

16

INTERNAL MARKETING

16.1 INTRODUCTION

In order to develop stronger **bonds** with **external customers**, more and more companies become concerned with the enhancement of customer relationships. Managing customer relationships requires a different marketing approach to both external customers as well as internal employees. The quality of employees influences the quality of service which, in turn, influences the effectiveness of customer relationship programs.

To implement customer relationship marketing, companies must practice **internal marketing** successfully. Many employees within the organization

meet customers more regularly and frequently. It is these employees who set the tone of personal quality service and create an image for the company. Management needs to pursue actively an "internal marketing" focus and to link performance to quality of service delivered.

Advertising campaigns and **promotions** will result in an increase of customer's expectation in the level of quality. However, if a firm cannot deliver the perceived quality to meet the customer's expectation, there will be a **quality gap**. The gap between expected and perceived quality widens resulting in an increase in dissatisfaction and a deterioration in the corporate image.

If the perceived quality exceeds customer expectations, an organization has the basis for building a relationship. The close interaction with customers provides a company with enormous amounts of market information. This has a positive effect on profits. In addition, **word-of-mouth** vs. traditional marketing activities, such as advertising will build a powerful image for a company. Customer relationship is a more influential part of marketing than the traditional marketing activities. To build the relationship with external customers, a company must first build its relationship with the internal customers (employees).

Internal marketing means attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as **internal customers**, and it is the strategy of shaping job-products to fit human needs. A marketing orientation is needed to link career opportunities, recognition and reward, and to encourage employees to develop personal quality as a means of competitive differentiation.

By **satisfying** the needs of its internal customers, a company upgrades its capability for satisfying the needs of its external customers. The ultimate goal of internal marketing is to encourage effective marketing behavior, and to create "true customers of employees". A knowledgeable, satisfied employee

is the best marketing agent of a company. Internal marketing concerns marketing to employees. More specifically, internal marketing is viewing employees as internal customers, viewing jobs as internal products, and endeavoring to upgrade the organizational capability for better meeting the needs of external customers.

Like quality, marketing is **everybody's business**. Within an organization, everybody is a marketer to sell the new philosophy of continuous quality improvement process. Top management should realize that the majority of problems relating to product and service quality are of their own making and that the solution is in their hands. Therefore, top management plays a major role of internal marketing to motivate other managers and employees. They will be asked to undergo a **cultural revolution**.

Internal marketing **provides real opportunities** to influence and change behavior and attitudes, which have real effects on internal relationships. This will include the way the organization conducts its business. Whatever type of internal marketing strategy is being used, the following areas should be covered. They include:

1. Marketing a new belief system.
2. Marketing a new working relationship.
3. Marketing a new leadership style.
4. Marketing a new management practice.
5. Marketing the benefits of the changes.

Changing people's behavior and attitude is one of the most difficult tasks facing management. "Resistance to change" is a term often used by managers to describe the situation when the quality improvement process enters a drought and becomes stagnant. Internal marketing has all to do with making incremental changes.

To implement an effective internal marketing system, a company needs to consider actions on two levels:

- A **strategic level** where the objective is to create an internal environment which supports customer-consciousness, and quality-mindedness amongst employees.
- A **tactical level** where the focus is on personal internal selling and internal communication systems in order to sell quality and marketing efforts to the employees.

16.1.1 Strategic Internal Marketing

In order to create the right internal environment which supports internal marketing, the following factors needed to be in place:

a) **Top Management Commitment**

Quality is produced by empowered people, who in turn satisfy customers by giving them what they want, and ultimately surpass their expectations.

A company's senior leaders must be committed to customer-consciousness and quality-mindedness. This is carried on to create clear values, specific goals, and well-defined systems and methods for achieving the goals. Through their regular personal involvement in visible activities such as goal setting, planning, and recognizing employees for quality achievement, the senior leaders will assist greatly in reinforcing the values and encourage leadership on all levels of management.

b) **Flexible Organizational Structure**

Fast response to customer requirements can lead to customer satisfaction. This requires to cut the organizational layers (ideally not more than five layers) to improve the communication. In

addition, barriers between departments and staff should be eliminated by forming employees in their mutual relationships as members of teams.

c) **Training For Responsibility**

Internal marketing requires the employees to have the right attitude and responsibility on customer relations. The right training will enable them to accept responsibility and involvement to do a better job on behalf of the customers.

d) **Right Personnel Policy**

At the recruitment and selection phase, the right people must be placed in the right job and respective career paths. Training for advancement should be made available to employees to help them to become task/customer oriented people. Employees appear to be enthusiastic about changes are generally eager to participate in the new program.

e) **Rewarding for Improvement**

The company's program of reward and recognition system must support the goal of customer relationship. This will encourage the employees to maintain an environment conducive to full participation, quality leadership, and personal growth to meet the desired quality objectives.

16.1.2 Tactical Internal Marketing

The followings are prerequisites in order to implement effectively an internal marketing policy:

- a) Employees are the first market of the organization. The internal customer/supplier concept helps to produce an organic structure, created by relationships which already exist rather than by

someone drawing organization charts to present formal authority.

- b) Employees are trying to see things from a customer perspective and they set in motion procedures to encourage internal working relationship.
- c) Employees must be empowered to make their own decisions with a sense of owning the work.
- d) The internal information and communication channels must work effectively in order to sell ideas and quality internally.
- e) The quality-first concept must be fully developed and sold internally before being launched to the public.

An organization's employees can be effectively influenced and motivated to customer-mindedness and quality-mindedness, and improve the customer relationship, not by administrative actions and tasks, but by a marketing-like internal approach, and by using marketing activities such as marketing research, segmentation strategies, and communication efforts internally. Here are some guidelines for internal marketing:

- Be guided by data. Use market and employee research data in determining what skills and knowledge employees should acquire to perform the quality their customers expect.
- Use a mix of approaches. Use multiple approaches to sell the idea of internal marketing, such as classroom instruction, role playing, workshops, seminars and self-instructional programs.
- Use role models. Invite the more enthusiastic employees to share their expertise and model their values and style.
- Institutionalize learning. Devote part of regular staff meetings to skill and knowledge development. Take employees on field trips to visit other customer-oriented companies and then share with

them what they saw.

- Evaluate and fine-tune. Supervisors and managers should provide guidance as to where staff can improve, recommend retraining.

16.2 PERSONAL QUALITY

From **manufacturing experience**, we know that managing quality has two key components: to count and reduce defects, and to measure and minimize cycle time. This is the time that it takes to complete a given process. These are the fundamentals, to be carried over to customer services. It will require a commitment from every employee in an organization to count defects or measure cycle time for those processes that are the most important for them to meet or exceed customers' expectations.

Quality improvement is not just an institutional assignment, it is a daily personal priority obligation. Therefore, personal quality is the key to implement a strong quality program. To realize its potential in quality performance, a company must develop the personal quality of its employees.

There are **two categories** of personal quality: (1) **technical** quality and (2) **functional** quality.

The technical quality is a result of the know-how or technical ability of an employee. Technical quality is production oriented, which is traditionally viewed as important attributes in a transaction-based organization. The technical quality comprises aspects, such as:

- Skills
- Product knowledge
- Know-how
- Technical solutions

- Computerization
- Machines and mechanization

Traditionally, employees have in the past been recognized, rewarded and promoted on the basis of their technical skills in accomplishing their jobs. However, mere technical quality will no longer be sufficient in a highly competitive environment.

To ensure the objective of making customers satisfied with the product and services, both the aspects of technical and functional quality need to be developed. Functional quality is the result of internal marketing, which comprises such aspects as:

- Leadership
- Internal relations
- Customer relations
- Quality mindedness
- Approachability
- Accessibility
- Communication skills

Dissatisfaction from customers is caused most of the time by poor quality rather than functional quality; but it may range from poor quality to technical quality. Unfortunately, many employees may receive adequate technical skills training, but they do not receive adequate knowledge to improve the functional quality.

Employees may either enjoy dealing with customers or they do not. Some employees have a preference for back-office administration and paper work. They can be referred to as "task-oriented". Some other employees are referred

to as "relationship-oriented", who are more friendly and customer consciousness. The mismatching of people and jobs tends to be one of the factors that lead to unfavorable attitudes towards their jobs and an uncomfortable internal climate.

Employees who are "task-oriented" tend to have more on technical quality. Employees often perceive that they are recognized, rewarded and promoted due to technical expertise. People often do not get rewarded, recognized or promoted for performing well in reaching out for any functional quality.

Technical quality, of course, cannot be ignored because its absence does truly lead towards customer dissatisfaction. But the importance of the functional dimension of quality is more important for a customer relationship. The functional quality is, indeed, a vital ingredient to reach for a successful relationship marketing. This should be amenable to the application of the internal marketing concept. Recognition of performance, along the functional dimension - as well as the technical dimension - can promote a greater awareness of customer relations among staff members.

