



Some Ideas About Management In the 21st Century A "Cyber" Conversation Between Fred Luthans and Richard M. Hodgetts

Fred Luthans
University of Nebraska at Lincoln
Richard M. Hodgetts
Florida International University

Hodgetts: Fred, in getting started, let me begin by asking if you'd first like to make an opening statement. Then I'd like to focus on your views of the environment in the 21st century.

Luthans: Thank you, Richard. I appreciate this opportunity for both of us to be involved in this inaugural issue of the Journal of Behavioral and Applied Management. As the membership may recall, I gave the first keynote address when IBAM was started in Denver in 1993 and Richard gave the last keynote address at the 1998 meeting in Orlando. We are delighted with this opportunity to once again address the membership, this time through its innovative on-line journal. In our more than 32 years working, kidding around, and having a great time together, I never dreamed our conversation would be in cyberspace. What a time we live in!

Hodgetts: Speaking of cyberspace, Fred, what do you think the environment for the 21st century will be like and what will managers have to do to effectively compete?

Luthans: Well certainly with the millennium around the corner this is a good time to reflect and take stock of where we've been and where we're going. And much of what's happening—and, yes, going to happen—is already in the works. We have a borderless, international economy. This is no longer talk; it's reality. Second, the information revolution has also become a reality. We no longer have to fantasize and dream about exotic computer technology—it's here artificial intelligence, expert systems, telecommunications, Internet, Internet II, intranet, extranet. All of this is now common, everyday language, and application. And then there is the quality-speed revolution which started with total quality management more than 15 years ago—and has such a big impact on organizational culture and operations and customer expectations.

Hodgetts: Before you continue, is quality going to remain a major area of consideration in the new millennium?

Luthans: Absolutely. For example, you and I have been pushing in our own recent articles that the concept of going from TQM to learning organizations and then, of course, to world-class organizations. In fact, it's almost a cliché but it bears repetition: In order to change, we must be able to learn.

Hodgetts: Do you think it's difficult for many organizations to change?

Luthans: Unfortunately, yes. But if they don't change, they won't succeed because they won't be able to keep up. What surprises me is that too many of today's organizations think they can get



by without changing. Every time I think of this faculty reasoning, I recall Einstein's response to the question: What is insanity? He said it was "people who do the same things and expect to obtain different results." This resistance to change is pure insanity given the environment in which we live. We have to change. So what I'm saying is that today's firms must become learning organizations, anticipate change and learn how to learn—and yet this isn't even enough. Now we have to move to world class organizations. These WCOs, as we call them, are basically striving to be the Journal of Behavioral and Applied Management – Summer/Fall 1999 – Vol. 1(1) Page 3 the best in this hypercompetitive environment of internationalization, advanced information, technology, quality, and speed.

Hodgetts: What do you think some of the things are that companies will need to do if they want to attain and then sustain a competitive advantage? Specifically in the organizational behavior and human resource management area?

Luthans: Yes, I'm glad you added in the OB/HR area because I think it's obvious that organizations have to keep up in the strategy and technology areas, new, innovative product development and entrepreneurship, operations and system development, etc. But I think the key here is that we can't forget the people. Jeff Pfeffer in his latest book, The Human Equation, really said it well. We are so concerned about things such as artificial intelligence that we overlook human intelligence? Moreover, in examining how organizations use human intelligence to develop a competitive advantage, we find that many organizations and their managers still don't give enough attention to tapping this human resources strength that everyone has available to them.

Hodgetts: How many organizations do you think are really using their human resources for competitive advantage?

Luthans: About one-eighth.

Hodgetts: This sounds awfully small and you didn't hesitate. Can you explain that?

Luthans: Sure. Pfeffer talks about this one-eighth factor. He has found that about half of the firms and the managers in charge do not really believe in the value of human resources. They don't think the people really make much of a difference. They are convinced that it all comes down to things such as accounting, computer programming, engineering, and capital budgeting. So half of them drop out here. Of the half remaining, only about half of them implement what we call high performance work practices or HPWPs. And I don't mean just dabbling in it and giving lip service to the latest fads; I mean fully implementing an OB/HRM approach. So only 25 percent of all organizations go all out to implement effective HR practices such as 360° feedback systems, self-managed teams, pay for performance plans, gain sharing, employee involvement and empowerment, etc. that we so commonly read about in the OB/HRM literature.

