YARON KRAUSS

"The Human Side of Enterprise" Components of Contemporary Business Management

The technological innovations and the electronic revolution of the last two decades have made business management in this information-rich world a unique challenge (Simon 1997). For more conservative industries such as banks, the transformations described by Crone (1995) – a shift from paper to electronics and a shift from branches to e-banking – constitute a considerable problem. Moreover, as new agents entered the intermediation market and the processing services, a drastic erosion in the banks market share have been witnessed, from 75% in 1950 to less than 30% in the mid-90s. But not only banks need to adjust to the new economic reality.

The risk of losing market value threatens even hi-tech based enterprises, in which the development and marketing of new products are part and parcel of the business and the pace of technological change is extraordinary. Thus, mention Frick and Torres (2002), while in 1993 a typical company in the high-tech "top 100" maintained its position for seven years, by the end of the 90s the average tenure decreased to 3 years and 32 of the firms altogether dropped off the list.

INTRODUCTION: KEEPING THE COMPETITIVE EDGE IN THE 21ST CENTURY

How to keep pace with the new technical and economic conditions and become "the leader of the pack" (Cook 1998) – this question has been the main concern of many industries throughout the world, yet the answers recently given by experts are quite surprising. A review of the relevant literature reveals that contrary to what might have been expected, it is the concern for people and the emphasis on *human assets* as part

"Contemporary managers should possess certain personal traits which would enable them to become 'change masters' …"

of the broader concept of intellectual capital, and not on technical capabilities and production that characterize the current approach to modern businesses management (Mullins 2002).

Competitive advantage is achieved, Roos et al (1997) maintain, when the organization promotes and channels the various components of its intellectual capital according to its goals. Intellectual capital is a comprehensive "umbrella term", covering a wide range of non-tangible assets such as knowledge (Sveiby 1997) and managerial skills (Stewart

2001). In addition, of special value is the organization's ability to create and sustain maximum market value by employing a set of 21st management rules directed at cultivating relationship assets (Galbreath 2001). Contemporary managers should possess certain personal traits which would enable them to be-

"... Top managers are the principle 'interfaces' of the company with the outside world, discovering the needs for change and innovation that arise from external opportunities and threats ... They are advised to consider the larger social context and encourage stakeholders/ constituents to participate in the decision making process."

come "change masters", says Kanter-Moss (1996), former editor of *Harvard Business Review*, who has been since the 80s a leading advocate of more humane managerial styles, or, in McGregor's words, "the human side of enterprise" (1987). Similar reasoning can be found, for example, in Goleman's approach (1998a) which underlines the significance of emotional intelligence for excellent leadership, and in particular for business management. Typical to this view and to the linkage between innovation management and human-related skills is also the body of research focusing on the role of creativity in managing organizational change (Locke & Kirkpatrick 1995; Amabile 1998; Cook 1998; Andriopoulos 2001).

The following review investigates these tenets and their inter-relations and discusses the implications for contemporary management and for further research.

MANAGEMENT, LEADERSHIP AND PEOPLE ORIENTATION

Managerial tasks

Management is an integrative role aiming to coordinate the efforts of all members of the organisation toward set goals (Mullins 2002). Beside fulfilling technical *task-oriented* functions (e.g. defining and supervising the attainment of production goals), efficient management should also deal with *people-oriented* functions (Reddin 1971; McGregor 1987), whose degree of centrality depends on the nature of the organization. These functions include promotion of a structured system of feedback and rewards for en-

suring employees' job satisfaction and designing of a suitable working environment, as well (Mullins 2002). High-level executives are also responsible for establishing diverse channels of communication among all other levels of the corporation, its owners and board of directors (Rubach 1999), and between it and external nets of relationships with customers, suppliers, community representatives, etc. Top managers are "the principle 'interfaces' of the company with the outside world, discovering the needs for change and innovation that arise from external opportunities and threats" (Simon 1997, p.177). They are advised to consider the larger social context (Turnbull 1997) and encourage stakeholders/constituents to participate in the decision making process.

MANAGERIAL STYLES

The literature concerning management styles is quite extensive. A major contribution to this field was proposed in the 1960s.

