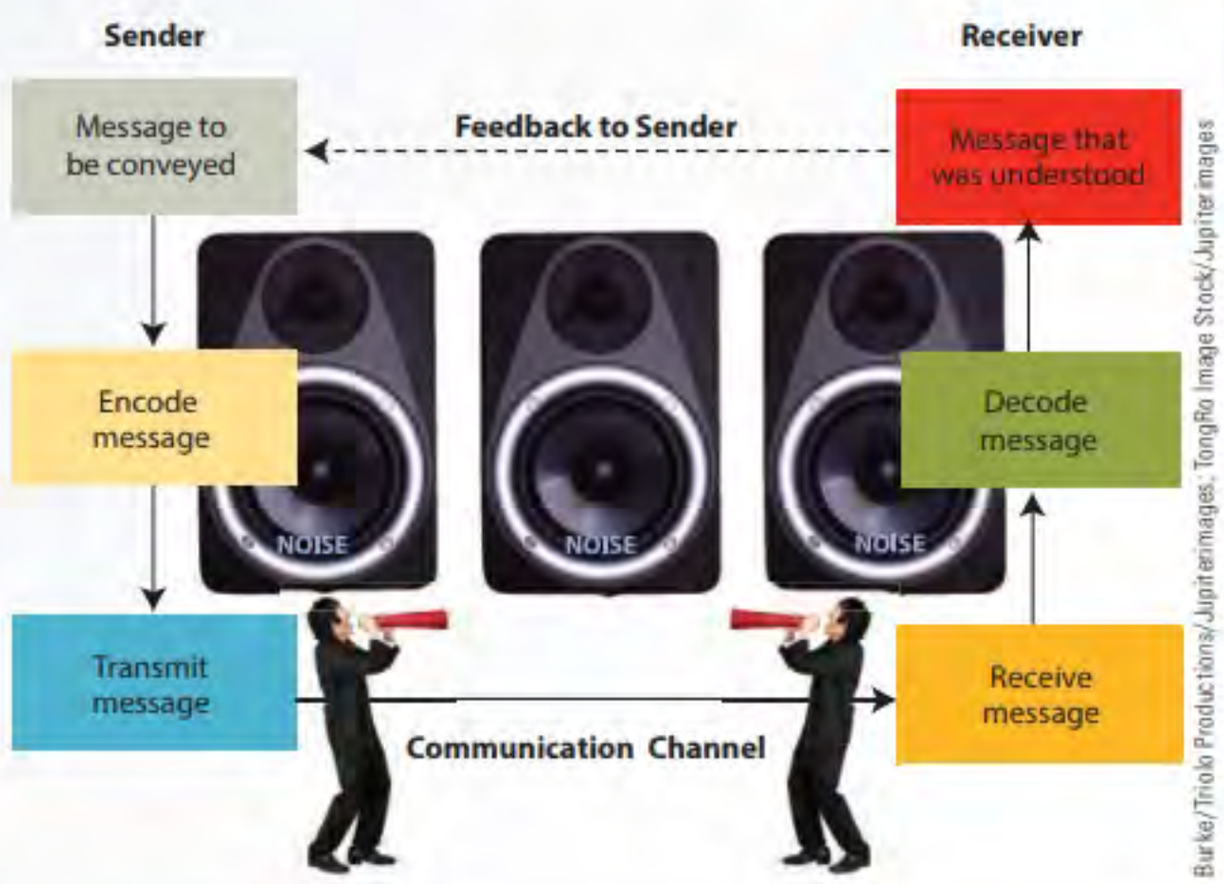
accidents, or are otherwise held responsible for things that go wrong at work, employees and coworkers are likely to attribute problems to external causes such as failed machinery, poor support, or inadequate training. By contrast, because they are typically observers (who don't do the work themselves) and see themselves as situationally and personally different from workers, managers tend to commit the fundamental attribution error and blame mistakes, accidents, and other things that go wrong on workers (that is, an internal attribution).

Consequently, workers and managers in most workplaces can be expected to take opposite views when things go wrong. Therefore, the defensive bias, which is typically used by workers, and the fundamental attribution error, which is typically made by managers, together present a significant challenge to effective communication and understanding in organizations.

15-1d Self-Perception

The **self-serving bias** is the tendency to overestimate our value by attributing successes to ourselves (internal causes) and attributing failures to others or the environment (external causes).[12] The self-serving bias can make it especially difficult for managers to talk to employees about performance problems. In general, people have a need to maintain a positive self-image. This need is so strong that when people seek feedback at work, they typically want verification of their worth (rather than information about performance deficiencies) or assurance that mistakes or problems weren't their fault.[13] People can become defensive and emotional when managerial communication threatens their positive self-image. They quit listening, and communication becomes ineffective. In the second half of the chapter, which focuses on improving communication, we'll explain ways in which managers can minimize this self-serving bias and improve effective one-on-one communication with employees.

Exhibit 15.3
The Interpersonal Communication Process



Burke/Triolo Productions/Jupiterimages; TongRo Image Stock/Jupiterimages

15-2 KINDS OF COMMUNICATION

There are many kinds of communication—formal, informal, coaching/counseling, and nonverbal—but they all follow the same fundamental process.

Let's learn more about the different kinds of communication by examining ***15-2a the communication process, 15-2b formal communication channels, 15-2c informal communication channels, 15-2d coaching and counseling, or one-on-one communication,*** *and* ***15-2e nonverbal communication.***

15-2a The Communication Process

At the beginning of this chapter, we defined *communication* as the process of transmitting information from one person or place to another. Exhibit 15.3 displays a model of the communication process and its major components: the sender (message to be conveyed, encoding the message, transmitting the message); the receiver (receiving message, decoding the message, and the message that was understood); and noise, which interferes with the communication process.

The communication process begins when a *sender* thinks of a message he or she wants to convey to another person. For example, you had a flu shot and a pneumonia shot, and yet you've had an unexplainable fever for nine days, so you visit the doctor. The doctor asks a series of questions regarding your appetite, fatigue, tenderness in your abdomen, and

Self-serving bias the tendency to overestimate our value by attributing successes to ourselves (internal causes) and attributing failures to others or the environment (external causes)

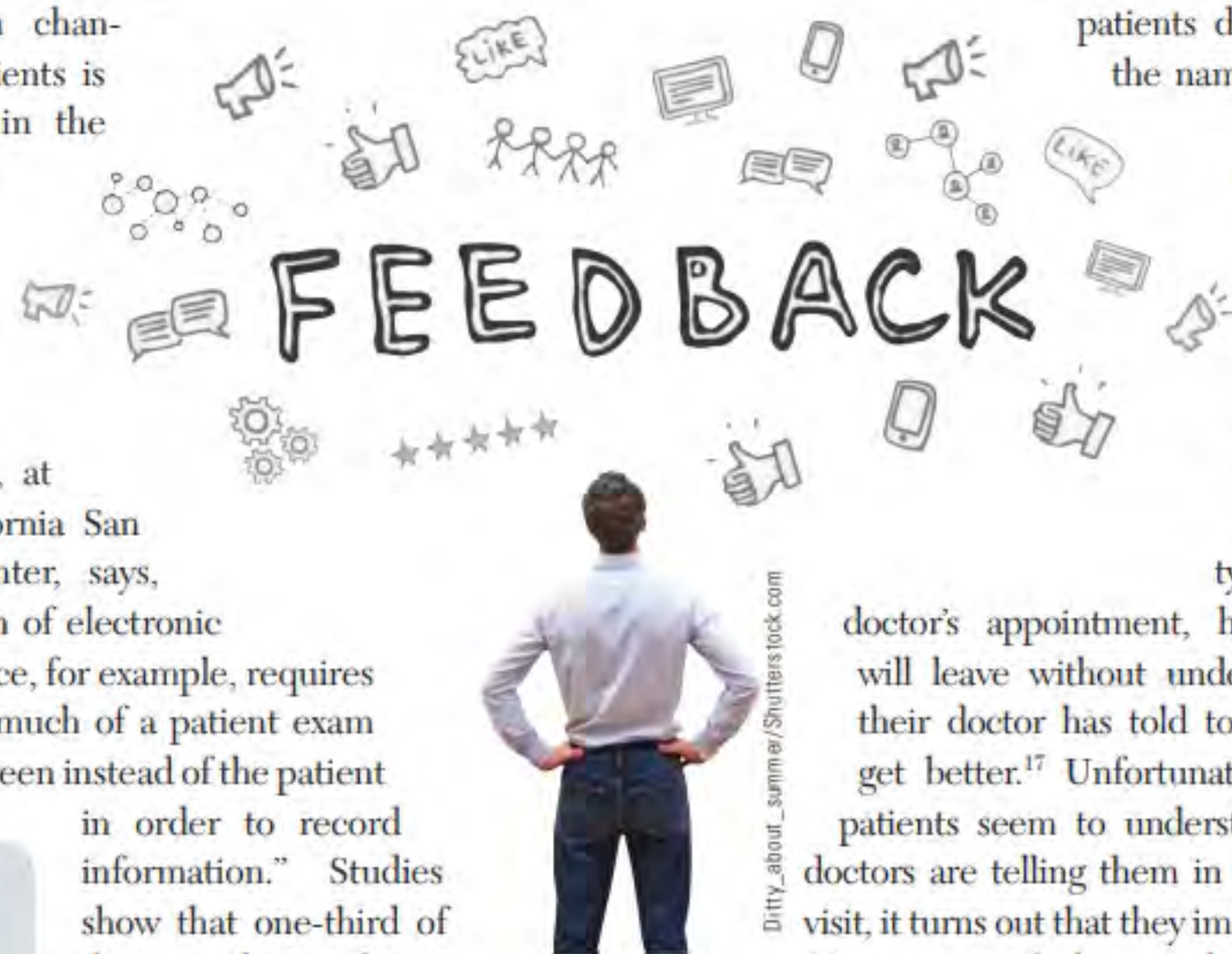
whether your fever comes and goes during the day. The doctor, the sender, runs some tests and then has you, the receiver, come back the next day to give you a diagnosis and recommend a treatment.

The next step is to encode the message. **Encoding** means putting a message into a written, verbal, or symbolic form that can be recognized and understood by the receiver. In our example, this means the doctor has to take the technical language of medicine and lab test results and communicate it in a way that patients can understand. This is not easy to do. And the difficulty of doing this well is compounded by the average doctor's visit lasting less than 15 minutes. And, while your visit might be 15 minutes, you're not getting a full 15 minutes to talk to the doctor. Not surprisingly, 60 percent of patients feel as if their doctor is rushing through their exam. Despite this, 58 percent of surveyed patients say their doctors do a good job of explaining things to them. But, as we'll see in a few steps, that doesn't mean communication has been effective.[14]

The sender then *transmits the message* via *communication channels*. The traditional communication channel for doctors and patients is face-to-face discussion in the doctor's office. Ironically, though, the introduction of electronic health records may be interfering with that. Dr. Rita Redberg, at the University of California San Francisco Medical Center, says, "The recent introduction of electronic health records in the office, for example, requires many doctors to spend much of a patient exam looking at a computer screen instead of the patient in order to record information." Studies show that one-third of the time, doctors forget to give patients critical information. Another critical study found that across 30 different medical conditions, patients only received all the information they needed from their doctors about 55 percent of the time.[15] Why? In an average 15-minute doctor's visit, the doctor will spend just 1.3 minutes telling the patient about his or her condition, prognosis, and treatment. Furthermore, as we will see, that 1.3 minutes is filled with information that is too complex and technical for the typical patient to understand.[16]

With some communication channels such as the telephone and face-to-face communication, the sender receives immediate feedback, whereas with others such as email (or text messages and file attachments), voice mail, memos, and letters, the sender must wait for the receiver to respond. Unfortunately, because of technical difficulties (for example, fax down, dead battery in the cell phone, inability to read email attachments) or people-based transmission problems (for example, forgetting to pass on the message), messages aren't always transmitted.

If the message is transmitted and received, however, the next step is for the receiver to decode it. **Decoding** is the process by which the receiver translates the verbal or symbolic form of the message into an understood message. Surveys indicate that many patients clearly do not understand what their doctors are telling them. Up to 85 percent of hospitalized patients don't even know the name of the doctor in charge of their treatment. As many as 58 percent don't know why they were admitted to the hospital. Likewise, in a typical 15-minute doctor's appointment, half of patients will leave without understanding what their doctor has told to them to do to get better.[17] Unfortunately, even when patients seem to understand what their doctors are telling them in their 15-minute visit, it turns out that they immediately forget 80 percent of that medical information, and then half of what they do remember is wrong![18]



Ditty_about_summer/Shutterstock.com

The last step of the communication process occurs when the receiver gives the sender feedback. **Feedback to sender** is a return message to the sender that indicates the receiver's understanding of the message (of what the receiver was supposed to know, to do, or not to do). Feedback makes senders aware of possible miscommunications and enables them to continue communicating until the receiver understands

Encoding putting a message into a written, verbal, or symbolic form that can be recognized and understood by the receiver

Decoding the process by which the receiver translates the written, verbal, or symbolic form of a message into an understood message

Feedback to sender in the communication process, a return message to the sender that indicates the receiver's understanding of the message

the intended message. Because of the difficulties of communicating complex medical information in too little time, many doctors now employ the "teach-back" method at the end of a patient visit, where they ask patients to explain in their own words what they've heard the doctor say regarding their problem (diagnosis), whether they'll get better (prognosis), and what the patient is supposed to do after they leave the doctor's office (that is, treatment plan and managing medications).[19] Even so, much progress needs to be made, as about half of patients are not even asked if they have questions.[20]

Unfortunately, feedback doesn't always occur in the communication process. Complacency and overconfidence about the ease and simplicity of communication can lead senders and receivers to simply assume that they share a common understanding of the message and, consequently, to not use feedback to improve the effectiveness of their communication. This is a serious mistake, especially as messages and feedback are always transmitted with and against a background of noise. Part of the background noise in medicine is how well medical information is communicated between medical professionals. After all, medicine is a "team sport" involving various doctors, physician assistants, nurses, and other care professionals for each patient. Medical mistakes kill 500 people per day, and 80 percent of those deaths are caused by miscommunication that occurs when patients are transferred from one set of caregivers to another, for instance, the night-shift nurses not communicating key information to the day-shift nurses, or one doctor not being aware of the diagnosis and treatment plan of another doctor on a case.[21]

Noise is anything that interferes with the transmission of the intended message. Noise can occur in any of the following situations:

- The sender isn't sure what message to communicate.
- The message is not clearly encoded.
- The wrong communication channel is chosen.
- The message is not received or decoded properly.
- The receiver doesn't have the experience or time to understand the message.

