Competing in the '00s Environment: Strategic and Human Resource Initiatives

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COMPETING IN THE '00s ENVIRONMENT:
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The year 2000 and beyond is no longer the realm of fantasy and science fiction. The new millennium is a sobering reality facing today's managers and their organizations. According to Al Casey, former CEO of American Airlines, "The pace of change will accelerate. It can't be managed unless it is anticipated and managers constantly reprioritize their goals." The purpose of this article is to first identify some of the major characteristics of this '00s environment and then, in turn, present two of the most important initiatives which we anticipate managers will need to reprioritize in order to successfully compete – the rules and conventional wisdom of strategic thinking and the role and techniques of human resource management.

THE NEW ENVIRONMENT

Obviously there are a number of new, dramatic dimensions that characterize the '00s environment. In fact, Peter Drucker recently declared that "We are in one of those great historical periods that occur every 200 or 300 years when people don't understand the world anymore, and the past is not sufficient to explain the future." Some of the most challenging and pragmatic parts of this environment for today's management, however, are dealing with bigger, stronger and more agile competition, coping with mixed economic growth, and remaining on the cutting edge of e-commerce.
MNCs Bigger and Geographically Concentrated

The United Nations has reported that there were more than 45,000 industrial multinational corporations or MNCs worldwide. The largest 500 of these account for about 80 percent of the world’s foreign direct investment. Of these 500 firms, 443 were from the triad countries of the United States, the European Union (EU), and Japan. The breakdown, on a national basis, showed that 162 of these firms were from the United States, 155 came from the EU, and the remaining 126 were from Japan. This overall number of 443 is approximately the same as it was a decade ago, although the composition has changed slightly with American and EU firms gaining at the expense of the Japanese. At the same time, the economic power of these firms has become enormous.

Collectively, small, entrepreneurial firms are and will be important in the new millennium, but the largest 500 MNCs have annual revenues in excess of $11 trillion and they employ over 35 million people. Additionally, these giant firms extend into a wide range of industries from autos, chemicals, computers, and consumer goods to industrial equipment, oil, and steel production. Clearly, the large industrial MNCs have a significant impact on international business and the world economy. Unilever, for instance, controls nearly 50 percent of the detergent market in India, Nestlé 80 percent of the Chinese coffee market, and Colgate-Palmolive, 75 percent of the Brazilian toothpaste market. The same is true for non-industrial MNCs. Simply put, the major multinationals are big and getting bigger. This is going to present a major challenge for managers in both small and large organizations that want to penetrate these markets in the years ahead.

A second characteristic of MNCs is that they are concentrated in specific geographic regions. Industrialized nations have invested the largest amounts of their foreign direct
investment (FDI) in other industrialized nations. Developed countries have put relatively much smaller amounts in less developed countries (LDCs) such as those in Eastern Europe, in industrialized countries that have emerged in the last three decades (Hong Kong, South Korea, and Singapore being good examples), or in newly emerging economies such as China. Specifically, most of the world's FDI is in the United States, the EU, and Japan.

The most economically-advanced countries are leading the way in globalization and their companies that want to meet the upcoming international challenges are going to find themselves confronting strong competition in the most lucrative and well-developed markets. This will be particularly true in the EU, which is the world’s largest trading bloc. Today, approximately 38 percent of all world imports and exports are accounted for by the EU, while Japan and the rest of Asia generate around 20 percent of the world total, and North America adds approximately the same. What is particularly significant about these relative percentages is that they have changed little over the last decade, even though world trade has more than doubled during this time period. The dominant countries and companies in world trade have largely been able to maintain both their presence and their position.

Mixed Economic Growth

While the large MNCs in the triad are dominating world trade, this does not mean that their managers will be able to avoid international economic and political risks. In fact, over the last few years the turbulence of the international economic environment has presented managers with a myriad of new challenges. The U.S. economy continues to flourish, but other countries around the world have problems. In particular, Japan continues in a sustained economic decline in its real gross domestic product (GDP), Southeast Asia and Korea are still hoping that their economic woes have bottomed out and Germany has been languishing. China, the newest and
most important country to enter the world stage in the last decade, has seen its GDP grow at a rate well below its target. However, multinationals must consider how they will compete in the top emerging markets—China, India, Brazil, Mexico, Indonesia—given their size, population and prospects for growth. These “Big Five” are among the largest economies in the world, with a combined purchasing power already half that of the most industrialized nations. In Russia, investor confidence continues to be very low and predictions for this year are that its GDP will continue to decline and some economists are even predicting a collapse. The other former Soviet Union transitionary economies are experiencing similar economic problems.

