Angelo Kinicki
Brian K. Williams

SEVENTH EDITION

management

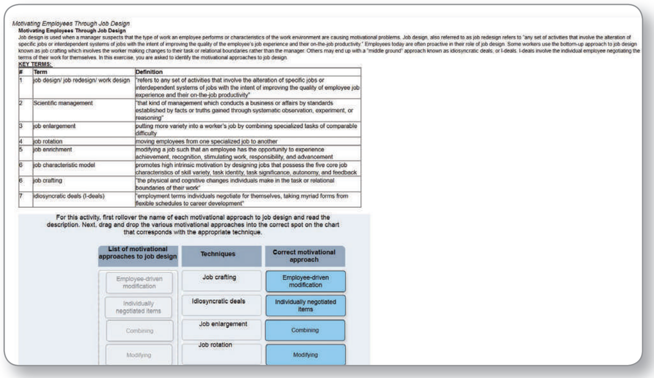
A PRACTICAL INTRODUCTION

McGraw Hill Education

CONNECT FEATURES

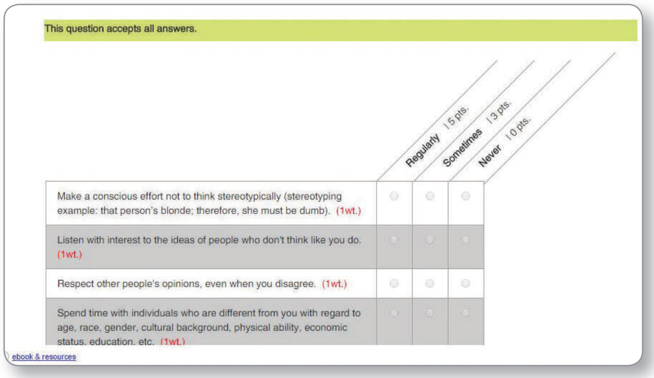
Interactive Applications

Interactive Applications offer a variety of automatically graded exercises that require students to **apply** key concepts. Whether the assignment includes a *click and drag*, *video case*, or *decision generator*, these applications provide instant feedback and progress tracking for students and detailed results for the instructor.



Self-Assessments

Self-awareness is a fundamental aspect of personal or professional development. With 95 researched-based self-assessments, students will have frequent opportunities to make the chapter concepts come to life by seeing how they apply to them personally.



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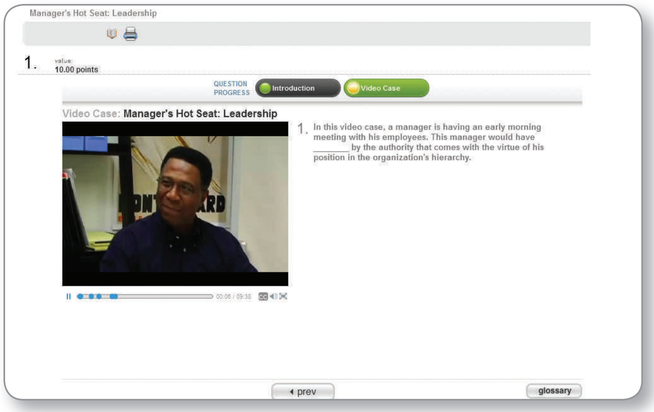
The Manager's Hot Seat is an interactive online video program that allows students to watch real managers apply their years of experience in confronting issues. Students assume the role of the manager as they watch the video and answer multiple-choice questions that pop up during the segment, forcing them to make decisions on the spot. Students learn from the manager's mistakes and successes, and then do a report critiquing the manager's approach by defending their reasoning.



Connect Insight

The first and only analytics tool of its kind, Connect Insight is a series of visual data displays, each of which is framed by an intuitive question and provides at-a-glance information regarding how an instructor's class is performing. Connect Insight is available through Connect titles.

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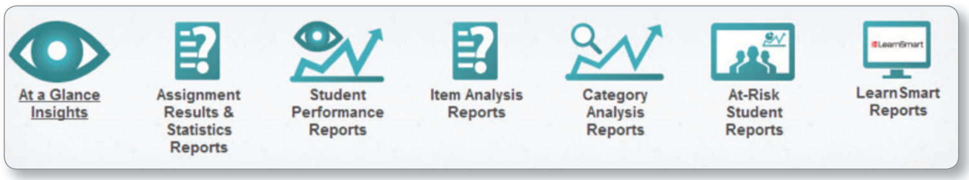
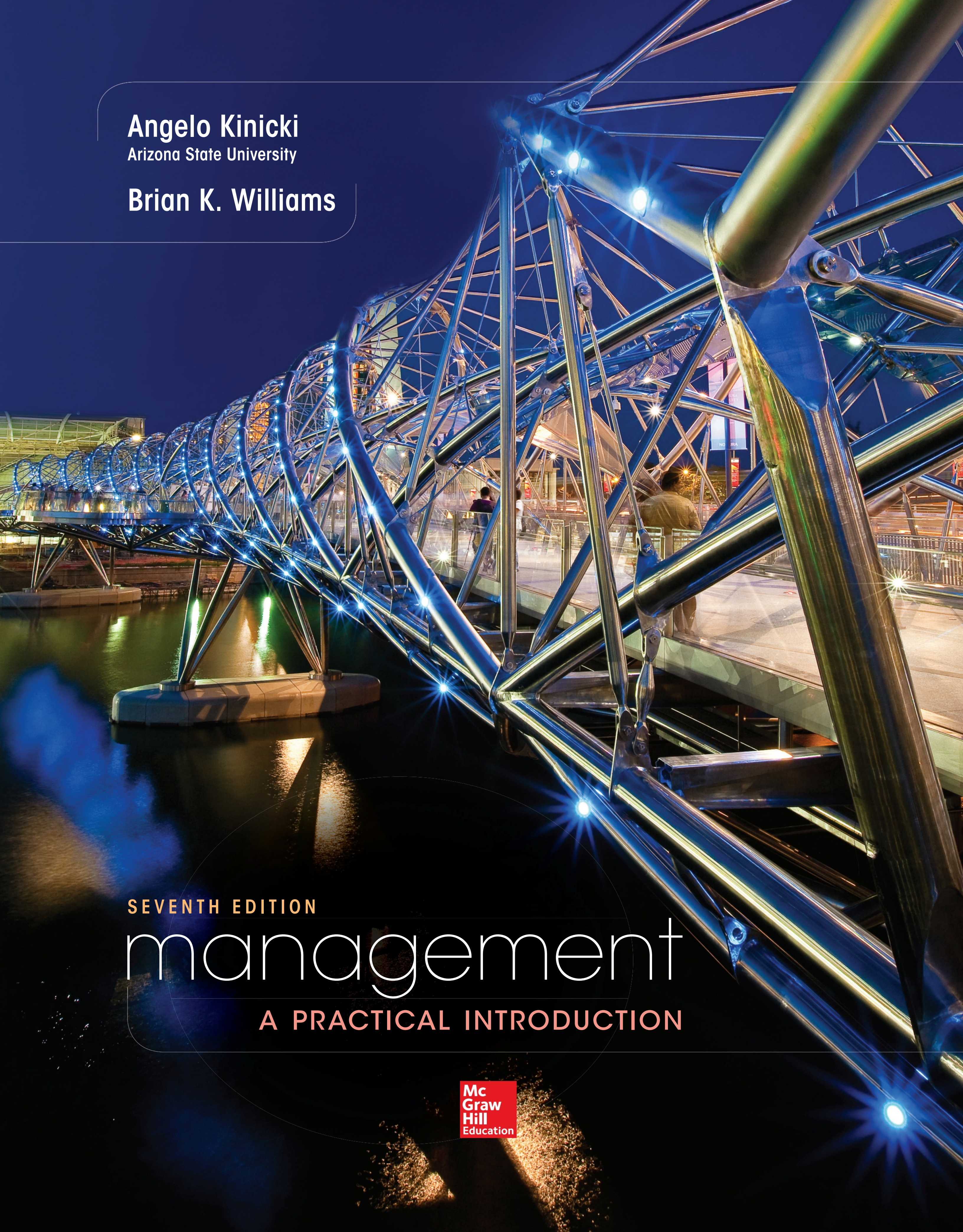
McGraw-Hill Campus is a one-stop teaching and learning experience available to use with any learning management system. McGraw-Hill Campus provides single sign-on to faculty and students for all McGraw-Hill material and technology from within the school website. McGraw-Hill Campus also allows instructors instant access to all supplements and teaching materials for all McGraw-Hill products.

Blackboard users also benefit from McGraw-Hill's industry-leading integration, providing single sign-on to access all Connect assignments and automatic feeding of assignment results to the Blackboard grade book.

POWERFUL REPORTING

Connect generates comprehensive reports and graphs that provide instructors with an instant view of the performance of individual students, a specific section, or multiple sections. Since all content is mapped to learning objectives, Connect reporting is ideal for accreditation or other administrative documentation.





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Arizona State University

Brian K. Williams

SEVENTH EDITION

management

A PRACTICAL INTRODUCTION

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MANAGEMENT: A PRACTICAL INTRODUCTION, SEVENTH EDITION

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brief contents

about the authors

Angelo Kinicki is a professor of management at the W. P. Carey School of Business at Arizona State University. He also was awarded the Weatherup/Overby Chair in Leadership in 2005. He has held his current position since 1982, when he received his doctorate in organizational behavior from Kent State University.

Angelo is recognized for both his teaching and his research. As a teacher, Angelo has been the recipient of six teaching awards, including the John W. Teets Outstanding Graduate Teacher Award (2009–2010); the Outstanding Teaching Award—MBA and Master's Programs (2007–2008); the John W. Teets Outstanding Graduate Teacher Award (2009–2010); Graduate Teaching Excellence Award (1998–1999); Continuing Education Teaching Excellence Award (1991–1992); and Undergraduate Teaching Excellence Award (1987–1988). He also was selected into Wikipedia, Who's Who of American Colleges and Universities, and Beta Gamma Sigma.

Angelo is an active researcher. He has published more than 90 articles in a variety of leading academic and professional journals and has coauthored eight college textbooks (30, counting revisions). His textbooks have been used by hundreds of universities around the world. Angelo's experience as a researcher also resulted in his selection to serve on the editorial review boards for *Personnel Psychology*, the *Academy of Management Journal,* the *Journal of Vocational Behavior,* and the *Journal of Management.* He received the "All-Time Best Reviewer Award" from the *Academy of Management Journal* for the period 1996–1999.

Angelo also is an active international consultant who works with top management teams to create organizational change aimed at increasing organizational effectiveness and profitability. He has worked with many Fortune 500 firms as well as numerous entrepreneurial organizations in diverse industries. His expertise includes facilitating strategic-operational planning sessions, diagnosing the causes of organizational and work-unit problems, implementing performance management systems, designing and implementing performance appraisal systems, developing and administering surveys to assess employee attitudes, and leading management/executive education programs. He developed a 360° leadership feedback instrument called the Performance Management Leadership Survey (PMLS) that is used by companies throughout the United States and Europe.

One of Angelo's strengths is his ability to teach students at all levels within a university. He uses an interactive environment to enhance undergraduates' understanding about management and organizational behavior. He focuses MBAs on applying management concepts to solve complex problems; PhD students learn the art and science of conducting scholarly research.

Angelo and his wife, Joyce, have enjoyed living in the beautiful Arizona desert for 28 years but are natives of Cleveland, Ohio. They enjoy traveling, golfing, and hiking with Gracie, their golden retriever.

Brian K. Williams has been managing editor for college textbook publisher Harper & Row/Canfield Press in San Francisco; editor-in-chief for nonfiction trade-book publisher J. P. Tarcher in Los Angeles; publications and communications manager for the University of California, Systemwide Administration, in Berkeley; and an independent writer and book producer based in the San Francisco and Lake Tahoe areas. He has a BA in English and an MA in communication from Stanford University. Repeatedly praised for his ability to write directly and interestingly to students, he has co-authored 21 books (64, counting revisions). This includes the 2015 *Using Information Technology: A Practical Introduction* with his wife, Stacey C. Sawyer, now in its 11th edition with McGraw-Hill Education. In addition, he has written a number of other information technology books, college success books, and health and social science texts. Brian is a native of Palo Alto, California, and San Francisco, but since 1989 he and Stacey, a native of New York City and Bergen County, New Jersey, have lived at or near Lake Tahoe, currently in Genoa (Nevada's oldest town), with views of the Sierra Nevada. In their spare time, they enjoy foreign travel, different cuisine, museum going, music, hiking, contributing to the community (Brian is past chair of his town board), and warm visits with friends and family.