Emotional outbursts are an often unrecognized type of noise. Whether yelling, crying, sulking, or table pounding, strong emotions interfere with the transmission of intended messages. The outburst itself, however, is a signal that what's being discussed touches strongly held beliefs or values. The first step in addressing noise related to strong emotions is spotting early indicators, such as body language not matching words. Acknowledge the difficulty of the issue, and then ask them to share their views. Next, listen to the response, and ask follow-up questions. Finally, work toward resolution by helping them articulate their core issues.[22] We'll cover listening and asking questions in greater detail in section 15-2d on coaching and counseling.

Jargon, which is vocabulary particular to a profession or group, is another form of noise that interferes with communication in the workplace. Jargon is a common cause of misunderstandings between doctors and patients. Brian Jack, chief of family medicine at Boston Medical Center, says, "We throw papers and throw words at patients. It is crazy to think they would understand."[23] The result, says Dr. David Langer, chief of neurosurgery at Lenox Hill Hospital in New York City, is that patients, "would go home and call back and say they didn't understand, and then ask me the same questions . . . Doctors often do a terrible job at educating their patients."[24] To combat this problem, Dr. Langer and his colleagues have begun using digital videos to explain CT scans and MRIs, as well as to provide detailed post-visit medical instructions. While preparing for an upcoming surgery, Emily Monato watched the video of her brain MRI several times to better "grasp these big chunks of information."[25] She had her children, father, and friends watch it, too.

15-2b Formal Communication Channels

An organization's **formal communication channel**, is the system of official channels that carry organizationally approved messages and information. Organizational objectives, rules, policies, procedures, instructions, commands, and requests for information are all transmitted via the formal communication system or channel. There are three formal communication channels: downward communication, upward communication, and horizontal communication.[26]

Downward communication flows from higher to lower levels in an organization. Downward communication is used to issue orders down the organizational hierarchy, to give organizational members job-related information, to give managers and workers performance reviews from upper managers, and to clarify organizational objectives and goals.[27] Michael Beer, professor emeritus at Harvard

Noise anything that interferes with the transmission of the intended message

Jargon vocabulary particular to a profession or group that interferes with communication in the workplace

Formal communication channel the system of official channels that carry organizationally approved messages and information

Downward communication communication that flows from higher to lower levels in an organization

Source: Twitter, Inc.

Salesforce.com CEO Marc Benioff encourages upward communication by regularly participating in the "Airing of Grievances" chat group.

Business School, says, "You can never overcommunicate. When you think you've communicated well, go out three or four more times and communicate again." Beer's consulting firm, TruePoint, studied 40 CEOs whose companies have been above-average performers for more than a decade. He found that those leaders spend an immense amount of time in downward communication. "They have a simple story, and that story gets out every place they go."[28]

Upward communication flows from lower levels to higher levels in an organization. Upward communication is used to give higher-level managers feedback about operations, issues, and problems; to help higher-level managers assess organizational performance and effectiveness; to encourage lower-level managers and employees to participate in organizational decision making; and to give those at lower levels the chance to share their concerns with higher-level authorities. Salesforce.com, the largest customer relationship marketing platform in the world, is used by companies to find, manage, and close more sales leads and to better manage and monitor existing customer relationships. CEO and founder Marc Benioff and his senior leadership team encourage upward communication by regularly participating in the "Airing of Grievances" chat group that is open to everyone in the company.[29] Salesforce's Jody Kohner, vice president of employee marketing and engagement, says that Airing of Grievances is based on a communication philosophy of "'bring it out into the open, let's talk about it and solve it'—because that's what the world's most innovative companies do, they solve problems."[30]

Upward communication
communication that flows from lower to higher levels in an organization

Horizontal communication
communication that flows among managers and workers who are at the same organizational level

Horizontal communication flows among managers and workers who are at the same organizational level, such as when a day shift nurse comes in at 7:30 a.m. for a half-hour discussion with the midnight nurse supervisor who leaves at 8:00 a.m. Horizontal communication helps facilitate coordination and cooperation between different parts of a company and allows coworkers to share relevant information. It also helps people at the same level resolve conflicts and solve problems without involving high levels of management. Many hospitals now use bedside shift reports for horizontal communication during shift changes. Both nurses, one leaving and the other coming on, discuss the patient's status at their bedside with family members present. Beverly Johnson, CEO of the Institute for Patient-and-Family-Centered Care, says bedside shift reports, "ensure that complete and accurate information is shared and there is mutual understanding of the care plan and other priorities."[31] Shift reports usually take three to seven minutes per patient and nurses typically hand off three to six patients per shift.

In general, what can managers do to improve formal communication? First, decrease reliance on downward communication. Second, increase chances for upward communication by increasing personal contact with lower-level managers and workers. Third, encourage much better use of horizontal communication.

15-2c Informal Communication Channels

An organization's **informal communication channel**, sometimes called the **grapevine**, is the transmission of

DON'T TELL ME TO RELAX!!

There can be a fine line between news and gossip, and, at some point, you might find yourself a target of the rumor mill. How should you handle it? Groundless gossip can often be extinguished with simple denial. Sometimes, however, a direct denial only attracts more attention. In those cases, consider asking the person spreading the rumors to be an advocate for you to help shut down the gossip. And as a proactive measure, maintain strong alliances with colleagues above, below, and at your own level of the organization. That way, you'll know who to enlist on your behalf to diffuse gossip about you.

Source: S. Shellenbarger, "Why You Should Never Tell Someone to Relax," *Wall Street Journal*, August 16, 2016, accessed May 2, 2017, https://www.wsj.com/articles/why-you-should-never-tell-someone-to-relax-1471370408.

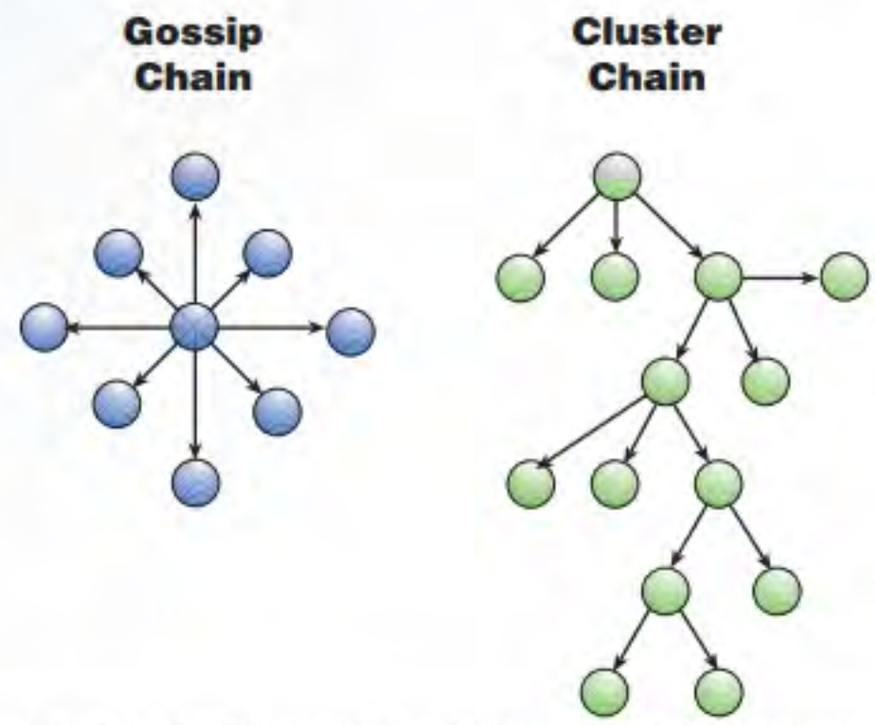
messages from employee to employee outside of formal communication channels. The grapevine arises out of curiosity, that is, the need to know what is going on in an organization and how it might affect you or others. To satisfy this curiosity, employees need a consistent supply of relevant, accurate, in-depth information about what is going on in the company and why. Some companies using tracking technology to measure how well informal communication functions in their organizations and how it can be improved. As it prepared to move to new offices, BCG, a global consulting firm, had one in five employees wear badges that tracked where they went in the office and who they talked to (but not their conversations). BCG managing partner Ross Love, who headed the research, said the firm learned that employees were spending too much time with their bosses and subordinates, thus hurting cross-team communication. However, employees who spoke to a wider variety of people within the office spent five fewer hours in meetings each week because, he thinks, they were obtaining and sharing information much more effectively—just as informal grapevines should.[32] As a result of what BCG learned, it created a town-square lounge in its new offices, offering free breakfast, lunch, and snacks to increase informal interactions and reduce formal meetings.[33]

Grapevines arise out of informal communication networks such as the gossip or cluster chains shown in Exhibit 15.4. In a *gossip chain*, one highly connected individual shares information with many other managers and workers. By contrast, in a *cluster chain*, numerous people simply tell a few of their friends. The result in both cases is that information flows freely and quickly through the organization. Some believe that grapevines are a waste of employees' time, that they promote gossip and rumors that fuel political speculation, and that

Ollyy/Shutterstock.com

There is a fine line between news and gossip. At some point, you might find yourself a target of the rumor mill.

Exhibit 15.4
Grapevine Communication Networks



Source: K. Davis and J. W. Newstrom, *Human Behavior at Work: Organizational Behavior*, 8th ed. (New York: McGraw-Hill, 1989).

they are sources of highly unreliable, inaccurate information. Yet studies clearly show that grapevines are highly accurate sources of information for a number of reasons.[34] First, because grapevines typically carry "juicy" information that is interesting and timely, information spreads rapidly. During Allstate's annual Leaders Forum, a gathering of 2,000 agents and employees, CEO Thomas Wilson announced plans for reducing the company's sales force and changing sales commission rates. Later that evening, a group of employees were at the hotel bar, complaining about the changes and about Wilson, when the president of Allstate's home and auto insurance division, was allegedly overheard using two expletives in reference to Wilson. By the next day, nearly all conference attendees had heard the critical remarks. The president of that division was abruptly let go just a few weeks later.[35]

Second, because information is typically spread by face-to-face conversation, receivers can send feedback to make sure they understand the message that is being communicated. This reduces misunderstandings and increases accuracy. Third, because most of the information in a company moves along the grapevine rather than through formal communication channels, people can usually verify the accuracy of information by checking it out with others.

What can managers do to manage organizational

Informal communication channel (grapevine) the transmission of messages from employee to employee outside of formal communication channels

grapevines? The very worst thing they can do is withhold information or try to punish those who share information with others. The grapevine abhors a vacuum, so rumors and anxiety will flourish in the absence of information from company management. Why does this occur? According to workplace psychologist Nicholas DiFonzo, "The main focus of rumor is to figure out the truth. It's the group trying to make sense of something that's important to them."[36] A better strategy is to embrace the grapevine and keep employees informed about possible changes and strategies. Failure to do so will just make things worse. And, in addition to using the grapevine to communicate with others, managers should not overlook the grapevine as a tremendous source of valuable information and feedback. In fact, research shows that, contrary to popular belief, grapevines are fast, accurate, and focused on information more than gossip.[37]

15-2d Coaching and Counseling: One-on-One Communication

When the Wyatt Company surveyed 531 U.S. companies undergoing major changes and restructuring, it asked the CEOs, "If you could go back and change one thing, what would it be?" The answer: "The way we communicated with our employees." The CEOs said that instead of flashy videos, printed materials, or formal meetings, they would make greater use of one-on-one communication, especially with employees' immediate supervisors instead of with higher-level executives whom employees didn't know.[38]

Coaching and counseling are two kinds of one-on-one communication. **Coaching** is communicating with someone for the direct purpose of improving the person's on-the-job performance or behavior.[39] Managers tend to make several mistakes when coaching employees. First, they wait for a problem to arise before coaching. Why? Because similar to performance appraisals, most managers also dislike giving employees feedback. Peggy Klaus, an executive trainer, says that managers "worry that the person will go to HR and get into a big kerfuffle."[40] When she told an executive she was working with that he needed to give employees more feedback, he responded, "I'd rather have a colonoscopy."[41] Second, when mistakes *are* made, managers wait much too long before talking to the employee about the problem. The late management professor Ray Hilgert said, "A manager must respond as soon as possible after an incident of poor performance. Don't bury your head. . . . When employees are told nothing, they assume everything is okay."[42] Jack Welch, who was CEO at GE for two decades, says, "I've spoken to more than 500,000 people around the world, and I always ask audiences, 'How many of you know where you stand in your organization?'" He says, "Typically no more than 10 percent raise their hands. That's criminal! As a manager, you owe candor to your people. They must not be guessing about what the organization thinks of them. My experience is that most employees appreciate this reality check, and today's 'Millenials' practically demand it."[43] In short, says Welch, "You have no right to be a leader if someone who works for you doesn't know where they stand."[44] So coach your employees about their job performance.