In the short-run, Finland, Ireland, Portugal, and Spain appear headed for better times, but economic growth in the EU as a whole is slowing up. The seemingly never-ending conflict in the Balkans is adding to the uncertainty in all of Europe. The South America economics continue to face problems, and some, such as Colombia, there is economic decline. Mexico, however, appears to be doing moderately well. These mixed world economic developments point to the need for international managers to remain cautious in their strategic planning. The '00s environment is going to be increasingly competitive and much riskier for direct foreign investment.

While there is a natural tendency for multinationals to build upon what made them successful in their core markets, these practices routinely get them into trouble. Consumer goods companies cannot export their business models, products and marketing formulas and expect them to automatically work in India, Turkey or Mexico. Emerging markets differ in their governmental policies, regulations and macroeconomic behaviors; in the structure of their consumer markets, distribution systems and competitors. For example when Coca-Cola re-entered the India market several years ago, it invested heavily behind the Coke brand, using its
typical global positioning. Yet, Coke lost market share to Pepsi with this approach. Recognizing its mistake, Coke re-emphasized a popular local cola brand (Thumbs Up) and refocused its Coke brand advertising to be more relevant to the local Indian consumer. Once Coke pursued this strategy, its market share and profitability rapidly increased.

Ever Advancing Information Technology

Another dimension of the new millennium environment especially relevant to management is the information revolution, which is taking a variety of different forms and a technology-driven global convergence among computers, television, telephone (including wireless communications), and internet service providers. This information connectivity is resulting in a technology paradox where the quality of information is increasing sharply, but the price of its use is plummeting. In Europe, for example, fuelled by deregulation and regional and global consolidation, international long distance telephone rates are beginning to drop sharply. Over the past year they have declined by 30 percent in the Netherlands, 25 percent in France, and over 10 percent in Luxembourg, Greece, Portugal, Denmark, and Ireland.

At the same time, companies are beginning to form strategic alliance agreements to link personal computers and consumer electronics devices, thus moving closer together on technology standards for digital television and other consumer products. For example, Microsoft and Sony have endorsed a technology for connecting videocassette recorders, camcorders, personal computers, and other electronic devices. Microsoft intends to license the software and use it with versions of an operating system in trying to make a standard for non-PC products. Meanwhile, Lucent and Philips are currently engaged in a joint effort to produce phones for the global market.
Yet, by far the biggest and most pervasive IT development will be e-commerce because of its ability to help firms create new international networks that cut expenses, speed delivery time, and open new markets. For example, e-commerce technology is helping develop temporary networks of outsourcers who work on a contract basis, providing specific goods and services to meet the needs of the enterprise. In many ways, e-commerce is changing the fundamental way managers are thinking about how to create and deliver value to their customers. Bill Gates in his new book Business @ the Speed of Thought argues that e-commerce should not be limited to just Websites and doing transactions. He states, "I’m trying to show that it’s not just the transaction, it’s the customer service, it’s the collaboration at a distance, it’s the decision about what skills you need inside your company vs. what things can you go out now on the Web to take advantage of."

Cisco Systems, Intel, General Electric, among other manufacturing firms, are utilizing the Internet to link their operations and marketing activities directly with their customers. At Cisco Systems, it’s part of their business strategy to become a virtual organization by connecting relevant parts of their business and outside partners using standard Internet protocols. Such protocols connect Cisco with its web of suppliers and manufacturers, making Cisco look like one company. Via the company’s Intranet, outside vendors directly monitor orders from Cisco customers and ship the assembled hardware to buyers later in the day, often without Cisco even touching an order.