Management: A Practical Introduction was twice the recipient of McGraw-Hill/Irwin's Revision of the Year Award, for the third and fifth editions.

dedication

To Joyce Kinicki, the love of my life, best friend, and the wind beneath my wings.

—A.K.

To my wife, Stacey, for her 29 years of steadfast, patient support and for her collaboration and shared adventures; and to my beloved children and their families—Kirk, Julia, Nicolas, and Lily; and Sylvia, Scott, and Atticus.

—B.K.W.

A PROMISE: To make learning management easy, efficient, and effective

The seventh edition of Management: A Practical Introduction—a concepts book for the introductory course in management—uses a wealth of instructor feedback to identify which features from prior editions worked best and which should be improved and expanded. By blending Angelo's scholarship, teaching, and management-consulting experience with Brian's writing and publishing background, we have again tried to create a research-based yet highly readable, practical, and *motivational* text.

Our primary goal is simple to state but hard to execute: to make learning principles of management as easy, effective, and efficient as possible. Accordingly, the book integrates writing, illustration, design, and magazine-like layout in **a program of learning that appeals to the visual sensibilities and respects the time constraints and different learning styles of today's students.** In an approach initially tested in our first edition and fine-tuned in the subsequent editions, **we break topics down into easily grasped portions** and incorporate **frequent use of various kinds of reinforcement techniques.** Our hope, of course, is to make a difference in the lives of our readers: to produce a text that students will enjoy reading and that will provide them with practical benefits.

The text covers the principles that most management instructors have come to expect in an introductory text—planning, organizing, leading, and controlling—plus the issues that today's students need to be aware of to succeed: customer focus, globalism, diversity, ethics, information technology, entrepreneurship, work teams, the service economy, and small business.

Beyond these, our book has four features that make it unique:

1. **A student-centered approach to learning.**
2. **Imaginative writing for readability and reinforcement.**
3. **Emphasis on practicality.**
4. **Resources that work.**

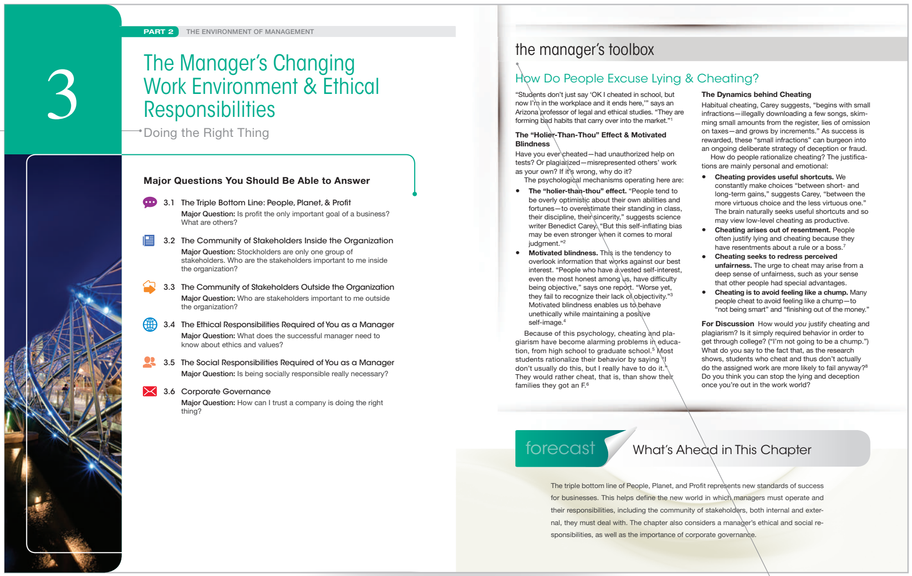
> *Kinicki/Williams is an effective principles of management textbook that does an excellent job of conveying the excitement of management and leadership to undergraduates. Engaging and practical, it comes with a comprehensive set of support materials that range from the traditional to exciting new uses of technology that supercharge the teaching of critical concepts. We looked at over ten textbooks before we adopted Kinicki, and we're most certainly glad that we did. Publisher support has been excellent.*
>
> **—Gary B. Roberts,**
> *Kennesaw State University*

A Student-Centered Approach to Learning

Chapter Openers:

Designed to help students read with purpose

Each chapter begins with four to eight provocative, motivational **Major Questions,** written to appeal to students' concern about "what's in it for me?" and to help them read with purpose.



PART 2 THE ENVIRONMENT OF MANAGEMENT

3

The Manager's Changing Work Environment & Ethical Responsibilities

Doing the Right Thing

Major Questions You Should Be Able to Answer

3.1 The Triple Bottom Line: People, Planet, & Profit
Major Question: Is profit the only important goal of a business? What are others?

3.2 The Community of Stakeholders Inside the Organization
Major Question: Stockholders are only one group of stakeholders. Who are the stakeholders important to me inside the organization?

3.3 The Community of Stakeholders Outside the Organization
Major Question: Who are stakeholders important to me outside the organization?

3.4 The Ethical Responsibilities Required of You as a Manager
Major Question: What does the successful manager need to know about ethics and values?

3.5 The Social Responsibilities Required of You as a Manager
Major Question: Is being socially responsible really necessary?

3.6 Corporate Governance
Major Question: How can I trust a company is doing the right thing?

the manager's toolbox

How Do People Excuse Lying & Cheating?

"Students don't just say 'OK I cheated in school, but now I'm in the workplace and it ends here,'" says an Arizona professor of legal and ethical studies. "They are forming bad habits that carry over into the market."[1]

The "Holier-Than-Thou" Effect & Motivated Blindness

Have you ever cheated—had unauthorized help on tests? Or plagiarized—misrepresented others' work as your own? If it's wrong, why do it?

The psychological mechanisms operating here are:

- **The "holier-than-thou" effect.** "People tend to be overly optimistic about their own abilities and fortunes—to overestimate their standing in class, their discipline, their sincerity," suggests science writer Benedict Carey. "But this self-inflating bias may be even stronger when it comes to moral judgment."[2]
- **Motivated blindness.** This is the tendency to overlook information that works against our best interest. "People who have a vested self-interest, even the most honest among us, have difficulty being objective," says one report. "Worse yet, they fail to recognize their lack of objectivity."[3] Motivated blindness enables us to behave unethically while maintaining a positive self-image.[4]

Because of this psychology, cheating and plagiarism have become alarming problems in education, from high school to graduate school.[5] Most students rationalize their behavior by saying "I don't usually do this, but I really have to do it." They would rather cheat, that is, than show their families they got an F.[6]

The Dynamics behind Cheating

Habitual cheating, Carey suggests, "begins with small infractions—illegally downloading a few songs, skimming small amounts from the register, lies of omission on taxes—and grows by increments." As success is rewarded, these "small infractions" can burgeon into an ongoing deliberate strategy of deception or fraud.

How do people rationalize cheating? The justifications are mainly personal and emotional:

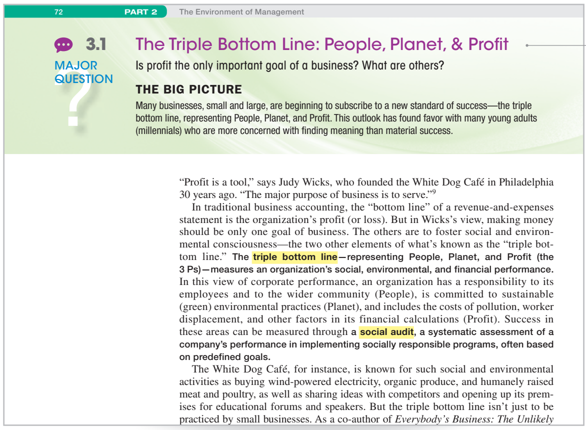
- **Cheating provides useful shortcuts.** We constantly make choices "between short- and long-term gains," suggests Carey, "between the more virtuous choice and the less virtuous one." The brain naturally seeks useful shortcuts and so may view low-level cheating as productive.
- **Cheating arises out of resentment.** People often justify lying and cheating because they have resentments about a rule or a boss.[7]
- **Cheating seeks to redress perceived unfairness.** The urge to cheat may arise from a deep sense of unfairness, such as your sense that other people had special advantages.
- **Cheating is to avoid feeling like a chump.** Many people cheat to avoid feeling like a chump—to "not being smart" and "finishing out of the money."

For Discussion How would *you* justify cheating and plagiarism? Is it simply required behavior in order to get through college? ("I'm not going to be a chump.") What do you say to the fact that, as the research shows, students who cheat and thus don't actually do the assigned work are more likely to fail anyway?[8] Do you think you can stop the lying and deception once you're out in the work world?

forecast What's Ahead in This Chapter

The triple bottom line of People, Planet, and Profit represents new standards of success for businesses. This helps define the new world in which managers must operate and their responsibilities, including the community of stakeholders, both internal and external, they must deal with. The chapter also considers a manager's ethical and social responsibilities, as well as the importance of corporate governance.

Instead of opening with the conventional case, as most texts do, we open with **The Manager's Toolbox,** a motivational device offering practical nuts-and-bolts advice pertaining to the chapter content students are about to read—and allowing for class discussion.



72 PART 2 The Environment of Management

3.1 The Triple Bottom Line: People, Planet, & Profit

MAJOR QUESTION

Is profit the only important goal of a business? What are others?

THE BIG PICTURE

Many businesses, small and large, are beginning to subscribe to a new standard of success—the triple bottom line, representing People, Planet, and Profit. This outlook has found favor with many young adults (millennials) who are more concerned with finding meaning than material success.

"Profit is a tool," says Judy Wicks, who founded the White Dog Café in Philadelphia 30 years ago. "The major purpose of business is to serve."[9]

In traditional business accounting, the "bottom line" of a revenue-and-expenses statement is the organization's profit (or loss). But in Wicks's view, making money should be only one goal of business. The others are to foster social and environmental consciousness—the two other elements of what's known as the "triple bottom line." **The triple bottom line—representing People, Planet, and Profit (the 3 Ps)—measures an organization's social, environmental, and financial performance.** In this view of corporate performance, an organization has a responsibility to its employees and to the wider community (People), is committed to sustainable (green) environmental practices (Planet), and includes the costs of pollution, worker displacement, and other factors in its financial calculations (Profit). Success in these areas can be measured through **a social audit, a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.**

The White Dog Café, for instance, is known for such social and environmental activities as buying wind-powered electricity, organic produce, and humanely raised meat and poultry, as well as sharing ideas with competitors and opening up its premises for educational forums and speakers. But the triple bottom line isn't just to be practiced by small businesses. As a co-author of *Everybody's Business: The Unlikely*

Chapter Sections:

Structured into constituent parts for easier learning

Chapters are organized to cover each major question in turn, giving students bite-sized chunks of information. Each section begins with a recap of the **Major Question** and includes **"The Big Picture,"** which presents students with an overview of how the section they are about to read answers the Major Question.

> *This style textbook succeeds in presenting management information with a fresh face. Each chapter is filled with current and useful information for students. The chapters begin by asking major questions of the reader. As the student reads, [he or she is] engaged by these questions and by the information that follows. A totally readable text with great illustrations and end-of-chapter exercises!*
>
> **—Catherine Ruggieri,**
> *St. John's University, New York*

Chapter tools help students learn how to learn

In focus groups, symposiums, and reviews, instructors told us that many students do not have the skills needed to succeed in college. To support students in acquiring these skills, we offer the following:

the manager's toolbox

A One-Minute Guide to Success in This Class

Got one minute to read this section? It could mean the difference between getting an A instead of a B. Or a B instead of a C.

It is our desire *to make this book as practical as possible for you.* One place we do this is in the Manager's Toolbox, like this one, which appears at the beginning of every chapter and which offers practical advice appropriate to the subject matter you are about to explore. Here we show you how to be a success in this course.

Four Rules for Success

The following four rules will help you be successful in this (or any other) course.

- **Rule 1:** Attend every class. No cutting (skipping) allowed.
- **Rule 2:** Don't postpone studying, then cram the night before a test.
- **Rule 3:** Read or review lectures and readings more than once.
- **Rule 4:** Learn how to use this book.

"A One-Minute Guide to Success in This Class," found on page 3, lays down four rules for student success in class and suggestions for how to use this book most effectively.