Coaching communicating with someone for the direct purpose of improving the person's on-the-job performance or behavior

Counseling communicating with someone about non-job-related issues that may be affecting or interfering with the person's performance

When one executive was told that he needed to give employees more feedback, he responded, "I'd rather have a colonoscopy."

In contrast to coaching, **counseling** is communicating with someone about non-job-related issues such as stress, child care, health issues, retirement planning, or legal issues that may be affecting or interfering with the person's performance. But counseling does not mean that managers should try to be clinicians, even though an estimated 20 percent of employees are dealing with personal problems at any one time. Dana Kiel, regional director in Account Management at Magellan Health, says, "We call it the quicksand. If you're a good supervisor, you do care about your employees, but it's not your job to be a therapist."[45] Instead, managers should discuss specific performance problems, listen if the employee chooses to share personal issues, and then recommend that the employee call the company's *Employee Assistance Program (EAP)*. EAPs are typically free when provided as part of a company's benefit package. In emergencies or times of crisis, EAPs can offer immediate counseling and support; they can also provide referrals to organizations and professionals that can help employees and their family members address personal issues. On the first day of her new job, Wendy Wolfson

Monkey Business Images/Shutterstock.com

Consultant Suzanne Bates says that some of her CEO clients check their phones so much during meetings, "it's the equivalent of not showing up for half of the meeting."

was called to pick up her first grader from school. Worried she might have to quit unless she could find childcare, Wolfson called her employer's EAP for help with this problem. Despite their proven effectiveness and a wide variety of assistance services (including mental health, substance abuse, financial counseling, and elder care services), only 4–6 percent of employees use EAPs.[46] According to Wolfson, "The problem is, you're pressed for time and you don't know where to go. It was a resource and another set of options."[47]

15-2e Nonverbal Communication

Nonverbal communication is any communication that doesn't involve words. Nonverbal communication almost always accompanies verbal communication and may either support and reinforce the verbal message or contradict it. The importance of nonverbal communication is well established. Researchers have estimated that as much as 93 percent of any message is transmitted nonverbally, with 55 percent coming from body language and facial expressions, and 38 percent coming from the tone and pitch of the voice.[48] Because many nonverbal cues are unintentional, receivers often consider nonverbal communication to be a more accurate representation of what senders are thinking and feeling than the words they use. If you have ever asked someone out on a date and been told "yes," but realized that the real answer was "no," then you understand the importance of paying attention to nonverbal communication.

Kinesics and paralanguage are two kinds of nonverbal communication.[49] **Kinesics** (from the Greek word *kinesis*, meaning "movement") are movements of the body and face.[50] These movements include arm and hand gestures, facial expressions, eye contact, folding arms, crossing legs, and leaning toward or away from another person. For example, people tend to avoid eye contact when they are embarrassed or unsure of the message they are sending. Crossed arms or legs usually indicate defensiveness or that the person is not receptive to the message or the sender. Also, people tend to smile frequently when they are seeking someone's approval.

It turns out that kinesics play an incredibly important role in communication. One of the most powerful ways is *mirroring*, in which people in conversations mimic or mirror physical gestures, facial expressions, or pitch and tone of voice. Brain scanning studies indicate that when mirroring occurs during conversations, peoples' brains react in similar positive ways at the same time. Mirroring, while usually done unconsciously, can be used intentionally by managers as a positive nonverbal behavior. David Hoffied, author of *The Science of Selling*, says, "It's not something you do to someone. It's something you do with someone. The very process of mirroring will help you keep your focus where it should be—on the other person."[51].

Kinesics provide clues about people's true feelings, over and above what they say (or don't say). Unfortunately, not making or maintaining eye contact is an increasingly frequent and negative occurrence in today's workplace. Consultant Suzanne Bates, author of *Speak Like a CEO*, says that some of her CEO clients check their phones so much during appointments that, "it's the equivalent of not showing up for half of the meeting." And that, she says, breeds resentment in others who think, "I'm just as busy as the CEO. I just have different things to juggle."[52] In fact, a survey of business professionals found that strong majorities think it is inappropriate to answer phone calls (86%) or write texts or emails (84%) in meetings or at

Nonverbal communication any communication that doesn't involve words

Kinesics movements of the body and face

What If Your Emotions Were an Open Book?

Over the course of his career, 83-year-old psychologist Dr. Paul Ekman built a catalog of more than 5,000 facial muscle movements that communicate one of six base emotions: anger, disgust, fear, happiness, sadness, or surprise. What started out for Ekman as an anthropological study has recently been transformed by big data, as a host of software start-ups are building programs to uncover people's hidden emotions. One software company, Emotient, has video recorded encounters with hundreds of thousands of people and extracted 90,000 data points from each frame. Rival company Affectiva has measured billions of emotional reactions from 2.4 million face videos taken in 80 countries. Enthusiastic organizations such as Procter & Gamble, Coca-Cola, and others have used the software to gauge consumers' emotional reactions to products and advertisements; law-enforcement agencies have used the software in criminal interrogations; and retailers have used it to determine how people are feeling as they exit their stores. But despite their

LanKS/Shutterstock.com

foundation on big data, emotional software programs run the risk of misinterpreting emotions or incorrectly labeling people as liars. Critics are wary, however, because people are not always aware they are being recorded. Privacy advocate Ginger McCall says, "I can see few things more invasive than trying to record someone's emotions in a database."

Source: E. Dwoskin and E. M. Rusli, "The Technology That Unmasks Your Hidden Emotions," *Wall Street Journal*, January 28, 2015, accessed May 12, 2015, http://www.wsj.com /articles/startups-see-your-face-unmask-your-emotions-1422472398.

business lunches (66%). The kinesics related to checking smartphones in these situations communicate a lack of respect, attention, listening, and self-control.[53] TalentSmart's Travis Bradberry says, "Take a page out of the Old West and put a basket by the conference room door with an image of a smartphone and the message, 'Leave your guns at the door.'"[54]

Paralanguage includes the pitch, rate, tone, volume, and speaking pattern (use of silences, pauses, or hesitations) of one's voice. When people are unsure of what to say, for example, they tend to decrease their communication effectiveness by speaking softly. When people are nervous, they tend to speak faster and louder. How much does paralanguage matter? A study in which 1,000 people listened to 120 different speeches found that the tone of the speaker's voice accounted for 23 percent of the difference in listener's evaluations of the speech, compared to speech content, which accounted for only 11 percent.[55] So paralanguage was twice as important as what was actually said.

Paralanguage the pitch, rate, tone, volume, and speaking pattern (that is, use of silences, pauses, or hesitations) of one's voice

Communication medium the method used to deliver an oral or written message

In short, because nonverbal communication is so informative, especially when it contradicts verbal communication, managers need to learn how to monitor and control their nonverbal behaviors.

15-3 MANAGING ONE-ON-ONE COMMUNICATION

When it comes to improving communication, managers face two primary tasks, managing one-on-one communication and managing organization-wide communication.

On average, first-line managers spend 57 percent of their time with people, middle managers spend 63 percent of their time directly with people, and top managers spend as much as 78 percent of their time dealing with people.[56] These numbers make it clear that managers spend a great deal of time in one-on-one communication with others.

Let's learn more about managing one-on-one communication by reading how to ***15-3a choose the right communication medium, 15-3b be a good listener,*** *and* ***15-3c give effective feedback.***

15-3a Choosing the Right Communication Medium

Sometimes messages are poorly communicated simply because they are delivered using the wrong **communication medium**, which is the method used to deliver a message. For example, the wrong communication

medium is being used when an employee returns from lunch, picks up the note left on her office chair, and learns she has been fired. The wrong communication medium is also being used when an employee pops into your office every 10 minutes with a simple request. (An email would be better.)

There are two general kinds of communication media: oral and written communication. *Oral communication* includes face-to-face interactions and group meetings through telephone calls, videoconferencing, or any other means of sending and receiving spoken messages. Studies show that managers generally prefer oral communication over written because it provides the opportunity to ask questions about parts of the message that they don't understand. Oral communication is also a rich communication medium because it allows managers to receive and assess the nonverbal communication that accompanies spoken messages (that is, body language, facial expressions, and the voice characteristics associated with paralanguage). Furthermore, you don't need a PC and an Internet connection to conduct oral communication. Simply schedule an appointment, track someone down in the hall, or catch someone on the phone. **A&E Network** executive Mel Berning travels two weeks a month, and when he is at headquarters, he forgoes what he calls "antiseptic" formal meetings and instead prefers impromptu informal meetings in which he breezes into the offices of direct reports in the morning. "You have a conversation that is less hurried and less guarded," he says. "Face-to-face encounters are so much more revealing than a text or an email.[57] Amit Singh, president of Google for Work, agrees. He says that because "so much gets lost in translation in emails," companies should make greater use of face-to-face discussions, where there is "a clash of ideas, but a respectful clash."[58]

Former *Wall Street Journal* columnist Jason Fry worries that voice mail and email have made managers less willing to engage in meaningful, face-to-face oral communication than before. In fact, 67 percent of managers admit to using email as a substitute for face-to-face conversations. While there are advantages to email (for example, it creates a record of what's been said), it's often better to talk to people instead of just emailing them. Fry writes, "If you're close enough that the person you're emailing uses the plonk of your return key as a cue to look for the little Outlook envelope, [it's] best [to] think carefully about whether you should be typing instead of talking."[59] But the oral medium should not be used for *all* communication. In general, when the message is simple, such as a quick request or a presentation of straightforward information, a memo or email is often the better communication medium.

Written communication includes letters, email, and memos. Although most managers still like and use oral communication, email in particular is changing how they communicate with workers, customers, and each other. Email is the dominant form of communication in organizations primarily because of its convenience and speed. The average adult spends more than an hour each day reading and sending emails. In fact, nearly 300 billion emails are sent around the world every year.[60]

Part of the reason for email's dominance is that, as written communication, it is well suited for delivering straightforward messages and information. Furthermore, with email accessible at the office, at home, and on the road (by laptop computer, cell phone, or web-based email), managers can use email to stay in touch from anywhere at almost any time. And, because email and other written communications don't have to be sent and received simultaneously, messages can be sent and stored for reading at any time. Consequently, managers can send and receive many more messages using email than by using oral communication, which requires people to get together in person or by phone or videoconference.

Email has its own drawbacks, however. One is that it lacks the formality of paper memos and letters. It is easy to fire off a rushed email that is not well written or fully thought through. The opportunity to lash out with an angry email reply is incredibly tempting. To avoid that temptation and the damage it does to your work relationships, Pamela Rutledge of the Media Psychology Research Center recommends asking yourself, "Do I want an outcome where someone throws a cup of coffee at me? Or do I want an outcome where we work toward a solution"[61] Another drawback to email is that it lacks nonverbal cues, making emails very easy to misinterpret. A final drawback to email is the sheer volume that employees receive each day. At global IT-services company **Atos**, workers were spending 15 to 20 hours every week corresponding by email—and that just includes emails to and from other Atos employees.According to human resource manager Philippe Mareine, email "was becoming a burden to our employees rather than an enabler." To curb the time spent on emails, management began urging employees to use the company's internal social network, BlueKiwi. Since this move, employees' average email load has dropped to just six messages per day, and the time sales consultants take to resolve queries collaboratively has dropped from two hours (over email) to 45 minutes (using BlueKiwi). Over the past five years, email volume has fallen 70 percent at Atos, while operating margins have increased 60 percent.[62]

Although written communication is well suited for delivering straightforward messages and information, it is not well suited to complex, ambiguous, or emotionally laden messages, which are better delivered through

oral communication. At software company **Autodesk**, 62 percent of managers have at least one remote employee. Because of this, all employees are trained to makes sure that the medium fits the message. For sharing information and ideas, employees use email. For brainstorming or problem solving, they use video calls or video conferencing. For making difficult decisions or resolving conflicts, they meet face to face.[63]

15-3b Listening

Are you a good listener? You probably think so. In fact, most people, including managers, are terrible listeners. A recent study from Stanford Graduate School of Business showed that listening was among the least mentioned strengths in CEO performance evaluations.[64] You qualify as a poor listener if you frequently interrupt others, jump to conclusions about what people will say before they've said it, hurry the speaker to finish his or her point, are a passive listener (not actively working at your listening), or simply don't pay attention to what people are saying.[65] On this last point—attentiveness—college students were periodically asked to record their thoughts during a psychology course. On average, 20 percent of the students were paying attention (only 12% were actively working at being good listeners), 20 percent were thinking about sex, 20 percent were thinking about things they had done before, and the remaining 40 percent were thinking about other things unrelated to the class (for example, worries, religion, lunch, daydreaming).[66]

How important is it to be a good listener? In general, about 45 percent of the total time you spend communicating with others is spent listening. Furthermore, listening is important for managerial and business success, even for those at the top of an organization. T-Mobile CEO John Legere says that when he took the top job at the telecommunications company, he needed *Wireless for Dummies*. His response to his lack of familiarity with the industry was simple—listen. He listened to customer service calls, visited stores to listen to customers and employees, and even interacted with users over social media. Legere says, "My business philosophy is to listen to your employees, listen to your customers. Shut up and do what they tell you. And each of our uncarrier moves and the way I run my company is completely aligned with that."[67]

Hearing the act or process of perceiving sounds

Listening making a conscious effort to hear

Active listening assuming half the responsibility for successful communication by actively giving the speaker nonjudgmental feedback that shows you've accurately heard what he or she said

Listening is a more important skill for managers than ever because Generation X and Millennial employees tend to expect a high level of interaction with their supervisors. They want feedback on their performance, but they also want to offer feedback and know that it is heard. In fact, managers with better listening skills are rated more highly by their employees and are much more likely to be promoted.[68]

So, what can you do to improve your listening ability? First, understand the difference between hearing and listening. According to *Webster's New World Dictionary*, **hearing** is the "act or process of perceiving sounds," whereas **listening** is "making a conscious effort to hear." In other words, we react to sounds, such as bottles breaking or music being played too loud, because hearing is an involuntary physiological process. By contrast, listening is a voluntary behavior. So, if you want to be a good listener, you have to choose to be a good listener. Typically, that means choosing to be an active, empathetic listener.[69]

Simon Mulcahy, chief marketing officer at Salesforce, is deliberate in meetings about listening, with "this sort of background music playing all the time: Don't tell. Ask questions. Don't tell. Ask questions."[70]

Active listening means assuming half the responsibility for successful communication by actively giving the speaker nonjudgmental feedback that shows you've accurately heard what he or she said. Active listeners make it clear from their behavior that they are listening carefully to what the speaker has to say. Active listeners put the speaker at ease, maintain eye contact, and show the speaker that they are attentively listening by nodding and making short statements.