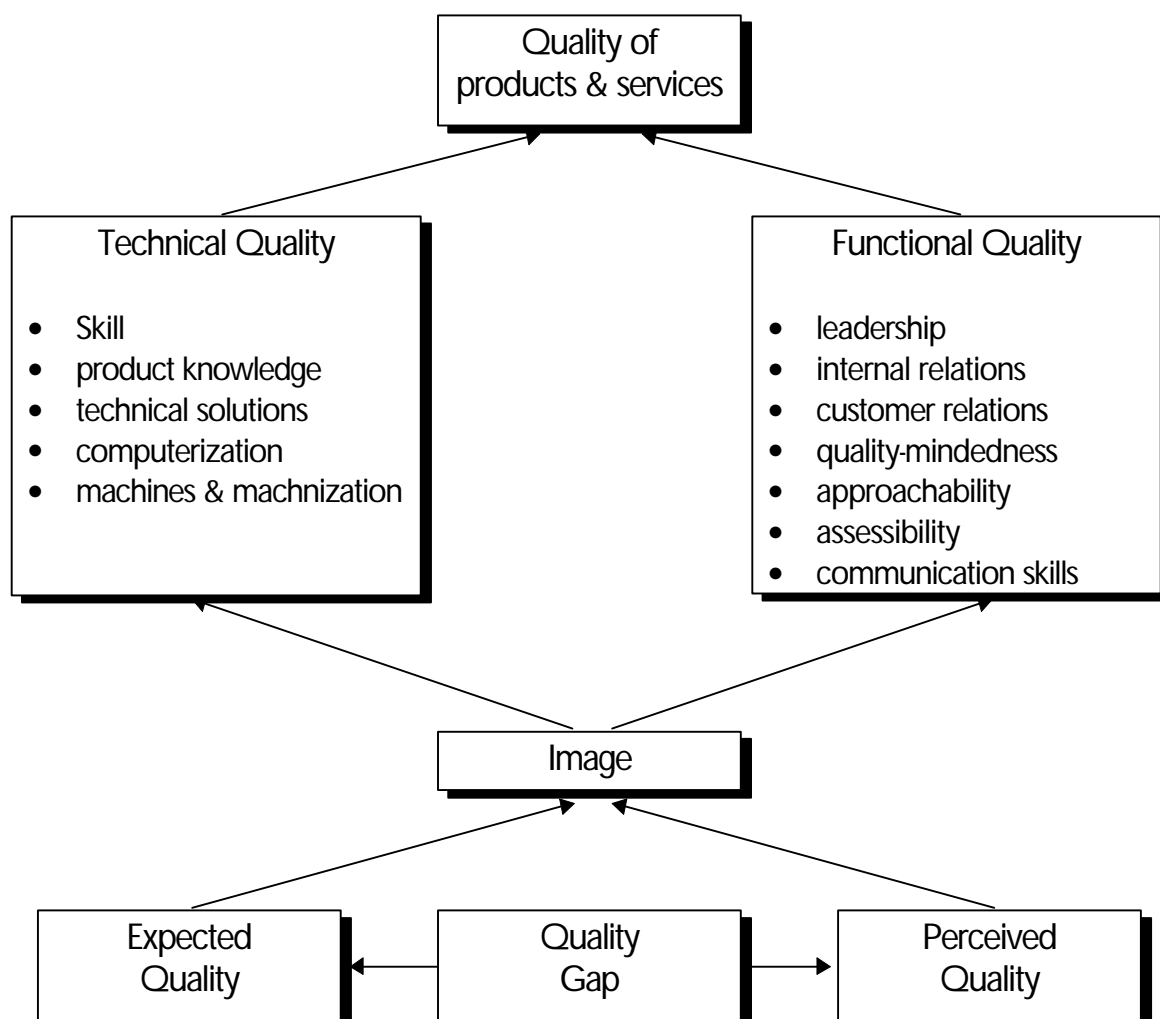
Both aspects of technical and functional quality can build a better perception in the customer's mind about the organization. It is this perception that builds the corporate image. Internal marketing plays an important role for managing the customer relationship in which functional quality is perceived. Emphasis should be made, to give more importance on training along the functional dimension of quality. This will include the customer relations training. (**Exhibit 16-1**) shows the model of quality marketing which considers functional quality together with internal marketing as a more influential part of marketing than the traditional marketing activities.

In order to **develop functional quality**, companies need to use education to effect mental sets of changes in every employee. A list of need changes in this direction are as follows:

- From provider orientation to a customer orientation.

- From tolerance of status quo to higher quality standards.
- From director to empowerer.
- From reactive to proactive.
- From self protection to teamwork across lines.
- From blame placing to problem solving.
- From "quantity-first" to "quality-first".

Exhibit 16-1 : A Model of Quality Marketing



16.3 **MARKETING A NEW BELIEF SYSTEM**

In order to provide quality products or services to the external customers, a company needs to shift its **belief system** from the traditional values to a new one, which should be expected to undergo change in the internal culture of the organization. For example, it is assumed for those organizations in pursuit of quality that employees are capable of managing themselves (once given the right training and right tools to do so) and that solutions to most problems confronting the workplace can be found within the work-force itself, not in the CEO's office. Internal marketing plays a major role in selling the new business paradigm to all employees. What are the new beliefs in the internal culture of quality marketing?

16.3.1 **QUALITY FIRST MISSION**

The traditional **mission of business** is quality and cost reduction. The **new** mission of business is quality and process improvement.

Traditional business paradigm is the numbers game of squeezing costs to increase profits. Squeezing costs means taking short cuts, for example reducing direct labor, but without assessing the diseconomies generated in direct costs such as extra inventory, poor quality that must be reworked later, poor means of reducing the value of the offer, or not adjusting to customer needs.

The new business mission should be **quality first**. Quality includes all aspects of every product or service of value to a customer. Under the quality-first paradigm, a company can provide a comprehensive way to improve total organizational performance and quality, by collective efforts to better understanding and meeting internal and external customer needs. Of great priority is to continuously increase customer satisfaction.

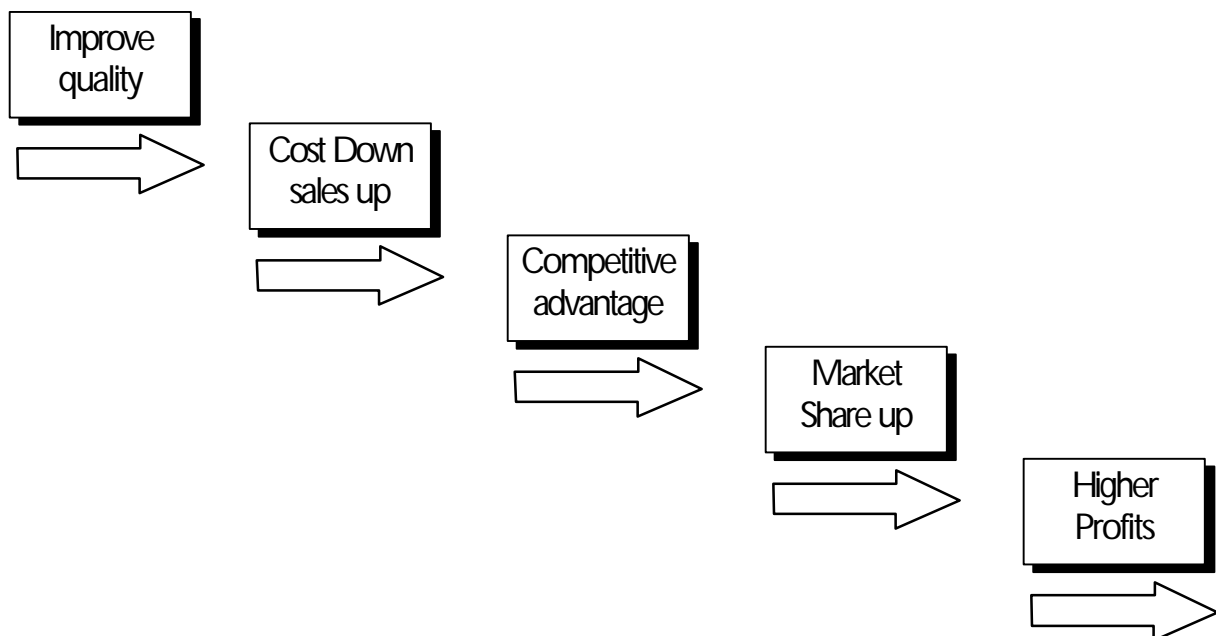
16.3.2 IMPROVE QUALITY TO REDUCE COSTS

Traditionally, improving quality was believed to be expensive. However, the new belief is that costs cannot be reduced without improving quality.

