



**Center for
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Effectiveness of Management Approaches

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For decades, the organizational effectiveness literature has focused on the strengths and weaknesses of different management approaches. Each management approach has associated with it a variety of management and reward system practices that are said to be key determinants of how effectively organizations perform (Beer, 2009; Birkinshaw, 2010). It is possible to identify five different approaches: bureaucratic, low-cost operator, high involvement, global competitor and sustainable. They all have some features in common but as overall all management approaches, they differ significantly both in their assumptions about how people should be managed and in many of the practices that organizations who adopt them utilize.

The bureaucratic and low-cost operator approaches are the oldest and are the most frequently utilized worldwide. The low-cost operator approach is particularly likely to be used in third world countries by companies that are looking for low labor costs. The bureaucratic approach is used worldwide and has a history that can be traced back to scientific management and F.W. Taylor. Indeed, some would argue that it can be traced back to the beginning of corporations.

The high involvement approach has its roots in participative management and employee involvement. It calls for organization designs that empower lower level employees and give them interesting work. It calls for rewards that are based on the skills and organizational performance. In the last several decades, there has been a growing focus on the sustainability and employee engagement approaches (Lawler and Boudreau, 2012). They have evolved as a result of organizations having to operate in a rapidly changing global business environment. The global

competitor model in particular advocates organization design features that support agility. 25 key features include low job security, high variable pay, and challenging work. The sustainable management approaches focuses on the environmental and social impact of organizations. It calls for measures of the environmental and social impact of organizations and having reward and information systems that are based on them (Lawler and Worley, 2011).

Use of Management Approaches

Generally lacking in the literature on management approaches is data on the frequency with which they are adopted and their effectiveness. As part of an extensive study of human resource management and organizational effectiveness, we collected survey data from over 200 large U.S. corporations on their management approaches, strategic initiatives and organizational effectiveness (Lawler and Boudreau, 2012). The data provide valuable information about the use of management approaches and their effectiveness, information that can help rewards professionals decide what practices their organizations should adopt.

Our survey asked senior HR executives to describe how their organizations are managed. The five management approaches offered ranged from traditional bureaucratic to sustainable management. The HR executives surveyed were asked to report on how well each approach describes the way their organizations are managed. Table 1 provides data that show their responses.

The sustainable management approach was rated as the approach that best describes how their board members' organizations are managed. Second best was high involvement and third was the traditional bureaucratic. Given the relatively recent focus on sustainable management in the management literature, it is surprising that it was rated as the best descriptor of how these

organizations operate. Indeed, it raises the question of whether the executives that responded to the survey were accurate in their reporting. They may be guilty of a bit of wishful thinking.

The least frequently used is clearly the low-cost operator approach. In most cases, the low-cost operator approach, with its emphasis on low wages and minimum benefits, does not fit well in U.S., so this is not surprising since the data are from U.S. firms. Given all the criticisms of the bureaucratic approach, it is somewhat surprising that it is rated as highly as it is. It comes in third, behind high involvement and sustainable, even though it has been criticized for years as leading to inefficiency and low levels of employee involvement and engagement, not to mention a lack of organizational agility (Lawler and Worley, 2006).

The correlations among the different approaches to management show some interesting relationships. Not surprisingly, the bureaucratic approach and the high-involvement approach have a strong negative relationship ($r=-.40$, $p\leq.001$). They clearly are different orientations and do not fit well together as management approaches in an organization. On the other hand, there is a moderately strong relationship between the sustainable management approach and the high-involvement management approach ($r=.31$, $p\leq.001$). Organizations that had the characteristics of one of these management approaches tended to have the other. This is not surprising as they both emphasize a focus on human capital and organizational agility, and as a result they can be integrated into an overall congruent management approach (Lawler and Worley, 2012).

Strategic Initiatives

A series of questions in the survey asked about what strategic initiatives are present in the respondents' organizations. The results from this question help explain why the sustainable management approach has such a high utilization. Regardless of the organization's strategic

initiative, they tended to use the sustainable management approach. The strategic initiatives that were most frequently combined with the sustainable management approach were talent management ($r=.30$, $p\leq.001$), technology leadership ($r=0.31$, $p\leq .001$), innovation ($r=.40$, $p\leq.001$), knowledge management ($r=.36$, $p\leq.001$), and of course sustainability itself ($r=.51$, $p\leq.001$).

The high involvement management approach had the second highest set of correlation with the strategic initiatives. It was strongly associated with talent management ($r=.54$, $p\leq.001$) and all the other strategic initiatives except for acquisitions and building a global presence. This is not a surprising finding since these approaches to growth do not require a high level of employee involvement.

All of the strategic initiatives showed a negative relationship to the use of the low-cost operator approach to management and the bureaucratic approach to management. This supports the point that these often criticized approaches to management do not fit well in today's business environment. They simply do not support the kind of strategic initiatives that are currently being adopted by most businesses.

Organizational Performance

The strategic initiatives and management approach of an organization are ultimately only as valuable as their impact on organizational performance. Rating data were collected from the respondents on the performance of their companies relative to their competitors. Table 2 shows the relationships among the strategic initiatives and organizational performance. Overall the correlations are not high but they are generally statistically significant.