E-commerce enables organizations to establish direct links to almost anybody anywhere and to deliver new products and services at a very low cost. The major challenge that e-commerce poses to established “brick-and-mortar” organizations is that it enables innovative upstart firms, such as E*TRADE, Amazon.com and Priceline.com, to circumvent existing
barriers to entry facing businesses in the past. Using the Internet’s portals (e.g., Yahoo, Lycos) that directly relay customers to its Web site, Amazon.com provides a direct link to customers and suppliers to perform transactions on a real-time basis. The Internet has increased price competition between firms since customers can now make price comparisons on-line. Barnes and Noble and their strategic alliance partner the Bertelsmann Group, have countered Amazon.com’s aggressive cyberspace-based promotions by enabling customers to use its Web site as a direct on-line ordering system. Customers that do not want to wait for a book to be delivered from Amazon.com can go to the nearest Barnes and Noble location to pick up the book. E-commerce firms also have the ability to adjust to customers’ needs quickly. The result is that product development cycles are becoming much shorter in some industries. E-commerce will require firms to become leaner in how they gather, synthesize, utilize, and disseminate information. Firms that learn the fastest and are willing to experiment with new product and service offerings will become the best-equipped to compete in the world of e-based commerce.

NEW STRATEGIC INITIATIVES

A major initiative that must be undertaken to be successful in the ‘00s environment is that the rules of strategy must undergo change. The approaches that were successful in the past, in many cases, must be radically altered. GE’s Jack Welch has observed, “Anytime there is change, there is opportunity.” We feel that three ways to take advantage of the change are: first, to move toward formulating and implementing strategies that go beyond current management thinking; second, deal with radical technologies that threaten the profitability of established firms and industries; and third, become more entrepreneurial.

Competing on the Edge

During the 1980s there were a wide variety of models that emerged to help explain how
to formulate and implement strategy. One of the most popular was Michael Porter’s five forces model. In essence this model suggested that strategists needed to consider five forces when examining the nature of the current environment in which they compete: new entrants, suppliers, buyers, substitutes, and competitors. More recently, Hamel and Prahalad have suggested that instead of focusing on industry conditions, management strategists should concentrate on their company’s core competencies and use these skills, processes, and technologies to fashion a sustainable competitive advantage in their value-chain. They argue that only by building and nurturing core competencies can top management sustain the competitive advantage for their organization. Using a tree as a metaphor, the core competencies are the ‘roots’ and the individual products/services are the ‘fruit.’

At Motorola, fast cycle-time in production (minimizing the time between an order and the fulfillment of the order) is a core competency. This core competency rests upon a broad range of underlying skills, including design disciplines that maximize commonality across a product line, flexible manufacturing, sophisticated order-entry systems, inventory management, and supplier management. Motorola’s core competency has led to the development of various products in the telecommunications industry, including pagers, cell-phones, etc.

We believe that strategy formulation by top managers in the '00s environment must be far more flexible and nimble. Top managers must realize change is not only desirable, but necessary. As a result, companies need to be able to compete in an anywhere, anytime, anyplace, any volume, and anything environment in which the assumptions and the rules of the game continually change. Brown and Eisenhardt in their recent book, Competing on the Edge, suggest that companies in the new millennium will have to adopt new ways of thinking that will require them learning to live with change. Companies must accept the fact that today’s distinctive core
competencies may be of little value in tomorrow's markets. Among other things, they note that managers must remember that in the '00s: (a) strategic advantage will be temporary; (b) strategy is not a single simple approach but rather a collection of moves that are loosely linked in a semi-coherent strategic direction; and (c) reinvention of the business will be the name of the game.

How then will enterprises need to organize and operate? Brown and Eisenhardt suggest that in terms of organization design, companies will use a structure that has few strict rules and minimal bureaucracy. They also recommend that firms reach into the future by expanding their time horizons, launching more experimental products and services, creating strategic alliances with a focus on newly-emerging markets and technologies, and keep thinking futuristically. The virtual and network forms of organization design that focus on sharing authority, responsibility and resources among people and divisions that must cooperate frequently to achieve common goals will begin to replace traditional hierarchical structures. For example, Corning, Inc. uses twenty-three strategic alliances to compete in a variety of high-technology markets.

By adopting the new designs, managers will need to grow their business strategy by continually realigning themselves with emerging opportunities and then articulating this strategy with partners so that everyone in the enterprise knows what the organization is doing. In contrast to the five forces and core competency models, as shown in Exhibit 1, this new way of thinking meets one of the major strategic initiatives needed for the 21st century: the need to proactively and continually adjust to an ever-changing environment.