The **cost of poor quality** means not doing things right the first time, which includes the scraps, reworks, defects, delays and customer's complaints etc. Improving quality means improving the system, the process or the supplier relationship so as to reduce the cost of poor quality. IBM estimated that the cost of poor quality accounted for 30 percent of its products' manufacturing costs.

In any case, there is a **big loss** suffered by not aiming for quality. All this runs counter to the view that quality is expensive and too much attention to it will erode profits. (**Exhibit 16-2**) shows the reverse is true.

Exhibit 16-2 : The Impact of Quality Improvement



16.3.3 QUALITY IS EVERYBODY'S RESPONSIBILITY

Traditionally, quality was believed to be sole responsibility of the quality control department. In contrast, the new conviction sees quality as the responsibility of everyone in the organization.

The traditional view was to see quality as a problem, to be handled by the quality control department, with all its experts in statistics and sampling methods. Quality was to be controlled. Products were subjected to inspection. These were not built-in inside the product. Because of this, defects usually were not traced back to their real causes. Producers mainly weeded out defective items, rather than to take preventive measures.

The fact is that any process, within an organization, produces variations of quality attributes and variables. The most effective way to hunt down defects is to start preventive actions (quality planning) during design, production, control and performance stages. It requires everybody's involvement in an organization, together with suppliers, customers and distributors, to be responsible for quality, to trace the causes of defects and attempt to prevent these from happening.

16.3.4 THE NEW ROLE OF TOP MANAGEMENT

Traditionally speaking, the role of Top Management was to take care of strategy, marketing and finance. Under the new business paradigm, a major role of top management is to provide opportunities for quality improvement to the systems within which every employee cooperates.

Top Management should understand the common **causes** of variation in the systems which lead to a poor performance of an organization. Juran saw the main task of management as a breakthrough - "change, a dynamic, decisive movement to new, higher levels of performance." Top Management must first establish a vision for change, and provide a set of guiding principles and practices for guiding quality improvements. This will form a top-down,

organization-wide belief system - the way in which the company will go about its business.

16.3.5 BUILD SUPPLIER PARTNERSHIP

The traditional relationship with suppliers is the **adversarial** approach. The new goal is to build long-term partnerships with suppliers.

Under the adversarial approach, suppliers **cannot be trusted**. The normal practice is to change suppliers often, and to create a large number of sources for each purchased item. Price is the decisive factor for selecting a supplier. When suppliers are distrusted, the company must have a sizable staff of inspectors at the receiving dock. Multiple sourcing, together with frequent changing of suppliers, introduces high costs, due to these changes, for both parties. Thus, while the adversarial approach focuses on getting good prices, it often gets the opposite.

On the other hand, the **partnership approach**, offering stable contracts with opportunities for economies of scale, is attractive to suppliers; they have reasons to try to improve and do their best for customers. Instead of spending too much time inspecting materials, the modern concept is to send a team to the supplier's plant to certify its ability to improve process controls so that inspections will be less necessary.

16.3.6 BREAK DOWN BARRIERS

Historically, design engineers were aloof, often kept apart from other functional areas. However, companies with successful R&D programs have learned that **design** and **development** must blend with the activities with the rest of the company and its environment - especially those activities in (1) operations (2) marketing to external customers, and (3) suppliers.

The traditional design is influenced by a “**thrown over the wall**” approach. For example, product planners hand a project to designers, who in turn hand it to manufacturers, who finally hand it to sales people and distributors. The

problems include an extremely elongated conception - resulting in delayed lead time market and products - which become difficult to produce.

The **new approach** is to form a group of design-build teams composed of designers, engineers, marketing experts, support specialists, and even the suppliers. Getting designers in touch with other parts of the business accomplishes much to ensure a more effective design. It allows the company to respond more quickly to market changes and to reduce costs by reducing surprises and reworks. The process also creates a significant level of cooperation within an organization.

16.3.7 FORGET ABOUT MBO

The past management approach is through **management by objectives** (MBO). It was characterized by proliferation of numerical quotas or other work standards. Departing from the old system, the new approach should be **management by quality objectives** (MBQO).

Management by objectives encourages people to turn out **numbers** rather than quality. Management **by cost objectives**, a part of the old practice, also influences people to cut costs and to squeeze expenses in favor of short-term profit. Seldom are the costs of rejects, rework, or downgrading factored into the equation. The result is quality loss, chaos, customer dissatisfaction, and employee turnover.

Unlike management by objectives, **management by quality objectives** means to empower employees to look for quality improvements, to find the cause-and-effects responsible for quality problems and to analyze the problems as to what changes might be required to improve quality. Every employee of the company, including the managers, should acquire a precise idea or objective of how to improve quality in a continuing manner.

16.3.8 ENCOURAGE TEAM APPROACH

Organizations are becoming **increasingly complex**. No single person can possess all the knowledge necessary to analyze and solve satisfactorily such complex issues. In these instances, teams of work groups are used to bring together the expertise required for proper analysis and solution of the problem.

The goals of team approach include:

- To improve communications and relationships among group members.
- To improve the ability of the employees in solving problems.
- To increase the team member's respect for each other's individual differences.
- To gain new expertise and experience and to develop people.

For example, in the **product design stage**, a cross-functional team could be set up, including people from marketing, design engineering and production, to design a product that is both marketable and manufacturable.

16.4 ORGANIZATION - A RELATIONSHIP MODEL

An organization is a **system** that receives **inputs** and **transforms** the items, making them **available outputs** or products. What is the input? The environment, the resources it has access to, including capital, technology, people, and its reputation. On the **output side**, these are the total system : the units of the company, the individuals who make up the work-force, and the management.

In between the **input** and **output** are the organizational **processes**. The organization consists of efforts, people, formal organizational arrangements, and the informal organization. The informal organization basically refers to

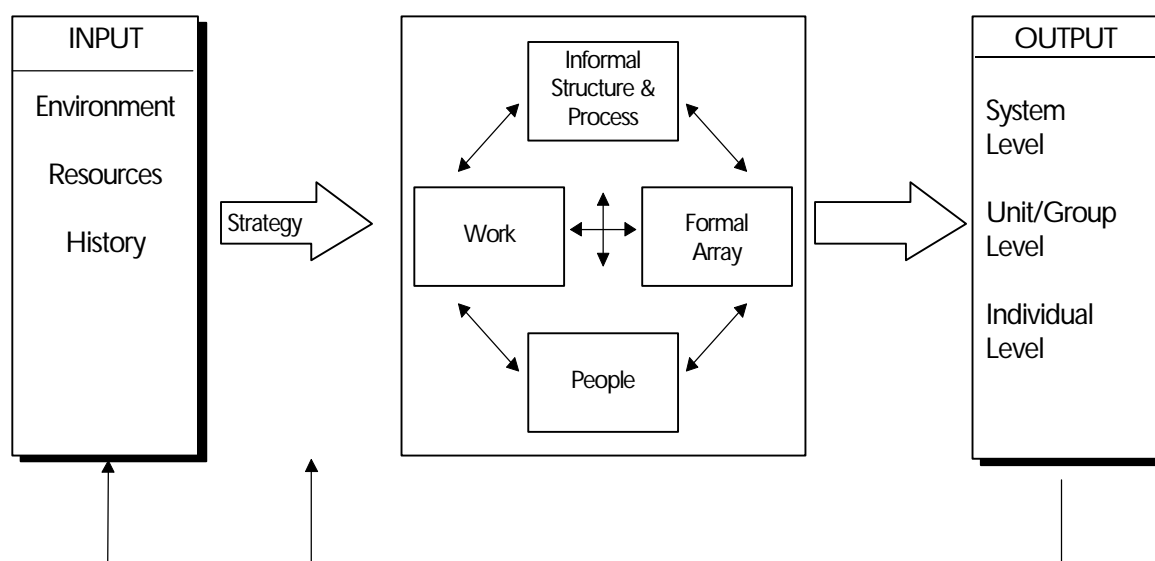
the way things get done - the culture and the operating style. An organization can get better performance if there is a good **fit** between work and people. It needs a good matching as well with the informal organization.

(**Exhibit 16-3**) shows the graphic description of relationships between input, transformation and output of an organization.

In order to find a good match between work and people, we need to study the factors that determine motivation, work performance, and eventually, job satisfaction. The degree of efforts people are prepared to exert in a task depends on **three factors**:

1. **Expectancy**: whether the effort involved will produce better performance or not.
2. **Instrumentality**: whether the performance will pay off in terms of outcomes, or not e.g. promotion, reward, job security.
3. **Value**: whether the possible outcomes are attractive to the concerned individual and/or to the working group.

