

The Management Effectiveness Circle

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This short paper and related circular diagram illustrate the need for an executive to analyze and inquire on a broad spectrum of subjects, then apply all the answers to make effective management decisions. The result is the creation of a competitively priced marketable product or service. One of the keys for successful use of the Effectiveness Circle is to broaden the criteria for educating executives, which today should include areas from the liberal arts as well as the common areas of business study.

THE RELATIONSHIP OF THE *CIRCLE* TO DECISION MAKING

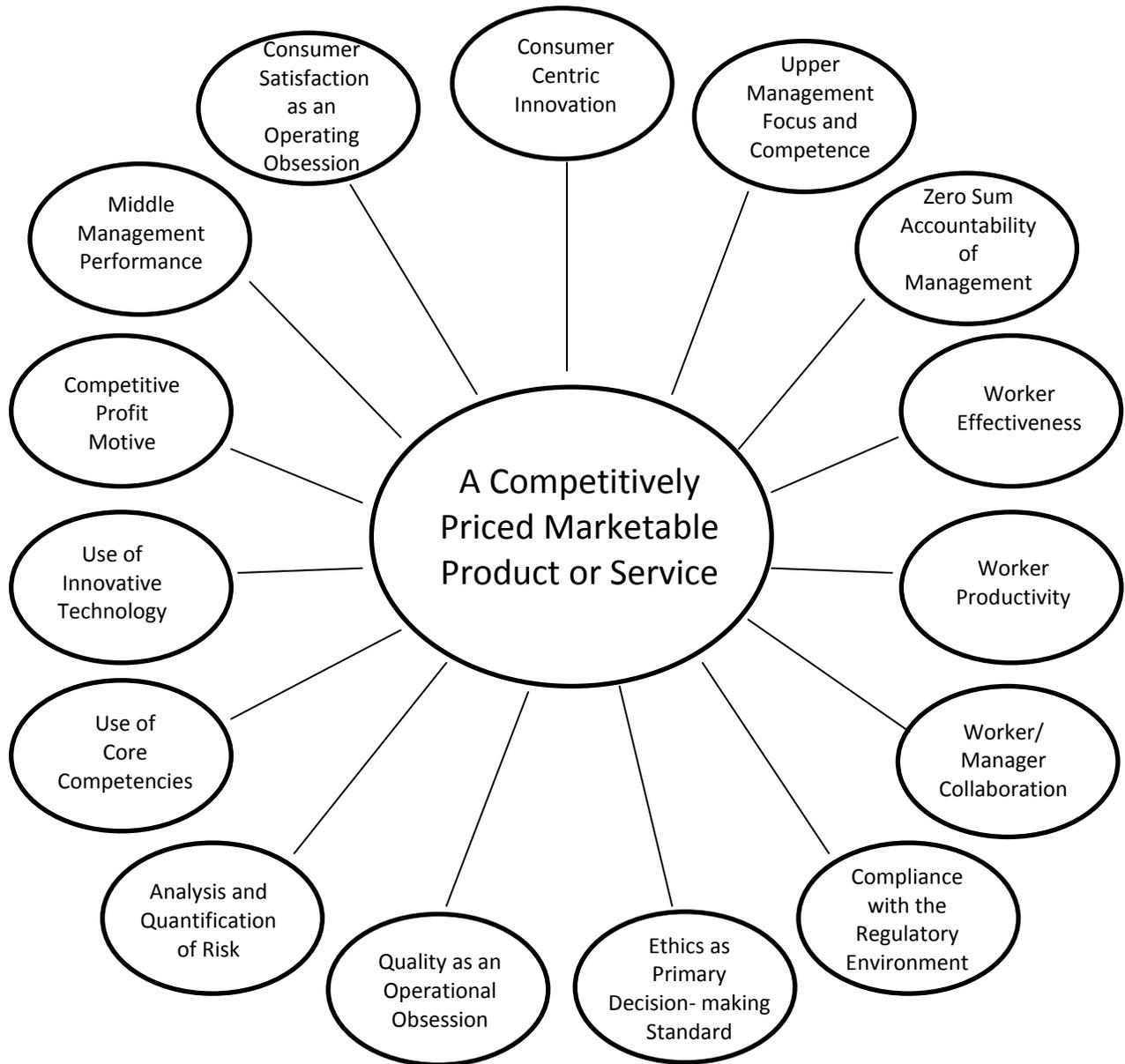
The use of the word *effectiveness* and related words such as “efficiency”, “competitiveness”, “performance”, “measurement”, “evaluation”, “innovation”, “productivity”, “profitability” (and other active words) describe executive analyses and the decision-making processes needed for the production of a marketable product or service. Several of the words also can relate to societal governance [see Johnston, 2011]. They and the contents of the *Effectiveness Circle* delineate the many and varied components of the corporate management process; it is also clear that to implement a strategic plan, use of the *Effectiveness Circle* must be thoughtful and comprehensive.

The first thesis of this brief paper, therefore, is to propose that to be successful creating a viable, marketable product or service, in today’s competitive environment, a business executive must understand, consider and competently coordinate many related activities or analyses, and use a device as the *Effectiveness Circle*, as a checklist to determine that all related activities and analyses have been considered and coordinated [Bowen 2000; Christensen and Raynor 2003].

Isn’t this done? Certainly there are the three primary subject areas of management including financial management, personnel management, and use of product development technology, and they are part of the *Effectiveness Circle*. And much executive education follows these three areas. The problem is that in the very complicated and global business environment of today, there is much more which a successful executive must consider, analyze, have knowledge of, and that creates the need for consideration of *all* the contents of the *Effectiveness Circle* as a decision-making guide.