TAKING SOMETHING PRACTICAL AWAY

Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career

Professionals and managers all have to deal with this central problem: how not to surrender their lives to their jobs. The place to start, however, is in college. If you can learn to manage time while you're still a student, you'll find it will pay off not only in higher grades and more free time but also in more efficient information-handling skills that will serve you well as a manager later on.[119]

Using Your "Prime Study Time"

Each of us has a different energy cycle.[120] The trick is to use it effectively. That way, your hours of best performance will coincide with your heaviest academic demands. For example, if your energy level is high during the mornings, you should plan to do your studying then.

To capitalize on your prime study time, you take the following steps: (1) Make a study schedule for the entire term, and indicate the times each day during which you plan to study. (2) Find some good places to study—places where you can avoid distractions. (3) Avoid time wasters, but give yourself frequent rewards for studying, such as a TV show, a favorite piece of music, or a conversation with a friend.

Improving Your Memory Ability

Memorizing is, of course, one of the principal requirements for succeeding in college. And it's a great help for success in life afterward.

Here are some tips on learning to concentrate:[121]

Choose What to Focus On

"People don't realize that attention is a finite resource, like money," one expert says. "Do you want to invest your cognitive cash on endless Twittering or Net surfing or couch potatoing [watching TV]?" She adds, "Where did the idea come from that anyone who wants to contact you can do so at any time? You need to take charge of what you pay attention to instead of responding to the latest stimuli."[122] For example, to block out noise, you can wear earplugs while reading, to create your own "stimulus shelter."

"Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career," at the end of Chapter 1, gives students a crash course in time-management skills, solid study habits, memory aids, and learning from lectures.

The Task Environment

The **task environment** consists of 11 groups that present you with daily tasks to handle: customers, competitors, suppliers, distributors, strategic allies, employee organizations, local communities, financial institutions, government regulators, special-interest groups, and mass media.

1. Customers The first law of business (and even nonprofits), we've said, is *take care of the customer.* **Customers are those who pay to use an organization's goods or services.** Many customers value service over price, and are generally frustrated by poor customer relations at telecommunications companies, airlines, and social media sites. "In defense of these industries," says one observer, "no one notices them when things

Key terms are highlighted and terms and definitions are in boldface, to help students build their management vocabulary.

Lillian and Frank Gilbreth with 11 of their dozen children. As industrial engineers, the Gilbreths pioneered time and motion studies. If you're an athlete, you can appreciate how small changes can make you more efficient.

over them. If used correctly, the principles of scientific management can enhance productivity, and such innovations as motion studies and differential pay are still used today.

Frank & Lillian Gilbreth & Industrial Engineering As mentioned, Frank and Lillian Gilbreth were a husband-and-wife team of industrial engineers who lectured at Purdue University in the early 1900s. Their experiences in raising 12 children—to whom they applied some of their ideas about improving efficiency (such as printing

Other devices to help students develop understanding:

- **Important scholar names in boldface** so students remember key contributors to the field of management.
- Frequent **use of advance organizers, bulleted lists, and headings** to help students grasp the main ideas.
- **Illustrations positioned close to relevant text discussion** so students can refer to them more easily and avoid flipping pages.

"It's hard enough to try to make the class exciting, and the only way is to incorporate up-to-date, relevant, and interesting examples. This text and McGraw-Hill have done just that. [It] makes my life easier, but more importantly, the students are getting the valuable education that they've paid for by having better materials and instruction."

—Laura L. Alderson,
University of Memphis

FEATURE #2 Imaginative Writing for Readability

Research shows that textbooks written in **an imaginative, people-oriented style significantly improve students' ability to retain information.** We employ a number of journalistic devices to make the material as engaging as possible for students.

We employ a lot of **storytelling** to convey the real "texture of life" in being a manager. This means we **use colorful facts, attention-grabbing quotes, biographical sketches, and lively tag lines** to get students' attention as they read.

The driving force. One quality that stands out about General Motors CEO Mary Barra is her obvious enthusiasm for cars. She is said to be given to talking excitedly about whatever car she is currently driving and what it demonstrates about GM's product line. Do you think passion about one's work is a necessary quality for managerial success?

graduated from General Motors Institute (now Kettering University) with a degree in electrical engineering, and then became a plant engineer at Pontiac. Spotting her talent, GM gave her a scholarship to Stanford University, where she earned a graduate degree in business. She then began moving up the GM ladder, first as the executive assistant to the CEO, then as the company's head of human resources—formerly often as high as female executives ever got, in autos or many other industries. In 2011, her big break came when she was promoted to lead GM's $15 billion vehicle-development operations, a high-profile role that became the steppingstone to CEO.

Key to Career Growth: "Doing Things I've Never Done Before"

Did it help that, as one writer put it, Barra "had motor oil running through her veins for most of her life"?[4] No doubt it did. But there is another key to career growth—the ability to take risks. As IBM's Ginni Rometty, another female CEO, has said about herself, she has grown the most in her career because "I learned to always take on things I've never done before."[5] She has found that "you have to be very confident, even though you're so self-critical inside about what it is you may or may not know. . . . And that, to me, leads to taking risks."[6]

Of course both men as well as women have to deal with uncertainty. But the ability to take risks—to embrace change and to keep going forward despite fears and internal criticism—is important to any manager's survival, regardless of gender. As Rometty says, "growth and comfort do not coexist."

EXAMPLE A Hot Start-Up Cleans Up: Homejoy Transforms an Old Business

As has been often demonstrated in recent years, an old work sector can be transformed by the application of new technology and new management ideas. An example is house cleaning, which until recently was fundamentally unchanged since the 1960s.

"Everyone Deserves a Happy Home." "My brother Aaron and I started working together in 2009," says South Carolina native Adora Cheung, who had moved to the San Francisco Bay Area. "We were both engineers coding [computer programming], and we wanted a place that was clean in order to be more efficient. We tried to find someone online to clean."[105]

They discovered there were basically two choices—get highly qualified cleaning help from an agency, which might cost them \$40–\$60 an hour (but workers earned only minimum wage), or get someone from Craigslist, which cost much less, "but you don't know who the heck is going to show up at your door."

To find out how they might make the business more efficient and learn the needs of the cleaners themselves, Adora

Entrepreneurs. Former South Carolinians Adora and Aaron Cheung founded their house-cleaning company, Homejoy, in the San Francisco Bay Area in 2012. Most people, even young people, prefer the security of a job with a paycheck to the risks of starting a business. Which life would you prefer?

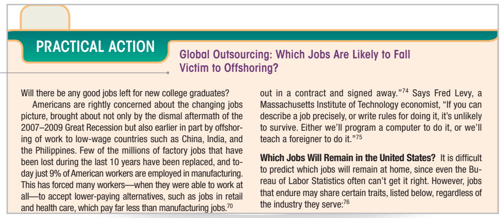
Our emphasis on practicality and applications extends to the **Example boxes,** "mini-cases" that use snapshots of real-world institutions to explain text concepts. **"Your Call" invites student critical thinking and class discussion at the end of each example.** Suggestions for how to use the Example boxes are found in the Instructor's Manual.

> *"The Kinicki/Williams text is attractive and well organized. The writing is engaging, and there is much more than my current text in terms of examples, application, summaries, and cases. The graphical quality of the book is much better than the black and white version[s] [of texts]. Overall, I think this book represents an excellent approach to the subject of management from both an instructor and learner perspective."*
>
> **—Jeffrey Anderson,** *Ohio University*

FEATURE #3 An Emphasis on Practicality

We want this book to be a "keeper" for students, a resource for future courses and for their careers—so we give students a **great deal of practical advice** in addition to covering the fundamental concepts of management. Application points are found not only throughout the text discussion but also in the following specialized features.

Practical Action boxes, appearing one or more times in each chapter, offer students practical and interesting advice on issues they will face in the workplace. Detailed discussions of how to use these Practical Action boxes appear in the Instructor's Manual.


PRACTICAL ACTION

Global Outsourcing: Which Jobs Are Likely to Fall Victim to Offshoring?

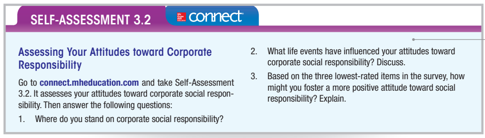
Will there be any good jobs left for new college graduates?

Americans are rightly concerned about the changing jobs picture, brought about not only by the dismal aftermath of the 2007–2009 Great Recession but also earlier in part by offshoring of work to low-wage countries such as China, India, and the Philippines. Few of the millions of factory jobs that have been lost during the last 10 years have been replaced, and today just 9% of American workers are employed in manufacturing. This has forced many workers—when they were able to work at all—to accept lower-paying alternatives, such as jobs in retail and health care, which pay far less than manufacturing jobs.[70]

out in a contract and signed away."[74] Says Fred Levy, a Massachusetts Institute of Technology economist, "If you can describe a job precisely, or write rules for doing it, it's unlikely to survive. Either we'll program a computer to do it, or we'll teach a foreigner to do it."[75]

Which Jobs Will Remain in the United States? It is difficult to predict which jobs will remain at home, since even the Bureau of Labor Statistics often can't get it right. However, jobs that endure may share certain traits, listed below, regardless of the industry they serve:[76]

New to this edition!


SELF-ASSESSMENT 3.2 connect

Assessing Your Attitudes toward Corporate Responsibility

Go to **connect.mheducation.com** and take Self-Assessment 3.2. It assesses your attitudes toward corporate social responsibility. Then answer the following questions:

1. Where do you stand on corporate social responsibility?
2. What life events have influenced your attitudes toward corporate social responsibility? Discuss.
3. Based on the three lowest-rated items in the survey, how might you foster a more positive attitude toward social responsibility? Explain.

Extra self-assessment exercises enable students to personally apply chapter content. These exercises, which are available through the Connect website, include objectives for ease in assigning, instructions for use, guidelines for interpreting results, and questions for further reflection. Fifty-seven self-assessments are integrated into the text and contain discussion questions that can be used to stimulate classroom conversation.

End-of-chapter resources that reinforce applications

Each chapter continues our strategy of repetition for learning reinforcement. (***New to this edition:* "Understanding the Chapter: What Do I Know?"** a series of self-test questions.) We include various unique pedagogical features to help students take away the most significant portions of the chapter's content:

Management in Action cases depict how companies students are familiar with respond to situations or issues featured in the text. Discussion questions are included for ease of use in class, as reflection assignments, or over online discussion boards.

Legal/Ethical Challenges present cases—often based on real events—that require students to think through how they would handle the situation, helping prepare them for decision making in their careers.

FEATURE #4 Resources that Work

No matter the course you teach—on-campus, online, or hybrid courses—we set out to provide you with the most comprehensive set of resources to enhance your Principles of Management course.

Principles of Management Video DVDs Volumes 1, 2, & 3. We present the richest and most diverse video program on the market to engage your students in the important management concepts covered in this text: Sources from *Bloomberg Businessweek* Online, BBC, CBS, FiftyLessons, NBC, PBS, and McGraw-Hill are provided on 2- to 15-minute clips in three DVD sets. These company videos are organized by the four functions of management and feature organizations such as PlayStation, Panera Bread, Patagonia, Mini Cooper, and the Greater Chicago Food Depository. Other subjects are Employer-Subsidized Commuting, Grounded: Are U.S. Airlines Safe?, Using Facebook at Work, Adult Bullies, and Encore Careers. Corresponding video cases and a guide that ties the videos closely to the chapter can be found in the Instructor's Manual and online.

Instructor's Manual. The Instructor's Manual was revised and updated to include thorough coverage of each chapter. It also offers time-saving features such as an outline on incorporating PowerPoint slides, lecture enhancers that supplement the textbook, video cases and video notes, and answers to all end-of-chapter exercises.

PowerPoint Slides. The PowerPoint slides provide comprehensive lecture notes, questions for the class, and company examples not found in the textbook.

Test Bank. The Test Bank includes more than 100 questions per chapter in a variety of formats. The package includes a range of comprehension and application (scenario-based) questions as well as tagged Bloom's Taxonomy levels and AACSB requirements.

EZ Test, McGraw-Hill's flexible and easy-to-use electronic testing program, allows instructors to create tests from book-specific items. It accommodates a wide range of question types, and instructors may add their own questions. Multiple versions of the test can be created, and any test can be exported for use with course management systems such as WebCT or BlackBoard.