Several specific strategies can help you be a better active listener. First, engage in immediacy behaviors, such as putting your phone away, turning off the TV, leaning forward and making eye contact, and using short words such as "yes," "uh-huh," and "okay," to encourage the speaker to continue and to demonstrate that you're listening.[71] In group settings, that means not following the "rule of three," which is that in a group of five or six people, it's acceptable to look at your phone as long as three people have their heads up and appear to be paying attention.[72] The "rule of three" is not active listening. Second, clarify responses by asking the speaker to explain confusing or ambiguous statements. Third, when there are natural breaks in the speaker's delivery, use this time to paraphrase or summarize what has been said. *Paraphrasing* is restating what has been said in your own words. *Summarizing* is reviewing the speaker's main points or emotions. Paraphrasing and summarizing give the speaker the chance to correct the message if the active listener has attached the wrong meaning to it.

Exhibit 15.5
Immediacy Behaviors, and Paraphrasing and Summarizing Responses for Active Listeners

Immediacy Behaviors	Clarifying Responses	Paraphrasing Responses	Summarizing Responses
Put your phone away.	Could you explain that again?	What you're really saying is	Let me summarize . . . .
Turn off the TV.	I don't understand what you mean.	If I understand you correctly	Okay, your main concerns are . . . .
Sit close and lean forward.	I'm not sure how	In other words	To recap, what you've said . . . .
Make eye contact.	I'm confused. Would you run through that again?	So your perspective is that	Thus far, you've discussed . . . .
Use "yes," "uh-huh," "okay," and other short words to encourage the speaker to continue.		Tell me if I'm wrong, but what you seem to be saying is	

Source: E. Atwater, *I Hear You*, rev. ed. (New York: Walker, 1992); E. Bernstein, "How 'Active Listening' Makes Both Participants in a Conversation Feel Better," *Wall Street Journal*, January 12, 2015, accessed May 13, 2015, http://www.wsj.com/articles/how-active-listening-makes-both-sides-of-a-conversation-feel-better-1421082684.

Paraphrasing and summarizing also show the speaker that the active listener is interested in the speaker's message.

Exhibit 15.5 reviews immediacy behaviors and lists specific statements that listeners can use to clarify responses, paraphrase, or summarize what has been said. Active listeners also avoid evaluating the message or being critical until the message is complete. They recognize that their only responsibility during the transmission of a message is to receive it accurately and derive the intended meaning from it. Evaluation and criticism can take place after the message is accurately received. Finally, active listeners recognize that a large portion of any message is transmitted nonverbally and thus pay very careful attention to nonverbal cues (that is, immediacy behaviors) transmitted by the speaker.

Empathetic listening means understanding the speaker's perspective and personal frame of reference and giving feedback that conveys that understanding to the speaker. Empathetic listening goes beyond active listening because it depends on our ability to set aside our own attitudes or relationships to be able to see and understand things through someone else's eyes. Empathetic listening is just as important as active listening, especially for managers, because it helps build rapport and trust with others. Unfortunately, an analysis of 14,000 college students across 72 studies found a 40 percent decrease in empathy over the last 30 years.[73] Since most of that decline occurred between 2000 and today, it's clear that companies need to focus on developing their managers' ability to empathize.

Thankfully, one interesting study suggests that empathy and listening skills can quickly improve. Two groups of children were asked to accurately identify peoples' emotions in pictures and videotapes. The first group attended a five-day device-free camp (no phones, tablets, or computers), while the second group did not. After the camp, the two groups were tested again. There was little difference in the second group's scores, but the first group improved nearly 40 percent. Why? Students at camp weren't watching TV or playing video games five hours a day. Aggie Chamlin who attends a no-device camp, said, "I think a cell phone's a virtual wall that you put up for yourself."[74] Yalda Uhls, lead author of the study and senior researcher with the UCLA's Children's Digital Media Center, Los Angeles, commented, "You can't learn nonverbal emotional cues from a screen in the way you can learn it from face-to-face communication."[75] MIT Professor Sherry Turkle, author of *Reclaiming Conversation: The Power of Talk in a Digital Age*, explained the results this way: "They talked to one another. In conversation, things go best if you pay close attention and learn how to put yourself in someone else's shoes."[76]

The key to being a more empathetic listener is to show your desire to understand and to reflect people's feelings. You can *show your desire to understand* by listening, that is, asking people to talk about what's most important to them and then by giving them sufficient time to talk before responding or interrupting.

Reflecting feelings is also an important part of empathetic listening because it demonstrates that you understand the speaker's emotions. Unlike active listening, in which you

Empathetic listening
understanding the speaker's perspective and personal frame of reference and giving feedback that conveys that understanding to the speaker

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For feedback to be constructive rather than destructive, it must be immediate and focused on specific behaviors and problems.

restate or summarize the informational content of what has been said, the focus is on the affective part of the message. As an empathetic listener, you can use the following statements to *reflect the speaker's emotions*:

- So, right now it sounds like you're feeling . . . .
- You seem as if you're . . . .
- Do you feel a bit . . . ?
- I could be wrong, but I'm sensing that you're feeling . . . .

In the end, says management consultant Terry Pearce, empathetic listening can be boiled down to these three steps. First, wait 10 seconds before you respond. It will seem an eternity, but waiting prevents you from interrupting others and rushing your response. Second, to be sure you understand what the speaker wants, ask questions to clarify the speaker's intent. Third, only then should you respond first with feelings and then facts (notice that facts *follow* feelings).[77]

A word of caution, however: Not everyone appreciates having what they said repeated back to them. Manager Candy Friesen says that whenever she did that, "I seemed to engender animosity or hostility. . . . the person to whom you're speaking may not appreciate having his thoughts paraphrased one little bit."[78] So, when applying these listening techniques, pay attention to the body language and tone of voice of the person you're communicating with to make sure they appreciate your attempts to be a better listener.

Destructive feedback
feedback that disapproves without any intention of being helpful and almost always causes a negative or defensive reaction in the recipient

Constructive feedback
feedback intended to be helpful, corrective, and/or encouraging

15-3c Giving Feedback

In Chapter 11, you learned that performance appraisal feedback (that is, judging) should be separated from developmental feedback (that is, coaching).[79] We can now focus on the steps needed to communicate feedback one-on-one to employees.

To start, managers need to recognize that feedback can be constructive or destructive. **Destructive feedback** is disapproving without any intention of being helpful and almost always causes a negative or defensive reaction in the recipient. By contrast, **constructive feedback** is intended to be helpful, corrective, and/or encouraging. It is aimed at correcting performance deficiencies and motivating employees. But finding the fine line between the two can be difficult. Ranstad, a global HR services company, adopted a philosophy of radical candor out of concerns that managers and employees were not having honest, constructive discussions about performance. A recipient of radically candid feedback said it "cut me to the bone." Wendy Finlason Seymour, a director of talent management, said the candid feedback is "not there to destroy," but "sometimes the truth can hurt."[80]

For feedback to be constructive rather than destructive, it must be immediate, focused on specific behaviors, and problem-oriented. *Immediate feedback* is much more effective than delayed feedback because manager and worker can recall the mistake or incident more accurately and discuss it in detail before it's too late to have a meaningful conversation. Employees at **PwC** use an app called Snapshot to request short, immediate assessments from their managers on everything from overall business acumen to specific technical capabilities. The feedback is visible to the employee, career coach, direct supervisor, HR manager, and the partner in charge of the team, and analytics tools assess the quality of the feedback and how quickly the manager responded. PwC vice chairman Tim Ryan says that the goal is to develop employees in real time: "We analogize it to athletes. They get feedback every time they come off the court."[81]

Specific feedback focuses on particular acts or incidents that are clearly under the control of the employee. For instance, instead of telling an employee that he or she is "always late for work," it's much more constructive to say, "In the last three weeks, you have been 30 minutes late on four occasions and more than an hour late on two others." Furthermore, specific feedback isn't very helpful unless employees have control over the problems that the

feedback addresses. Giving negative feedback about behaviors beyond someone's control is likely to be seen as unfair. Similarly, giving positive feedback about behaviors beyond someone's control may be viewed as insincere.

Last, *problem-oriented feedback* focuses on the problems or incidents associated with the poor performance rather than on the worker or the worker's personality. Giving feedback does not give managers the right to personally attack workers. Although managers may be frustrated by a worker's poor performance, the point of problem-oriented feedback is to draw attention to the problem in a nonjudgmental way so that the employee has enough information to correct it. Executive coach Deborah Bright says, "As an example, consider someone who cares about being respected by peers but is habitually 10 minutes late to weekly staff meetings and often blames her tardiness on her busy schedule. A manager might simply reprimand her—either nicely ("Please make more of an effort to be on time") or sharply ("Do we need to get you a new watch?"). But a more effective strategy is to say something like: "How do you think coming in late affects your reputation with your colleagues?"[82]

15-4 MANAGING ORGANIZATION-WIDE COMMUNICATION

Although managing one-on-one communication is important, managers must also know how to communicate effectively with a larger number of people throughout an organization.

Learn more about organization-wide communication by reading the following sections about ***15-4a improving transmission by getting the message out*** *and* ***15-4b improving reception by finding ways to hear what others feel and think.***

15-4a Improving Transmission: Getting the Message Out

Several methods of electronic communication—email, collaborative discussion sites, streamed or video-shared speeches and conferences, and broadcast voice mail—now make it easier for managers to communicate with people throughout the organization and get the message out.

Although we normally think of email, the transmission of messages via computers, as a means of one-on-one communication, it also plays an important role in organization-wide communication. With the click of a button, managers can send an email to everyone in the company via distribution lists. John Rae-Grant, lead product manager for Gmail, says, "People have been forecasting the death of email for the last 25 years," yet, "there's no sign that email usage is abating. It's certainly changing, but in the working world, email is still the baseline glue that pretty much carries everything."[83] But, as a communication tool, email is a huge burden for most managers and employees, with 40 percent of white-collar employees devoting a minimum of three hours per workday to email. Forty-three percent of employees have felt so controlled by their email that they've put themselves in "detox," completely avoiding touching their email for three to four days.[84] The most overwhelmed emailers declare email bankruptcy by deleting all their unanswered email. Via an email blast to all of their contacts, or using auto reply, they communicate that they've deleted all email and that if you urgently needed something from them, you should send your message again. With a now-empty inbox and the likelihood that most deleted emails won't be resent to them, they can start over.[85]

Collaborative communication tools are another means of electronically promoting organization-wide communication. **Discussion channels and chat rooms** use web- or app-based communication tools to hold company-wide, department-based, topic-based, team, or private discussions. The Salesforce "airing of grievances" chat mentioned earlier is an example of a company-wide channel or chat room. Public questions posed to human resources (HR) about, say, medical insurance coverage, that HR answers publicly would be a department- or topic-based channel or chat room. Team room channels are often restricted to team members working together, while private discussions are typically invitation-only for teams or for one-to-one work sessions. Discussion channels and chat rooms allow the sharing of expertise, avoid duplicating solutions already discovered by others, and provide a historical database for people dealing with particular problems. They promote collaborative discussion via participant comments and through document sharing and editing (see Chapter 17, "Managing Information," for further explanation).

Slack is a robust group communication platform (on computers, smartphones, and tablets) that includes automatic archiving, a powerful search engine, and more informal and accessible online collaboration. Slack's "open channels" increase communication transparency by making messages, files, comments,

Discussion channels and chat rooms
the use of web- or app-based communication tools to hold company-wide, department-based, topic-based, team, or private discussions

The Right to Disconnect from Email?

France's right to disconnect law requires companies with 50 or more employees to "switch off" after-hours email and communication. The goal is to protect employees from unpaid work that constantly intrudes on their home lives. France has long had a 35-hour work week, but in reality, most managers and a third of employees get around the law that by working at home on evenings or weekends. While noble in intent, can it work in the real world? Professor Anna Cox says, "Some people want to work for two hours every evening, but want to be able to switch off between 3 and 5 p.m. when they pick their kids up and are cooking dinner. Others are happy to use their daily commute to get ahead before they arrive in the office." Under a similar law, German companies such as Volkswagen only allow emails to be received during work hours. Is this enforceable, or would companies and their employees "cheat?" Would this policy increase or decrease email stress in your life?

Source: A. Levitt, "France Is Forcing Its Employees to Power Down: Will It Work?" *QuickBase*, February 14, 2017, accessed May 2, 2017, http://www.quickbase.com/blog/france-is-forcing-its-employees-to-power-down-will-it-work.