Hodgetts: That gets us down to one firm in four. Where does the next cut come?

Luthans: The answer is that half of those who do implement these HPWPs don't stick with them; they are not committed to this human approach over the long run. So that means that you are left



with one-eighth—one-half x one-half x one-half. So, who are the one-eighth firms? They're the best firms in the world! They include companies such as Southwest Airlines, General Electric, Norwest Banks, a company that I work with here in Lincoln Nebraska, Gallup Inc., and overseas firms such as Virgin Airlines and ABB.

Hodgetts: Can companies change their attitude toward learning and the importance of the human factor or are they just plain stuck in a rut?

Luthans: Well that's obviously one of the problems. If they don't get on board with this kind of one-eighth mentality that the good companies are doing, they are the ones that are going to be beaten in the competitive battles ahead. Now in the short run some of these companies have had success—they've been able to sort of bury their mistakes. But once they level off, once the competition becomes full blown, they're going to fall back to earth.

Hodgetts: Is this HR deficit more pronounced with high tech firms than, say, with service enterprises?

Luthans: No, I wouldn't draw that distinction. Take Bill Gates, the ultimate techie. A reason he has done so well is because he believes in the people part of his business. In fact, one of his quotes that I like is "My inventory, the value of my company, walks out the door every night." I think Gates appreciates the human side of enterprise. He has reward systems, he has teams, he has all the things we talk about in HR; you can find not only the most sophisticated technology in the world, but also textbook examples of effective OB/HR at Microsoft. Gates is obviously the ultimate techie, but he is also an appreciative manager of human resources.

Hodgetts: So you can be a techie and still understand HR?

Luthans: Those are the ones who are most effective and sustainable. They have a balanced approach. It's like Robert Katz explained long ago when he described the necessary skills that effective managers need: technical, conceptual, and human. The technical has to be there; and if they don't have the technical, managers are in trouble. On the other hand, they also need the conceptual (communication, strategic planning) and human perspective and skills. And that's where my career has been focused for over 30 years—the human side of management.

Hodgetts: One of the things that I hear said a lot by the best companies is that HR is not a soft area. It's not about feeling good, walking around smiling and patting people on the back. That's old-line stuff. HR has a lot more muscle and a lot less fat. Do you think that's one of the problems that many firms have—they see HR as nothing more than a feel good type of approach.

Luthans: I think you're right. And that's one of the things that we have to overcome in the field of organizational behavior and human resources management. I think that that image may have been justified in the 1970s and 1980s, but it's not true in the last 15 years. There is no question that HR managers have had their feet held to the fire and justifiably so. Today they have to answer the question: Can you show that this stuff works? That is has an impact on the bottom line? And, of course, that is what my own approach has always been. I'm not a feel good type of HR advocate. I've always said that the key to what we are trying to do in organizational behavior



and human resource management should be performance improvement. And with some of the research data that we have gathered over the years and are now analyzing with meta-analysis, we've been able to show the impact on employee performance which translates, of course, into bottom line profits and growth.

Hodgetts: What are some of the specific things that you learned from the meta-analysis?

Luthans: Well, the area that I am personally most excited about is the behavioral management approach that I have been associated with for over 25 years. We have been able to prove, at least to my satisfaction, that it really does work. We've had study after study, but it wasn't until recent years that meta-analysis was able to take all of these studies together and show through systematic quantitative analysis what impact we really can have on performance. Alex Stajkovic and I conducted and published in the October 1997 issue of the Academy of Management Journal, a meta-analysis of all the organizational behavior modification (O.B. Mod.) studies with which I was directly or indirectly associated in my career over the last quarter century.

Hodgetts: What did you find?

Luthans: We found that O.B. Mod. had an average increase of 17% in employee performance. We think that is pretty impressive, especially when you consider many technological innovations or some of the better known human resource techniques such as goal setting do not have evidence of that big an impact. In addition, we also found through this meta-analysis some significant theory driven moderators. Specifically, we found that the type of organization and the type of contingent reinforcement intervention moderates the relationship between O.B. Mod. and employee performance. For example, we found that O.B. Mod. had a bigger impact in manufacturing organizations, approximately 33% average improvement, than in service organizations at about 10%. However, it must be remembered that this 10% is still highly significant and can make a big difference in the labor intensive service industry.

