



Managing Essentials

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Editorial: Fundamentals of Leadership - Justice.

By Wolfgang Battmann and Roland Maass

Justice is probably not the first association when it comes to the fundamentals of leadership and organizations. Leaders should bring about vision, charisma and technical excellence and organizations should focus on markets and efficiency as the key elements of their existence. Also historically, great leaders rarely have the reputation as being “just” individuals. Their fame is regularly based on wars and conquests, endeavors expressing sheer power and national or personal interests, certainly not justice for those defeated. Even leaders who became famous as being “just” like Salomon or Napoleon, who in the evenings of his campaigns dictated with the “Napoleon Code” the foundation of French civil law, point more to the difficulties of establishing justice and its ambivalences, rather than its rule.

In addition, since its very beginning business economics is understood in Darwinian terms of fighting for survival in an environment characterized by

merciless competition. Neither markets, competitors, or customers are inspired by fairness, but follow rules allowing only the survival of the fittest or serving self-interests. Economic organizations have to bow down to these conditions and in their structure do not express the ethical or moral principles of justice but bare economic necessities, allowing them to grow and prosper in a hostile environment. Finally, for a long time the majority of people in history did not expect justice in general or from economic organizations in particular. However, in the last century things changed rapidly. After his first election success Barack Obama pointed out that he became president of a country in which just a few decades earlier his father, as a black man, still had to sit at the back of buses. Today in many parts of the world, justice also seems a luxury in the lives of people having to fight for their basic needs on a daily basis.

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Managing people

The role of data-crunching and behavioral economics in campaigns.

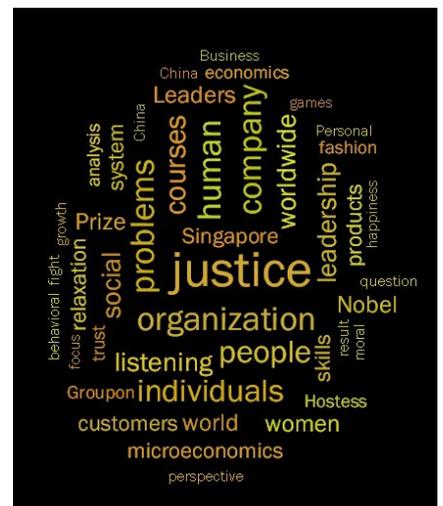
There have not only been political winners in the US presidential campaign, but also scientific ones. In “Time Magazine” Michael Grunwald had already detailed some scientific methods used in the 2008 campaign. Also this time, pollsters disseminating databases and psychologists designing voter activation procedures, played a major role in Obama’s campaign.

Sean Gallagher from “Ars Technica” tells the story of the heroes and their tools on the data front from a more technical perspective. In “The Atlantic” magazine Alexis C. Madrigal focuses on the human side. It ends at the ballot box, but before that, campaigning is a complex virtual operation in which voters and donors are

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The role of data-crunching and behavioral economics in campaigns. (continued)

targeted with roboted calls, emails and advertisements. In addition, regional staff and volunteers have to be organized and equipped with materials and, finally, the effects of the activities have to be tracked to optimize the allocation of resources. This effort required giant databases and fostered the innovation of a variety of software tools. In the "New York Times" Benedict Carey described the role of prominent cognitive psychologists and behavioral economists who formed a "consortium of behavioral scientists". This "dream team" advised with regard to the content of material and the procedures to activate voters. Central topics were impression formation, argumentative strategies and behavioral scripts increasing actual voter turnout. Also however, even before voting, during the stage of fund raising, the interplay between data-analysis and psychological strategies can make a significant difference. A suboptimal email campaign raises only 20% of the best performing ones.

Gender differences onboard.

The percentage of women in business travel has increased continually in the last decade and is now close to 50%. However, according to Scott McCartney in the "Wall Street Journal", women travel differently to men.

While most carriers still have more men than women in their frequent flyer programs, parity between genders is close and some even report more women than men in general or in specific age groups. This implies the need for changes to an industry traditionally focused on male behaviors and preferences. On airplanes, women prefer window seats, are more likely to eat salads, and check in their baggage because of carrying more liquids. In hotels women prefer to read in bed whilst men prefer chairs. Women also differ behaviorally by curling up to avoid contact whilst men look for contact and stretch their legs. The fight for the armrest is a symbolic one for the

The tremendous sum of money spent in US elections, about US\$ 6 billion in 2012, also subsidizes some scientific and technological progress. Many of the technical solutions developed for handling the "big data" will certainly find their way into other fields. The behavioral techniques used are not themselves new but the attempt to apply them systematically on a broad scale is. One hesitates to equalize political campaigns with a marketing of ideas and persons; however there is an overlap. For everybody interested in customer relationship management the articles contain some valuable hints.

remains of what had once been male dominance. Women often complain at having to engage in this fight to win the armrest as they still feel less accepted and respected in the frequent flyer world.