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images, and video visible to everyone else in the team (or company). And with everything searchable, anyone can quickly catch up to find out where projects or discussions stand. Technology guru Walt Mossberg says, "It's sort of like a combination of Facebook, Twitter, iMessage, and Dropbox, but just for you and your co-workers.[86] Companies have adopted Slack primarily because it increases communication effectiveness so much that email usage within teams or companies often drops by 70 or 80 percent. *New York Times* reporter Farhad Manjoo is based in California and has found that Slack helps him stay connected to "the mother ship in New York. Using Slack, I can peer into discussions that would never have been accessible to me. I can see how the producers and editors who are handling my column are discussing how to present it, and how the team overseeing the home page is thinking about my work."[87]

Streamed/videotaped speeches and meetings
speeches and meetings originally made to a smaller audience that are either simultaneously streamed to other locations in the company or recorded for subsequent distribution and viewing

Livestreamed/videotaped speeches and meetings are a third electronic method of organization-wide communication. **Streamed/videotaped speeches and meetings** are simply speeches and meetings originally made to a small audience that are either simultaneously streamed to other locations in the company or recorded for subsequent distribution and viewing by a broader audience.

Voice messaging, or voice mail, is a telephone answering system that records audio messages. In one survey, 89 percent of respondents said that voice messaging is critical to business communication, 78 percent said that it improves productivity, and 58 percent said they would rather leave a message on a voice messaging system than with a receptionist.[88] Nonetheless, most people are unfamiliar with the ability to *broadcast voice mail* by sending a recorded message to everyone in the company. Broadcast voice mail gives top managers a quick, convenient way to address their workforces via oral communication—but only if people actually listen to the message, and that turns out to be a challenge with today's workers, who are much more likely to use their smartphones for social media rather than phone calls. Consequently, company leaders are increasingly using real-time messaging tools like Yammer, a Facebook-like social media platform for companies, or Skype for Business, to broadcast text or video-based messages to their workforces.

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Organization silence can isolate a manager if employees are reluctant to tell managers things they don't think they will want to hear.

When Poojan Kumar, CEO of data storage manufacturer PernixData, wanted to change how employees received internal communications, he blocked company-wide emails and insisted that messages intended for all employees be posted to Yammer instead. To encourage use, Kumar began posting snapshots of the company's equipment in action that he took during his travels. Human resources also put up a company directory with employees' photos. Getting employees to embrace a new communication platform, Kumar says, "will only happen if there's enough interesting content."[89]

15-4b Improving Reception: Hearing What Others Feel and Think

When people think of "organization-wide" communication, they think of the CEO and top managers getting their message out to people in the company. But organization-wide communication also means finding ways to hear what people throughout the organization are thinking and feeling. This is important because most employees and managers are reluctant to share their thoughts and feelings with top managers. Surveys indicate that only 29 percent of first-level managers feel that their companies encourage employees to express their opinions openly. Another study of 22 companies found that 70 percent of the people surveyed were afraid to speak up about problems they knew existed at work.

Withholding information about organizational problems or issues is called **organizational silence**. Organizational silence occurs when employees believe that telling management about problems won't make a difference or that they'll be punished or hurt in some way for sharing such information.[90] A survey of executives found that 85 percent had at some point kept quiet when they saw a serious problem at work.[91] Financial company Charles Schwab CEO Walt Bettinger explains that organizational silence isolates managers in two ways: "people telling you what they think you want to hear, and people being fearful to tell you things they believe you don't want to hear."[92] Nandan Nilekani, a co-founder of Infosys, the India-based global information technology consulting firm, agrees, saying, "If you're a leader, you can put yourself in a cocoon—a good-news cocoon," he notes. "Everyone tells you, 'It's all right—there's no problem.' And the next day, everything's wrong."[93]

Company hotlines, survey feedback, frequent informal meetings, surprise visits, and blogs are additional ways of overcoming organizational silence. **Company hotlines** are phone numbers that anyone in the company can call anonymously to leave information for upper management. Company hotlines are incredibly useful, as 41 percent of the calls placed to them result in an investigation and some form of corrective action within the organization. Anonymity is critical, too, because as those investigations proceeded, 59 percent of the callers did not want their identities revealed.[94]

Survey feedback is information that is collected by survey from organization members and then compiled, disseminated, and used to develop action plans for improvement. Many organizations make use of survey feedback by surveying their managers and employees several times a year. **Sunovian**

Organizational silence when employees withhold information about organizational problems or issues

Company hotlines phone numbers that anyone in the company can call anonymously to leave information for upper management

Survey feedback information that is collected by surveys from organizational members and then compiled, disseminated, and used to develop action plans for improvement

TAKE A MEMO: THE RISE IN ANONYMOUS VENTING

A new app called Memo allows employees to vent about their employers by posting anonymous "memos" (vents). Users of the app can post new memos, comment on existing memos, and even upload photos and documents to support their memos. Employees at companies such as Delta Airline, Ernst & Young, and Hasbro are using Memo to vent about compensation, managerial inefficiency, and working from home. After a user is verified, Memo removes all identifiable data about the person's activity, making that person's posts completely anonymous. Memos (posts) are organized onto public message boards that can be seen by all users and private boards organized by company. Not all companies are thrilled at the availability of Memo. Visa, Boeing, and Hewlett-Packard have all circulated internal corporate memos (the traditional kind) discouraging employees from using the app and reminding them of the risk of proprietary information being released to the public.

Source: L. Gellman, "App Lets Workers Vent Anonymously," *Wall Street Journal*, January 20, 2015, accessed May 12, 2015, http://www.wsj.com/articles/memo-app-lets-workers-vent-anonymously-1421805377.

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Pharmaceuticals, a small drug maker in Massachusetts, which had a divided office, with employees on the second floor and executives two floors up, discovered through its annual survey that employees felt walled off from their leaders. So, chief commercial officer Rick Russell, who managed 1,100 people, put a desk in a glass-walled office in the middle of the second floor, which employees quickly dubbed "the fish bowl," where he worked every Friday without an assistant. Soon, the company's chief medical officer joined him, and the following year, survey feedback showed that employee trust in senior leadership improved. Russell says, "You have to rally the troops. You can't do it from a memo."[95]

Frequent *informal meetings* between top managers and lower-level employees are one of the best ways for top managers to hear what others think and feel. Many people assume that top managers are at the center of everything that goes on in organizations, but top managers commonly feel isolated from most of their lower-level managers and employees.[96] Consequently, more and more top managers are scheduling frequent informal meetings with people throughout their companies.

The World Bank, with 10,000 people in 120 offices worldwide, is a non-governmental organization that aims to end extreme poverty and promote "income growth for the bottom 40 percent of every country."[97] When James Wolfensohn became president of the World Bank, "he went on fact-finding trips to developing countries to understand the kinds of projects that the bank was doing. After several visits he realized that he was only being shown successful projects, smiling villagers, and grateful government officials." He told consultant and author Ron Ashkenas that "he eventually learned to stray from his tour guides so that he could meet people who hadn't been prepped for his visit, to see what was really happening. This dramatically changed his assessment of how much of the bank's aid was getting through the local government, to the people who really needed it."[98]

Have you ever been around when a supervisor learns that upper management is going to be paying a visit? First, there's shock. Next, there's anxiety. And then there's panic, as everyone is told to drop what he or she is doing to polish, shine, and spruce up the workplace so that it looks perfect for the visit. Of course, when visits are conducted under these conditions, top managers don't get a realistic look at what's going on in the company. Consequently, one of the ways to get an accurate picture is to pay *surprise visits* to various parts of the organization. These visits should not just be surprise inspections but should also be used as opportunities to encourage meaningful upward communication from those who normally don't get a chance to communicate with upper management.

Blogs are another way to hear what people are thinking and saying, both inside and outside the organization. A **blog** is a personal website that provides personal opinions or recommendations, news summaries, and reader comments. When the 2.0 version of popular time-tracking app **Hours** was released with new functionality, it was featured on the Apple App Store. Within days, the app had tens of thousands of new customers. However, Hours' tech support team soon received hundreds of complaints about the app's new team functions. Company founder Jeremy Olson used the corporate blog to candidly admit the problems and how the company was trying to solve them. He also announced that Hours 2.0 would be free until a fixed version was released, and that all who had purchased a yearly subscription would get a free second year. In response, customers rallied around the company, including Aaron Whitney, who commented on Olson's post, "I've been one of the people struggling with issues since launch day . . . and, admittedly, after three weeks, was frustrated almost to the point of bailing out. This post changed my perspective. Anyone who wants to know how a company should properly handle a less than stellar customer experience should read your post. It's perfect."[99]

Monitoring social media, such as blogs, Twitter, and Facebook, written by people outside the company can be a good way to find out what others are saying or thinking about your organization or its products or actions. McDonald's put together a social media plan called "Our Food. Your Questions." to monitor and engage with both customers and critics. Laney Garcia, McDonald's manager of brand reputation and public relations, said, "What we did was audit the conversations that were happening from a social perspective. We looked at conversations that were happening on Twitter, Facebook, and we really scrubbed the data to find out when consumers have questions about our brand."[94] Common questions included, "Is your meat 100 percent beef?" "Are your eggs real?" "Does your meat include pink slime?" McDonald's prepared answers to questions already posted on social media and assembled a team of rapid responders to address new questions. The result, says Garcia, was a sizable increase in traffic, both to the company's website and to the videos where questions were answered. And, she says, "For the first time, we've seen customers really responding in the sense that they're *defending* us."[100]

Finally, in addition to being a way to deliver organizational communication, so-called *town hall meetings* can be an effective way for companies to hear feedback from employees. In 2016, Dubai-based **Emirates Airline** carried 51.9 million passengers, and by 2020, it expects that number to rise to 70 million. To meet growing demand, Emirates Airline will hire 5,000 additional cabin staff, but in the meantime, the 20,000 current cabin crew employees are working more hours on shorter layovers. Crew members who had worked their way to first-class assignments, a prestigious posting, are having to return to economy class to cover staff shortages. Many staff members have had annual leave allocations deferred. To better understand crew member complaints, the airline held three town hall meetings—the first of which lasted four hours—during which staff aired grievances to senior management. Terry Daly, Emirates' senior vice president of service delivery, announced the meetings in an email, writing that he was "aware that there are a number of subjects that are causing concern at the moment" and that the meetings would be "an opportunity to talk about these directly with me."[101]

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Work and Well-Being

Jennifer Carson and Julian Barling

For over a century, the question of how work affects individuals has attracted widespread attention. The changing nature of workplaces following the industrial revolution, for example, captivated novelists and social and political theorists alike. This is also reflected by the number of authors (e.g., Franz Kafka, Charles Dickens) who chose to make this question a major topic of their works. The increasingly 'dehumanizing world of factories and offices' (Barling and Griffiths, 2002: 20) intrigued both Friedrich Engels (1845/1987) and Karl Marx (1867/1999). The result of this interest saw the appearance theories attempting to account for the 'dreadful' ways in which owners had begun to exploit their employees; theories that still have a direct and indirect influence today. Most recently, the intense public interest in how work might affect people negatively has been reflected in popular movies (e.g., *Office Space*, *The Devil wears Prada*) and TV shows (*The Office;* see Friend, 2006)

CLASSIC STUDIES ON WORK AND WELL-BEING

While acknowledging the critical historical role of social theorists and authors in trying to understand how work affects people, we limit this discussion to a brief review of sustained empirical attempts to address this question in the past century. In doing so, we note that three major patterns of research, differentiated by time and focus, can be discerned. These three trends will each be discussed, in succession, below.

The first trend, spanning several decades, was characterized by a positive focus; it began with the work of Arthur Kornhauser early in the 1920s, and ended with the work of Frederick Herzberg in the late 1950s. As early as the 1920s, Kornhauser was already devoted to understanding how work might influence what was then regarded as mental health. Not content to be a passive observer, Kornhauser was also a passionate advocate for the creation of work that might enhance well-being.

One example of this would be his alliance with unions in advocating for the well-being of workers (Zickar, 2003). Nonetheless, Kornhauser (1965) is remembered mostly because of his mammoth survey of 400, four-hour interviews of Detroit autoworkers. Many of Kornhauser's findings would be replicated repeatedly, such as the negative relationship between occupational status and mental health, and the role of job characteristics (e.g., task repetition, supervision, social interaction, job insecurity, financial stress and physical factors) in mental health. Kornhauser's contribution can be appreciated when seen against the prevailing zeitgeist, which was that work inevitably affects people negatively.

Then, stimulated primarily by the depravities of the World War II, Maslow (who was initially involved in animal research) turned his attention to the question of the upper positive limits of people's potential, resulting in his widely-known theory of self-actualization (Maslow, 1943). This hierarchical theory of needs suggested that given appropriate conditions such as freedom from social constraints, people satisfy their primary needs and ascend the hierarchy, getting ever closer to self-actualization, the only true state of mental health. It was only toward the end of his career that Maslow focused explicitly on the application of his need theory to the work context, resulting in *Eupsychian Management* (Maslow, 1965), a diary of his year-long experiences in a work organization while on sabbatical leave. However, Maslow's theory influenced many organizational thinkers and researchers (e.g., Argyris, MacGregor, Herzberg among others), and his work made a significant contribution to the literature on the positive effects of work on well-being.

Like Maslow, Herzberg was not an organizational psychologist; instead, his primary interest was in mental health. This was evident in his classic work (Herzberg, 1959), a study of the mental health of engineers and accountants, which produced many of the same findings as Kornhauser's (1965) extensive survey. However, as Herzberg's 'motivator-hygiene' or 'two factor' theory (which emphasized the role of autonomy and responsibility for well-being) gained in popularity, Herzberg explicitly extended his theory to work contexts (Herzberg, 1969). In the end, Herberg's contribution was to extend the positive area of organizational research.