Likert (1961) defined a four-fold model of managerial systems, based on the answers to a questionnaire filled out by executives in over 200 organizations and on the analysis of performance characteristics of various types of organizations. Likert's model analyzes four management styles applying to the organization as a whole: (a) exploitive- authoritative, (b) benevolent-authoritative, (c) consultative, and (d) participative. All of the four styles are people-oriented and describe the interactions and the decision-making patterns in each category.

The *Managerial Grid*, first conceptualized by Blake and Mouton in 1964 and then revised and enlarged by Blake & McCanse (the *Leadership Grid*, 1991), is not only a research tool but a learning device as well. It provides a framework through which managers can identify, study and modify their patterns of behaviour. Sometimes managers borrow elements from different styles, remark Blake and Mouton (1985), but usually each manager has a distinct pattern. At the top of the *Grid* is the 9,9 team manager who believes in promoting a working environment in which employees can fulfil their own needs through commitment to the goals of the organisation. According to Black and Mouton, there are three proven

advantages of this type of management: "the 9,9 style …correlates positively with bottom line productivity; 9,9 oriented managers enjoy maximum career success; there is…correlation between extreme grid styles of management and mental and physical health" (cited in Mullins, 2002, p. 214).

The three-dimensional model of management formulated by Reddin (1970, 1971) differs from Likert's in that it regards the interpersonal factor alongside other two, more traditional components. Reddin's 3-D model describes eight managerial styles along three criteria: task orientation (TO), relationship orientation (RO) and effectiveness (E). According to Reddin, successful management results from implementing an effective managerial style in accordance with the specific character and conditions of the organization.

A more recent formulation of managerial patterns that has been in use in several studies during the last decade is the differentiation between a connective style vs. a directive style (Voelck 2000, 2003). This distinction seems close to Reddin's TO-RO dichotomy and has been proved to be partly linked to gender. Women managers in Voelck's quantitative and qualitative analysis tended to be more communicative and participative, whereas male managers, fulfilling the same role in academic libraries, were found to be more competitive and authoritative.

DIMENSIONS OF MANAGEMENT AS LEADERSHIP

An essential ingredient of management can be termed as leadership. This concept suggests that management has much to do with interactive interpersonal processes (French & Raven 1968) and with achievements gained through the efforts of others (Kanter Moss 1996) by exerting *power and authority* (Kotter 1979). Kotter studied the management patterns of 26 different organizations, ranging from financial institutions to public agencies, and interviewed over 200 managers. His conclusions, therefore, are applicable in many organizational settings regardless of their specific activity and can be generalized to include new industries. Kotter uses the term "power" in three contexts: *power* serves as a measure of a person's po-

tential to get others do what he/she wants them to do; *power-oriented behaviour* indicates individual actions aimed primarily at acquiring or using power; *power dynamics* refers to interactions that involve power-oriented behaviour. There are situational differences in the acquiring and exercising of power, says Kotter, meaning that its amount and direction is job-dependent and not merely affected by personality differences. In this respect it is worthwhile to go back to Weber's distinction (1964) between traditional, charismatic and legal-rational types of authority, which are assumed to relate to different types of organizational environments.

Management and leadership can be linked by the term "managerial leadership", or by the concept of "executive leadership" (Zaccaro 2001), yet the two are not completely overlapping. In certain managerial areas, where the administrative or the maintenance components are dominant, there is little room for a managerial leader in the role of the developer or innovator, but according to Riggio, Murphy & Pirozzolo (2002), effective leadership includes the ability to respond adequately to a wide range of situations. Managerial leadership, says Mullins (2002), be it formal or informal, is a personal quality which influences job performance at all levels, and especially at times of transition. Kotter (1990), on the other hand, distinguishes between management and leadership, the latter is assumed to be related to long-term vision and to decision-making abilities necessary for conducting major changes. Bass (1990) defined this type kind of leadership as "transformational".