**Going Beyond Being Customer Led**

Many of the basic principles of strategy that have helped companies become competitive are now under attack. Firms that have dominated their industry for decades are now finding
themselves reeling from the competition. One reason is because markets are changing and organizations are finding that the old way of doing things is not sufficient to sustain their competitive advantage. In many cases, upstart or second tier firms are replacing the leaders. For example, for years Chrysler almost always found itself the third member of the Big Three automakers. Then the company decided to begin manufacturing minivans in the 1980’s. The firm’s research did not prove that customers wanted this product and many of the competition, after conducting marketing research of their own, concluded that there was not much demand for minivans. They were wrong and Chrysler ended up gaining on the other automakers and eventually became an attractive global partner for the new global alliance – Daimler Chrysler.

Similar stories to Chrysler abound in other industries. In the rigid disk-drive industry, Seagate Technology introduced a 5.25 inch-disk drive. The unit’s capacity of 5-10 megabytes (MB) was of no interest to major minicomputer manufacturers who continued to demand 8 inch disk-drives of 40-60 MB for their current customers. There seemed to be no market for a 5.25 inch disk drive until Seagate found that emerging personal computer makers could use them for their new desktop PCs. Result: A new market was created and those disk drive manufacturers who continued producing the 8 inch drives eventually were driven from the market. This story has since repeated itself as new upstart firms introduced 3.5 inch drives and supplanted the 5.25 inch manufacturers. Such disruptive technologies will be more common in the future. As a rule, mainstream customers are unwilling to use a disruptive technology until they know and understand it. At first, such technologies tend to be used in new markets or new applications.
### Exhibit 1

**CHANGING MODELS OF STRATEGY**

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Perspective</strong></td>
<td>Sees the industry as having a stable structure</td>
<td>Sees the firm as a bundle of competencies</td>
<td>Views the industry as in rapid, unpredictable change</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>Develop a defensible position</td>
<td>Develop a sustainable advantage</td>
<td>Deal with the continuous flow of advantages and opportunities</td>
</tr>
<tr>
<td><strong>Driver</strong></td>
<td>Industry structure dominates the situation</td>
<td>Unique firm competencies are the key to success</td>
<td>The ability to change is the most critical factor</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>Pick an industry; pick a strategic position; fit the firm into it</td>
<td>Create a vision; build and then exploit competencies to realize this vision</td>
<td>Gain the edge through a carefully paced and implemented strategy and shape a &quot;semi-coherent&quot; strategic vision that people can follow</td>
</tr>
<tr>
<td><strong>Success measure</strong></td>
<td>Profits</td>
<td>Long-term dominance</td>
<td>Continual reinvention</td>
</tr>
</tbody>
</table>
For example, Sony’s early transistor radios sacrificed sound fidelity, but created a new market for portable radios by offering customers a new and different package of attributes—small size, light weight, and portability.

While these examples appear to be merely evidence of the need to remain on the cutting edge, there is more here than simply keeping up. Each of the firms that were eventually displaced had been successful in their own right and was carefully focused on its own customer base. The problem was that the customer was pleased with what the company was currently providing and not interested in changing to a new product. Many outstanding companies, such as IBM, Montgomery Ward, Digital Equipment, have fallen prey to the ‘Icarus Paradox.’ The fabled Icarus of Greek mythology is said to have flown so high, so close to the sun, that his artificial wax wings melted and he plunged to his death in the Aegean Sea. The power of Icarus’ wings gave rise to the abandon that doomed him. We believe that the same paradox applies to many successful companies today: their market share and financial success often seduce them into excesses that cause their downfall. Success leads to specialization, complacency, dogma and ritual. The company’s management was unwilling to forego a currently profitable product for one that offered only potentially greater promise. The firm was blinded by both its customers’ current needs and its own management’s low tolerance to ‘think-out-of-the-box.’

Nor is it necessary to focus only on technology-driven products in order to prove our point. When Wal-Mart first began expanding its operations in the 1970s, the company offered products that were lower-priced and not very appealing to those who shopped at Sears and J.C. Penney’s. However, as Wal-Mart’s quality improved and its prices declined, it began attracting customers from these competitors. Customers began to feel that their current store was not meeting their needs as well as they wanted, and that they could get more value for their money.
by shopping at Wal-Mart. This strategy has been so successful that today Wal-Mart has greater 
annual sales than Sears and J.C. Penney's combined.

In this new environment, managers must avoid being blindsided by competitors who offer 
new goods and services to a customer base that may not have yet materialized or is still quite 
small. What will organizations have to do to prevent falling into this trap? There are two 
important steps in this strategic imperative that need to be done. First, top managers will have to 
continually monitor their environment and assess new developments not as threats but as 
learning opportunities. Second, they will have to realize that their present customers, 
stakeholders (owners, employees, suppliers, and communities) and the current state of their 
technology can be limiting or inhibiting factors in determining future action. Quite often existing 
stakeholders and technology encourage a continuation of the status quo, thus effectively blocking 
management from taking bold new steps needed to effectively compete in the new environment.