Small differences can have big effects and service providers are aware of that. To adapt services to a world of two genders is a necessity if competitive advantages are sought. Hotels and fitness clubs focusing on women have sprung up nearly everywhere worldwide. However, also here adaption between the genders is a two way process. It is interesting to question if these small differences will still be found twenty years from now or if travelling becomes like clothing more and more unisex.



Burattini, unknown artist*

Links and Literature

How Obama Is Using the Science of Change (Michael Grunwald)
www.managing-essentials.com/2la

Built to win: Deep inside Obama's campaign tech (Sean Gallagher)
www.managing-essentials.com/2lb

When the Nerds Go Marching In (Alexis Madrigal)
www.managing-essentials.com/2lc

Academic 'Dream Team' Helped Obama's Effort (Benedict Carey)
www.managing-essentials.com/2ld

Women prefer windows

Links and Literature

He Carries On, She Likes to Check (Scott McCartney)
www.managing-essentials.com/2le



Will China's growth outdo the West?

Recent crises and the "lost decade" in Japan worry many that the philosophy of permanent growth may be not as sound as hoped for. Some months ago the topic was addressed in the "Economist" and now, in the "New York Times", Uwe E. Reinhardt reflects on the issue comparing the prospects of the US and China.

Growth rates of less than 3% characterize the US and Europe and compare to 6 % for India and Brazil and 8% for China. The IMF predicts that with its GDP in a few years' time China will overtake the US. Reinhardt points out however that a comparison of GDPs can be misleading since it disregards the significant difference in population size. On a per-capita level China and India will continue to stay far behind the West for a long time; nevertheless, the times of strong growth in the West may be over.

Singapore, the cool city.

Nearly every year now studies are published ranking world nations for the happiness of their populations. Singapore regularly stands out. As the news site "www.insing.com" analyzes, the recent Gallup poll on emotionality differs in its focus, but adds some spice to previous happiness findings.

The Gallup Organization conducted a worldwide poll asking respondents which and how many emotions they experienced during a regular workday, e.g. "Did you smile yesterday?" The Philippines, El Salvador, Bahrain, Oman and Colombia are the top five countries to go if you want an emotional atmosphere around you. Georgia, Lithuania, Russia and Madagascar are to be avoided as the lowest ranking countries if there was not Singapore, the most emotionless country worldwide. That Singapore, regularly a frontrunner when it comes to GDP, competitiveness and education fares so badly has astonished many observers since these

As Robert J. Gordon argues in an in-depth analysis, the West seems to have fully exploited the fruits of three industrial revolutions in the last 250 years. He sees especially demographic problems and accumulated debt having the potential to stifle growth significantly.

Gordon's profound analysis questions the assumption of eternal economic growth. Of course a further revolution may be in the making, but social policy cannot be based on such speculations. The BRIC and other developing countries have the potential and the need to grow within the limits of the past revolutions for some time yet. One could ask if the West needs a new revolution to save it from the mountains of accumulated debt.

variables are in general good predictors of happiness. The data indicates that the disciplined productivity of Singapore does not bring with it a positive life experience. They correspond well with other findings, that despite good employment figures actual work satisfaction remains low.

This short range "emotionality measure" will, in the long run, further impact on the happiness indexes, where Singapore already ranks low compared to other countries with a comparable economic basis. The society of Singapore must shift from good numbers to good living if it wants to keep its current competitive advantage. Lack of happiness is costly as sickness rates tend to go up and life expectancy decreases. What's more however, on the basis of their achievements over the last decades the people of Singapore just deserve some more fun!

Links and Literature

China's Economic Growth and American Fears (Uwe E. Reinhardt)

www.managing-essentials.com/2ln

Is U.S. Economic Growth Over? Faltering Innovation Confronts Six Headwinds. (Robert J. Gordon)

www.managing-essentials.com/2lo

**Some fun, a
quality of life**

Links and Literature

No time for emotions in Singapore (insing.com)

www.managing-essentials.com/2lp

Singapore Ranks as Least Emotional Country in the World

Residents living in the Philippines are the most emotional (Jon Clifton)

www.managing-essentials.com/2lq



Zara, a glimpse into the fast-fashion industry.