Except Kotter, other works in this field (Bass & Avolio 1994) consider the influence of the leader's

"… Power can be used in three contexts: power serves as a measure of a person's potential to get others do what he/she wants them to do; power-oriented behaviour indicates individual actions aimed primarily at acquiring or using power; power dynamics refers to interactions that involve power-oriented behaviour …"

vision in inspiring a sense of mission among the employees of the organizations as it provides new perspectives and goals. Vision is a meta-goal reflecting what the future of the organisation should be. It is a mandatory tool, say Locke & Kirkpatrick

(1995) when managing innovative, creative individuals. Cook (1998) proposes that managers as leaders should communicate a vision conductive to creating formal and informal venues of progress, and Amabile (1998) suggests that effective leadership should strive to maximize a sense of positive challenge.

Taken as a whole, these views are supported by empirical findings. For instance, Dulewicz & Higgs (2000) reported that three sub-categories in the personal competencies inventory used in their research were highly correlated with job advancement of "star" managers: strategic perspective, risk taking and creativity. Andriopoulos (2001), reviewing the relevant literature, identified five factors which foster creativity on the organizational level: (a) climate; (b) leadership style; (c) organisational culture; (d) resources and skills; (e) structure and system.

LEADERSHIP STYLES AND COMPONENTS

As suggested above, management and leadership components are inter-related, and therefore the discussion of managerial models can benefit from the study of leadership styles investigated in this context. A democratic, *participative style* of leadership is conductive to promoting employees creativity, says Nystrom (1979) and is of special importance when managing novelty effectively (Bowen & Fry 1988; Vroom & Jago 1988). It was also found out that a participative style of managerial decision making encourages creativity within the working environment (Kimberley & Evanisko 1981), and is likely to help the organization recruit and maintain its staffing resources in an effective way (Blake & Mouton 1985; McGregor 1987). Amabile (1998), who has long been investigating creativity in corporate surroundings, adds two more qualities required of the manger as a leader: the ability to manifest support and empathy, whereas Bass (1990) established *trust* to be an additional component of leaders who succeed in gaining the respect of their peers and followers.

Bass & Avolio (1994) differentiated between two kinds of leadership:
a) *Transactional leadership* that is behaviourally manifested when the leader rewards or disciplines, delegates assignments or emphasizes work standards; and
b) *Transformational leadership* which occurs when the leader stimulates interest in his colleagues,

generates an awareness of mission and makes them look beyond their narrow interests.

Subsequent studies have proven the utility of the two-fold classification offered by Bass & Avolio as connected with emotional intelligence, but its significance for predicting job performance remains unclear (Mandell & Pherwani 2003) and is open to further investigation.

The human-relations, interactive aspect of leadership is also discussed by Collins (2001). His model combines Reddin's 3-D model and the distinction between task-oriented and relationship-oriented types of leaders, while putting a greater emphasis on a unique combination of personal traits. The "level 5" top leader, says Collins, exhibits both humility and professional will. He/she knows how to relate to people and inspire them and cultivates human resources, yet remains resolved to achieve professional targets according to set standards. Level 5 leader is capable of self-criticism and at the same time never forgets to give credit for good performance to those who share the success. These characteristics, and similar managerial traits described above, coincide to a large extent with the concept of emotional intelligence proposed by Goleman (1998 a, b) and others and add up to a new notion of management

MANAGEMENT AND EMOTIONAL INTELLIGENCE
The human factor in managerial skills

The emphasis on the human skills required in modern management finds a pronounced expression in recent interest in *emotional intelligence (EI)* and its implications within the corporate context. This factor, argues Goleman (1998b), is what makes the difference in the higher levels of the company, where there are but small differences in technical skills: "EI is the *sine qua non* of leadership...without it, a person can have the best training in the world, an incisive analytical mind and an endless supply of smart ideas, but still he won't make a great leader". (p. 93).

The concept of emotional intelligence has long been in use in the educational field; but its implementation in management studies, even if quite new, has already yielded important results. Goleman (1998a) describes five aspects of emotional intelligence in his reply to the question: "What makes a

good leader?": a) self awareness; b) self regulation; c)motivation; d) social skills; e) empathy.

The last aspect might appear non business-like and out of place, considering the fierce competition of contemporary market; we expect it in a friend, but not in an executive, says Goleman, who is one of the prominent researchers in this field. Yet empathy is needed in order to promote team work and retain the loyalty of talented workers – two managerial goals which have become especially important in the competitive world of the 21st century.