EZ Test Online, available at *www.eztestonline.com*, allows you to access the test bank virtually anywhere at any time, without installation, and to administer EZ Test–created exams and quizzes online, providing instant feedback for students.

Assurance of Learning–Ready

Many educational institutions are often focused on the notion of *assurance of learning,* an important element of some accreditation standards. *Management: A Practical Introduction,* 7th ed., is designed specifically to support your assurance of learning initiatives with a simple, yet powerful solution.

Each test bank question maps to a specific chapter learning outcome/objective listed in the text. You can use our test bank software, EZ Test and EZ Test Online, or *Connect Management* to easily query for learning outcomes objectives that directly relate to the learning objectives for your course. You can use the reporting features of EZ Test to aggregate student results in a similar fashion, making the collection and presentation of assurance of learning data simple and easy.

AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *Management: A Practical Introduction,* 7th ed., recognizes the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and/or the test bank to the general knowledge and skill guidelines in the AACSB standards.

The statements contained in *Management: A Practical Introduction,* 7th ed., are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While *Management: A Practical Introduction,* 7th ed., and the teaching package make no claim of any specific AACSB qualification or evaluation, we have within *Management: A Practical Introduction,* 7th ed., labeled selected questions according to the general knowledge and skills areas.

Always at the forefront of learning innovation, McGraw-Hill has taken another leap forward....

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Get Connected. Get Results. McGraw-Hill Education's Connect is a digital teaching and learning environment that aims to improve student learning outcomes as well as provide instructors actionable data in their classroom. With *Connect Management,* instructors and students can engage with their coursework anytime, anywhere, enabling faster learning, more efficient studying, and higher retention of knowledge.

Features

1. **SmartBook.** SmartBook™ is the first and only adaptive reading experience designed to change the way students read and learn. It creates a personalized reading experience by highlighting the most impactful concepts a student needs to learn at that moment in time. As a student engages with SmartBook, the reading experience continuously adapts by highlighting content based on what the student knows and doesn't know. This ensures that the focus is on the content he or she needs to learn, while simultaneously promoting long-term retention of material. Use SmartBook's real-time reports to quickly identify the concepts that require more attention from individual students—or the entire class.

   The end result? Students are more engaged with course content, can better prioritize their time, and come to class ready to participate.

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   - Collect data and generate reports required by many accreditation organizations, such as AACSB.

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Chapter-by-Chapter Changes from the Previous Edition

- **New throughout: 57 Self-Assessments** (available on Connect) integrated within the text. Each contains discussion questions aimed at helping students apply what they are leaning. (Example: "How Strong Is My Motivation to Be a Manager?")
- **Also new: "Understanding the Chapter: What Do I Know?"**—10 questions that appear at the end of each chapter to enable students to see how well they comprehend the material.

1. The Exceptional Manager

- Sections resequenced, per reviewer request: Former Section 1.3 "What Managers Do: The Four Principal Functions" now 1.2. Former Section 1.2 "Seven Challenges to Being an Exceptional Manager" now 1.3. Former Section 1.7 "The Skills Exceptional Managers Need" now 1.5. Former Section 1.5 "Roles Managers Must Play Successfully" now 1.6. Former Section 1.6 "The Entrepreneurial Spirit" now Section 1.7 and retitled "The Link between Entrepreneurship & Management."
- New material added: Introductory material features new GM CEO Mary Barra. Concept of mentor added. New material added on information technology, including cloud computing, social media, Big Data, privacy, artificial intelligence. Material added to Challenge #7, changing "Managing for Your Own Happiness & Life Goals" to "Managing for Happiness & Meaningfulness." Figure 1.2 modified to add "Team leaders" to traditional management pyramid. Subsection added, "Team Leaders: Facilitating Home Activities." Major Section 1.5 "The Skills Exceptional Managers Need" revised with Mary Barra as principal example, with emphasis on "soft skills," per reviewer request.
- Importance of "soft skills" in management success.
- Statistics, facts updated, as of financial rewards for managers, globalization, diversity, ethical standards, white-collar criminals, management stars (Facebook's Mark Zuckerberg, Google's Larry Page, Microsoft's Satya Nadella, Zappos's Tony Hsieh, WomanCare Global's Saundra Pelletier), Mintzberg research, entrepreneurs, e-commerce statistics.
- Outdated material deleted: Introductory material on IBM CEO Virginia Rometty deleted. Most of Example box "Efficiency versus Effectiveness: 'Don't Tell Me You're Sorry, Just Fix the Problem!'" deleted. Example box deleted, "Losing Competitive Advantage: How Did Newspapers Lose Their Way?" Much of Example box deleted, "Is Lying & Cheating Required to Succeed?" Example box deleted, "Starting Up a Start-up: The Origins of Yelp." "Example of an Intrapreneur: Marissa Mayer Develops a Researcher's Little Personal Program into Google News."
- New or significantly revised Practical Action boxes: "Preparing Yourself to Behave Right When You're Tempted to Cheat." "Executive Functioning: How Good Are You at Focusing Your Thoughts, Controlling Your Impulses, & Avoiding Distractions?"
- New or significantly revised Example boxes: "Efficiency versus Effectiveness: 'Don't Tell Me You're Sorry, Just Fix the Problem!'" "The Struggle for Competitive Advantage: App-Based Ride-Share Services Leave the Taxi Industry Reeling." "A Hot Start-up Cleans Up: Homejoy Transforms an Old Business." "Example of an Intrapreneur: Intel's Anthropologist Genevieve Bell Explores Possible Innovations for Automakers."
- New Self-Assessments: "How Strong Is My Motivation to Be a Manager?" "To What Extent Do You Possess an Entrepreneurial Spirit?"
- New Management in Action case: "Target CEO Works to Regain Consumer Trust after the Company Was Hacked."

2. Management Theory

- Resequenced material: Subsection "Evidence-Based Management: Facing Hard Facts, Rejecting Nonsense" moved from Section 2.1 into Section 2.6, "Contingency Viewpoint."
- New material added: Subsection formerly titled "Five Practical Reasons for Studying This Chapter" now has six reasons. Per reviewer request, Figure 2.1 added, "The two overarching perspectives—historical and contemporary," with new artwork.
- Statistics, facts added, as on material about 1970s flawed cars, learning organizations.
- Outdated material deleted: "Evidence-Based Management: Facing Hard Facts, Rejecting Nonsense," moved to Chapter 2, Section 2.6. Obsolete Example box deleted, "Was Cisco's Experiment of 48 Decentralized 'Management Councils' the Best Way to Organize a Company?" "Application of Behavioral Science Approach: Which Is Better—Competition or Cooperation?" "Management Science: Do Calorie Postings in Restaurants Change Eating Habits?" "Operations Management: Was Toyota's 'Lean Management' Approach the Right Approach?" "Closed versus Open Systems: When Netflix Didn't Listen." "The Contingency Viewpoint: What Incentives Work in Lean Times?"
- New Manager's Toolbox: "Mind-sets: How Do You Go about Learning?"
- New or significantly revised Practical Action box: "Evidence-Based Management: An Attitude of Wisdom," formerly this chapter's Manager's Toolbox, made a Practical Action box in Section 2.6, with some changes in material.
- New or significantly revised Example boxes: "Pages from a Game Company's Employee Guide: In Flatness Lies Greatness." "Application of Behavioral Science Approach: The Open-Plan Office—Productivity Enhancer or Productivity Killer?" "Management Science: 'Find Me More Music I Like!'" "Operations Management: Using 'the Toyota Way' to Benefit Hospital Patients." "Closed versus Open Systems: Penney's versus Macy's." "The Contingency Viewpoint: What Are the Best Kinds of Benefits?"
- New Self-Assessments: "What Is Your Orientation toward Theory X/Theory Y?" "To What Extent Is Your Organization Committed to Total Quality Management?" "Are You Working for a Learning Organization?"

- New Management in Action case: "GM's New CEO, Mary Barra, Must Manage a Major Recall."
- New Legal/Ethical Challenge: "Is an Apology Enough?"

3. The Manager's Changing Work Environment & Ethical Responsibilities

- Sections resequenced: After addition of new Section 3.1, old Sections 3.1 through 3.5 renumbered as Sections 3.2 through 3.6.
- New material added: Per reviewer request, Section 3.1 added, "The Triple Bottom Line: People, Planet, & Profit," introducing concepts of people, planet, and profit and social audit. New subsection added, "The Millennials' Search for Meaning." Crowdfunding introduced. Climate change and global warming defined, and benefits of being green explained. New subsection added, "The Value of Earth's Resources: Natural Capital," with explanation of concept of natural capital. Statistics, facts updated, as in hotels, local communities, local stakeholders, boycotts, poverty, productivity, decline in driving, sociocultural issues, lifestyle changes, office theft, prohibition of gifts to doctors, insider trading, Ponzi schemers, whistle-blowing, philanthropy.
- Outdated material deleted: Example box "Corporate Social Responsibility: Office Furniture Maker Herman Miller Competes on Sustainability."
- New or significantly revised Example boxes: "Taking Care of Customers: Amazon's Jeff Bezos Obsesses about 'the Customer Experience.'" "Local Communities as Stakeholders: Are Financial Incentives to Business Really Necessary?" "Managing the Media: What's the Best Practice for Handling Product Recalls?" "Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works."
- New Self-Assessments: "Assessing Your Ethical Ideology." "Assessing Your Attitudes toward Corporate Responsibility."
- New Management in Action case: "UPS Actively Pursues Sustainability."
- New Legal/Ethical Challenge: "Is It Fair to Have Different Standards for Paying Bills versus Collecting Bills?"

4. Global Management

- New material added: New subsection added at reviewer request, "Competition & Globalization: Who Will Be No. 1 Tomorrow," on U.S. ranking for competitiveness, per-capita income, degree of freedom. Material added to Example box, "Americans Working Overseas." Coverage of exchange rates, per reviewer request. Per reviewer request, corruption and labor abuses added to subsection "Law, Instability, Corruption, & Labor Abuses." Statistics, facts updated, as on multinational corporations, business travel, mergers, use of travel downtime, former U.S. firms now under foreign ownership, foreign trade, NAFTA, EU, cultural differences, language, religion, returning expatriates.
- New or significantly revised Example boxes: "An American in London Dealing with Currency Exchange—How Much *Are* Those Jeans, Really?" "Dinner at 10? Spain's Cultural Differences in Time."
- New or significantly revised Practical Action box, "Being an Effective Road Warrior."
- Outdated material deleted: Example box deleted, "E-Commerce: Resolers to the World." Obsolete material deleted in Example box, "Americans Working Overseas." Outdated in-text examples deleted throughout.
- New Self-Assessments: "Assessing Your Global Manager Potential." "Assessing Your Consumer Ethnocentrism." "Assessing Your Stand on the GLOBE Dimensions."
- New Management in Action case: "Norwegian Air Shuttle Aspires to Become the Cheapest Global Airline."
- New Legal/Ethical Challenge: "Should Families of Passengers on Malaysia Flight 370 Be Allowed to Sue for Damages in the U.S.?"

5. Planning

- Resequenced material, to better explain strategic-management process: New Section 5.1, "Planning & Strategy," moved from Chapter 6, old Section 6.1, "The Dynamics of Strategic Planning." New Section 5.3, "Goals & Plans," using material from old Section 6.2. Renumbered Section 5.4 from 5.3, "Promoting Goal Setting: SMART Goals & Management by Objectives." Renumbered Section 5.5 from 5.4, "The Planning/Control Cycle."
- New material added: In Section 5.1, discussion of strategy and strategic management added. Discussion of business plan and business model added. New coverage added: "Why Planning & Strategic Management Are Important." "Developing a Sustainable Competitive Advantage." Statistics, facts updated, as on vision statement, Southwest Airlines.
- Outdated material deleted: Old Manager's toolbox deleted, "Planning Different Career Paths: 'It's a Career, Not a Job.'" Subsection deleted, "How Organizations Respond to Uncertainty." Subsection deleted, "How Planning Helps You: Four Benefits." Obsolete Example box deleted: "Thinking Ahead: Ford Plans a Radical Design of the Fusion." Obsolete subsection "How Organizations Respond to Uncertainty," deleted. Material deleted from "Management by Objectives" for space reasons.
- New Manager's Toolbox: "Setting Big Goals: Is This the Road to Success?"
- New or significantly revised Example boxes: "Is Planning Necessary? Launching a Vending Machine Business on $425." "Developing Competitive Advantage: What's the Best Strategy in an E-Commerce Age?" "Strategic, Tactical, & Operational Goals: Southwest Airlines." "Setting Goals: Walmart Lays Out an Agenda for Environmental Change."
- New Self-Assessments: "Assessing Your Career Vision & Plan." "What Is the Quality of Goal Setting within a Current or Past Employer?"