The Role of Entrepreneurship

Although, as the opening comments indicated, the world economic scene is dominated by 
the very large MNCs, much of the recent economic growth of countries around the world can be 
directly attributed to entrepreneurship either by smaller start-up firms or by internal venture 
teams in the established enterprises developing attractive new goods and services. Such an 
entrepreneurial strategic initiative will continue to be a major force in the new century. Although 
the entrepreneurial start-ups will continue to be important, the role of entrepreneurship in 
existing firms, such as the use of venture teams and a focus on newly emerging markets as 
 opposed to newly emerging technologies, we feel should be an important strategic initiative for 
the '00 environment.

The Use of Venture Teams. Venture teams are a way to promote the spirit and practice
of entrepreneurship in existing firms. These teams typically are comprised of two or more people who formally create and share the ownership of a new organization within an existing organization. They have the authority to operate with a great degree of freedom and autonomy; structure and formal rules and procedures are held to a minimum. This allows them to formulate their own objectives and, drawing upon their own independent budgets, decide how to proceed.

Venture teams operate quite differently from traditional functional departments and project teams. In particular, venture team members have philosophies and values sharply different from traditional managers. These differences include the following:

<table>
<thead>
<tr>
<th>Traditional Manager</th>
<th>Entrepreneurial Manager</th>
</tr>
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<tbody>
<tr>
<td>Tries to avoid mistakes.</td>
<td>Is willing to make mistakes in order to learn.</td>
</tr>
<tr>
<td>Postpones recognizing failure.</td>
<td>Admits mistakes and moves on.</td>
</tr>
<tr>
<td>Agrees with those in power.</td>
<td>Gets those in power to be committed to what should be done.</td>
</tr>
<tr>
<td>Wants to please top management.</td>
<td>Wants to please customers, sponsors, and self.</td>
</tr>
<tr>
<td>Likes the system and sees it as nurturing and protective.</td>
<td>Dislikes the system and learns how to manipulate it.</td>
</tr>
<tr>
<td>Works out problems by working within the system.</td>
<td>Works out problems by learning how to bypass the system.</td>
</tr>
<tr>
<td>Utilizes the hierarchy as a basic power differentiation between levels.</td>
<td>Uses the hierarchy as only a tool for getting things done more efficiently.</td>
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</table>

One reason that the entrepreneurial venture teams will be important in the new environment is that they are effective in helping enterprises deal with change. Because their managers are not part of the status quo, they are able to think ‘out of the box.’ For example,
enterprises which face competition from upstart firms that attempt to undermine their activities by offering goods and services to newly emerging consumer groups can benefit greatly from venture teams. The primary reason is because companies that are focused on meeting the needs of a particular market niche are often reluctant to fund new efforts to meet the emerging needs of other niches. The company is already doing quite well with its current customer group. However, as seen in the previous section, if the firm does not address the needs of a newly emerging customer group, it can find itself under serious attack.

How then can organizations meet the needs of current customers and also address those in the emerging market? In his recent book The Innovator’s Dilemma, Christensen suggests that the creation of a separate type of venture group may be the answer. In this way the company can divide its efforts: using its current strategy or bundle of core competencies to address the needs of current customers while employing the venture group to address the newly emerging market. In the process, the venture team focuses on the needs of emerging and future customers and not on existing technology and organizational designs. This type of approach is heralding a new form of entrepreneurial thinking that may well spell the difference between success and failure for many firms in the new millennium.

**New Entrepreneurial Thinking.** Besides creating venture teams, our strategic initiative calls for entrepreneurial thinking. Managers need to look at their old approaches, modify them and sometimes start from scratch to meet new competitive demands. In doing so, they are going to find it necessary to adhere to the three following entrepreneurially-based statements which, while they fly in the face of traditionally accepted managerial thinking, can offer great promise in the new environment.