Exhibit 16-3 : Organization Model

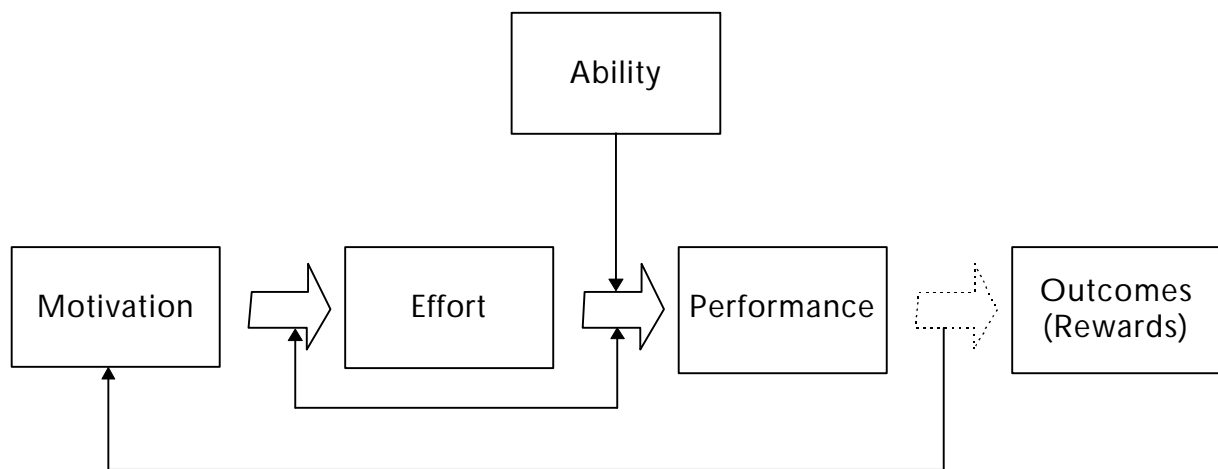


A **person's motivator** is a function of: (a) effort-to-performance expectancies, (b) performance-to-outcome expectancies, and (c) perceived value of outcomes. (**Exhibit 16-4**) shows the basic motivation-sequence of a person's behavioral influence.

There are **three** relationships involved in determining motivational effort and job satisfaction. A person's motivator is a function of:

1. Effort-to-performance expectancies;
2. Performance-to-outcome expectancies; and
3. Perceived value of outcomes.

Exhibit 16-4 : Motivation-Behavior Sequence



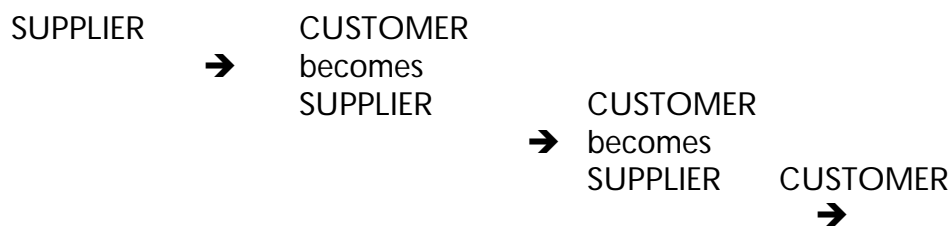
If extra effort can lead to a better performance, the job **satisfaction is high**. If improved job performance can lead to better outcomes (e.g. promotion, recognition, extra pay), people will **do a better job**. If attractiveness of value can lead to higher possible outcomes, people will be induced for **continuous improvement**.

To ensure the employees will be empowered to do a better job, there're some areas which are critical to Top Management:

1. The barriers that prevent people from doing a good job should be identified and removed.
2. The reward system should be made clear and explicit.
3. Make sure the desired levels of performance are attainable.
4. Provide enough training and education for people to do a better job.
5. Set-up improvement teams to improve communication.

16.5 UNDERSTANDING THE INTERNAL CUSTOMERS

An organization, as a system, can be viewed as a **linkage of processes** run by **internal suppliers** of output and **internal customers** of this output. The ultimate output of this internal supply chain is the product or service provided to an **external customer**. Instead of assigning **thinking processes** solely as input, event, and output-links, it is helpful to conceive of them as the chain of supplier-customer relationship shown as follows:



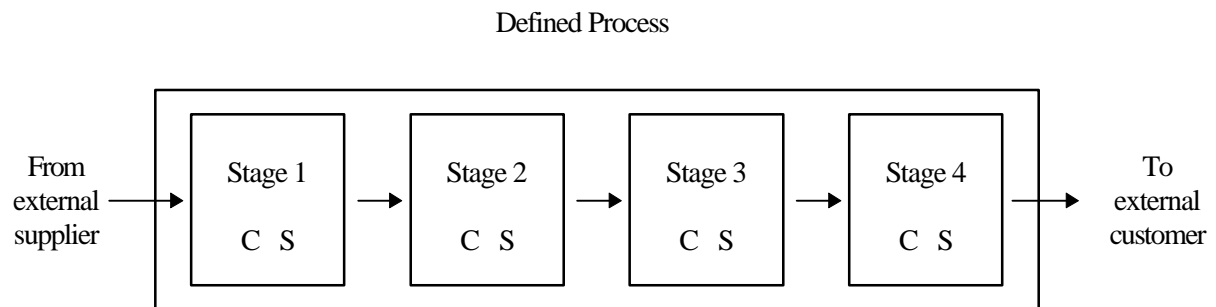
But this seemingly simple **supplier-customer model** is complicated by the fact that the company is both a **customer** of its suppliers (internal and external) and a **provider** of products and services to its customers (both internal and external).

Internal marketing is the means to bring the views of the suppliers and the views of customers into harmony with each other. In graphic form, this relationship of the company to its many suppliers and customers is shown in **(Exhibit 16-5)**.

This type of program **forges a chain** in which built-in quality is linked with the process of product delivery or service. This goes all the way from conception and design to arrival at final destination and subsequent uses. A breakdown in the internal supply chain, often results in failure to meet external customer requirements. An important part of quality marketing is the analysis of the whole organization, designed to ensure that the needs of external customers are effectively met. It requires the following steps to achieve this goal:

1. Identify the quality objectives of the business.
2. Identify the existing and potential customers of the business.
3. Identify their requirements in relation to the quality objectives.
4. Set the quality policies in meeting customer requirements and quality objectives.
5. Identify the internal processes which link together to meet the external customer requirements.
6. Set up performance measurement in terms of quality, time and activity-cost for each process.
7. Identify waste and non-value-added activities.
8. Identify the cause-and-effect of the problems in terms of materials, machines, methods, manpower and system etc.
9. Set up the quality plans to improve the processes.
10. Do it over again.

Exhibit 16-5 : Supplier / Consumer Relationship



Note : C=internal customer
S=internal supplier

Internal marketing means **applying the philosophy** and practice of quality marketing to the employees serving the external customers. One of the major objectives of internal marketing is to **change the culture** of an organization by means of providing **internal communication**. All the usual media tools are valid: newsletters, bulletins, videos and workshops. New slogans, stories, myths and parables can be used to illustrate history and spread the new concepts and new values.

TQM requires the changes in the strategy, structure, systems, staff, skills, style and shared values of an organization. It seeks positive results by changing the internal working relationships between employees and processes. The job of internal marketing is to understand the core problems in organizational change, and motivate employees to act constructively guided by a new system of belief.

16.6 THE COSTS OF POOR INTERNAL QUALITY

Most of the companies are familiar with the **barriers** generally arising between departments. Consider these scenarios:

- Marketing people promise product features and delivery dates that other departments cannot deliver, leading to customer dissatisfaction and internal conflicts.
- The manufacturing department struggled with inadequate information received from the preparation function, and with drawings full of faults, contradictions and omissions produced by development.
- Money spent on promotion, advertising and marketing is largely wasted when customers show up in response to it and are turned away through indolence, insolence, ignorance, insincerity, indifference, and aloofness
- Some projects are stacked up for a long time, waiting for the approval of Top Management.

Such problems can be viewed as a failure of **internal quality**. Most of the time the right quality was delivered at the very last moment. But this was done after incurring a lot of trouble. Of course, the cost became too high. The costs of not doing things right at the first time are expensive. These result in poor quality. The costs of poor quality can be either internal or external. The costs of poor **external quality** have a direct impact on the external customers. This will lead to customer dissatisfaction. They include the costs of repair, warranty and liability.

The costs of **poor internal quality** have a more direct impact on the functioning of the organization more than on external customers. They are costs resulting from internal failure occurring within the organization prior to the goods' or services delivery to external customers. In manufacturing, this will include scrap, rework, design changes, or obsolete inventory.