- New Management in Action case: "GE's Poor Planning Results in Delays & Increased Costs."
- New Legal/Ethical Challenge: "How Do You Think Companies Should Respond to Accusations Made by a Whistle-Blower?"

6. Strategic Management

- Resequenced material, to better explain strategic-management process: Old Section 6.1, "The Dynamics of Strategic Planning," moved to Section 5.1, Chapter 5. New Section 6.1, "What Is Effective Strategy?" created from part of old section. New Section 6.3, "Establishing the Mission & the Vision," created from part of old Section 6.2. New Section 6.4, "Assessing the Current Reality," created in part from old Section 6.3, "Establishing the Grand Strategy." New Section 6.5, "Formulating the Grand Strategy," created in part from old Section 6.4, "Formulating Strategy." New Section 6.6, "Implementing & Controlling Strategy: Execution," created from same material in old Section 6.5.
- New material added: "Step 2: Assess the Current Reality," including term *current reality assessment.* Addition of "Benchmarking: Comparing with the Best" material moved here from Chapter 16. New material in Section 6.6, "Implementing & Controlling Strategy: Execution." Transitional material added throughout chapter to explain new approach to strategic-management process. Statistics, facts updated, as on Manager's Toolbox, Michael Porter, Amazon.com, auto recalls, Toyota SWOT analysis, Indian motorcycles.
- Material deleted: Material in old Section 6.1 on strategic management moved to Chapter 5. Obsolete Example boxes deleted, "Developing Competitive Advantage: Is Apple's App Store a Model for Ford?" and "Crisis Leading to the Strategic Management Process: JetBlue Weathers an Ice Storm." Also deleted, Example box "Contingency Planning: Southwest Airlines Uses Hedging to Hold Down Price of Aviation Fuel." Practical Action box, "Mentoring: The New Rules," deleted for space reasons.
- New or significantly revised Practical Action box: "Building a Foundation of Execution," converted from text in old Section 6.5.
- New or significantly revised Example boxes: "Crisis Leading to the Strategic-Management Process: Starbucks Reclaims Its Soul." "SWOT Analysis: How Would You Analyze Toyota?" "Contingency Planning for Climate Change: Drought, Rain, & Fire."
- New Self-Assessments: "Assessing Strategic Thinking." "Core Skills for Strategic Planning." "Assessing the Obstacles to Strategic Execution."
- New Management in Action case: "Putting AutoZone into Drive."
- New Legal/Ethical Challenge: "Should Companies Be Pressured to Recruit Females for Boards of Directors?"

7. Individual & Group Decision Making

- Sections resequenced: Former Section 7.4, "Making Ethical Decisions," now Section 7.2, per reviewer request. Former Section 7.2, "Evidence-Based Decision Making & Analytics," now Section 7.3. Former Section 7.3, "Four Decision-Making Styles," now Section 7.4. Discussion of Participative Management moved from Section 7.4 to Chapter 14 as a Practical Action box.
- New material: "Two Systems of Decision Making," on psychologist Daniel Kahneman, per reviewer suggestion. More discussion in "The Uses of 'Big Data,'" including Big Data analytics. Material added on minority dissent. In subsection "Computer-Aided Decision Making," material added on decision-support systems. Statistics, facts updated, as on intuition, implementing evidence-based decision making, ineffective reactions to change, brainstorming, group size.
- Outdated material deleted: Obsolete Example box, "Making a Decision: Which Is Better, Fast or Slow Delivery? Maersk Shipping Line Managers Decide among Alternatives." Deletion of subsection "The Incremental Model." Obsolete Practical Action box, "The Steps in Critical Thinking," deleted, per reviewer suggestion. Deletion, for space reasons, of risk propensity from discussion of decision-making styles. Example box deleted, "How Should Netflix Reinvent Itself?" Under "Computer-Aided Decision Making," chauffeur-driven systems and group-driven systems deleted.
- New or significantly revised Example boxes: "How Can Being the Best Affect Your Decision Making?" "Making a Correct Diagnosis: Who's Better at Financial Decisions, Men or Women?" "Evaluation: The Boeing 787 Dreamliner, a Bet-the-Company Decision." "Analytics in Athletics: The Personal 'Moneyball' Coach." "Deciding to Decide: How Should a Paper Maker Reinvent Itself?"
- New Self-Assessments: "Assessing Your Problem Solving Potential." "Assessing Your Level of Intuition." "What Is Your Decision Making Style?" "Assessing Participation in Group Decision Making."
- New Management in Action case: "Companies Use Tracking Devices to Help Make Decisions."
- New Legal/Ethical Challenge: "Would You Agree to Wear a Sensor So Your Employer Can Track Your Movements & Conversations?"

8. Organizational Culture, Structure, & Design

- Material resequenced: New Manager's Toolbox: "How to Stand Out in a New Job: Fitting into an Organization's Culture in the First 60 Days," moved here from Manager's Toolbox in Chapter 9. New Practical Action box: "When Should You Delegate & When Not: How Managers Get More Done," formerly Chapter 8 Manager's Toolbox.
- New section added: "8.1 Aligning Strategy, Culture, & Structure." Introduction of person-organization fit, how an organization's culture and structure are used to implement strategy. Subsection on "The Importance of Culture" significantly revised. Overarching new Figure 8.1, "Drivers and flow of organizational culture," outlines how managers align the organization's vision and strategies with its organizational culture to realize overall performance. New Figure 8.3, "What organizational benefits are associated with

what organizational cultures." Table 8.2 added, "A Dozen Ways to Change Organizational Culture." Section 8.3, "The Process of Culture Change," revised out of old "8.2 Developing High-Performance Cultures." "Flat organization" defined. Old closing subsection, "The Link between Strategy & Culture," is now "The Link between Strategy, Culture, & Structure." Statistics, facts updated, as on adhocracy culture, market culture, hierarchy culture, observable artifacts, process of culture change, Whole Foods stock price, mechanistic organizations, organic organizations.

- Outdated material deleted: Old Figure 8.3 "Four Functions of Organizational Culture." Subsection deleted, "Cultures for Enhancing Economic Performance: Three Perspectives." Subsection deleted, "Life Cycle: Four Stages in the Life of an Organization."
- New or significantly revised Example boxes: "How Strategy Affects Culture & Culture Affects Structure: EndoStim, a Medical Device Start-up, Operates Virtually," modified from existing Example. "The Corporate Culture of Pfizer Pharmaceuticals: The Different 'Personalities' Within an Organization," modified from previous Example.
- New Self-Assessments: "Assessing Your Preferred Type of Organizational Culture." "Assessing Your Organizational Structure Preference."
- New Management in Action case: "IDEO's Culture Reinforces Helping Behavior."
- New Legal/Ethical Challenge: "Is Apple's Culture Going Too Far?"

9. Human Resource Management

- Sections resequenced, at reviewer request: Section 9.3, "Recruitment & Selection: Putting the Right People into the Right Jobs," now Section 9.2. Section 9.6, "Managing an Effective Workforce: Compensation & Benefits," now Section 9.3. Section 9.7, "Managing Promotions, Transfers, Disciplining, & Dismissals," now Section 9.6. Section 9.2, "The Legal Requirements of Human Resource Management," now Section 9.7.
- New Manager's Toolbox: "Soft Skills & Social Graces: Boosting Your Advantage in the Hiring World."
- New material added: New subsection, "Performance Management in Human Resources," with new Figure 9.2. Subsection added, "Bullying" with Table 9.5, "Beating Back the Bully." Details, statistics updated, as for interviewing, background checking, employee engagement, performance appraisal, forced ranking, workplace discrimination, U.S. union movement.
- Outdated material deleted: Old Manager's Toolbox removed, "How to Stand Out in a New Job: Fitting into an Organization in the First 60 Days," which is now Chapter 8 Manager's Toolbox. Old Practical Action box deleted, "How to Make Incentive Pay Plans Meet Company Goals: Communicate Them to Employees." Example deleted, "The 360-Degree Assessment: How Can It Be Compromised?"
- New Practical Action box: "Why Rewards May Fail to Motivate."
- New or significantly revised Example boxes: "Performance Management: How Domino's Pizza Built a Billion-Dollar Business." "Silicon Valley, Sexual Harassment, & the 'Brogrammer' Culture."
- New Self-Assessments: "Assessing the Quality of HR Practices." "Assessing Your Person-Job Fit." "Is a Career in HR Right for You?" "Assessing Your Attitudes toward Unions."
- New Management in Action case: "More Companies Rely on Proactive Human Resource Practices to Reduce Employee Turnover."
- New Legal/Ethical Challenge: "How Would You Accommodate a Pregnant Employee?"

10. Organizational Change & Innovation

- Material resequenced: Table 10.1, "Six Methods for Managing Employee Resistance to Change," moved to Section 10.4. New Section "10.2 Types & Models of Change" added, using existing text material and new material. "Collins's Five Stages of Decline" moved to Example box in Section 10.5. Subsections "The Causes of Resistance to Change" and "Ten Reasons Employees Resist Change" moved from Section 10.2 to 10.5. "Benchmarking" moved to Chapter 6.
- New material added: "Disruptive innovation" redefined. Figure 10.1, "Forces for change outside and inside the organization," reconfigured with new categories. New Figure 10.2, "Lewin's model of change," added. "Invention" and "creativity" defined more precisely and distinguished from "innovation." Table 10.2 compressed, "Factors that Reduce an Organization's Ability to Learn from Failure." "Core versus Transformational Innovations" replaces "Incremental versus Transformational Innovations." "Transformational innovations" given revised definition. New Table 10.3, "Top Companies in 2014 Whose Cultures Strongly Encourage Innovation." New statistics, facts throughout, as on supertrends, technological advancements, global economy, offshore suppliers, greatest innovators, innovation responding to recognizing a problem.
- Outdated material deleted: Example box deleted, "Proactive Change: Redbox's Parent, Coinstar, Gets Out Front on New Vending Machines." Section deleted, "Areas in Which Change Is Often Needed: People, Technology, Structure, & Strategy," along with Example box "Changing Technology: Web 2.1 Is Radically Altering How Business Is Done." Outdated example box deleted, "Organizational Development: Patagonia Tries to Become Greener."
- New or significantly revised Example boxes: "Radical Change: The Fall of the BlackBerry." "Reactive Change: The BP Gulf of Mexico Blowout." "Proactive Change: Disney World Gets Out Front with Its MagicBand." "Technology Creates the Sharing Economy: Airbnb, Uber, & . . . DogVacay?" "Organizational Development: Using OD to Make Money in the Restaurant Business," per reviewer request for more material on small business. "Recognizing the Need for Change: Collins's Five Stages of Decline," moved from text in Section 10.1.

- New Self-Assessments: "Assessing Your Attitudes toward Change at Work." "How Innovative Is the Organizational Climate?"
- New Management in Action case: "Hewlett-Packard Is Counting on Organizational Change to Boost Revenue Growth."
- New Legal/Ethical Challenge: "Should CEOs Fire Employees Based on the Opinions of U.S. Senators?"

11. Managing Individual Differences & Behavior

- Some subsections resequenced: Under "Core Self-Evaluations," locus of control now follows rather than precedes self-efficacy and self-esteem.
- New material added: Subsection "Core Self-Evaluations" replaces "Five Traits Important in Organizations." Subsection "Emotional Stability" replaces "Self-Monitoring." "LGBT People" replaces "Gays & Lesbians," with new material and statistics added. Statistics, facts updated throughout, as on millennials, job satisfaction, diversity, gender, stress.
- Outdated material deleted: Subsection "Self-Monitoring," along with Example box.
- New or significantly revised Example box: "Emotional Intelligence: Self-Understanding Should Include 'the Good, the Bad, & the Ugly.'"
- New Self-Assessments: "Where Do You Stand on the Big Five Dimensions of Personality?" "What Is Your Level of Emotional Intelligence." "To What Extent Are You Engaged in Your Studies?" "How Satisfied Are You with Your Present Job?" "What Are Your Attitudes about Working with Older Employees?"
- New Legal/Ethical Challenge: "Should Airlines Accommodate Overweight People?"