First, many organizations tailor-make their offerings to exactly what the customer wants.
For example, Mattel in the fiercely competitive toy industry is attempting to let customers custom-design their own dolls (e.g., Barbie and Ken) through choices of clothing, hair color, skin texture, and other desired attributes. Mattel’s ability to mix and match different components and product features will enable it to achieve this customization without costly retooling or extensive modification. Dell Computer also generates tremendous revenues and profits from its ability to mix and match personal computer components according to what each individual customer wants. By maintaining very flexible supply and manufacturing systems, Dell can custom-build each computer and price it according to what the customer wants. A few suppliers that design these parts according to computer industry standards make all of Dell’s standardized components. These standards allow for full interchangeability across manufacturers and user applications.

Second, successful products/markets tend to get the lion’s share of a company’s budget because resource allocation is driven by return on investment (ROI) forecasts. As a result, emerging markets tend to be underestimated in terms of ROI or ignored by senior-level management because they are more concerned with earning profits in a market they currently dominate than in one that they truly do not understand.

Third, organizations tend to be very effective in taking successful technologies and products and penetrating existing markets with these. They are far less effective in taking new technologies and products into new markets because the demands that are made on them by the unfamiliar markets are far more challenging. For example, extending products in a new market often requires continual, incremental improvements in key factors, such as product performance, reliability, price, and distribution channels. For example, in Brazil, approximately 20 percent of all cosmetics are sold through ‘sack ladies,’ who sell door-to-door in poorer neighborhoods. In
the U.S., the majority of cosmetics are typically sold through direct sales forces. As a result, multinationals, such as Revlon Inc., that rely on traditional mass distribution channels are at a distinct disadvantage. In creating dominance in a new market, however, it is often important to be a first-mover because a small number of firms will typically end up with the lion’s share of the market and late-comers will lose out. For example, Frito-Lay has been able to sustain its first-mover strategy in Brazil by building its leading brands, such as Ruffles, through investing large sums in local farmers who plant higher quality potatoes than normally grown in Brazil to insure a quality advantage. Simultaneously, Frito-Lay has dominated advertising spending. As a consequence, it has grown market share by being a first-mover despite facing a host of local competitors whose pricing is half of Frito-Lay’s.

These three points can be illustrated by Global Fleet Graphics, a division of 3M. This division makes premium durable graphic-marking systems for buildings, signs, vehicles, corporate logos, etc. Fleet Graphics has three major competitors, including AmericanGraphics, GraphDesign, and FleetGlobal. All three sell products similar to Global Fleet Graphics, but at a lower price. Without radical changes, top managers at 3M believed that this division would not be profitable. Rather than focus on incremental process changes that would produce short-term market share increases, they rethought the entire way they produced graphics. Contacting R&D people in other 3M divisions resulted in a radical plan for a new low-cost graphics production system that stores graphics digitally. These images will be able to be sent anywhere in the world and Global Fleet Graphics will act as a central repository. Such a system drastically reduced inventory and enabled Global Fleet Graphics to respond to customer’s requests in as little as three hours instead of four weeks. Working with people in 3M’s adhesive division, Global Fleet Graphics addressed customer’s needs for graphics that can be applied to nontraditional surfaces,
such as canvas sides of trucks in Europe. Such adhesives can be easily applied, savings as much as 30 percent on a customer’s installation.

These examples of newly-emerging entrepreneurial ideas are in direct conflict with many of the operating approaches used in today’s hierarchically designed organizations. Yet, recent experience shows that these entrepreneurial ideas are on target and help account for the success of a growing number of enterprises from Wal-Mart to Intel to Amazon.com. Organizations who hope to succeed in the ’00s environment will have to implement these types of strategic initiatives or they will lose out to their competitors who are doing so.

**THE ROLE OF HUMAN RESOURCE MANAGEMENT**

The strategic initiatives discussed so far provide some of the answers for helping meet the environmental challenges facing management in the new millennium. Another, somewhat separate but related initiative, deals with the human resources of today’s and tomorrow’s organizations. In particular, we feel that human resource techniques can help align the needed strategic initiatives discussed so far. However, there is the impression often given by both management experts and the general public that an organizations’ human resources will play a diminishing role in the ’00s environment. Their reasoning is that information technology will increasingly replace people in the production and service processes of organizations. We would argue the opposite. Even those who run Dell’s business-to-business e-commerce feel that human resources will become relatively more important. IT tools such as their Premier Pages (small Web pages, linked to large customers’ intranets, let approved employees configure their PCs online, pay for them, and track the delivery status) can greatly cut costs and ordering errors, but also free up Dell sales representatives to do more and better customer service and serious selling.
Like Dell, we believe human resources, and how they are managed, will play an even more important role in the new century. The articles in the last special issue of *Organizational Dynamics* on management in the 21st Century and Jeff Pfeffer in his recent book *The Human Equation* make a strong case that human resources can provide the competitive advantage in the years ahead.