Hodgetts: How come O.B. Mod. seems to have a bigger impact in manufacturing than in service firms?

Luthans: Critical performance behaviors are more identifiable in manufacturing organizations. In service organizations we cannot get at, at least through the research, the specific behaviors that impact on bottom line performance. But the point that the moderator analysis found is that the type of organization does make a difference as to the impact of O.B. Mod. and so does the type of reinforcer. Money obviously works, but so does performance feedback and social recognition. The relative impact of these reinforcers--and they're somewhat complicated by the type of organization and whether they are used in combination with one another--is that the non-financial rewards may work as well as the financial ones. Importantly, this is not to say that money is not important; but it does say that people are very receptive to recognition and feedback on how they're doing. Of course, from a cost-conscious management standpoint, the power of feedback and social recognition and attention makes for a very attractive reward system.



Hodgetts: Does money play any bigger role in the service industry as opposed, say, to manufacturing?

Luthans: Well, again, our meta-analysis showed that money used alone in service organizations had about an average impact, but when used in combination with feedback had about twice the impact. However, the recognition and feedback combination was about equal to this money and feedback combination. But the bottom line is that money can be an effective incentive for employee performance, but so can feedback and social recognition in both manufacturing and service organizations.

Hodgetts: Do you think that in the next decade we will see more of a movement toward pay for performance plans?

Luthans: I think the key here is that in the classroom we have always talked about the value of contingent pay—pay for performance, rather than just hourly or continuous schedules of reward including pay. Obviously, we feel that management will get better employee performance from contingent pay systems. However, that's easier said than done. In many industries and jobs, it's much more difficult to actually have a pay for performance system that is fair, in terms of procedural justice, but also in terms of actually identifying who gets what. This is particularly true as we move toward teams and gain sharing plans where everyone participates. Obviously, if we want teamwork we have to reinforce it. And my take on this is that you get what you reinforce. You don't necessarily get what you reward. We make this technical distinction between reward, which is the typical way we pay people in organizations and which we think will work, versus reinforcement, which is irrationally defined as a contingent consequence that will increase the preceding behavior and increase its subsequent frequency of occurrence. The point I'm making is that we have to move away from what we think will reward people like salaries and benefits and working conditions and move toward what do in fact lead to performance improvement. And that may be money through a pay for performance plan or it may be supervisors in a caring, genuine way providing contingent recognition, attention, and feedback to their people for performance improvements, customer service, etc.

Hodgetts: Fred, you've been working with this behavioral management approach to performance improvement for 25 years. Where do you go from here?

Luthans: Well, as I said earlier, from the meta-analysis I feel that we've proven that behavioral management works. However, in this increasingly complex environment I talked about in my introductory comments, I now feel that we have to take more into consideration both environmental and cognitive approaches to managing people and organizations. Human performance is still what we're after, the competitive advantage—this is the assumption I'm starting with. However, now, just like famous social psychologist Albert Bandura, going from a fairly environmental perspective to a social learning perspective to what he now calls social cognition, this is the same kind of pattern that I'm following. I am not going to turn my back on behaviorism, reinforcement theory, and behavioral management, but instead I am making a move toward a more social learning and most recently a social cognitive approach.

Hodgetts: What do you mean by a social cognitive approach?



Luthans: The social cognitive approach is a combination of both environmental, or social, and cognitive approaches to human behavior. Working closely with my former doctoral student Alex Stajkovic, now a professor at Cal-Irvine and starting next fall at Wisconsin-Madison, who is taking the lead, we're now basically extending this complex theory of human thought and action to organizational behavior and human performance in organizations. We are taking a social cognitive approach, a Bandurian approach to social cognition, which basically says that there are several human capabilities: symbolic, forethought, observational, self-regulation, and self-reflection. Taking off from the self-reflection capability is where Bandura in his 1997 book really emphasizes the importance of self-efficacy in human action. He defines self-efficacy as the belief in one's capabilities to organize and execute the courses of action required to produce given attainments. So what we're now saying is that employees' perceptions or beliefs about how they can succeed on a specific task may be critical to their performance in organizations. It's almost like task specific self-confidence, although technically there are differences between self-efficacy and self-confidence and also with self-esteem and the older expectancy theories of motivation. Alex and I are convinced that self-efficacy is a construct that can have a tremendous impact on understanding, predicting and especially managing employees and their performance.