12. Motivating Employees

- New material added: Figure 12.3, "Maslow's hierarchy of needs," developed more fully. "Deci & Ryan's Self-Determination Theory: Competence, Autonomy, & Relatedness." "The Four Motivational Mechanisms of Goal-Setting Theory." Statistics and facts updated on job satisfaction, money as motivator, work-life balance, flexible work arrangements, telecommuting.
- Outdated material deleted: "Aldefer's ERG Theory: Existence, Relatedness, & Growth." Example boxes deleted: "Acquired Needs Theory: What Motivates Facebook's COO Sheryl Sandberg?" "Use of Expectancy Theory: A Drug Company Ties CEO Pay to Performance."
- New or significantly revised Example box: "Reducing the F's: Applying Expectancy Theory to Failing Students."
- New Self-Assessments: "Are You More Interested in Extrinsic or Intrinsic Rewards?" "Assessing Your Acquired Needs." "Assessing Your Needs for Self-Determination." "Measuring Perceived Fair Interpersonal Treatment." "Assessing the Motivating Potential of Your Job."
- New Management in Action Case: "Caterpillar Puts Employee Pay at Risk, but Is It Done Fairly?"
- New Legal/Ethical Challenge: "Should College Athletes Be Paid to Perform?"

13. Groups & Teams

- New material: Redefinition of formal and informal groups. New figure: Figure 13.2, "The Relationship between intensity and outcomes." New text material: "Five Basic Behaviors to Help You Better Handle Conflict." Updated statistics on abusive bosses, approaches to five conflict-handling styles.
- Obsolete in-text examples deleted, as for intergroup and multicultural conflicts.
- New Self-Assessments: "Attitudes toward Teamwork." "Assessing Your Team's Productive Energy." "Assessing Groupthink." "Assessing Team Effectiveness." "What Is Your Conflict-Management Style?"
- New Management in Action case: "Wooga Effectively Utilizes Teams When Creating Game Apps."

14. Power, Influence, & Leadership

- New material added: "Positive Task-Oriented Traits & Positive/Negative Interpersonal Attributes," including narcissism, Machiavellianism, and psychopathy. "Task-Oriented Leader Behaviors: Initiating-Structure Leadership & Transaction Leadership." "Relationship-Oriented Leader Behavior: Consideration, Empowerment, & Servant Leadership," with servant leadership provided from existing material. "Passive Leadership: The Lack of Leadership Skills," including laissez-faire leadership, written out of existing material. Section 14.4, "Situational Approaches," replaces the term *contingency* with *situational.* Section 14.5 now titled "The Uses of Transformational Leadership," instead of "The Full-Range Model," with previous material on transactional leadership moved earlier in the chapter. Facts and statistics updated on women executives, lack of female CEOs, other matters.
- Outdated material deleted: Kouzes & Posner's Five Traits. Leadership lessons from the GLOBE project. University of Michigan model. Ohio State model. Obsolete Example box deleted: "Set a Goal, Maintain Intensity: The Man Who Built Zynga, a Tightly Wired Machine."
- New or significantly revised Practical Action box: "Participative Management: Empowering Employees to Handle Decision Making" (moved here from text material in Chapter 7, Section 7.4).
- New or significantly revised Example box: "Servant Leadership: Leaders Who Work for the Led."

- New Self-Assessments: "Assessing Your Readiness to Assume the Leadership Role." "Assessing Your Task & Relationship-Oriented Leader Behavior." "Assessing Your Boss's Servant Leadership." "Assessing Your Leader–Member Exchange."
- New Management in Action case: "Leadership Lessons from Sir Alex Ferguson."
- New Legal/Ethical Challenge: "Is It Ethical for Organizations to Incentivize Their Employees to Poach People from Competing Companies?"

15. Interpersonal & Organizational Communication

- Sections resequenced, per reviewer request: Section 15.2 (old 15.3) is now "How Managers Fit into the Communication Process" and Section 15.3 (old 15.2) is now "Barriers to Communication."
- New material added: Material on paraphrasing as a listener response. Per reviewer request, "feedback" given more emphasis. Discussion added on defensive communication and nondefensive communication. Statistics updated on e-mail. Table 15.8 compressed, "Five Rules for Using Smartphones." Subsection added: "Enhanced Business Productivity with Social Media." Table 15.10 now "Tips for Effective Listening," with new material.
- Outdated material deleted: "Learn to Streamline Reading."
- New Self-Assessments: "Assessing Your Communication Competence." "Does Your Organization Have a Supportive or Defensive Communication Climate?" "To What Extent Are You Effectively Using Online Social Networking at Work?" "Assessing Your Listening Style."
- New Management in Action case: "Hootsuite Uses Social Media to Manage Aspects of the Human Resources Function."
- New Legal/Ethical Challenge: "Should Professors' Tweets Be Part of Their Academic Freedom to Comment on Controversial Topics?"

16. Control Systems & Quality Management

- Sections resequenced, in response to suggestion about emphasis on productivity: Old Section 16.1, "Managing for Productivity," is now Section 16.7 and moved to end of chapter.
- New material added: Figure 16.1 now labeled "Controlling for effective performance" and slightly modified. Per reviewer request, Figure 16.3, "Steps in the process," labeled to emphasize feedback. At reviewer request, material added on supply chain and Figure 16.4 added, "The links in a supply chain." Under "The Balanced Scorecard," material added on developing and taking care of employees. Figure 16.8, "Managing productivity and results," changed slightly. In-text examples updated, as on Starbucks, strategic meetings, Ritz-Carlton, statistical process control
- New or significantly revised Example box: "Supply Chain Journey: The Tale of a Couch."
- New Self-Assessments: "Assessing the Innovation & Learning Perspective of the Balanced Scorecard." "Assessing Your Financial Literacy." "Assessing Your Satisfaction with Your College or University Experience."
- New Management in Action case: "UPS Relies on Sophisticated Control Systems to Manage Package Deliveries."
- New Legal/Ethical Challenge: "Should Companies Be Allowed to Administer Untested Drugs on People with Ebola?"
- Material deleted: "Benchmarking" moved to Chapter 6. Outdated material deleted: "Learn to Streamline Reading." Obsolete Example box deleted: "Do Social Media Ads Work? The Need for Benchmarking." Old end-of-chapter Self-Assessment deleted.

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We hope you enjoy reading and applying the book. Best wishes for success in your career.

Angelo Kinicki   Brian K. Williams

Self-Assessment Library

Management: A Practical Introduction 7e

The following Self-Assessment Table of Contents was created to help you navigate through the library of 95 available assessments. As noted earlier, 57 of these assessments have been integrated directly into the textbook. The first part of the table of contents shows you a chapter-by-chapter outline of the titles for each of these assessments. This can help you to decide which of the in-text assessments you might like to use. The second part of this table of contents provides a listing of the additional 37 self-assessments in the Kinicki Self-Assessment Library. These additional self-assessments are categorized according to topic—individual, group/team, and organization. It is important to note that all 95 self-assessments are contained within Connect, making them assignable and gradable.

Chapter 15 – Interpersonal & Organizational Communication: Mastering the Exchange of Information

1. Assessing Your Communication Competence*
2. Does Your Organization Have a Supportive or Defensive Communication Climate?
3. To What Extent Are You Effectively Using Online Social Networking at Work?
4. Assessing Your Listening Style

Chapter 16 – Control Systems & Quality Management: Techniques for Enhancing Organizational Effectiveness

1. Assessing the Innovation & Learning Perspective of the Balanced Scorecard
2. Assessing Your Financial Literacy
3. Assessing Your Satisfaction with Your College or University Experience

*Indicates assessments used in both Kinicki/Williams *Management* and Kinicki/Fugate *Organizational Behavior*.

Additional Assessments found in Kinicki/Fugate – Organizational Behavior: A Practical Problem-Solving Approach 1e

What About Me?

A. Learning About Your Personality:

- Assessing my Perspective on Ethics
- What Is My Big Five Personality Profile?
- How Proactive Am I?
- Assess Your Core Self-Evaluations

B. Your Values and Work Attitudes:

- What Are Your Core Values?

C. Social Perception and Managing Diversity:

- Assessing an Organization's Diversity Climate
- How Does Your Diversity Profile Affect Your Relationships With Other People?

D. Your Motivation:

- To What Extent Have I Used Job Crafting?
- Creating and I-Deal

E. Using Goals, Feedback, Rewards, and Positive Reinforcement:

- Measuring Your Desire for Performance Feedback
- What Rewards Do I Value Most?

F. Flourishing:

- What Is My Positivity Ratio?
- What Is Your Level of Mindfulness?
- What Is My Level of Psychological Capital?
- What Are My Signature Strengths?

Working in Groups

A. Groups and Teams:

- Is This a Mature Work Group or a Team?
- Team Role Preference Scale
- Evaluate Your Team Member Preference
- How Trusting Am I?

B. Communication Skills:

- Assessing My Listening Style
- Social Media Readiness

C. Conflict and Negotiations:

- Interpersonal Conflict Tendencies
- Psychological Safety Climate
- School-Work-Life Conflict
- Bullying–Experienced, Witnessed, and Committed

D. Making Decisions:

- What Is Your Problem-Solving Potential?

E. Power, Influence, and Politics:

- How Much Power Do I Have?
- Which Influence Tactics Do I Use?
- How Political Am I?
- Your Impression Management – Who and How

Organization Life

A. Culture, Socialization, and Mentoring

- What Is the Organizational Culture at My Current Employer?
- What Type of Organizational Culture Do I Prefer?
- Have You Been Adequately Socialized?
- Assessing My Level of Mentoring

B. Organizational Design, Effectiveness, and Innovation

- Assessing Climate for Creativity

C. Managing Change and Stress

- What Is Your Change Readiness?
- How Resistant Are You to Change?

contents

THE MANAGER'S TOOLBOX

PRACTICAL ACTION BOXES

EXAMPLE BOXES

to Illustrate Important Management Concepts

Bringing current issues & companies into the classroom

MANAGEMENT IN ACTION

Case Studies

LEGAL/ETHICAL CHALLENGES

SEVENTH EDITION

management

A PRACTICAL INTRODUCTION

1

The Exceptional Manager

What You Do, How You Do It

Major Questions You Should Be Able to Answer

1.1 Management: What It Is, What Its Benefits Are
Major Question: What are the rewards of being an exceptional manager?

1.2 What Managers Do: The Four Principal Functions
Major Question: What would I actually *do*—that is, what would be my four principal functions—as a manager?

1.3 Seven Challenges to Being an Exceptional Manager
Major Question: Challenges can make one feel alive. What are seven challenges I could look forward to as a manager?

1.4 Pyramid Power: Levels & Areas of Management
Major Question: What are the levels and areas of management I need to know to move up, down, and sideways?

1.5 The Skills Exceptional Managers Need
Major Question: To be a terrific manager, what skills should I cultivate?

1.6 Roles Managers Must Play Successfully
Major Question: To be an exceptional manager, what roles must I play successfully?

1.7 The Link between Entrepreneurship & Management
Major Question: Do I have what it takes to be an entrepreneur?

the manager's toolbox

A One-Minute Guide to Success in This Class

Got one minute to read this section? It could mean the difference between getting an A instead of a B. Or a B instead of a C.

It is our desire *to make this book as practical as possible for you.* One place we do this is in the Manager's Toolbox, like this one, which appears at the beginning of every chapter and which offers practical advice appropriate to the subject matter you are about to explore. Here we show you how to be a success in this course.

Four Rules for Success

The following four rules will help you be successful in this (or any other) course.

- **Rule 1:** Attend every class. No cutting (skipping) allowed.
- **Rule 2:** Don't postpone studying, then cram the night before a test.
- **Rule 3:** Read or review lectures and readings more than once.
- **Rule 4:** Learn how to use this book.

How to Use This Book Most Effectively

When reading this book, follow the steps below:

- Get an overview of the chapter by reading over the first page, which contains the section headings and Major Questions.
- Read "Forecast: What's Ahead in This Chapter."
- Look at the Major Question at the beginning of each section before you read it.
- Read the "The Big Picture," which summarizes the section.
- Read the section itself (which is usually only 2–6 pages), *trying silently to answer the Major Question.* This is important!
- After reading all sections, use the Key Terms, Key Points, and Understanding the Chapter questions at the end of the chapter to see how well you know the concepts. Reread any material you're unsure about.

If you follow these steps consistently, you'll probably absorb the material well enough that you won't have to cram before an exam; you'll need only to lightly review it before the test.