The latest technology can be purchased and copied by anyone. In most industries, it simply levels the playing field for competitive battles. The skills, ideas, efforts and behaviors of people are inimitable. It is the people who manage and operate the technology and who interact with and serve the customers. At Dell, the Premier Pages eliminate sales representatives from getting distracted and allows them more direct interaction time with customers. Although the nature and use of human capital will certainly change as has Dell, their relative importance will increase rather than decrease. The question is, what HRM techniques are available to best meet the challenges ahead? Although there are a number of high performance work practices that have been shown to have a positive impact on performance, we have selected two specific techniques which we believe are most representative and important for the new role of HRM, multirater (360 degree) feedback and pay for performance. We believe that these practices have the greatest potential for meeting the challenges that lie ahead.

**Multirater Feedback**

Multirater, or 360 degree, feedback for managers from subordinates, peers, supervisors/managers and sometimes customers, has emerged in recent years as a major performance appraisal, and even more important, human resource development tool. By comparing one’s self-rating with others, discrepancies can prove to be useful information for personal development purposes. The anonymous information coming from multiple sources
provides rich feedback. The recipient of feedback from only one source (the boss in traditional performance appraisals) may not be believed or negative information may be rationalized away by the recipient. Pooling data from multiple sources (subordinates, peers, managers, customers) provides credibility and validity to the data received. Feedback to the employee explaining how other people view the employee and developing action plans for how to improve the employee’s competencies are critical. At UPS, supervisors and managers agree that multirater feedback improves the performance appraisal process. More than seventy percent of UPS employees said that the feedback from multiple sources was more useful than the insight that they would have received from their managers alone.

An increasing number of firms are using 360 degree feedback. Widely recognized corporations, such as AT&T, Bank of America, Exxon, General Electric, Caterpillar, and Chrysler have been using this HRM technique for a number of years. Wilson Learning, Center for Creative Leadership, and Personnel Decisions Inc. are among the largest firms providing multirater competency models for organizations. In general, organizations and human resource professionals are supportive of the use of 360 degree feedback on individual and organizational outcomes. However, there has been concern about the complexities of the 360 degree approach in terms of the psychometric (measurement) properties and implications of the ratings, especially the relationship between self and other ratings, for compensation and promotional issues. Similarly, managers must be trained to accept feedback from others. There may be industry differences in the application of 360 ratings, especially from peers. For example, research has shown that peers tend to be more lenient in public sector compared to private sector organizations.

There is a growing literature on how to successfully implement a 360 degree feedback
performance appraisal system in organizations. In a previous Organizational Dynamics article, Antonioni emphasized the need to pay attention to the inputs (e.g., purpose, development of the form, and selection and training of the appraisers and appraisees), process (e.g., self appraisals, coaching steps, and action goals and plans) and outputs (e.g., increased awareness, improved behaviors and performance, and learning). Based on the G.E. experience reported in the Boundaryless Organization and our own practices, we offer the following guidelines for effective application of 360 degree feedback systems:

1. Make sure everyone knows how the data will be used, e.g. developmental, career movements, or salary adjustments.
2. Define the behaviors (competencies) to be appraised.
3. Involve customers and suppliers.
4. Relate the feedback data to employee performance and action plans.
5. Track personnel decisions made from these data over time.

If properly implemented, multirater feedback systems seem to be the type of HRM initiative to help meet the people challenges in the new environment.

Pay for Performance, but Also Have “Fun”

Compensation is a concept and practice very much in flux. All managers know that compensation matters help establish and reinforce a company’s culture by reinforcing behaviors and values that executives hold dear. By signaling what and who in the organization is valued, pay determines an organization’s culture. If managers talk about teamwork and cooperation and then do not have a group-based component in their compensation system, employees will ignore such rhetoric and fight for themselves. As managers try to make decisions about pay, they must do so in a shifting landscape while being bombarded with advice from consulting companies.
about which pay system works best for them. According to David Norwood, Vice President at Holmes Murphy, 60 percent of companies have made major changes to their performance-management plans in the last two years as they experimented with different ways to tie pay to performance.