The evolvement of the concept and definitions of EI

Throughout the larger part of the 20th century, ever since the development of quantitative, standard measures of academic intelligence (the Simon-Binet scales at the beginning of the century and the Wechsler test in the 1930s), success in life was considered to be related to cognitive IQ score (Ree et al 1994; Mandell & Pherwani 2003) as a general factor. This notion prevailed for many decades and was adopted by professionals and the general public alike, although Thorndike, as early as 1920, was the first scholar to postulate the existence of additional emotional and social dimensions of intelligence. His model was enlarged in 1967 by Guilford, who suggested a multifaceted construct composed of 102 types of intelligence.

Two approaches mark the departure from notion, which ascribes a dominant role to cognitive intelligence. The first development argues that IQ scores are too abstract and suggests to replace it by specific competencies for predicting performance (Ree, Earles & Teachout 1994). The second approach remains within the framework of traditional IQ, but proposes to open up the concept and include in it abilities that were not considered before as relevant. In 1971, Shanely, Walker & Foley hypothesised that social intelligence is distinct from academic intelligence, but could not find sound empirical evidence to support their claim. Salovey & Mayer (1990) concluded that the reason for the lack of research evidence was that in previous studies, social intelligence was defined too broadly. They suggested to supplement the term with the branching concept of emotional intelligence, which might be easier to distinguish from general intelligence.

Salovey & Mayer (1990) define EI as: "the ability to monitor & use one's own and others' feelings and emotions, discriminate among them and use this information to guide one's own thinking and actions". (p. 189). Bar-On (1997) regards EI as: "an array of non-cognitive capabilities, competencies and skills that influences one's ability to succeed in coping with environmental demands and pressures". (p. 14). A similar concise definition of EI was suggested by Martinez (1997).

Further contribution to this field was made by Mandell & Pherwani (2003), who distinguished between two approaches to emotional intelligence:

a) The ability model views EI as a cluster of abilities that involve perceiving and judging on the basis of feelings (for instance, Mayer, Caruso & Salovey 1999);

b) The mixed model regards EI as an ability consisting of social behaviour, traits and competencies (Goleman 1995, 1998; Bar-On 1997).

Based on the above definitions, both Mayer, Salovey & Caruso and Bar-On developed measurement tools of emotional intelligence, the first one is the MSCEIT (1999), which replaces the earlier version MEIS, and the second one is the Emotional Quotient Inventory (1997). The Bar-Or's EQ-I divides emotional intelligence into 5 major components: intrapersonal traits, interpersonal skills, adaptability, stress management and general mood.

Emotional intelligence, leadership and successful management: research findings

In contrast to the more traditional theories of management, proponents of the contemporary approach argue (Bar-On, 1999) that social and emotional intelligence are better predicators of success in life than academic IQ, and that they play a major role in all branches of management, especially in the organizational setting (Zaccaro 2001). Harrison claims (1997) that emotional intelligence is vital for developing the organisation's competitive advantage and that therefore it should be cultivated in every manager, even if his/hers avowed duty is technical in essence.

Both emotional intelligence and its precursor, social intelligence, have been investigated in connection with leadership and management styles and success. Bass (1990) maintains that the review of early leadership studies reveals the positive contribution of EI to leadership success, while a more updated research (Mandell & Pherwani 2003), by employing the differentiation between transactional and transformational styles of leadership, established the

link between the latter and EI components such as empathy, motivation, self-confidence and self-awareness.

Another type of research done in this field has also shown that emotional intelligence is a better predicator of managerial job performance than intelligence tests. Kelly & Caplan (1993), in a study conducted at the Bell Laboratories, found that EI could distinguish between good and poor performers – all of them managers with very high IQ, but still it was their non-cognitive competencies that made the difference. Dulewicz & Higgs (2000) came out with a similar conclusion. The career progress of 100 general managers was tracked during seven years and proved to relate to personal-emotional attributes distinguishing between average and outstanding managerial performance. Still, say Dulewicz and Higgs, there are not, as yet, enough studies of the relations between EI and job performance in the corporate/industrial context, and they suggest that further research will be done in this direction.

CONCLUSIONS

On the basis of contemporary management theories and the derived research, it can concluded that the recent emphasis on human-related skills and on non-cognitive managerial traits has yielded significant implications. Of special consequence are the results that show:
a) The role of *emotional intelligence* in modern management, and its relation to
b) Styles of *managerial decision-making,* which include non-linear aspects such as intuition and creativity, on the one hand and *participative team work* on the other.