Everything that has **not been done correctly** in the organization and or has to be redone is costing money. All this extra work, benefiting nobody, has, so to speak, been carried out in a **hidden factory** or a **hidden office**. Many

managers fail to realize that they have hidden factories on their premises. Because of this, they do not realize that these costs are costing a very high price, reaching levels of 7 to 35 percent of turnover. If a real effort is made, it may be possible to reduce those costs within a couple of years by one - quarter or one third. This means a decrease in the order of 25 to 33 percent of turnover. One reason why these costs are unknown is that they are hidden in all sorts of cost categories, budgets and tariffs and are not recorded separately.

We are now going to look at the costs of **poor internal quality** and the possible steps for reducing them.

- 1. Problem : The design is inadequate**
Action : A better design review is required in the future.
- 2. Problem : The suppliers cause problems**
Action : There must be an evaluation of suppliers to prevent such a situation occurring in the future.
- 3. Problem : The machines always break down.**
Action : Preventive maintenance is the answer.
- 4. Problem : The operators always make mistakes.**
Action : Training and education is the solution.
- 5. Problem : Manufacture faces problems.**
Action : Either the capability has to be analyzed, or the manufacturability of the product has to be improved.

6. Problem : Manufacturability causes problems

Action : An improved evaluation of the prototype, or an evaluation of the process capability.

In general, the costs of **poor internal quality** can be avoided by employing preventive measures and conducting appraisal activities. The costs of prevention and appraisal activities are usually less than the costs of internal failure.

The **preventive activities** generally include quality systems planning and measurement, quality control administration, vendor quality surveys, and quality training and education. Similarly, the **appraisal programs** will include inspecting and testing, and product engineering review. The costs of prevention, together with the costs of appraisal, are often referred to as **quality assurance costs**.

Normally, the **costs** of poor internal quality are relatively easier to control through **quality assurance management**. These are more than the externally incurred costs. They are **avoidable losses** that can be prevented during the design, production and actual delivery or servicing.

Creating awareness of internal customer relationships can sometimes iron out long-standing operating losses. In order to avoid failures in processing or functioning, the interfaces between the internal suppliers and internal customers are to be evaluated. The interface between **two functions** (supplier-customer relationship) has to be defined as specifying the output. This has to be submitted at the interface determining **who** will do it and **when**. The interface decision has to be taken after evaluating **four** aspects:

1. Product or service (quality)
2. Time

3. Cost (money)
4. Market

The decision(s) during the **interface** has an important influence on the satisfaction of the internal customer. As a consequence, the interface decision has to take into consideration the user's requirement of quality as well as that of processing. The interface decision can be a group of decisions guided by a facilitator.

16.7 MANAGING A TASK-ORIENTED RELATIONSHIP

For many companies, the **organizational structure** which encompasses both time and support functions are proving less than effective to meet today's markets.

The traditional structure was build on the **hierarchical relations**. This was based on organizational developments to meet the needs of stable and high-volume markets. This relationship, as supported by valid findings, increasingly fails to meet today's markets' needs. It is characterized by low volumes and instability caught in an environment of increasing competition, world-wide overproduction and changing markets.

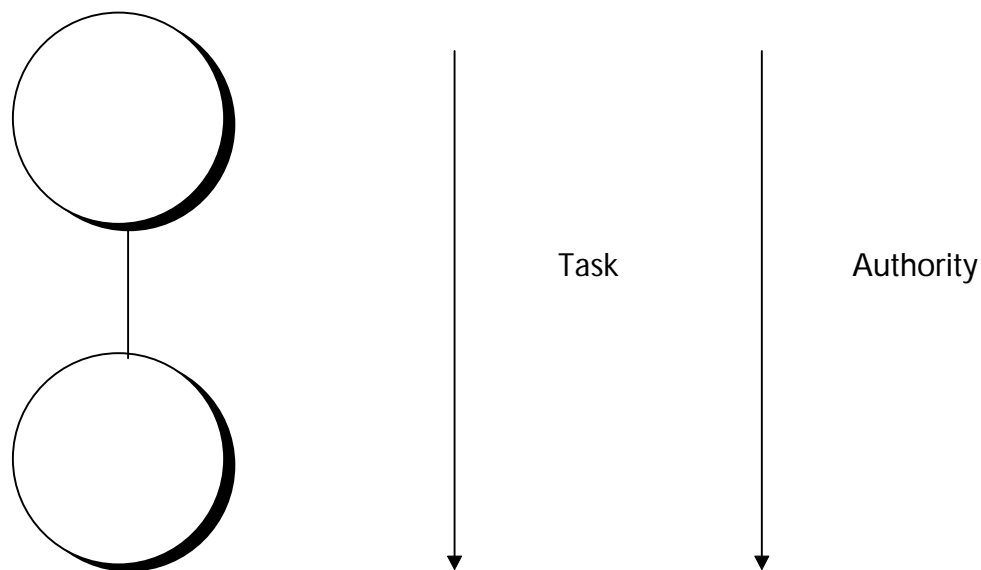
The basis of **hierarchical relations**, which exist between a boss and his or her subordinate, is a form of contract arising from an assignment, or an order. When such an assignment or order is not carried out, the boss can take disciplinary measures. In the extreme case involving a very recalcitrant employee, dismissal can be resorted to, i.e., the contract can be terminated.

(**Exhibit 16-6**) shows the relationship of task and authority in a hierarchical structure.

The practitioners of the principle of **hierarchical relationship** design and secure the parameters of the task and its supporting requirements. This

enables them to measure the work patterns, structure and responsibilities in accordance with these clearly defined parameters. The principal objective underlying this relationship is to focus the control appropriate to the level of the group, section or department. The specific control mechanism is exercised by those who are supposed to carry out the tasks but not completely free.

Exhibit 16-6 : Hierarchical Relation



There are many drawbacks experienced in employing the system of the hierarchical relation. These are described as follows:

1. Responsibility and authority are separated. Responsibility is resting with the lower level, but **authority remains on the upper level**. The problem has to be that by delegation one can rid oneself of tasks and authorities, but less of responsibility.
2. If the required authority is not given, this means that somebody "has to do something without being allowed to do so". This powerlessness has led to employees' lack of motivation and less attention to quality improvement.

The principal problem observed in organizations, which are functionally driven and controlled through specialization, is that they tend to be "top-heavy" and unresponsive, failing to utilize the ability of their people for continuous improvement. Work other than strict "doing tasks" (job-related tasks) are assigned to support functions, which report to a separate system.

(**Exhibit 16-7**) shows the elements of work and the gap between them created by the traditional structure.

The new approach aims to **establish** more workplace **involvement**. This will include job enrichment, job enlargement, autonomous work groups, empowerment and other motivational strategies. These actions are expected to facilitate continuous improvement while stimulating greater job interests among all employees. The new approach will release specialist from non-specialist functions and give employees more meaningful tasks by broadening their responsibilities.

(**Exhibit 16-8**) shows the parts of planning and evaluation roles which are reassigned to those currently responsible for doing the tasks.

16.8 REVERSE PYRAMID ORGANIZATIONAL CHART

The **hierarchical relation** of traditional structure is slow and bureaucratic. There are many **moments of truth** noticeable in the system. Decisions about most of these moments come from one place, from the top. People at the top are often so far removed from activities performed by front-line employees that their understanding of front-line operations bears no relations to reality. This traditional-style "hierarchical relation" loses too much in time, efficiency and quality decision-making to maintain competitiveness.

In order to respond fast to the needs of customers, a fundamental change (which western companies started to consider with favor) is to eliminate the traditional view of **line** and **support functions**. Middle managers should no

longer be the sole interpreters or protectors of **functional integrity** in the traditional, vertical organizational structure. Instead, middle managers must act largely as **facilitators**, seeking and removing the very same functional barriers. They can speed up overall performance by acting on those tasks requiring cross-functional, multi-unit cooperation. Most of the middle managers' time must be spent on horizontal rather than vertical communication.

Tom Peters in his book "**Thriving on Chaos**" recommends **five layers** as the maximum structures for any organization. In fact, even the five-layer limit should apply only to very complex organizations such as multi-departmental firms. Internal rivalry is a prevailing chronic problem in hierarchical organizations. It is an impediment to flattening the hierarchy and improving communication.

In order to **narrow down** the distance between management and front-line staff, making it as close as possible, the organizational chart must be turned **upside-down**. In this inverted pyramid of the hierarchy, instead of putting the customers at the lowest part, they are placed on top and the CEO at the bottom. (**Exhibit 16-9**) shows the traditional structure in contrast with the customer-driven structure.

The number of companies, **rethinking to change** their organizational structures and field of responsibilities, are increasing. Examples for companies, which have so far successfully developed a customer-driven organizational structure are: Xerox, Federal Express, Marriott Hotel, Scandinavian Air system (SAS), and Nordstrom.