Hodgetts: Can you be more specific of how employees' self-efficacy can affect their performance?

Luthans: What I'm saying here is that if employees have a high level of self-efficacy, this belief in their ability or resources to accomplish a given outcome, then they will, number one, initiate the behavior to accomplish the task. So, instead of just being assigned to do a job, given a job description, and then half-heartedly go through the motions, the employee with high self-efficacy will really get into the job. This initiating the behavior to successfully accomplish the task comes out of self-efficacy perceptions. This is all theoretically well developed and tested by considerable relevant research. Secondly, not only will the person who is efficacious launch into the task and initiate the necessary behavior, but the individual will also put forth the effort that is needed to accomplish the task. Thirdly, and probably most important in this complex environment that I've been describing, is that people with high self-efficacy will persist when they meet obstacles or even when they fail. Instead of giving up, walking away, retiring on the job, what they will do is persist and this persistence becomes an especially important characteristic in our employees in this complex, increasingly frustrating, and ever changing environment we are now faced with.

Hodgetts: And the outcome of this initiating behavior, effort and persistence is high performance, yes?

Luthans: Right! All other things equal, high self-efficacy will tend to lead to high performance. Now how do we know that? Because Stajkovic and I have

recently completed and published in the Vol. 124, No. 2 issue of Psychological Bulletin another meta-analysis on a much bigger body of research (N=114 studies and over 21,000 subjects) than is available in my behavioral management work that I'd done. And we found a highly significant .38 overall average correlation between self-efficacy and work-related performance. This



transforms into an impressive 28% improvement in performance. Now remember that we got 17% improvement in our behavioral management meta-analysis. Now we get an even higher 28% improvement in performance attributed to self-efficacy. The two are not directly comparable because O.B. Mod. is an intervention and self-efficacy is just related to performance, but obviously we are very excited about the possibilities that self-efficacy has for performance management.

Hodgetts: Your work on behavioral management deals with a specific five-step model for O.B. Mod. It is, as you point out, an intervention that can be actually implemented as a way to manage employees. This self-efficacy, however, is as you say based on social cognitive processes. What can management possibly do to use this to improve the performance of their employees?

Luthans: Good question. An important key about self-efficacy, and how it differs from complex personality and other psychological processes, is that it is not a trait; it is not a predispositional characteristic; it is not achievement motivation; it is not self-esteem. These are more global traits; they do not tend to change. Employees largely bring these traits to the workplace with them and management cannot do much about them. Self-efficacy, on the other hand, at least according to Bandura, is a state not a trait. This means that it can change and be developed and it is determined by the nature of the task and the situational context. And this is where the beauty of social cognition comes into play. Bandura's theory recognizes a triadic reciprocal interaction between the person/cognitions, the environment, and the behavior itself. It is not one or the other but all three interacting (but not necessarily in symmetry). He suggests that the main contributions to a person's self-efficacy are things like enactive mastery. This means that people who succeed build their self-efficacy. It's a self-fulfilling prophecy in a way. And also one's self-efficacy can be built by modeling and vicarious learning where people observe others who are successful and they learn through this observation to also be successful. This, in turn, builds their self-efficacy. In other words, the beauty of self-efficacy for OB/HRM is that it is a state rather than a trait, it can be learned and, yes, trained in employees.

Hodgetts: Is this still at the stage of theory only?

Luthans: No. There are a number of studies that have found you can increase self-efficacy through training. We have been able to raise employee efficacy in both manufacturing and service organizations. This becomes very exciting because the increased efficacy can lead to increased employee performance; what I am interested in.

Hodgetts: In your previous meta-analysis on O. B. Mod., you found some interesting moderating effects. Were there also moderators in the relationship between self-efficacy and performance?

Luthans: Most definitely. There were two moderators – task complexity and the nature of the context. We found that task complexity mattered. Efficacy had the strongest relationship with performance on tasks with low complexity and the least, but still highly significant, relationship with performance on tasks of high complexity. These moderators are important to recognize, but the point is there is a strong main effect between personal self-efficacy and performance. We are committed to using the social cognitive theoretical foundation and the self-efficacy derivative to develop new organizational behavior theory and a performance management model, then test it



through empirical research, and finally apply it for more effective human resource management for the 21st Century.