The fashion industry with its frequent ups and downs of brands, is a fascinating business universe. In “The New York Times” Suzy Hansen analyzes one of its most successful actors during the last two decades, Inditex, the company behind the label “Zara”.

With a fortune of US\$ 53 billion, Amancio Ortega Gaona, the Spanish founder of Zara, has recently overtaken Warren Buffet in personal wealth. Comparably his fashion label Zara outperformed its competition in the last two decades selling over 800 million garments per year in 5,900 stores worldwide. The stores are closely linked to the headquarters in La Coruna, a small city in the Galician part of Spain. Mixed teams of designers and managers meet customer responses very quickly to identify global trends. As a leader in “fast fashion” Zara quickly designs and ships garments, spearheading these trends in a closely interwoven system linking

customer responses with design and production processes. Unlike many competitors who use global manufacturers, the company produces a significant proportion of its clothing locally, in or close to Spain. Making its money in the international world of glamour and fashion, internally the company is characterized by a culture of modesty and functionality.

Zara exemplifies that cost efficiency is a system approach and should not be equalized with the sum of isolated cost cutting attempts. Quality orientation and a fast adopting design strategy are the cornerstones of this system. In “Bloomberg Businessweek”, Sapna Maheshwari suggests that if consumers suffer a fast-fashion fatigue and turn to higher prized and longer lasting items, Zara will be one of the main beneficiaries of this trend.

Groupon must fight hard to become a “hot deal” again.

The high expectations raised by internet retailer Groupon at its Initial Public Offer (IPO) just a year ago met sobering realities. Panos Mourdoukoutas explains in a series of articles in “Forbes Magazine” why the company has so many difficulties.

A year ago Groupon was listed on the stock exchange, cherished by many as the first major internet company going public with an innovative idea for many years. Its name comprises this idea as an acronym (Group, on, coupon). In its famous “daily deals” Groupon tried to bring groups of customers together which, if sufficient in size, would get a product with a significant discount for which the company gave out a coupon. However, since last year stock value has lost 85 percent going down from US\$ 20 to around US\$ 3 in hectic trading during the last days. A significant gain in revenue did not help to prevent further downgrades by analysts. Revenue in the US grew about 30% but remained behind expectations and the entry into

other markets proved difficult and costly. Now many commentators including Panos Mourdoukoutas and Julianne Pepitone question the business model which has some disadvantages compared to other online market places. There is no continuity with regard to the products offered, the buyer depends on a group and cannot buy spontaneously. Panos Mourdoukoutas proposes that Facebook should buy Groupon which could bring social buying processes and social media closer together.

Groupon suffers from the fact that everybody loves a “hot deal”, but many household products do not fit into such an approach and more sophisticated products are sold through other channels. With permanent “always-on” products Groupon now tries to bring more stability to its product portfolio. However, by doing so it risks losing its former “hot deal” focused buyers and enters a market in which big players like Amazon beat the drums.

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Links and Literature

How Zara Grew Into the World's Largest Fashion Retailer (Suzy Hansen)

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Gap Gains With Zara Responding to Fast-Fashion Fatigue (Sapna Maheshwari)

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Groupon still a hot deal?

Links and Literature

What to Do With Groupon's Stock (Panos Mourdoukoutas)

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Groupon plummets 30%. Can the company survive? (Julianne Pepitone)

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With this background it is also not surprising that research on justice in organizations only gained importance in the 1970s, and is still confined to the developed nations, but developing with enormous speed. For the organizations in these countries justice has become a central topic and a cornerstone of corporate culture. Justice refers to the question of how matters are, compared to how they ought to be. Simplified, the result should be that the organization is perceived as “fair”. Who wants to work in an organization which is not fair? In 2001, Jason A. Colquitt et al integrated over 180 studies in a meta-analysis and demonstrated that the perception of fairness has a tremendous impact on work attitudes, job satisfaction, commitment and trust.