Exhibit 16-7: Process Gap

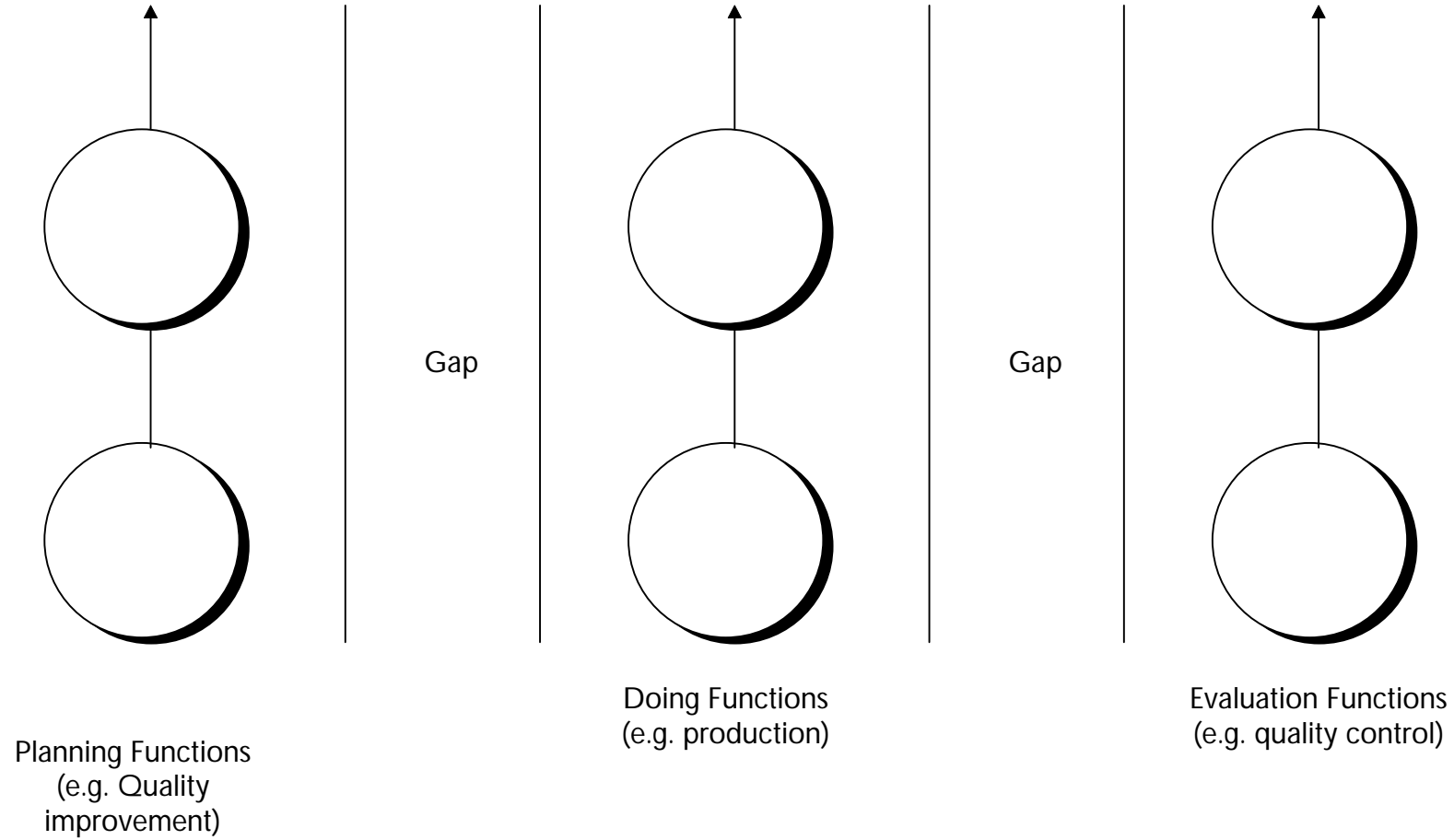


Exhibit 16-8: New Relationship of Tasks

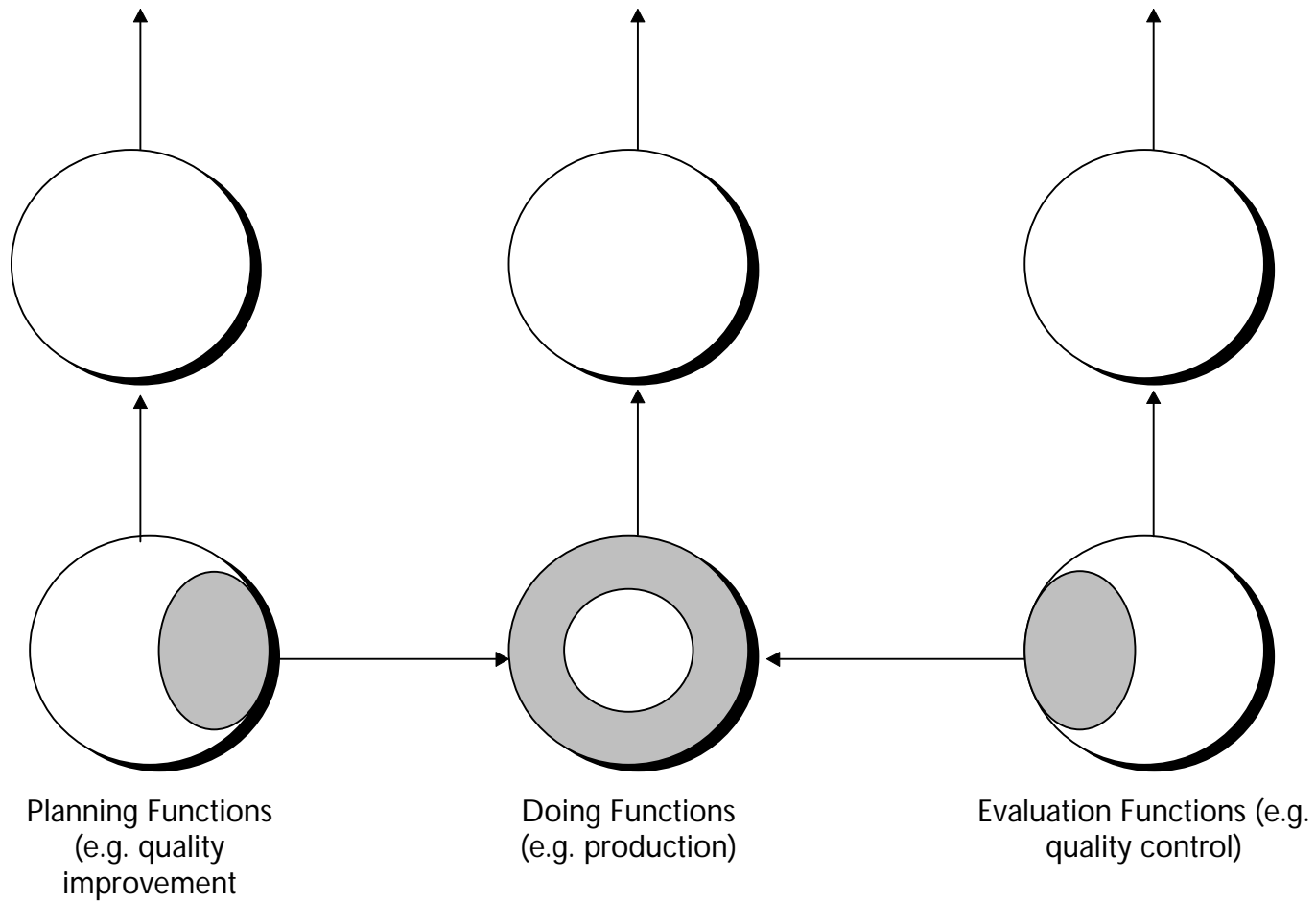
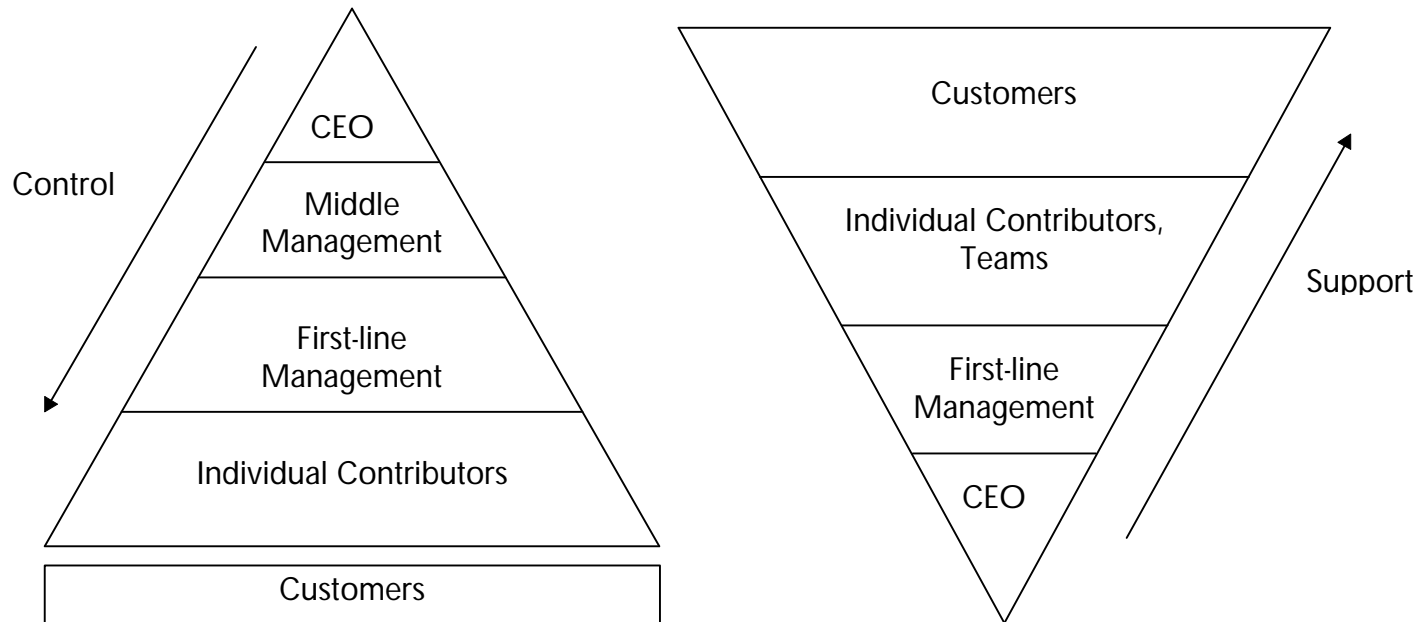
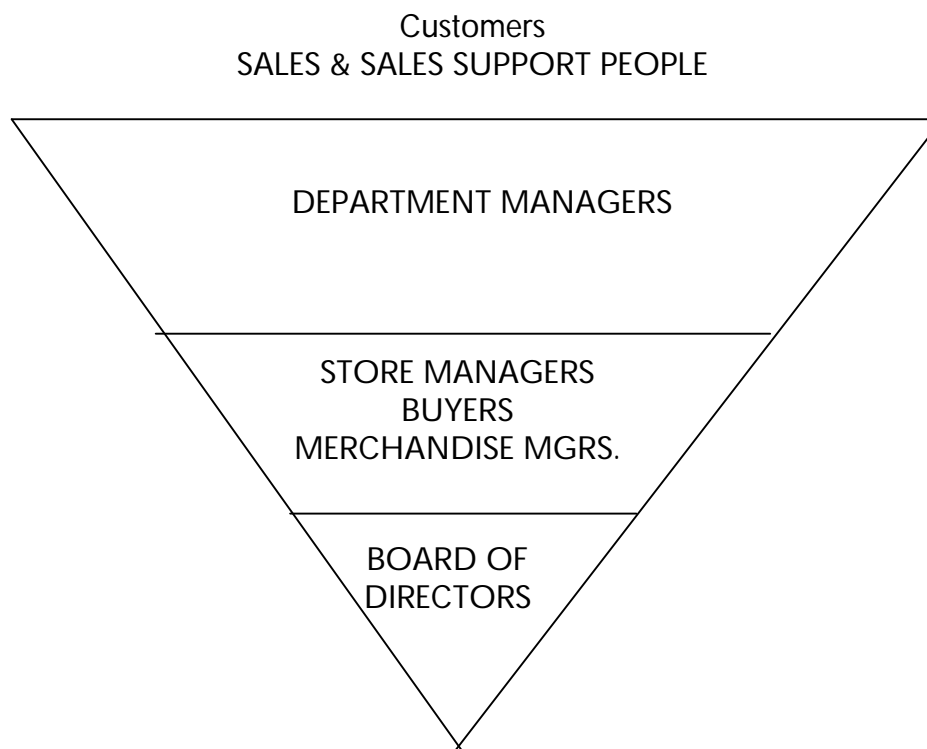