In many respects, it is not surprising that the correlations with performance are relatively low since the effectiveness of a strategic initiative varies greatly with the kind of business an organization is in and the environment in which it operates. For example, building a global presence may not be a particularly appropriate strategic initiative for some companies, but not all. Thus the degree to which all the companies in our sample are building a global presence should not be strongly related to their organizational performance. Similarly although technology leadership may be a very important strategic initiative in a knowledge work technology firm, it is of little competitive advantage in most customer service business such as restaurants and retail outlets.

The strategic initiatives which show the highest correlations with organizational performance are all ones that are likely to lead to high performance in most businesses. Sustainability shows the highest correlation supporting the finding that sustainable management is the most frequently adopted management approach. Also, highly correlated with organizational effectiveness are innovation, talent management, and customer focus. Again, these like the other highly correlated strategic initiatives are applicable to the competitive situation of most organizations. Thus, it is not surprising that those organizations which adopt them tend to have the best performance.

Table 3 shows the correlations among the management approaches and organizational performance. The correlations are not high, but they are in the expected direction. The fact that the correlations are not high undoubtedly reflects the reality that how organizations are managed is only one of many determinants of how well they perform. For example, in order to be effective they have to execute their management approach and of course the effect of any management approach depends on how well it fits the business environment that an organization is in.

Negatively correlated to organizational performance are the bureaucratic and the low-cost operator management approaches. This result further reinforces the point that their approaches to reward systems, leadership, and talent management simply do not fit the environment that most U.S. corporations operate in. On the other hand, the high involvement and sustainable management approaches are significantly correlated with organizational performance. The correlations are not high but they are statistically significant. This finding is consistent with the fact that these are the most frequently adopted approaches to management and tend to fit together well. In addition, they fit well with the strategic initiatives that most organizations have.

Conclusion

Overall, the results provide positive data about the effectiveness of the high involvement and sustainable management approaches. They are the most frequently utilized by the companies in our sample and show the strongest links to organizational performance. In addition, they tend to be associated with those strategic initiatives that produce high organizational performance. They are most strongly associated with organizations that have major talent management initiatives and sustainability initiatives.

A word of caution is appropriate here. Our data are correlational and cannot prove causality. It may be that in some cases performance effectiveness leads to the way organizations are managed. For example, an organization that is performing poorly may adopt the low-cost operator approach in order to reduce its cost. However, in most cases the past research on organizational performance suggests that the most likely causal direction is from management approach to performance.

The implications of our results for how companies should be managed are clear and important. They strongly suggest that the majority of organizations should use some combination of the high involvement management approach and the sustainability management approach. Yes, there are exceptions in the case of organizations that look for competitive advantage in performance areas that are not supported by these two approaches. However, given that these two approaches are strongly related to organizational performance and key strategic initiatives, the case is strong for their being the dominant management approaches in the majority of U.S. organizations.

Even though sustainable management and high involvement management are the most frequently utilized management approaches in the U.S., there is still considerable opportunity for additional adoption. Only about ten percent of the organizations responding to the survey report that they are managed in these ways to a very great extent. Further, the majority of the organizations report that they adopt these approaches to only a moderate or lesser extent. Thus, there is an opportunity for much greater adoption of these approaches and for increased performance in those organizations that do adopt them. This is an area where HR leaders can play a major role. The effectiveness of these approaches requires HR policies and practices that support talent management practices which attract, retain, and develop individuals who can and will execute them. Unlike the bureaucratic and low-cost operator approaches, having the right talent management practices are key to successful organization performance

Finally, it is important to note that the high involvement and sustainable management approaches are generally compatible with each other. In most cases, it is not a matter of choosing sustainability or high involvement as the management approach of an organization. Both focus on human capital and on the importance of some nonfinancial outcomes, particularly those

associated with shared decision making and employee well-being. Both also often argue for utilizing the same reward system practices such as performance based pay, employee ownership, and non-hierarchical pay system. Thus, they can be utilized together by adopting management and HR practices that fit them and an organization's strategic initiatives.

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Table 1
How organizations operate

Management Approaches	Little or No Extent	Some Extent	Moderate Extent	Great Extent	Very Great Extent	Mean
Bureaucratic (hierarchical structure, tight job descriptions, top-down decision making)	12.8	29.9	24.6	27.8	4.8	2.82
Low-cost operator (low wages, minimum benefits, focus on cost reduction and controls)	40.0	29.2	21.6	7.6	1.6	2.02
High involvement (flat structure, participative decisions, commitment to employee development and careers)	9.1	25.7	26.2	29.4	9.6	3.05
Global competitor (complex interesting work, hire best talent, low commitment to employee development and careers)	20.4	28.5	23.1	21.0	7.0	2.66
Sustainable (agile design, focus on financial performance and sustainability)	4.8	18.2	27.8	38.0	11.2	3.33

Table 2
Initiatives and Performance

Strategic Initiatives	Performance relative to competitors
Building a global presence03
Acquisitions18*
Customer focus.....	.28**
Technology leadership.....	.14
Talent management26**
Knowledge/intellectual capital management.....	.15
Sustainability31***
Innovation28**

Significance Level: ^t p ≤ .10 *p ≤ .05 **p ≤ .01 ***p ≤ .001

Table 3
Management Approach and Performance

Management Approach	Performance relative to competitors
Bureaucratic	-.19*
Low Cost Operator	-.17 ^t
High Involvement	.21*
Global Competitor	.07
Sustainable	.28**

Significance Level: ^t p ≤ .10 *p ≤ .05 **p ≤ .01 ***p ≤ .001