At the same time, an analysis of the above-mentioned research reveals the need for further investigation of these variables in the *corporate context*, and especially with regard to *job performance.* Besides enriching the body of knowledge concerning managerial effectiveness, such research might aid in the selection, training and promotion of managers whose human-related skills seem today to be an important factor for the success of their organisations. Cooper (1997) quotes N. Zeniuk, former leader of the executive team at Ford Motor Company, who maintained that emotional intelligence is the hidden competitive advantage, the "soft stuff" (intangible assets) that should be enhanced on purpose. The "hard

stuff" (tangible assets), argued Zeniuk, will eventually take care of itself... Although this claim seems too radical for practical purposes, as unguided transformations too often go wrong (Mullins 2002), yet Zeniuk made a point worth considering.

REFERENCES

AMABILE, T.M. 1998. How to Kill Creativity, *Harvard Business Review,* **76** Sept–Oct., pp.76–87

ANDRIOPOULOS, C. 2001. Determinants of Organizational CREATIVITY: A Literature Survey, *Management Decision,* **39** 10, pp.834–40

BAR-ON, R. 1996. *The Emotional Quotient Inventory. A Measure of Emotional Intelligence.* Toronto, ON: Multi Health Systems

_____ 1997. *EQ-I: Technical Manual,* Toronto, ON: Multi-Health Systems

BASS, B. M. (1990). From transactional to transformational leadership: Learning to share the vision, *Organizational Dynamics,* Winter, pp.19–31

_____ & Avolio, B.J. 1994. *Improving Organizational Effectiveness Through Transformational Leadership,* Thousand OAKS, CA: Sage

BLAKE, R.R. & MOUTON, J.S. 1985. *The Management Grid,* Houston, TX: Gulf Publishing Company

_____ & McCanse, A.A. 1991. *Leadership Dilemmas – Grid Solutions,* Houston, TX: Gulf Publishing Company

BOWEN, R. & FRY, R. 1988. An Agenda for Managing Organizational Innovation and Development in the 1990s. In: Lambrecht ed., *Corporate Revival,* Leuven: Catholic University Press

COLLINS, J. 2001. Level 5 Leadership: the Triumph of Humility and Fierce Resolution. *Harvard Business Review,* **79** January,

COOK, P. 1998. The Creative Advantage; Is Your Organization the Leader of the Pack, *Industrial & Commercial Training,* **30** 5,

COOPER, R.K. 1997. Applying EI in the Workplace, *Training & Development,* **51** 12,

CRONE, R. 1995. Banking Without Banks, *The Banking Magazine,* Oct–Nov.

DULEWICZ, S.V. & Herbert, P.J.A. 1999. Predicting Advancement of Senior Management from Competencies and Personality Data, *British Journal of Management,* **10** 1,

_____ & Higgs, M.T. 2000. Emotional Intelligence: A Review and Evaluation Study, *Journal of Managerial Psychology,* 15 4,

FINEMAN, S. 1997. Emotion and Management Learning, *Journal of Management and Learning,* **28** 1,

FRENCH, J.R. AND RAVEN, B. 1968. The Bases of Social Power, In: Cartwright D. and Zander A.F. (eds). *Group Dynamics: Research and Theory,* Englewood Cliffs, NJ: Prentice-Hall

FRICK, K.A. & TORRES, A. 2002. Learning From High-Tech Deals, *The McKinsey Quarterly,* 1,

GALBREATH, J. 2002. Twenty-first century management rules; the management of relationships as intangible assets, *Management Decision,* **40** 1–2, pp.116–27

GOLEMAN, D. 1995. *Emotional Intelligence.* New York: Bantam Books

_____ (1998a). What Makes a Leader? *Harvard Business Review,* **76** Nov–Dec.

_____ (1998b). *Working With Emotional Intelligence.* New York: Bantam Books

HARRISON, R. 1997. Why Your Firm Needs EI? *People Management,* 3 1.