Exhibit 16-9: Inverted Pyramid Organizational Chart



A typical customer-driven organizational chart is a **reverse pyramid** with front-line employees towards the top, supervisors and middle managers below them in a support-facilitating role; then CEO at the bottom as shown in Nordstrom's organization chart. (see **Exhibit 16-10**). It is clear that the responsibility of middle management is not to control people, but to support and coordinate the functions.

Exhibit 16-10 : Nordstrom Organization Chart



16.9 MARKETING QUALITY LEADERSHIP

The **principal tasks** of managers is not to control, but to lead. Leaders are those who can help people to do a better job. Their responsibility is to make sure that employees do what they have been empowered to do.

W. Edwards describes the new roles for top management in "**Out of the Crisis.**"

"The job of management is not supervision, but leadership. Management must work on sources of improvement, the intent of quality of product and service, and on the translation of the intent into design and actual product. The required transformation of Western style of management requires that managers be leaders. The focus on outcome (management by numbers, MBO, work standards, meeting specifications) must be abolished, and leadership put in place."

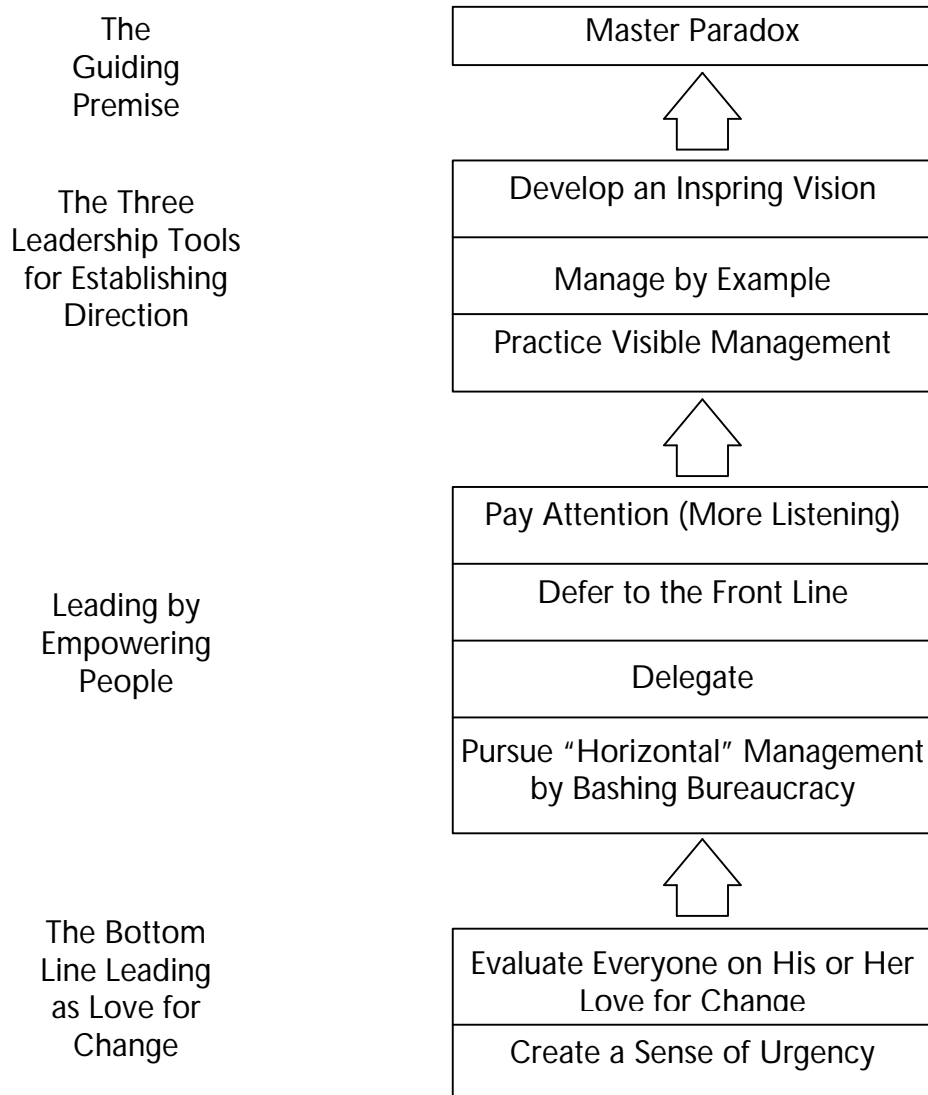
In a more traditional management cultures, the meaning given to the term leadership is somewhat amorphous. The **new role of leadership** requires the top management to first establish a common vision of what the company is all about, in terms of quality customer satisfaction and relationship. This **common vision** must be put into practice by a set of quality principles expressing a **top-to-bottom**, organization - wide belief system.