Thus, this first trend occurred over several decades, and was characterized by a positive focus. Departing from the earlier focus of people such as Engels and Marx, Kornhauser, Maslow and Herzberg were all primarily interested in understanding how work affected people positively. In addition, while Kornhauser is typically identified with his survey of auto workers' mental health, what further characterizes these three is that they were all passionate advocates for more humane working conditions.

The second phase of research spans the 1960s and 1970s, is exclusively empirically based, and addressed the effects of work on ill-health – despite the fact that much of the research was couched in terms of 'work and health' (e.g., Kahn, 1981). The research of Robert Kahn and Michael Marmot – and their many colleagues, characterize this second trend.

Like Kornhauser, Kahn and his colleagues (Kahn et al., 1964) conducted a large scale survey of American workers, and in fact reported the results of his research a year before Kornhauser. Based on their large-scale national survey of the US labor force, Kahn et al. demonstrated the negative effects of three role stressors, namely role ambiguity, conflict and overload, on behavioral, attitudinal and health-related outcomes. Kahn (1981) extended these ideas almost 20 years later, and their enduring place in the study of work and health is evident from recent reviews (Beehr and Glaser, 2005).

Moreover, any discussion of Robert Kahn's seminal contribution would be incomplete without acknowledging his significant contributions in other areas: His classic *The social psychology of organizations* (Katz and Kahn, 1966) continues to exert a meaningful influence on the study of organizational psychology, and his interest in

work and health-related issues continued well into his retirement, culminating with a book on 'aging well' (Rowe and Kahn, 1998). Thus, Kahn's contribution to work and health was to improve understanding around what factors increase the likelihood of illness.

It is now widely accepted that occupational status is monotonically related to health, and this is largely a function of the research of Sir Michael Marmot and his colleagues around the world (Marmot, 2004). Beginning with 'Whitehall 1,' an extensive study of approximately 18,000 male civil servants that included physiological markers of health, Marmot's findings consistently showed that illness, as well as mortality from all causes, were highest amongst men in the lowest employment grades. Whitehall II, which began in 1985 and includes 10,000 men *and* women employed in the British civil service, aimed to understand the factors that underlie the 'heath gradient.' Based on prospective data, variables frequently considered central within organizational behavior, such as procedural injustice, have been found to predict new instances of coronary heart disease (Kivimaki et al., 2005). There are now more than 250 published studies based on the Whitehall studies (http://www.ucl.ac.uk/whitehallII). The critical contribution of Marmot's research to our understanding of inequality at work and its invidious effects on health is acknowledged widely, and culminated in his receiving a knighthood in 2000. Clearly, Marmot's contribution to our understanding of illness at work has been profound.

The third phase of research is distinguished by its focus on the effects of unemployment (rather than employment itself) on health, and this research was stimulated by the large scale unemployment of the Great Depression. The research and theorizing of Marie Jahoda dominated this particular issue.

The first major study of unemployment focused on the Austrian community of Marienthal (Jahoda et al., 1933), and isolated its negative effects on mental health. That Jahoda's interest in this topic continued is remarkable given the obstacles she faced. For instance, the Nazis attempted to burn all copies of the Jahoda et al. (1933) book because the authors were all Jewish. Despite this, in her 7th decade of publishing, Jahoda (1989) was still actively contributing to our understanding of unemployment, and her abiding interest in unemployment resulted in her theory of employment and unemployment (Jahoda, 1982). Still, today, her work is widely known; manuscripts on the psychological effects of unemployment invariably cite this book and a rock band even took its name from her theory, calling themselves NOJAHODA. Their name signified that they had none of the attributes of mental health that she identified, and their first recording was entitled 'Jahoda's witness.'

Jahoda's interests extended beyond the nature and effects of unemployment. A social activist all her life, she viewed her identities as psychologist and activist as intertwined (Jahoda, 1956). Overall, Jahoda offered a conceptual understanding of the nature of employment and unemployment (1982), and published well into her 90s, including translations of the sonnets of Louise Labe, a 16th century French proto-feminist poet (Jahoda, 1997).

In sum, just how work affects our health has been the focus of writers, social theorists and empirical researchers for more than a century. Initially, the focus of attention was on how work might positively influence psychological and physical well-being (e.g., Kornhauser, Maslow and Herzberg). Researchers then investigated workplace factors that might harm health (e.g., Kahn, Marmot). Throughout this period, researchers turned their attention to the effects of unemployment during sustained periods of high levels of unemployment (e.g., Jahoda).

In the sections that follow, we will discuss major conceptual, methodological and practical trends in current research on work and well-being. Thereafter, we present an agenda for future research; in doing so, we offer some thoughts on methodological issues that would enhance our understanding of work and well-being.

WHERE ARE WE TODAY?

To a large extent, research on work and health has come of age: There are journals devoted to the topic (*Journal of Occupational Health Psychology*, *Work and Stress*) and others that devote considerable focus to the effects of work on health (e.g., *Journal of Occupational Behavior*, *Scandinavian Journal of Work, Environment and Health*). Specialist international conferences take place regularly (e.g., the bi-annual meetings hosted by the America Psychological Association and NIOSH in North America, and the European Academy of Occupational Health Psychology in Europe) which provide a venue for an international community of scholars to debate theory and interpret data on the effects of work on the well-being of employees. Practical business implications of these data have been suggested, and in some cases (e.g., work fitness programs) implemented (Atlantis et al., 2007). This section will review the topics that dominate scholarly research today.

In the introduction, we identified unique trends in research and thinking about work and well-being over the past century. Continuing with that theme, research over the last 25 years has been strongly characterized by a focus on negative factors, namely, the study of the effects of harmful work experiences (e.g., long hours, work stress, precarious employment) on poor well-being (e.g., illness) and negative work outcomes (e.g., turnover). Underlying this approach is that after determining which work factors affect well-being negatively, ways to buffer against these factors and reduce harmful effects can be identified, and it is these different streams of research to which we now turn our attention. In the paragraphs that follow we will outline points of interest from five different areas of research in the work and well-being literature.

Overview of literature

Job stressors, resources and strains

One of the most frequent questions confronting both researchers and the lay public alike concerns the possible harmful effects of work stress on individuals. *Stressors* refer to characteristics in the environment that impinge on the individual's perceptual and cognitive processes (Pratt and Barling, 1988); *stress* reflects the individual's subjective interpretation of those events. *Resources* refer to coping mechanisms to defend against these stressors (Hobfoll, 2002). Finally, *strain* refers to the individual's response to the stress (Eden, 1982).

Within this theoretical framework, researchers have identified and studied specific work stressors. Such objective work stressors have included long work hours, alternative work arrangements, location flexibility, and job sharing; whereas, subjective stress has included job autonomy, and employee attitudes. Notwithstanding the intuitive appeal and widespread interest in this theory, research findings are mixed at best. While De Lange et al.'s (2004) comprehensive review of 45 longitudinal studies shows some support for the lagged effects of work characteristics on health and well-being (especially self-reported health and well-being), only modest support emerged for the central notion that high levels of control would buffer the effects of high demands. Within this framework, the demand-control-support model continues to stimulate considerable research, the findings of which have already added directly and indirectly to our understanding of work and well-being.

Alternative work arrangements and work design

Over the past two decades, the traditional idea of a 'full-time' job has been transformed into a variety of alternatives. In the organizational literature, this was initially reflected by a focus on the nature and consequences of *part-time work* (Barling and Gallagher, 1996). Subsequently, the range of alternative forms of employment multiplied, defying ready description; however, they vary on three dimensions, namely their temporal, numerical and functional flexibility (e.g., shift work, telecommuting). Despite early concerns that movements away from traditional forms of

employment would generate poor physical and psychological well-being, empirical findings suggest that volitionality, or perceived control, is a critical moderator of any relationship between alternative work arrangements and well-being for job holders themselves (Barling et al., 2002), or any spillover effects on others (Barling et al., 1988). Findings like these again illustrate how personal resources, in this case, the choice to assume non-traditional work arrangements, might buffer against negative effects on well-being. Such resources are the focus of the next major area of research.

Work-related and personal resources

Consistent with most major theories of work stress, negative workplace experiences do not necessarily lead to negative outcomes; one explanation for this is the presence of organizational and/or personal resources buffers (or moderates) any negative effects of work stress on subsequent strain. This idea has received much empirical scrutiny over the past several decades. Two resources, namely perceived control and support, have been consistently studied as potential moderators in the work and well-being relationship.

First, the degree of perceived control is frequently studied as a moderator and this is consistent with the demand-control model (Karasek and Theorell, 1990), where high levels of demands, combined with a low level of control, results in work strain. When individuals believe they can exert some control, high demands need not result in negative outcomes (Tucker and Rutherford, 2005). Although this pattern has been reported in numerous studies, the interaction between demands and control as suggested in the theory has not received consistent support (Taris, 2006). Therefore, the role of autonomy as a moderator of the stressor-strain relationship remains unclear.

Second, social support is widely posited to moderate the relationship between job stressors and strains. Early studies showed that social support reduced somatic symptoms in the face of stressors (LaRocco et al., 1980). More recently, a lack of social support has been associated with an increased risk of coronary heart disease, minor illnesses and impaired mental health (Cohen et al., 2003; Evans and Steptoe, 2001; Johnson and Hall, 1988; Stansfield et al., 1997). In fact, it has been included as part of a revised version of the JDC model (Johnson and Hall, 1988). In Johnson and Hall's study, perceived control was only found to have a negative effect on health symptoms when combined with social support. Similarly, Tucker and Rutherford (2005) found no direct effects of the number of hours worked on physical health symptoms, psychological health or chronic fatigue. However, they did find negative effects on physical health when a greater number of hours were combined with less control and lower social support.

However, findings on the effects of social support are not consistent, possibly because of the need to take account of how the nature (emotional, instrumental, material) and source (peer, supervisor, spouse, organization) of the support (Barling et al., 1988; Evans and Steptoe, 2001; MacEwen and Barling, 1988) interact with different job stressors and experiences (Tucker and Rutherford, 2005). This is consistent with the notion of the 'matching hypothesis': Cohen and McKay (1984) proposed that there are categories of stressors and resources, such that when the type of resources available corresponds to the nature of existing stressors (i.e. cognitive, emotional or physical), a buffering effect will occur. This hypothesis can help researchers determine which resources will be effective in a particular situation (Cutrona and Russell, 1990).

Recovery, leisure, vacation

Time away from work (e.g., leisure time, vacations) is commonly understood as a way of recovering from the rigors of everyday work experiences (e.g., Eden, 2001). But what empirical evidence is there for this? Overwork has been given much attention in the lay press, and a meta-analytic and qualitative review by Sparks et al. in 1997 concluded that work hours had a small (0.15) but positive and significant relationship with

health complaints. However, a new trend in the work and well-being literature is to investigate not only the effects of work and overwork, but to consider the potential consequences of the absence of work (i.e. vacations and leisure time). This line of research was prompted by Sluiter et al. (1999), who proposed a model, in which unfavorable job characteristics (e.g., high job demands) increase an individual's need for recovery, which in turn increases health complaints.

Research now shows significant positive effects of vacations on well-being (e.g., Fritz and Sonnentag, 2006), albeit short term effects in some cases (Westman and Eden, 1997). More recent studies have extended this line of inquiry to the effects of vacations on work performance. Fritz and Sonnentag (2006) replicated findings that health complaints and exhaustion decline post-vacation, and also showed that vacations reduced the perceived effort required to complete the same level of workload. However, like earlier research (Westman and Eden, 1997), the effects of the vacation were subject to a fade-out over the next two weeks. Further, the effects were eliminated when individuals had negative thoughts about work while on vacation as this can actually cause exhaustion to increase.

This model was extended by Sonnentag and Zijlstra (2006) to include off-job (e.g., leisure, vacation) characteristics as predictors of need for recovery, fatigue and impaired well-being. Findings from two studies show that while leisure time predicted need for recovery, not all leisure activities had the same effect. Passive leisure activities were not related to need for recovery, whereas active activities (e.g., social activities, physical activities) resulted in a lower need for recovery. This effect is consistent with literature in the health sciences where physical activity has been found to reduce stress and anxiety, and increased positive affect, resulting in improved overall mood and cognitive function (Davranche and Audiffren, 2004; Fox, 1999; Giacobbi et al., 2005; Scully et al., 1998). In addition, the quality of self-reported experience was related to need for recovery (Sonnentag and Zijlstra, 2006). These studies illustrate the importance of leisure time in buffering the negative health impacts of work stressors and provide additional support for the broader relationship between work, recovery and well-being.

Work and family

Another major area in the literature combines the research on work-family conflict with that of occupational health. Research has shown that work-family conflict can negatively impact job satisfaction (Allen et al., 2000), and psychological well-being (Frone, 2000). Recent research has further suggested that it may be beneficial to consider the formal organizational support for work-family culture as it has been found to negatively relate to stress, intentions to quit and work-family conflict (Thompson and Prottas, 2005). A comprehensive discussion of the nature and consequence of the intersection of work and family can be found in the Chapter in this volume by Grzywacz and Butler.