For Discussion Do you sometimes (often?) postpone keeping up with coursework, then pull an "all-nighter" of studying to catch up before an exam? What do you think happens to people in business who do this?

forecast What's Ahead in This Chapter

We describe the rewards, benefits, and privileges managers might expect. We also describe the four principal functions of management—planning, organizing, leading, and controlling. We discuss the seven challenges to managers in today's world. We consider levels and areas of management. We describe the three roles managers must play. We describe the three skills required of a manager and the three roles managers play. Finally, we consider the contributions of entrepreneurship.

1.1 MAJOR QUESTION

Management: What It Is, What Its Benefits Are

What are the rewards of being an exceptional manager?

THE BIG PICTURE

Management is defined as the pursuit of organizational goals efficiently and effectively. Organizations, or people who work together to achieve a specific purpose, value managers because of the multiplier effect: Good managers have an influence on the organization far beyond the results that can be achieved by one person acting alone. Managers are well paid, with the chief executive officers (CEOs) and presidents of even small and midsize businesses earning good salaries and many benefits.

When Mary Barra was named chief executive officer of Detroit-based General Motors in December 2013, she became the first female CEO of an American or any other global automaker. She also became only the 22nd woman at the helm of a Fortune 500 company, one of those 500 largest U.S. companies that appear on the prestigious annual list compiled by *Fortune* magazine. (Other big-time female CEOs: IBM's Virginia "Ginni" Rometty, Yahoo!'s Marissa Mayer, Hewlett-Packard's Meg Whitman, Xerox's Ursula Burns, PepsiCo's Indra Nooyi.)

What kind of a person is Barra (pronounced *Bahr*-ra), a 30-year GM veteran? "She has a soft-spoken manner that belies her intensity on the job," says one report.[1] "She's the real deal, very down to earth," says another.[2] "Her open, relaxed manner has marked a clear contrast with the far more uptight style of many of the middle-aged men around her in General Motors' management," says a third.[3] Are these qualities—which a lot of people have—enough to propel one to the top of a great organization?

The Rise of the Die Maker's Daughter

The daughter of a die maker with a 39-year career in GM's Pontiac division, Barra grew up in suburban Detroit, joined GM at age 18 on the factory floor as an intern, graduated from General Motors Institute (now Kettering University) with a degree in electrical engineering, and then became a plant engineer at Pontiac. Spotting her talent, GM gave her a scholarship to Stanford University, where she earned a graduate degree in business. She then began moving up the GM ladder, first as the executive assistant to the CEO, then as the company's head of human resources—formerly often as high as female executives ever got, in autos or many other industries. In 2011, her big break came when she was promoted to lead GM's $15 billion vehicle-development operations, a high-profile role that became the steppingstone to CEO.

The driving force. One quality that stands out about General Motors CEO Mary Barra is her obvious enthusiasm for cars. She is said to be given to talking excitedly about whatever car she is currently driving and what it demonstrates about GM's product line. Do you think passion about one's work is a necessary quality for managerial success?

Key to Career Growth: "Doing Things I've Never Done Before"

Did it help that, as one writer put it, Barra "had motor oil running through her veins for most of her life"?[4] No doubt it did. But there is another key to career growth—the ability to take risks. As IBM's Ginni Rometty, another female CEO, has said about herself, she has grown the most in her career because "I learned to always take on things I've never done before."[5] She has found that "you have to be very confident, even though you're so self-critical inside about what it is you may or may not know. . . . And that, to me, leads to taking risks."[6]

Of course both men as well as women have to deal with uncertainty. But the ability to take risks—to embrace change and to keep going forward despite fears and internal criticism—is important to any manager's survival, regardless of gender. As Rometty says, "growth and comfort do not coexist."

The Art of Management Defined

Is being an exceptional manager a gift, like a musician having perfect pitch? Not exactly. But in good part it may be an art.[7] Fortunately, it is one that is teachable.

Management, said one pioneer of management ideas, is "the art of getting things done through people."[8]

Getting things done. Through people. Thus, managers are task oriented, achievement oriented, and people oriented. And they operate within an **organization—a group of people who work together to achieve some specific purpose.**

More formally, **management is defined as (1) the pursuit of organizational goals efficiently and effectively by (2) integrating the work of people through (3) planning, organizing, leading, and controlling the organization's resources.**

Note the words *efficiently* and *effectively,* which basically mean "doing things right."

- ***Efficiency—the means.*** Efficiency is the means of attaining the organization's goals. **To be efficient means to use resources—people, money, raw materials, and the like—wisely and cost-effectively.**
- ***Effectiveness—the ends.*** Effectiveness regards the organization's ends, the goals. **To be effective means to achieve results, to make the right decisions and to successfully carry them out so that they achieve the organization's goals.**

Good managers are concerned with trying to achieve both qualities. Often, however, organizations will erroneously strive for efficiency without being effective.

EXAMPLE

Efficiency versus Effectiveness: "Don't Tell Me You're Sorry, Just Fix the Problem!"

What do airline passengers complain about most? Cancellations, delays, and failed flight connections. Reservations, ticketing problems, and long telephone wait times. Boarding, baggage, and refund hassles.

How do the airlines handle such complaints? They say they're sorry.

Having representatives routinely say "I'm sorry" for service difficulties may be *efficient* for the airlines—even when the apologies are accompanied by gift cards, credits, and loyalty points—since it's a lot cheaper than, say, adding more reservation agents, flight crews, baggage handlers, and, of course, airplanes.[9] But it's not *effective* if it leaves us, the customers, fuming and less inclined to continue doing business.

Bad customer service hurts. One survey found that 51% of U.S. consumers in 2013 were so fed up with poor service that they ditched consumer goods retailers, cable and satellite providers, banks, and phone companies.[10] Numerous airline customers no doubt also said "I'll never use *you* again!"

Effective? Is this irate customer dealing with a company customer-support system that is more efficient than effective?

Efficiency: Saving Company Dollars. Still, a lot of airlines favor efficiency over effectiveness in their customer service—in large part because there are some big events they can't control, such as bad weather. In the winter of 2014, relentless snow and ice storms led to the highest number of flight cancellations in 25 years—5.5% of the 1.37 million flights between December 1 and mid-January. In addition, new government rules went into effect prohibiting airlines from keeping passengers on the tarmac for three hours or more, so airlines cancelled blocks of flights rather than risk fines of up to $27,500 per passenger ($4.1 million for a planeload of 150 flyers). The government also implemented a new rule increasing the amount of rest pilots need, making it harder for the companies to operate an irregular schedule, as might follow stormy weather. Finally, "airlines have been cutting unprofitable flights and packing more passengers into planes," reports the Associated Press. "That's been great for their bottom line but has created a nightmare for passengers."[11]

Effectiveness: Retaining Customers & Their Dollars. Apologizing doesn't work when it's a canned response or half-hearted or insincere. "Customers know talk is cheap," says an apology critic.[12] Much better is the method employed by Southwest Airlines, which answered one flyer's complaint about an unpleasant flight by quickly and personally saying it was "truly sorry," addressing each issue he'd brought up, and giving him a credit equal to the value of his one-way fare. "Southwest admitted that there were mistakes, didn't make excuses, and offered sincere and profound apologies," the mollified passenger said.[13]

YOUR CALL

The average telephone wait time to reach a human agent at Southwest Airlines, according to Get2Human.com (*http://get2human.com/get2human_list.asp*), was only two minutes, and agent communications—often difficult when agents, such as those in overseas call centers, have severe accents—rated a smiley face (meaning "good").[14] Spirit Air, on the other hand, took 48 minutes and racked up five red flags ("very bad") for agent communications. Get2Human.com (or GetHuman.com) is a website that aims to convince enterprises, whether airlines or other kinds, that "providing high quality customer service and having satisfied customers costs much less than providing low quality customer service and having unsatisfied customers"—in other words, being more effective, not just efficient. Get2Human also publishes the unpublicized codes for reaching a company's human operators and cut-through-automation tips. What recent unpleasant customer experience would you want to post on this website?

Why Organizations Value Managers: The Multiplier Effect

Some great achievements of history, such as scientific discoveries or works of art, were accomplished by individuals working quietly by themselves. But so much more has been achieved by people who were able to leverage their talents and abilities by being managers. For instance, of the top 10 great architectural wonders of the world named by the American Institute of Architects, none was built by just one person. All were triumphs of management, although some reflected the vision of an individual. (The wonders are the Great Wall of China, the Great Pyramid, Machu Picchu, the Acropolis, the Coliseum, the Taj Mahal, the Eiffel Tower, the Brooklyn Bridge, the Empire State Building, and Frank Lloyd Wright's Falling Water house in Pennsylvania.)

Good managers create value. The reason is that in being a manager you have a *multiplier effect:* Your influence on the organization is multiplied far beyond the results that can be achieved by just one person acting alone. Thus, while a solo operator such as a salesperson might accomplish many things and incidentally make a very good living, his or her boss could accomplish a great deal more—and could well earn two to seven times the income. And the manager will undoubtedly have a lot more influence.

Exceptional managers are in high demand. "The scarcest, most valuable resource in business is no longer financial capital," says a *Fortune* article. "It's talent. If you doubt that, just watch how hard companies are battling for the best people. . . . Talent of every type is in short supply, but the greatest shortage of all is skilled, effective managers."[15] Even in dismal economic times—maybe *especially* in such times—companies reach out for top talent.

The Financial Rewards of Being an Exceptional Manager

How well compensated are managers? According to the U.S. Bureau of Labor Statistics, the median weekly wage in 2013 for American workers of all sorts was $786, or $40,872 a year.[16] Education pays: the median 2013 yearly income for

Best paid. The CEO of Facebook, Mark Zuckerberg, earned $2.2 billion in 2012—more than $6 million a day—making him the highest-paid manager in the United States that year. His base salary was $503,205, but most of his pay package came from exercising millions of stock options when his company went public that year. What do you think your chances are of making even $100 million in your entire lifetime?

full-time workers with at least a bachelor's degree was $63,388, compared to $33,696 for high-school graduates.[17]

The business press frequently reports on the astronomical earnings of top chief executive officers (which jumped a median 8.47% in 2012). The top earner in 2012 was Facebook co-founder Mark Zuckerberg, whose total compensation topped $2.27 billion.[18] However, this kind of huge payday isn't common. Median compensation for top-ranked CEOs in North America in 2012, based on a survey of 2,259 CEOs, was $9.8 million.[19] The more usual median wage for CEOs that year was $168,140 and for general and operations managers $95,440, according to the Bureau of Labor Statistics.[20]

Managers farther down in the organization usually don't make this much, of course; nevertheless, they do fairly well compared with most workers. At the lower rungs, managers may make between $35,000 and $60,000 a year; in the middle levels, between $45,000 and $120,000. (For examples of managerial salaries, go to *www.bls.gov/ooh/management/home.htm*.)[21] There are also all kinds of fringe benefits and status rewards that go with being a manager, ranging from health insurance to stock options to large offices. And the higher you ascend in the management hierarchy, the more privileges may come your way: personal parking space, better furniture, lunch in the executive dining room, on up to—for those on the top rung of big companies—company car and driver, corporate jet, and even executive sabbaticals (months of paid time off to pursue alternative projects).

What Are the Rewards of Studying & Practicing Management?

Are you studying management but have no plans to be a manager? Or are you trying to learn techniques and concepts that will help you be an exceptional management practitioner? Either way there are considerable rewards.

The Rewards of Studying Management Students sign up for an introductory management course for all kinds of reasons. Many, of course, are planning business careers, but others are taking it to fulfill a requirement or an elective. Some students are in technical or nonprofit fields—computer science, education, health, and the like—and never expect to have to supervise people.

Here are just a few of the payoffs of studying management as a discipline:

- **You will understand how to deal with organizations from the outside.** Since we all are in constant interaction with all kinds of organizations, it helps to understand how they work and how the people in them make decisions. Such knowledge may give you some defensive skills that you can use in dealing with organizations from the outside, as a customer or investor, for example.
- **You will understand how to relate to your supervisors.** Since most of us work in organizations and most of us have bosses, studying management will enable you to understand the pressures managers deal with and how they will best respond to you.
- **You will understand how to interact with coworkers.** The kinds of management policies in place can affect how your coworkers behave. Studying management can give you the understanding of teams and teamwork, cultural differences, conflict and stress, and negotiation and communication skills that will help you get along with fellow employees.
- **You will understand how to manage yourself in the workplace.** Management courses in general, and this book in particular, give you the opportunity to realize insights about yourself—your personality, emotions, values, perceptions, needs, and goals. We help you build your skills in areas such as self-management, listening, handling change, managing stress, avoiding groupthink, and coping with organizational politics.