Deming believes that as many as 90 percent of quality problems are systems in nature. A major role of top management is to show their leadership by improving the system within which everybody can take part. Quality leadership requires the top management to look into the following things:

- Identify the common causes of variation within a system.
- Drive out fear.
- Eliminate the numerical quotas or target.
- Break down the functional barriers.
- Provide a new philosophy for constancy of purpose.
- Provide training and education for people to do a good job.
- Lead by empowering people.

The quality leadership is participative, transformational and visionary. In his book "**Thriving on Chaos**" **Tom Peters** proposes a graphic presentation for a new view of leadership at all levels. (see **Exhibit 16-11**).

Exhibit 16-11 : A New View of Leadership at All Levels



The task of **prime leadership** is to ensure that those on the front line are empowered to perform a better job. In order to implement a **market quality type of leadership**, it is imperative that managers should be promoted on the basis of quality leadership using such parameters as: (a) his or her attitudes

toward subordinates' accomplishments, (b) his or her ability of create excitement and enthusiasm, and (c) his or her commitment on quality improvement.

Leadership assessment should be an important tool for any organization. Employees should have the right to assess the leadership quality of their managers. **Federal Express**, for example, uses a "**Survey-Feed Back-Action**" questionnaires for employees to assess the leadership capability of their managers. Managers who are observed not equipped with the right leadership skills will be sent for a leadership training course - and they cannot be promoted. (**Exhibit 16-12**) shows the SFA questionnaires of Federal Express.

16.10 PROMOTION EMPOWERMENT

In order to develop and ensure a **high performance system**, members of the organization must be empowered, given the autonomy to do things in their own way, to achieve recognition, involvement, and a sense of worth in their job.

In most organizations, there is a lot of untapped human potential. Empowerment can lead to personal development and organizational renewal. Given the right environment, leadership style, authority, reward and recognition, employees can discover and use their own potential to do a better job. This motivates employees to express and take ownership of ideas, strive for quality and to "**buy-in**" management.

Empowerment is a condition or state of mind in which employees feel free from unnecessary restrictions on their ability to take action in the interests of customer satisfaction. Empowerment describes the process through which

Exhibit 16-12 : Survey Feedback Action of Federal Express

Survey-Feedback-Action (SFA)

HOW TO ANSWER : Read each statement carefully. Then to the right of each statement mark the bubble which best expresses your agreement or disagreement with the item. Mark only one answer for each item, and remember to respond to all items. Remember that "workgroup: means all persons who report to the same manager as you do regardless of job title.

			UNDECIDED/DON'T KNOW				
			STRONGLY DISAGREE				
			DISAGREE				
		SOMETIMES AGREE/DISAGREE	AGREE				
		STRONGLY AGREE					
1.	I feel free to tell my manager what I think.	SA	A	AD	D	SD	U
2.	My manager lets me know what's expected of me.	SA	A	AD	D	SD	U
3.	Favoritism is not a problem in my workgroup.	SA	A	AD	D	SD	U
4.	My manager helps us find ways to do our jobs better.	SA	A	AD	D	SD	U
5.	My manager is willing to listen to my concerns.	SA	A	AD	D	SD	U
6.	My manager asks for my ideas about things affecting our work.	SA	A	AD	D	SD	U
7.	My manager lets me know when I've done a good job.	SA	A	AD	D	SD	U
8.	My manager treats me with respect and dignity.	SA	A	AD	D	SD	U
9.	My manager keeps me informed about things I need to know.	SA	A	AD	D	SD	U
10.	My manager lets me do my job without interfering.	SA	A	AD	D	SD	U
11.	My manager's boss gives us the support we need.	SA	A	AD	D	SD	U
12.	Upper management (directors and above) lets us know what the company is trying to accomplish.	SA	A	AD	D	SD	U
13.	Upper management (directors and above) pays attention to ideas and suggestions from people at my level.	SA	A	AD	D	SD	U
14.	I have confidence in the fairness of management.	SA	A	AD	D	SD	U
15.	I can be sure of a job as long as I do good work.	SA	A	AD	D	SD	U
16.	I am proud to work for Federal Express.	SA	A	AD	D	SD	U
17.	Working for Federal Express will probably lead to the kind of future I want.	SA	A	AD	D	SD	U
18.	I think Federal Express does a good job for our customers.	SA	A	AD	D	SD	U
19.	All things considered, working for Federal Express is a good deal for me.	SA	A	AD	D	SD	U

managers and employees, individually and collectively, attempt consciously and continuously to make progress toward attainment of the desired goals.

The empowered employee would be stimulated to **think** of the **customer first**, and **not** the **rules first**. This kind of employee will not have fear of being punished for bending the rules to please the customer. Empowerment means being able to make decisions and take the initiative to satisfy the customer requirement. The principles of empowerment are as follows:

Principle 1 : Everyone fulfilling a task should be able to influence the result of it.

This means that the employee must have the necessary means at his or her disposal. Employees will have to know what has to come out of their hands and how that will be evaluated. There should be no secrets in the organization regarding who has been allocated which tasks. It requires open communication, training, and information to ensure the result of it.

Principle 2 : Everyone fulfilling a task should be allowed to influence the result of his or her work.

This means that the employee must be given the **necessary authority**. Besides, it should be ensured that one authority can only belong to one function. The employee will have the total ownership of his or her task for carrying out the best result.

Principle 3 : Everyone fulfilling a task must understand the requirements of external customers.

This means that employees, when fulfilling a task, must know exactly what is **important** to the **external customer requirements**, even though his or her function is rather remote from the customer. External customer requirements must, therefore, be deployed to internal processes.

Principle 4 : Everyone fulfilling a task must understand the requirements of internal customer.

This means that employee should understand the **output** of each **process function** is the **input for the next one**. This means that he or she should know exactly who those internal customers are, what they expect and whether they are satisfied or not.

Principle 5 : Everyone fulfilling a task must render accounts on the execution of the task and the use of authorities.

This means the **accountability** of the employee on a particular task is important. However, if the process does not achieve the desired results, management cannot blame the employee's failure and wash its hands from any responsibility.

Principle 6 : Collaboration between individuals must be regulated.

Regulating collaboration can be tackled by **laying down rules**. For example, a pattern of communication should be laid down for structured exchange of information. Most of the rules for regulating collaboration do not specify the job duties or covered specifications, but the improved rules must insist of doing things right for the first time.

These are some **steps to empowerment**, which are illustrated as follows:

1. The **first step** is to remove the barriers that people feel are on the way of their doing "whatever it takes" to satisfy the customers. The most powerful barrier is not having a clear, realistic understanding of the boundaries of authority.

Deming said, "**Remove barriers to pride of workmanship**". Employees are eager to do a good job and distressed when they cannot. Often, employees never get the right training to do their job. They were trained, perhaps, by another worker, or told to read the instructions. Supervisors count only the quantity of output, not the quality of work. Employees are given the responsibility to do a task, but they are not empowered to improve the quality of the task.

To employees, **power** is always seen to rest with those at the top. They are seldom given feedback on their work until there are performance rating or raises, and then it is too late. This very notion discourages good workmanship.

Power means **having a say**. Employees, who work closely with the process, may solve the problem in a short time what managers can take months of analyzing. Managers must let employees straighten out a problem and let them have a hand in shaping its resolution, rather than force employees to do what management thinks is right, no questions asked.

2. The **second step** is to change the environment in terms of policy structure, systems and communication. First, identify policy changes that will help employees serve customers better. Secondly, Top Management has to tell employees that they are given the responsibility and authority to do whatever they think is right. Thirdly, the corporate pyramid must be flattened, to eliminate hierarchical tiers of responsibility in order to facilitate exercise of authority by front - line employees.

Employees should know they won't be fined if they make a mistake. Deming says, "**Drive Out Fear**". It is necessary for better quality and productivity, that people feel secure. Secure means "**without fear**" - not afraid to express ideas, not afraid to ask questions, not afraid to contribute ideas. "Fear takes a horrible toll, fear is all around, robbing people of their pride, hurting them, robbing them of a chance to contribute to the company. It is unbelievable what happens when you unloose fear," says Deming.

3. It is important to recognize that the roles of all will change. Operators and staff will have increased responsibility, middle managers will take the key role of facilitators, Top Management

is to facilitate change. When changes take place, many existing functions will no longer be required. It is essential for Top Management to **manage resistance** during change. The best way to reduce resistance to change is to **involve** those who will be affected in the decision-making process.

Companies aim to signal the way in which they wish to proceed will be based on **levels of involvement** which are of an order of magnitude greater than the traditional approaches. The nature of the change is captured in the phrase of "**empowerment of people**" and signals a fundamental way in which companies are to be organized.