If employees choose, companies perceived as “unfair” not only have to face a lower morale at work and more problematic interpersonal relationships but also a higher employee turnover in which the best often choose to go first, suggesting therefore that injustice can be expensive. In a study by Lind et al on downsizing, 66% of the respondents who regarded their layoff as unjust considered litigation. In the group which felt justly treated the rate was only 15%. If a pay cut is well explained with convincing arguments, turnover is significantly lower than if it is just announced.

To what extent a company is regarded as fair depends on three central dimensions of justice. Procedural justice refers to the processes within an organization, which should be consistent, free from bias, and considerate of everybody. Secondly, distributive justice should ensure that everybody gets a fair share of the output in relation to the input, and thirdly, interpersonal justice means that individuals are treated with respect and dignity and are appropriately informed.

These dimensions overlap and the distinction is in fact academic, but it is also helpful in pointing to the central role

of procedural justice. If gains are allocated fairly, how employees are treated depends on the rules and procedures which an organization has developed for itself and which are exemplified by its leadership. Of course, in a big organization there will be variances in behavior and there are always situational factors to be considered, but the principles should be clear.

Traditionally, some Asian companies have been at the forefront of interpersonal justice at the work place. It is part of the more Confucian culture to see the social element as the crucial one and to strive for an equilibrium which is regarded as fair by all. The success of some Japanese companies in the 1970s and of Korean companies today, is more due to a loyal and committed workforce and its harmonious organization than it is to ground breaking innovations in product design or engineering.

Worldwide, military organizations like armies which put their employees at real risk, have for many decades been striving for principled and fair organization. It is evident that a leadership making life or death decisions needs special legitimacy and qualification. The rules under which units and individuals are put at risk must not be arbitrary. The high standards with regard to private relationships within armies have not much to do with prudishness but a lot to do with the dangers of preferential treatment and this is often overlooked. It is natural to keep a loved one out of harm's way and promote those one likes. However, where orders have to be obeyed, close to unconditional trust in those giving them is required and there is no room for personal feelings or doubts in the qualification of those giving them.

Fortunately the decisions of most leaders are less dramatic and consequential, but also their leadership position is based on trust from all levels in the organization. Trust is a feeling, but as a meta-analysis by Dirks & Ferrin of 107 samples with over 20,000 subjects indicates, its major ingredient is the



Assiette représentant le jugement de Salomon, unknown artist*

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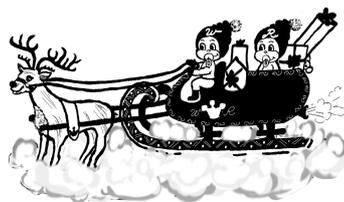
perception that the leader is committed to justice. The study shows that there can be no leadership without vision and direction, but it is the perception of justice which will decide over the quality of the interaction and performance.

How can justice be achieved? There are many approaches from a variety of philosophical backgrounds, but for organizations the pragmatic approach of US law philosopher John Rawls seems the most adequate. In his social justice approach, Rawls argues that inequalities must be minimized and opportunities maximized for all. Inequalities are unavoidable, but they must be of advantage for all and be connected to positions which are open to all. This sounds a little complicated, but in essence it means that everybody should have a fair chance in an organization and as far as differences between positions exist, they should be to every one's advantage. Russell Cropanzano et al give an overview on recent fair approaches to classical problems in placement, payment and performance assessment. They demonstrate that justice is not an obstacle to organizational functionality but, on the contrary, can be helpful to find a form in which all members comprehend their role.

Justice can be a sober topic, to create and maintain it in the daily life of an organization requires efforts which may be difficult from an emotional perspective. It is an illusion anyway, but we want to see organizations as kind of individualistic enterprises. Not only is it that we buy mass products to express our individuality from industrial organizations, but also inside the

organization we like to see and feel ourselves as individuals, not as interchangeable agents within a system. Justice puts this individualistic perspective into the background and focuses on the rules and procedures which should be applied to all. The central term is equality and not individuality. Not individualistic deliberations but impersonal procedures which should stand the tests of consensus, time and situational differentiation should decide the course of action.

The benefits of this perspective only become evident on second sight. Individualism is often also a source of sorrow and can lead to discriminatory or inadequate treatment, insufficient information, partiality or loose arguments and decisions. The "bad boss" is one of the most frequently named problems in nearly all companies. To insist on organizational justice requires not only organizations as a whole to aspire to higher standards but also for everybody within them. Only as long as individualism brings around an advantage is it regarded as a prized privilege, in all other cases individuals prefer to be treated with fairness, like everybody in a comparable situation.



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