Negative organizational outcomes and poor well-being

As mentioned at the beginning of this section, and as can be seen from the research discussed above, much current research focuses on negative outcomes. Outcomes are typically studied in two ways. First, many studies measure well-being through aggregated organizational measures (e.g., absenteeism, turnover) perhaps because these data are easily identifiable and quantifiable: almost all HR departments have some data on employee sick days and exits. While acknowledging the difficulty in assigning costs to these measures, there are two additional problems to be considered. First, these types of measures potentially overestimate employee illness by assuming that employees are well unless they are absent. Second, these measures do not fully capture well-being, measuring only absence of well-being (i.e. illness) and not the positive aspects of well-being

(e.g., positive affect). A second common method of measuring well-being is through individual, self-report measures that look at the presence or absence of psychological disorders, physical illness, or fatigue. However, these measures again invariably tell us more about illness or the absence of well-being. In contrast, assessing both negative and positive outcomes could provide a different and less truncated perspective of well-being and work performance.

TOWARDS A NEW AGENDA

Based on the above discussion, we believe that it is time to move to a new focus, one which emphasizes the positive aspects of both work and well-being. In the next section, we identify the roots of this movement and outline several directions that research might take that could benefit this alternative focus.

A positive focus

Positive psychology

The field of organizational behaviour may be experiencing a fundamental change. The dominance of the negative or 'deficit' based approach for understanding work and well-being is undergoing significant challenges from the new fields of positive psychology in general, and positive organizational scholarship and positive organizational behavior more specifically (see the Chapter by Dutton and Glynn in this volume).

As much as a century ago, Sigmund Freud summed up the goal of psychology as replacing 'neurotic misery with ordinary unhappiness', and although the statement may be a bit pessimistic, it was true inasmuch as the focus of psychology was on negative aspects of mental illness. Decades later, the work of psychologists such as Maslow (1965) focused on the possibilities of peak experience in organizations. Only in the late 1990s with the work of Martin Seligman, however, was there a sustained attempt to develop a research agenda on positive psychology (Roberts, 2006; Simonton and Baumiester, 2005). These calls for a positive psychology initially derived from observations that while psychology has made significant contributions to understanding dysfunction and illness, little was known about normal psychological functioning, much less the upper limits of human potential and experience (Roberts, 2006). Thus, the goal of positive psychology is to look at how individuals can be brought from 'ordinary unhappiness' to happiness, and by extension, from an emphasis on ill-health and psychological disorder to one of well-being and optimal functioning

Following the lead of Seligman, Snyder and Lopez (2002) suggested that the study of hedonic emotional states, such as happiness, satisfaction, joy, pleasure, and optimism would provide insight into virtuous acts, such as forgiveness, nurturance and wisdom. Broadening this conception, positive scholarship has involved three main components: positive subjective experiences (e.g., happiness, pleasure, joy, gratification), positive individual traits (e.g., capacity for love or vocation, courage, perseverance, self esteem), and the institutions and organizations that cultivate these experiences and enable these traits (Fineman, 2006). Positive psychological theory was perhaps applied initially to clinical practice. Outside of clinical psychology, the positive perspective has resulted in a paradigm shift across disciplines as it has been applied to health, education, political science, education and business (Roberts, 2006).

Positive organizational scholarship (POS)

One area in which positive psychology has had a significant impact is business research – articulated in depth in the Chapter in this volume by Dutton and Glynn – resulting in the approaches now known as positive organizational behavior (POB) or positive organizational scholarship (POS). Within the organizational realm, the positive emphasis was always present in initiatives to make employees' working lives better, dating back at least to the work of Kornhauser, Maslow and others.

In organizations, positive organizational scholarship attempts to understand and enable the full range of employee potential and capabilities by fostering high-quality relationships, and increasing positive emotions (Cameron et al., 2003). Creating positive emotions in employees and their co-workers is not an end goal of POB. Fredrickson (2003) asserts that 'people should consider cultivating positive emotions in themselves and others, not just as end-states in themselves, but also as a means to achieving individual and organizational transformation and optimal functioning over time' (p. 164). Therefore, within this field, old issues are being examined through a new lens (Roberts, 2006), new theory is being generated (Spreitzer et al., 2005), and applications for the workplace are being considered. Perhaps not surprisingly given the recent development of these initiatives, some critics however have suggested that the area lacks empirical data linking positive research to objective organizational performance (Fineman, 2006).

Positive organizational factors

Research has now begun to address organizational features that enable positive outcomes in the workplace (Turner et al., 2002). One of the earliest and most important lessons is that achieving positive well-being may not be straightforward. Simply removing stressors, as a traditional 'deficit' approach might suggest, may not be sufficient. As one example of this 'deficit' approach, Karasek's (1979) job demands and control model illustrates that a reduction in job demands or increase in autonomy results only in a corresponding reduction in job strain – there simply is no evidence that this results in *enhanced* well-being. Instead, enhancing well-being will require the presence of additional and different factors. Thus, as an example, positive organizational behavior seeks to identify the role of organizational climate in fostering positive well-being and performance outcomes (Roberts, 2006). Recent research has focused on how positive organizational factors such as transformational leadership, work-life balance, climate and interpersonal relationships, may positively influence well-being.

Indeed, several of these overlapping factors have been investigated empirically. Still, most studies that have studied the relationship between climate or leadership and well-being have focused on the absence of well-being resulting from negative climates (e.g., Rose et al., 2006), or the negative relationship between leader behaviors and poor well-being (van Dierendonck et al., 2004; Gilbreath and Benson, 2004). However, several studies focusing on the positive effects should be noted. First, the role of leadership, in promoting positive well-being has recently been reported. A recent study by Arnold et al. (2007) examines the relationship between transformational leadership and positive psychological well-being. Using two measures of positive affective well-being – the first developed by Kelloway and Francis (Hess et al., 2005) and the second an adapted version of the General Health Questionnaire (GHQ) that used only six positively worded items (Mullarkey et al., 1999) – support emerged for the hypothesized relationship that transformational leadership exerts a positive influence on psychological well-being (Arnold et al., 2007).

In a separate study on the effects of leadership on well-being, Bono and Ilies (2006) found that leader emotions positively predicted followers' pleasant moods. Bridging research on climate and leadership, Nembhard and Edmondson (2006) investigated the effects of leadership and culture in health-care teams, and demonstrated that leader inclusiveness was positively related to both psychological safety and engagement at work. Finally, a meta-analysis of over 70 studies (Rhoades and Eisenberger, 2002) showed that perceived organizational support was significantly related to positive mood. As these examples illustrate, although the research in this area is still limited, early findings support the link between certain organizational features and positive employee outcomes.

Positive traits and behaviors

With the appearance of positive organizational scholarship, new constructs have emerged to describe and explain positive traits and behaviors in the workplace. One such construct, positive deviance, has been used to describe positive behaviors at both the individual and organizational level. In the organizational literature, deviance typically refers to intentional behaviors that go against organizational norms and that potentially threaten the well-being of the organization, its members, or both (Bennett and Robinson, 2000). Conversely, the term positive deviance reflects prosocial behaviors such as whistle-blowing, corporate social responsibility and creativity/innovation. Spreitzer and Sonenshein (2004) speculate that improved well-being is one of the possible outcomes of positive deviance.

Personal resilience has long been used to account for well-being in the face of considerable social and familial adversity (Rutter, 1987). As an example, while children exposed to family abuse are unlikely to thrive socially or educationally, some do, and resilience is an important explanatory factor (Rutter, 2002). Speculation now focuses on its possible extension to well-being in the organizational context (Cameron and Caza, 2004; Sutcliffe and Vogus, 2003).

Similarly, compassion at work has been identified as a process that occurs in response to suffering, and that can result in positive emotional outcomes – perhaps for both parties. Kanov and co-authors (2004) conceptualized compassion as a 'dynamic process, or a set of subprocesses, that may be found both in individuals and collectivities.' Thus, the compassion process comprises the subprocesses of 'noticing,' 'feeling' and 'responding.' Through a range of characteristics including culture, systems, leadership and technology, these authors theorized that compassion can be enabled at collective levels and stimulate positive organizational outcomes. Therefore, research in POS and POB has stimulated a renewed focus on positive traits and behaviors and these findings suggest these may influence well-being.

Positive employee outcomes

Pushing this new boundary even further, researchers have focused on specific positive outcomes at the individual level, such as happiness, flourishing, thriving and vigor in the workplace. First, the term 'happiness' is commonly used in everyday language, to connote bliss, pleasure or cheerfulness. Indeed, this term was used by Diener to describe subjective well-being. Generally speaking, happiness is a broad construct that refers to people's evaluations of their lives (Diener, 2000). A related concept is that of flourishing. Originally conceptualized by Keyes (2002) as the 'presence of mental health,' flourishing denotes the positive end of the well-being, both psychologically and socially (Keyes and Haidt, 2002). In fact, recent research by Keyes (2005) has supported a two factor model of mental health where one factor represents mental illness (e.g., anxiety, depression) and one represents mental health (i.e. flourishing). Further, employees who were mentally healthy according to both factors (absence of mental illness, presence of flourishing) had the lowest risk of cardiovascular disease, the lowest number of chronic diseases and the fewest daily health limitations (Keyes, 2007).

Spreitzer et al. (2005) suggested that thriving at work was important in predicting positive mental health. They defined thriving as a 'psychological state in which individuals experience both a sense of vitality and a sense of learning at work.' In this perspective, vitality describes a feeling of having available energy (Nix et al., 1999). Learning reflects the feeling of acquiring and applying new knowledge and skills (Elliott and Dweck, 1988). Unlike psychological disturbances which are reduced by decreasing workplace stressors, Spreitzer et al. (2005) suggested that thriving requires the presence of specific states, behaviors, resources and contexts. Their proposed model reflects a socially embedded process where contextual features

(e.g., climate of trust and respect) and work resources (e.g., knowledge, positive meaning) predict individual thriving at work (i.e., vitality and learning) mediated by individual agentic work behaviors (e.g., task focus). Subsequently, thriving is proposed to result in positive development and health outcomes.

The last positive outcome to be discussed here is vigor, which has been frequently used in the sports literature (e.g., Reinboth and Duda, 2006) to describe a feeling often associated with physical activity. Recently, Shirom (2004) applied vigor to the organizational context. He suggested that vigor is the opposite of burnout and that it describes individuals' 'feelings that they possess physical strength, emotional energy and cognitive liveliness, a set of interconnected affective experiences …' (p. 3). Further, Shirom posits that vigor is not merely a mood state, but that it promotes specific goal-directed behaviors that could improve performance at work as well as positively impact well-being. Thus, vigor is a positive outcome that influences well-being in the workplace.

In sum, with the application of positive psychology to the organizational realm, new disciplines have emerged, namely positive organizational behavior and positive organizational scholarship. These new disciplines have given rise to special issues in established journals (e.g., *Journal of Organizational Behavior*), conferences (e.g., *Applied Positive Psychology Conference*, *International Positive Psychology Summit*), and a dedicated research center at the Ross School of Business at the University of Michigan. A wealth of new research investigating the positive aspects and outcomes of work have emerged from these initiatives. In working towards a new agenda, the influence of positive organizational scholarship will be instrumental in adding to a more complete understanding of the work and well-being relationship.

WHAT IS WELL-BEING?

Now that we have discussed past and present research on work and well-being, what exactly is 'well-being'? In this section, we discuss how the construct is defined and applied in organizational research, and note some of the critiques of this approach.

Merriam-Webster's definition of well-being is 'the state of being happy, healthy or prosperous.' Part of this definition is captured in the organizational literature by Diener's (1984; 2000) definition of subjective well-being, which comprises people's affective and cognitive evaluations of their lives (i.e., 'happiness'). Diener then separates subjective well-being into three components, including: (1) life satisfaction (global judgment), (2) facet-specific satisfaction (e.g., work satisfaction), (3) positive affect (pleasant moods and emotions) and low levels of negative affects (unpleasant moods and emotions). In an integrative review (Ryan and Deci, 2000), well-being was organized into two distinct traditions: hedonic well-being (i.e., happiness) and eudaimonic well-being (i.e., human potential). Keyes et al. (2002) broadened these conceptualizations, including affective indicators of happiness (hedonic well-being), cognitive assessments of life satisfaction; psychological well-being included self-fulfillment (eudaimonic), but also relations with others and self-acceptance. Clearly, there is only limited agreement on the precise definition of well-being and its conceptualization continues to evolve.

Despite these conceptualizations, in empirical research, well-being continues to be measured largely as the absence of negative physical or psychological symptoms (e.g., Mattila et al., 2006; Rhoades and Eisenberger, 2002). Well-being is frequently operationalized as the absence of burnout (e.g., 'I often feel emotionally drained; leads to loss of motivation and energy), or the presence of health complaints (e.g., general health questionnaire) (Fritz and Sonnentag, 2006), anxiety or depression. Thus, although theory would suggest well-being is equated with positive affect (Keyes, 2002), most organizational research operationalizes well-being as the absence of these symptoms. This continued omission is all the more glaring because there are empirical examinations of

context-free well-being (e.g., Diener et al., 2006; Kahneman et al., 2004), demonstrating that it is indeed possible to operationalize well-being both positively and negatively.

From this examination of the literature, therefore, it is apparent that there is a large gap between the conceptualization and operationalization of well-being. Our understanding of work and well-being would clearly benefit from greater consistency in this regard.

Physical and psychological health

From the definitions cited above, it is clear that most conceptualizations of well-being limit their focus to psychological outcomes. However, the experience of well-being in organizations often includes issues relating to physical health. In setting an agenda for future research, researchers might consider taking a more comprehensive view of well-being, including both psychological and physical health, as well as their reciprocal effects.

Evidence from outside of the organizational literature has long supported the interdependence between psychological and physical health (e.g. Hayes and Ross, 1986; Keyes, 2007). Empirical results from an epidemiological study by Von Korff and Simon (1996) showed a strong relationship between pain and psychological disorders (e.g., anxiety and depression). The relationship was strongest when the pain was diffuse and when it interfered with activities. Given these outcomes, Von Korff and Simon (1996) suggested that pain and psychological illness should be viewed as having both reciprocal and behavioral effects. The effects of chronic pain extend beyond physical harm, and have severe impacts on psychological well-being (Penny et al., 1999). Indeed, within the organizational domain, research suggests that physical and psychological well being are often related, and may be reciprocally caused (Jamal, 1999).