KANTER-MOSS, R. 1996. *The Change Masters.* International Thompson

KELLY, R. & CAPLAN, S. 1993. How Bell Laboratories Creates Star Performers, *Harvard Business Review,* **71** July–August.

KIMBERLEY, J. R. & EVANISKO, M. J. 1981. Organizational innovation: The influence of individual, organizational, and contextual factors on hospital adoption of technological and administrative innovations, *Academy of Management Journal,* **24** pp.689–713

KOTTER, J.P. 1979. *Power in Management,* New York: AMACOM

_____ 1990. *A Force for Change; How Leadership Differs from Management,* New York: Free Press

LIKERT, R. 1961. *New Patterns of Management.* New York: McGraw-Hill

LOCKE, E.A. & Kirkpatrick, S.A. 1995. Promoting Creativity in Organizations, In: Ford, C.M. and Gioia, D.A. eds. *Creative Action in Organizations,* Newbury Park, CA: Sage

MANDELL, B. & PHERWANI, S. 2003. Relationship between EI and Transformational Leadership Styles: A Gender Comparison, *Journal of Business & Psychology,* **17** 3,

MARTINEZ, M.N. 1997. The Smarts that Counts, *HR Magazine,* **42** 11.

MAYER, J.D. & SALOVEY, P. 1997. What is Emotional Intelligence, In: Salovey & Sluyter (eds.), *Emotional Development and Emotional Intelligence; Implications for Educators,* New York: Basic Books, pp.3–31.

_____, _____ & Caruso, D. 1999. EI Meets Standards for Traditional Intelligence, *Intelligence,* **27** pp.267–96

McGREGOR, D. 1987. *The Human Side of Enterprise,* London: Penguin

MULLINS, L. J. 2002. *Management and Organizational Behavior* 6/e. Uppr Saddle river, NJ: Prentice-Hall

NYSTROM, H. 1979. *Creativity and Innovation,* Chichester: Wiley

REDDIN, W.J. 1970. *Managerial Effectiveness,* London, McGraw-Hill

_____ 1971. *Effective MBO,* London: Management Publications Ltd

REE, M.J., EARLES, J.A. & TEACHOUT, M.S. 1994. Predicting Job Performance; Not Much More Than g, *Journal of Applied Psychology,* **79** 4,

ROOS, J., ROOS, G., Dragonetti, N.C. and Edvinson L. 1997. *Intellectual Capital; Navigating the New Business Landscape,* London, Macmillan

RUBACH, M.J. 1999. *Institutional Shareholders Activism; The Changing Face of Corporate Ownership,* New York: Garland Publications

SALOVEY, P. & MAYER, J.D. 1990. Emotional Intelligence, *Imagination, Cognition and Personality,* 9 3, pp.185–211

SHANELY, L.A., WALKER, R.E. & FOLEY, J.M. 1971. Social Intelligence: A Concept in Search of Data, *Psychological Reports,* **29** pp.1123–32

SIMON, H.A. 1997. *Models of Bounded Rationality,* vol. 3, Cambridge, MA: MIT Press

STEWART, T. 2001. *The Wealth of Knowledge: Intellectual Capital and 21st-century Organization,* London: Nicholas Brealey

SVEIBY, K.E. 1997. *The New Organizational Wealth; Managing and Measuring Knowledge-based Assets.* San Francisco, CA: Barrett-Kohler

TURNBULL, S. 1997. Corporate Governance: Its Scope, Concerns and Theory, Corporate Governance, **5** 4.

VOELCK, J. 2000. *Gender-Based Differences in Management Styles of Academic Library Managers; A Combined Quantitative and Qualitative Study,* M.A. Thesis, Central Michigan University .e-edition: 2003, portal: Libraries and Academy, vol. 3.

VROOM, V.H. & JAGO, A.G. 1988. *The New Leadership; Managing Participation in Organizations,* Prentice Hall

WEBER, M. 1964. *The Theory of Social and Economic Organizations.* Collier MacMillan

ZACCARO, S.J. 2001. *The Nature of Executive Leadership; A Conceptual and Empirical Analysis of Success,* Washington, DC: American Psychological Association

*Yaron Krauss, marketing manager
at Carmel Chemicals Ltd., Israel,
PhD. student at Faculty of Business
and Economics,
University of Pécs, Hungary*