There is also a contents balancing factor. An executive must also be able to competently balance the components from the *Effectiveness Circle*: for example, (1) how do ethical behavior as a decision-making standard affect the quantification of risk, efficiency or the profit motive? [See Bazerman and Tenbrunsel 2011]. Or (2) How do worker efficiency and operational productivity relate? Or (3) how do the company’s core competencies relate to current technology and customer centric innovation? Or (4) how does zero-sum managerial accountability relate to middle manager performance and worker collaboration? Or (5) how does an obsession for customer satisfaction relate to the profit motive and efficiency? Or (6) how does product quality relate to operational efficiency and the profit motive? (And so on.)

**FIGURE 1
THE MANAGEMENT EFFECTIVENESS CIRCLE**



Being able to competently (or not) balance the application of the components of the *Effectiveness Circle* inserts a key question on the background and education of an executive. The answer, of late, has challenged the educational background of some executives. Certainly, there are many fundamental (and advanced) management education courses which derive from the significant literature on business. But there is now strong evidence that subjects in the law and liberal arts and sciences are critical for an executive to be effective and therefore to competently use the *Effectiveness Circle*. For example, "Use of Core Competencies" is from Hamel and Prahalad's 1994 book Competing for the Future [HBS 1996]. Obviously an executive needs to have a basic understanding of that management concept to understand how to use or develop core competencies. But "Worker/Manager Collaboration" requires an executive to

have a reasonable knowledge of the liberal arts of psychology/sociology, culture and ethics, as well as a knowledge of the legal environment of employee-employer relationships. That means reading a good bit of Drucker [1999], Covey [2010], Maccoby [1976], and others, and the plethora of primarily federal employment laws [Bowen 2006]. And the *Effectiveness Circle* instruction of “Use of Current Technology” simply means that an executive needs to have a good understanding of the science of the products the company is producing. This often best derives from broad study of the sciences in a liberal arts environment, because product or process innovation may well come from the use or application of several areas of science. [See also Hubbard 2011.]

Understanding the science is quite important today. From the author’s observation, there have been more than a few relatively high-profile CEOs who haven’t spent enough time learning and therefore understanding the technology/science of the products the company produces. They thus haven’t done a good job of implementing strategic use of that technology (or core competencies). Obviously this is a one-way ticket to failure. The related (and often frustrating) consumer side of that concept is when a product is not purchased by a consumer because the salesperson knows too little of the product he or she is selling. This is clearly a challenge for technology retailers. [Apple stores, of course, are the fabulous example of the *reverse* of this problem.]

The second thesis of this brief paper is therefore to propose that a successful executive needs, in addition to the study of business, knowledge of many of the so-called liberal arts. These enable an executive to better understand how his or her company and its products or services fit within society as a whole, how to more effectively produce and market them and particularly to understand long term marketability, risk and relevance of the product in the global environment. [See Shumpeter, (The Economist) 2009; The Economist 2003; also Drucker 1999].

The final thesis for using the *Effectiveness Circle*, is strategic planning. An executive must have the intellect and personality (and perhaps perseverance) to be able to effectively balance the many *Circle* management activities and therefore to create a foundation for good strategic planning. It is perhaps human nature that an executive will tend to focus on the areas of the *Effectiveness Circle* which are most familiar to him or her---either from education or experience. Engineers who have become executives are often guilty of this. A good executive, however, must simply be able to ask questions which relate to all fifteen *Effectiveness Circle* areas and analyses, and then use the answers *effectively* for strategic decision-making.

The inexorable modern example of where the system of using and balancing *Effectiveness Circle* activities and analyses---particularly quantifying risk as it relates to competitive profit motive, is described in a relatively scathing article written by Hernando de Soto [Businessweek 2011] suggesting that in 2007 many or most executives in the financial industry simply didn’t understand the complexity and risk of both U. S. and global financial relationships, particularly the risks of the mortgage bonding, bundling and insuring processes, and as a result were incapable of swift, competent and *effective* action when the markets began to crater [see also Greenspan 2011]. The same indictment, of course, might be charged to some federal government officials a year later [Sorkin 2010].

Now, it may seem that the general underlying thesis of this paper is executives should micro-manage companies. That is simply not the case, and in fact it is vital that the reverse be the case: it is always an executive’s job to strategically direct the operation, markets and position of a company. Micro-management has no place in the strategic direction of a company. But executives must have enough knowledge, understanding and presence to make the decision process a balanced, comprehensive and analytical activity, and therefore use the tools suggested here as the foundation for the decision process.

The *Effectiveness Circle* as a system for collaborative management analyses and decision-making, will challenge the methodology of some academic study of business. How? The often intense separation of management or business operating activities to independently study them, disregards the fact that all business areas or activities work in coordination and therefore affect each other in the decision process, operating strategies and implementation procedures. [See Reference 16].

So the *Effectiveness Circle* is not simply an esoteric academic solution: its application and relevance require an executive to understand and analyze all the vagaries of the decision-making process, and it thus

enables an executive to make the *right* decision, which can be *effectively* implemented.

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Reference #16. A random example of an article that demonstrates this observation is: David, O'Brien, et al, 2008. The implications of Debt Heterogeneity for R & D Investment and Firm Performance. *Academy of Management Journal*, February.

[S. Bowen 2011. My great thanks to my wife for creating a legible graphic design for the *Management Effectiveness Circle*.]