Luthans: At this point, let me turn this conversation around and now ask you some questions. I am in OB/HRM, but you have done most of your work in the strategy field. What are some of the ideas in strategy that you are developing and what do you see as some of the more important strategic challenges facing management in the new century?

Hodgetts: Well, I feel there really are two developments that are currently very important in strategy—and both closely link to what you have been doing. First, I see strategy undergoing a change to become less nebulous, less "let's look for the new paradigm," and more "let's see how we can make all of this strategic approach really work." I see us moving more from formulation of strategy alone to a combination of formulation and implementation.

Luthans: So there's more of an implementation, performance-based dimension of strategy that is emerging?

Hodgetts: Absolutely. In fact, over the last 3-4 years of working with executives in strategy sessions, I have myself found more and more using the word leadership, which is not supposed to be a topic of any real concern to a strategist. But I'm beginning to realize that good strategy has good leaders who know how to implement the initiatives. And I think that's where we missed the boat in the recent past. We were so concerned about where we were going in the future that we forgot to link the strategy with where we were currently.

Luthans: What about the relationship between strategy and OB academics?

Hodgetts: I think a problem was that we strategy professors used to watch our colleagues down the hall teaching and doing research in organizational behavior at the university and think, "That's nice, but that's certainly less important than what we're doing in strategy." But the more experience I've gotten with real world organizations, the more I've come to realize that organizations can perform better and save a lot of money if everyone knows the strategic plan and, more important, how to implement it through people. So one of the changes I see taking place is a meshing between what you've been doing in OB/HRM and what I've been doing. In strategy and I hope in organizational behavior, we are now thinking a lot more in terms of process forms of implementation for performance improvement while eliminating the old specialized silo or functional approach. So one change that's taking place is more of an integration of strategy and HRM/OB.

Luthans: You mentioned two major developments in your field of strategy, what's the other?

Hodgetts: The other is realizing that a lot of things that we tried to do in the past, such as grow businesses very quickly, often turned out to be self-defeating. We should focus more on "thinking small," by picking good niches and being highly profitable with the strategy—but not necessarily being too big because there are few firms that can grow to the size, say, of a Microsoft or a Wal-Mart. And to pursue this type of growth thinking can lead a company into a dangerous strategic path. You overburden your people when you do this, you have to hire more



good people to keep up, and you have copious problems and barriers in implementing your strategic plan.

Luthans: How will this play out in the future?

Hodgetts: I think we're going to find two developments in the new millennium regarding strategy—and I'll put them in reverse order. One is a concerted effort to find what makes the company unique or different and focusing on building on these particular strengths rather than trying to be everything to everybody. The other is realizing that a good strategy is only as good as the support it has in the organization. People have to understand, own, and accept the strategy.

Luthans: And they have to do this more carefully and systematically?

Hodgetts: Yes, and with an emphasis toward not getting carried away with growth but rather stepping back and taking a smaller bite out of the apple. For example, for years good strategists have continued to emphasize the need to examine product lines and to choose those that provide the highest profits and let the nickel and dime items go. They're not worth the effort, in many cases, and in some cases it costs more to gain this revenue than the firm earns from its efforts. So again—do fewer things better. Michael Porter recently said that one of the problems companies have is that they spend an awful lot of time pursuing customers who are not very profitable. Drucker said the same thing over 30 years ago. But I think that people still try to grow the business without regard to how profitable these customers are. Fortunately, there are a few firms which are doing just the opposite. Some of my best clients have programs that can be called "fire the customer." If a person doesn't do enough business with the company and it's not profitable enough, the firm won't do business with them.

Luthans: Do you have a parting statement?

Hodgetts: I guess what I see is a coalescing, an integration, of the strategy and organizational behavioral areas. The strategy people are still interested in mission, vision, and the big picture, to be sure, but they need to start thinking more like the organizational behaviorists in terms of answering the question: How do we get there?

Luthans: Well said Richard, as usual. I would like to conclude this fun conversation delivered in cyberspace by congratulating the IBAM leadership and membership for their strategy of promoting the development of behavioral and applied management and taking a big step in implementation with this cutting edge, thinking "outside the box" electronic journal for their association. Richard and I both congratulate you and thank you for letting us be part of the early history of your "learning", soon to be "world-class" association.