Similar findings have been noted for more global measures of well-being (e.g, life satisfaction) commonly used in the organizational literature. Correlations have been documented between life satisfaction and various objective and medical criteria (Kahneman and Krueger, 2006). As one example, Cohen et al. (2003) assessed respondents' life satisfaction after which they were exposed to a cold virus. Those with higher baseline ratings of life satisfaction were less likely to develop a cold, and in turn were quicker to recover if they became sick. In a similar study, Kiecolt-Glaser et al. (2002) subjected some participants to a deliberate wound; those who were more satisfied recovered more quickly from the wound. Given the support these findings provide for reciprocal relationships among psychological and physical health variables, researchers should extend their focus on well-being to include both physical and psychological aspects.

CRAFTING THE NEW AGENDA

We now turn our attention to some conceptual and empirical suggestions that might enhance both our understanding of work and well-being, and also enhance the likelihood that work might lead to well-being.

Defining and operationalizing the constructs

How should we define well-being? Currently, the prevailing conceptual definition is close to that of Diener's (1984; 2000); however, it is rarely measured as such. Current measures for well-being usually depict the absence of psychological and/or physical symptoms. Appropriate measures need to reflect the conceptual definitions of the construct; likewise, a construct definition is not useful unless we are able to measure it accurately. Method needs to follow theory, but in this case it is not clear this is occurring.

Diener's conceptualization, which includes affective and cognitive evaluation, can be reduced to its components – global, facet-specific and affective judgments – and would clearly be influenced by health. Although the WHO defines health as 'a state of complete

physical, mental and social well-being and not merely the absence of disease or infirmity' (World Health Organization, 2006), the more commonly used definition views health as the absence of illness. This construct focuses on the absence of psychological (e.g., anxiety) and physical (e.g., headaches) health symptoms – negative symptoms. Following this definition, health would not be synonymous with well-being, but it would be a critical component.

An additional complexity is that both positive and negative aspects need to be understood. While well-being is a positive state, negative psychological or physical conditions can detract from well-being. Conversely, the removal of ill-health does not necessarily mean that well-being follows.

A renewed focus on positive outcomes

As we have already noted, while both the health and well-being constructs have positive and negative outcomes, the literature has overwhelmingly focused on the negative – a consistent trend across the broad spectrum of psychological research showing the greater effects of bad rather than good events (Baumeister et al., 2001). This is understandable given that illnesses (e.g., heart disease) tend to be more pressing, and sometimes more intriguing, than positive outcomes (e.g., increased energy). However, the emergence of positive organizational scholarship has shifted the focus from preventing illness to improving the lives of employees. Despite this, it would be premature to 'throw the baby out with the bathwater' and we now discuss the importance of focusing on both positive and negative aspects of well-being.

In a recent critique, Fineman (2006) suggested that in the emerging 'positive' literature, negative emotions have been unduly sidelined in order to study positive emotions with positive consequences. Fineman's (2006) is not the only voice questioning this approach; Lazarus (2003) also argues that positive emotions are inextricably linked with negative ones. For example, happiness can trigger anxiety, or anger could be energizing.

However, the separation of positive and negative affect is hardly new. As early as 1965, researchers called for the separation of positive and negative affect after these two emotions, usually thought of as polar opposites, were shown to form separable factors that manifest divergent validity (Bradburn and Caplovitz, 1965). Subsequent research (Cacioppo et al., 1999) went further, indicating that separate biological processes were involved in creating positive and negative affect. Despite such findings, Diener (2000) reiterated the importance of studying positive and negative affect separately, because combining them could result in the loss of valuable information.

Research findings suggest that positive and negative emotions work in tandem. For example, positive emotions negate the impact of negative emotions on cardiovascular functioning (Fredrickson et al., 2000). One possibility is that the balance of positive and negative factors may be critical. Fredrickson and Losada (2005) found that optimal team functioning was achieved when the ratio of positive to negative experiences or emotions was 3:1. Clearly, research can no longer ignore the positive; equally clearly, even research on well-being needs to capture the experience of both positive and negative outcomes. As a result, we should not assume that positive affective states will only cause positive outcomes and vice versa; a sole look at positive or negative factors may result in a truncated perspective of work and well-being.

From a measurement perspective, the General Health Questionnaire (GHQ; Goldberg, 1972) was initially developed and intended to focus on minor psychiatric disturbance, but adaptations of the GHQ are commonly used in studying what is referred to as 'well-being' (e.g., Martin et al., 2005; van Dierendonck et al., 2004). In contrast, other measures of well-being are overly broad, for example, measuring overall life satisfaction (e.g., Satisfaction with Life Scale; Diener et al., 1985). The lack of a specific measure

to appropriately assess well-being within organizations has no doubt hampered research about and understanding of work and well-being.

Acknowledging this methodological gap in the literature, Keyes (2002) created a mental health continuum that re-conceptualizes mental health. The scale conceptualizes the presence of mental health on one end of the spectrum as flourishing and the absence of mental health on the other end of the spectrum as languishing. Similarly, within an organizational context, Van Katwyk et al., 2000, created an affective well-being scale to overcome some these difficulties. These measures are clearly a step in the right direction.

Regarding methodology

Proposing the need for a new conceptual perspective presents an opportunity to question whether the methods that satisfied prior perspectives will still be sufficient. At least three issues warrant consideration in future research on work and well-being. First, consistent with the fact that questions about work and well-being first arose to understand 'what work did to people,' much of the research over the past has assumed (implicitly or explicitly) the existence of a one-way causality. This notion is challenged both conceptually and practically. Conceptually, it is clear that individuals are not simply passive responders to their environments. Instead, they actively participate in, and help to construct their environment (Bandura, 2005) – including their work environment. Practically, while research has focused extensively on whether work affects health (e.g., cardiovascular health), it is clear that health issues (suffering from heart disease) will affect work. Similarly, while it is commonly assumed that mothers' employment affects children, the reverse is just as plausible; for example, sick children will influence mothers' employment in many ways (Major et al., 2004). Thinking about work and well-being must now reflect this bi-directionality.

Second, while the best longitudinal studies will provide insight into issues of causal direction, such research will still be based on individuals' aggregated responses about work and well-being over some specified time period. Yet, these reports reflect nothing more that individuals' subjective aggregations of their daily experiences. Of critical importance in this respect is that daily experiences fluctuate; one can experience a wonderful workday on one day, but have negative experiences the next. Research needs to capture the meaning of daily work and well-being, and then to study the long-term effects of these daily experiences and fluctuations. Including studies of daily work experience with short-term and longitudinal studies may help unravel an additional issue that has bedeviled behavioral researchers, namely how long it takes for any effects (positive or negative) to emerge and how long that might persist.

Third, most existing research assumes that the relationship between work and well-being is linear. Yet Warr's (1987) vitamin model of mental health suggests that some thought must be given to the possibility of non-linear relationships in understanding work and well-being. As one example, it is possible that there are optimal benefits of work involvement and that after attaining a certain level, no additional benefits to well-being might accrue – or even that negative effects might emerge.

Regarding interventions

The extent to which any body of knowledge has been extended into well-designed interventions would be one indication of the maturity of that field. A review of specialist journals such as the *Journal of Occupational Health Psychology* and *Work and Stress* makes it all too clear that there are very few evaluations of personal and organizational interventions aimed at enhancing well-being. Acknowledging the practical and design difficulties associated with quasi-experimental research, if new findings are to be implemented by organizations, studies

evaluating the effectiveness of interventions need to be conducted.

CONCLUSION

Understanding work and well-being has intrigued researchers, practitioners and the lay public for at least the past century, and empirical research has focused on work and well-being extensively over the past several decades. The recent reemergence of positive psychology and positive organizational scholarship have challenged the continual neglect of the positive aspects of work and well-being. In this chapter, we have focused on this tension between the negative and positive, identifying some issues that might help shape the on-going agenda for research on work and well-being. While the importance of considering positive influences and outcomes carefully is abundantly clear, this should not result in a pendulum swing away from the negative. The culmination of historical and current literature provides an excellent launching point for researchers to apply previous findings, examine both positive and negative influences and outcomes for well-being, and how these might interact. In effect, researchers not only have an opportunity to truly expand our understanding of work and well-being, but also to substantially influence the lives of working people.

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Emotional Intelligence (EQ)

Emotional Intelligence (EQ) is a skill where individuals can manage their own (negative) emotions and respond thoughtfully to the emotions that others are experiencing. The four facets are self-awareness, self-management and social awareness, relationship management. Watch this video to learn more.

Near the end of the clip, we hear the conclusion that learning how to understand others' emotional expressions, as well as learning how to express your own is impacted by our cultural contexts. Why? Culture can impact the way in which people display emotion. A **cultural display rule** is one of a collection of culturally specific standards that govern the types and frequencies of displays of emotions that are acceptable (Malatesta & Haviland, 1982). Therefore, people from varying cultural backgrounds can have very different cultural display rules of emotion. For example, research has shown that individuals from the United States express negative emotions like fear, anger, and disgust both alone and in the presence of others, while Japanese individuals only do so while alone (Matsumoto, 1990). Furthermore, individuals from cultures that tend to emphasize social cohesion are more likely to engage in suppression of emotional reaction so they can evaluate which response is most appropriate in a given context (Matsumoto, Yoo, & Nakagawa, 2008).Other distinct cultural characteristics might be involved in emotionality. For instance, there may be gender differences involved in emotional processing. While research into gender differences in emotional display is equivocal, there is some evidence that men and women may differ in regulation of emotions (McRae, Ochsner, Mauss, Gabrieli, & Gross, 2008).

Despite different emotional display rules, our ability to recognize and produce facial expressions of emotion appears to be universal. In fact, even congenitally blind individuals produce the same facial expression of emotions, despite their never having the opportunity to observe these facial displays of emotion in other people. This would seem to suggest that the pattern of activity in facial muscles involved in generating emotional expressions is universal, and indeed, this idea was suggested in the late 19th century in Charles Darwin's book *The Expression of Emotions in Man and Animals* (1872). In fact, there is substantial evidence for seven universal emotions that are each associated with distinct facial expressions. These include: happiness, surprise, sadness, fright, disgust, contempt, and anger (Figure 1) (Ekman & Keltner, 1997).

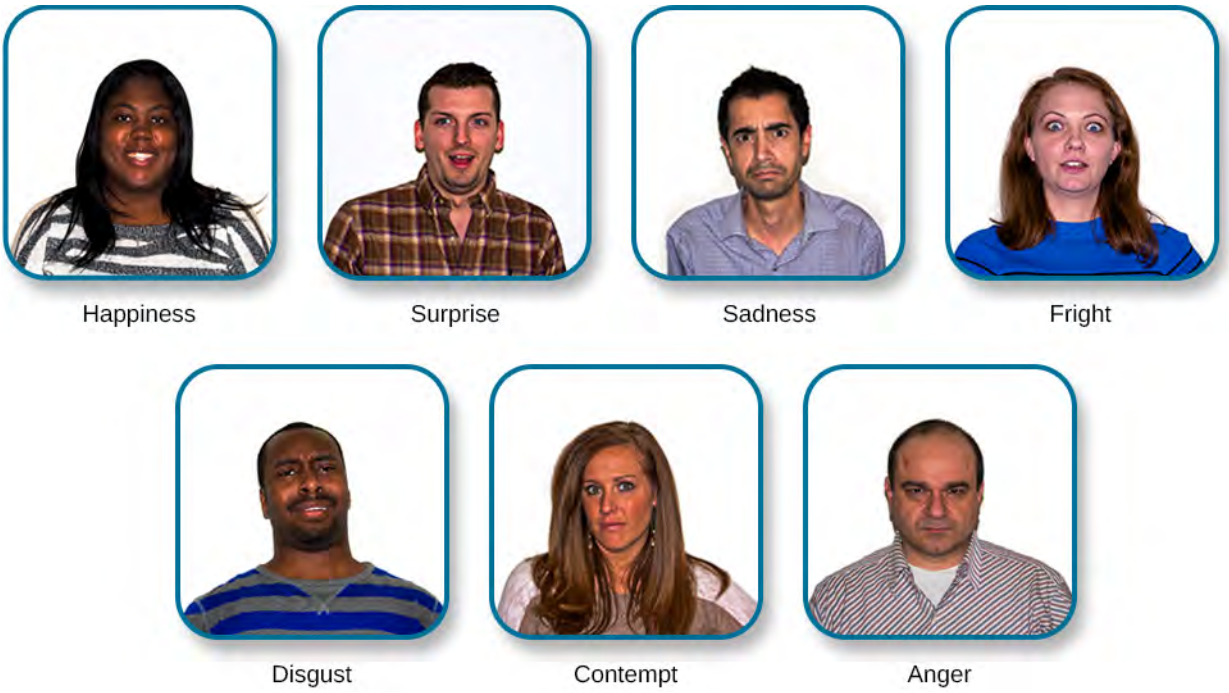

Figure 1. The seven universal facial expressions of emotion are shown. (credit: modification of work by Cory Zanker)

One's emotional experience in the workplace is critical to one's well-being. Indeed, **Affective Events Theory** posits that employees react emotionally to think that happen to them at work; and that this emotional reaction influences their job performance and satisfaction.

What are emotions? Here's a video to respond to that question and in doing so, underscore the relationship between emotions and behaviors. https://youtu.be/gAMbkJk6gnE