At the turn of last century, paying workers based on their performance was the backbone of Taylor’s scientific management movement. For years, many companies rewarded employees, including managers, for their individual performance. This view holds that behavior is rational and people take jobs and perform according to how much effort they expect to expend for a financial return. If pay is not contingent on performance, individuals will not devote sufficient attention and energy to their jobs and their performance will suffer. This and other economic models portray work as aversive, implying that the only way people can be induced to work is through some combination of rewards and sanctions.

Notwithstanding, a survey of pay practices of the Fortune 1,000 reported a rise from 38 to 50 percent in the number of organizations that use individual, as opposed to team-based incentives, during this decade. In the retail sector, the number of salespeople that were paid solely on commission (no salary), rose 14 percent. Despite the popularity of this practice, the problems with individual merit pay are numerous and well documented. Fortune reported that almost 50 percent of the employees found such systems neither fair nor sensible, and an equal percentage believed that this system provided little value to the company. It has been shown to undermine teamwork, encourage employees to focus on the short-term, and leads people to believe that their political skills and ingratiating personalities are what drives performance.

Columbia Health Care Systems eliminated individual bonuses for physicians and administrators when such a system encouraged employees to meet quotas and earn bonuses by ‘up-coding’ the
severity of a patient’s medical condition to claim higher reimbursements from Medicare and other insurers. Highland Superstores, an electronics and appliance retailer, also eliminated commissions when customers complained that salespeople were too aggressive. W. Edwards Deming and other quality experts strongly advise against using such compensation plans because they believe that such plans absorb vast amounts of management time and resources and make almost everybody unhappy.

In the '00 environment, this view of pay for performance is too myopic. With the increased emphasis on customers, leadership, and associates’ knowledge, skill and competency, the traditional view is no longer sufficient. The so-called new pay for performance calls for paying not only for traditional productivity or sales revenue, but also measured improvements in customer satisfaction, employee satisfaction, cycle time, quality, and acquired/demonstrated skills and competencies. One of the major challenges for organizations is to measure the results of actions taken under the control of a manager. Also, the traditional individually-oriented pay for performance may be balanced by pay for team performance. At General Mills, half of a manager’s annual bonus is linked to their business unit results and half to their individual performance. Such a reward system not only addresses the team’s performance, but also the individual’s accountability.

We believe that monetary rewards do impact an employee’s behavior and performance, but those organizations that will ‘win’ the recruitment, retention and motivation battles of the next century will also be those that create a fun work environment. Sun Microsystems, The Men’s Wearhouse, SAS, Southwest Airlines, among others, have employees who would rather work there because they can have fun than accept another job where work is a four-letter word. Sun Microsystems CEO Scott McNealy wears a Java “decoder” ring and has the motto “Kick
butt and have fun.” On April Fool’s Day, engineers play elaborate pranks on senior managers. One year they built a golf course hole in McNealy’s office, complete with green and water hazard. He frequently plays in an intramural squirt gun war with engineers. At Southwest Airlines, Herb Kelleher, its CEO, shows up at departmental meetings and on holidays in a variety of costumes, including the Easter Bunny.

Fun means working in a place where people can use their competencies and work in an atmosphere of mutual respect and fairness. Fun doesn’t translate to easy work; it energizes people. Such companies work very hard on keeping turnover low. By reducing managerial turnover, these companies save directly on replacement costs and untold amounts on experience-based knowledge and customer relations. People don’t make decisions in a vacuum, but friends and the quality of social relationships they have with their peers influence them. Social influence can have a potent influence on the quality and quantity of work produced by employees.

SUMMARY

In traditional organizations, managers had time to craft and implement their business strategies knowing what actions competitors might take. In the next millennium, we believe that intellectual or knowledge resources will redefine managers’ roles and erode traditional boundaries that separate people and organizations. The principal role of the management of the future will be to link competencies and resources that the organization possesses to create a sustainable competitive advantage. The Internet and e-commerce have created a global market for ideas and the exchange of information. In this article, we argued that in the ’00s knowledge-driven economy, managers must go beyond traditional thinking in order to tap the knowledge and creativity of their employees. New strategic initiatives that permit competing on the edge and fostering entrepreneurship and human resources initiatives that develop employees through
multisource feedback and reward risk-taking and innovation, but promote fun at the same time, we think increase the chances for success and can turn change into opportunity in the 21st Century.
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