The Rewards of Practicing Management Many young people not only want to make money but make a difference.[22] Becoming a management practitioner offers many rewards apart from money and status, as follows:

- **You and your employees can experience a sense of accomplishment.** Every successful goal accomplished provides you not only with personal satisfaction but also with the satisfaction of all those employees you directed who helped you accomplish it.
- **You can stretch your abilities and magnify your range.** Every promotion up the hierarchy of an organization stretches your abilities, challenges your talents and skills, and magnifies the range of your accomplishments.
- **You can build a catalog of successful products or services.** Every product or service you provide—the personal Eiffel Tower or Empire State Building you build, as it were—becomes a monument to your accomplishments. Indeed, studying management may well help you in running your own business.
- **You can become a mentor and help others.** According to one survey, 84% of workers who had a **mentor—an experienced person who provided guidance to someone new to the work world—**said the mentor helped them advance their careers.[23] By the very fact of being a manager, you are in a unique position to be a mentor to others.

Mentoring. Matthew Wardenaar (right), whose California company produces Tagged, an app that helps users meet new people, gives Mohammed Abdulla assistance (with Google Glass) during a session of the Hidden Genius Project, a mentoring organization that gives underrepresented minorities guidance in moving into technology and science careers.[24] Is helping others one of your life goals?

1.2 What Managers Do: The Four Principal Functions

MAJOR QUESTION What would I actually *do*—that is, what would be my four principal functions—as a manager?

THE BIG PICTURE

Management has four functions: *planning, organizing, leading,* and *controlling.*

What do you as a manager do to "get things done"—that is, achieve the stated goals of the organization you work for? You perform what is known as the **management process**, also called the **four management functions**: **planning, organizing, leading, and controlling.** (The abbreviation "POLC" may help you to remember them.)

As the diagram below illustrates, all these functions affect one another, are ongoing, and are performed simultaneously. *(See Figure 1.1.)*

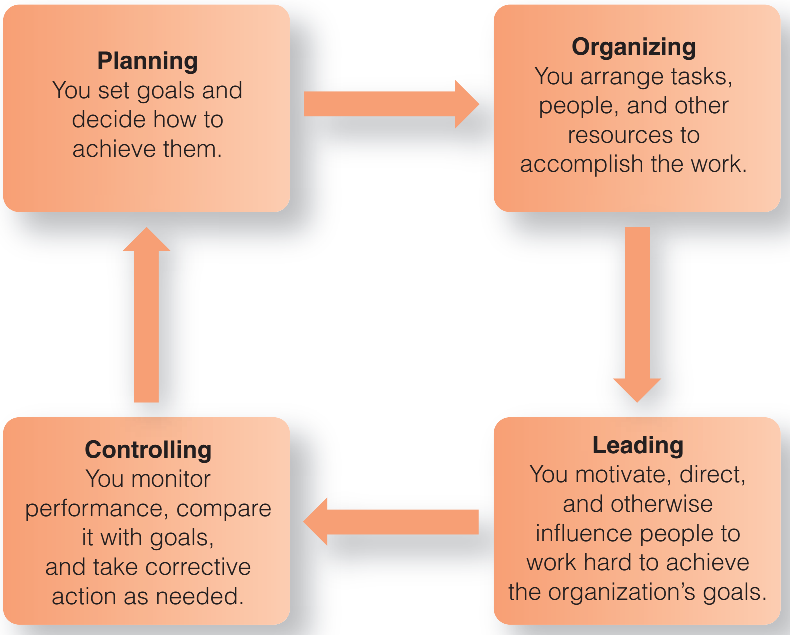


FIGURE 1.1
The Management Process
What you as a manager do to "get things done"—to achieve the stated goals of your organization.

Although the process of management can be quite complex, these four functions represent its essential principles. Indeed, as a glance at our text's table of contents shows, they form four of the part divisions of the book. Let's consider what the four functions are, using the management (or "administration," as it is called in nonprofit organizations) of your college to illustrate them.

Planning: Discussed in Part 3 of This Book

Planning is defined as setting goals and deciding how to achieve them. Your college was established for the purpose of educating students, and its present managers, or administrators, now must decide the best way to accomplish this. Which of several possible degree programs should be offered? Should the college be a residential or a commuter campus? What sort of students should be recruited and admitted? What kind of faculty should be hired? What kind of buildings and equipment are needed?

Organizing: Discussed in Part 4 of This Book

Organizing is defined as arranging tasks, people, and other resources to accomplish the work. College administrators must determine the tasks to be done, by whom, and what the reporting hierarchy is to be. Should the institution be organized into schools with departments, with department chairpersons reporting to deans who in return report to vice presidents? Should the college hire more full-time instructors than part-time instructors? Should English professors teach just English literature or also composition, developmental English, and "first-year experience" courses?

Leading: Discussed in Part 5 of This Book

Leading is defined as motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals. At your college, leadership begins, of course, with the president (who would be the chief executive officer, or CEO, in a for-profit organization). He or she is the one who must inspire faculty, staff, students, alumni, wealthy donors, and residents of the surrounding community to help realize the college's goals. As you might imagine, these groups often have different needs and wants, so an essential part of leadership is resolving conflicts.

Controlling: Discussed in Part 6 of This Book

Controlling is defined as monitoring performance, comparing it with goals, and taking corrective action as needed. Is the college discovering that fewer students are majoring in nursing than they did five years previously? Is the fault with a change in the job market? with the quality of instruction? with the kinds of courses offered? Are the Nursing Department's student recruitment efforts not going well? Should the department's budget be reduced? Under the management function of controlling, college administrators must deal with these kinds of matters.

Leading. Called "one of the most powerful people in human history" by one writer, Larry Page, 40, is the co-founder (with Sergey Brin) and CEO of Google Inc., the Mountain View, California, global technology company, which generated nearly $18 billion in profits in 2013. "He has an expansive belief in the possible," says the writer, and "has demonstrated a willingness to spend . . . cash on wildly ambitious and expensive projects," such as self-driving cars and a new gadget category under Google Glass.[25] Can you see yourself in this kind of leadership role?

1.3 Seven Challenges to Being an Exceptional Manager

MAJOR QUESTION

Challenges can make one feel alive. What are seven challenges I could look forward to as a manager?

THE BIG PICTURE

Seven challenges face any manager: You need to manage for competitive advantage—to stay ahead of rivals. You need to manage for diversity in race, ethnicity, gender, and so on, because the future won't resemble the past. You need to manage for the effects of globalization and of information technology. You always need to manage to maintain ethical standards. You need to manage for sustainability—to practice sound environmental policies. Finally, you need to manage for the achievement of your own happiness and life goals.

Would you agree that the ideal state that many people seek is an emotional zone somewhere between boredom and anxiety? That's the view of psychologist Mihaly Csikszentmihalyi (pronounced Me-*high* Chick-sent-me-*high*-ee) of Claremont Graduate University.[26] Boredom, he says, may arise because skills and challenges are mismatched: you are exercising your high level of skill in a job with a low level of challenge, such as licking envelopes. Anxiety arises when one has low levels of skill but a high level of challenge, such as (for many people) suddenly being called upon to give a rousing speech to strangers.

As a manager, could you achieve a balance between these two states—boredom and anxiety, or action and serenity? Certainly managers have enough challenges to keep their lives more than mildly interesting. Let's see what they are.

Challenge #1: Managing for Competitive Advantage—Staying Ahead of Rivals

Competitive advantage is the ability of an organization to produce goods or services more effectively than competitors do, thereby outperforming them. This means an organization must stay ahead in four areas: (1) being responsive to customers, (2) innovation, (3) quality, and (4) efficiency.

EXAMPLE

The Struggle for Competitive Advantage: App-Based Ride-Share Services Leave the Taxi Industry Reeling

Ever had trouble getting a cab (if you've had occasion to need one)? It could get even harder if ride-sharing services continue to be successful.

Just as technology has allowed the lodging-sharing service Airbnb to take business from hotels, so smartphones and apps have enabled on-demand "transportation network companies" (TNCs) such as Uber, Lyft, and Sidecar to challenge the traditional taxi cab industry. In cities from London to New York to San Francisco to Shanghai, Uber, for instance, lets riders hail drivers in their personal cars by using the UberX app on their mobile device and rent a car and driver on demand and by the minute.

How Ridesharing Works. Once you've signed up with the service and given your credit card information (no cash changes hands), you can then call for a car anytime you want by activating the app, which will show the name and picture of the responding driver, make of car, and approximate arrival time, monitoring its progress through your mobile's display. The charge to you is based on Uber's *surge pricing* model (algorithm): when demand is great, the price goes up—sometimes as much as eight times the normal rate.[27]

Recruiting Drivers. Drivers for ride-share companies must provide their own personal vehicle and carry personal insurance, and they are expected to turn over 5% to 15% of their fares to the company. (Some companies offer car-purchasing or car-leasing options for drivers who don't own vehicles.) Because transportation network companies don't require a long-term commitment, there is high turnover—some drivers take the wheel for only a few weeks before stopping. This has led to a recruiting war in which ride services have posted online and billboard ads enticing drivers with promises of setting their own schedules and making up to $40 an hour.[28] As might be expected, the rush to hire has had a devastating effect on the ranks of regular cab drivers.

Trouble for Taxis. "Every cab company I know of is having a huge problem filling shifts," said the owner of San Francisco–based DeSoto Cab Co., who estimated up to a third of the city's taxi-driving shifts were going unfilled. The cab companies' competitive disadvantage was further aggravated by government requirements that taxis had to be wheelchair accessible and their drivers background-checked, requirements so far not applying to the ride-sharing firms.[29] The lack of accommodation in ride services for disabled passengers has been especially worrisome for those dependent on such services.[30]

Competitive advantage? Lyft ride-share drivers display distinctive pink mustaches on their cars. Customers wanting rides contact them through an app on their smartphones. Do you think traditional taxi-cab companies will still exist 10 years from now?

YOUR CALL

Which sector, taxis or ride services, do you think will have the ultimate competitive advantage? To make this judgment, you need to be aware that, in California at least, the state has required the app-ride companies to submit plans on how they will meet the needs of disabled riders—especially the wheelchair-accessibility or ramp requirement. In addition, some ride-share drivers have become nervous about insurance regulations, since a personal insurance policy won't cover you while you're using your car for passengers and the $1 million excess liability policies that the ride services have don't cover damage to the driver's car. Finally, in a case in which a young girl was killed by an Uber driver in San Francisco, her parents are suing the ride service for wrongful death on the grounds that the app violates distracted-driving laws because drivers have to constantly watch their phones to look for possible passengers.[31] So, which sector do you think will prevail?

1. Being Responsive to Customers The first law of business is: *Take care of the customer.* Without customers—buyers, clients, consumers, shoppers, users, patrons, guests, investors, or whatever they're called—sooner or later there will be no organization. Nonprofit organizations are well advised to be responsive to their "customers," too, whether they're called citizens, members, students, patients, voters, rate-payers, or whatever, since they are the justification for the organizations' existence.

2. Innovation **Finding ways to deliver new or better goods or services is called innovation.** No organization, for-profit or nonprofit, can allow itself to become complacent—especially when rivals are coming up with creative ideas. "Innovate or die" is an important adage for any manager.

We discuss innovation in Chapter 10.

3. Quality If your organization is the only one of its kind, customers may put up with products or services that are less than stellar (as they have with some airlines that have a near monopoly on flights out of certain cities), but only because they have no choice. But if another organization comes along and offers a better-quality travel experience, TV program, cut of meat, computer software, or whatever, you may find your company falling behind. Making improvements in quality has become an important management idea in recent times, as we shall discuss.

4. Efficiency A generation ago, organizations rewarded employees for their length of service. Today, however, the emphasis is on efficiency: Companies strive to produce goods or services as quickly as possible using as few employees (and raw materials) as possible. Although a strategy that downgrades the value of employees might ultimately backfire—resulting in the loss of essential experience and skills and even customers—an organization that is overstaffed may not be able to compete with leaner, meaner rivals. This is the reason why, for instance, today many companies rely so much on temp (temporary) workers.[32]

Challenge #2: Managing for Diversity—The Future Won't Resemble the Past

Today nearly one in six American workers is foreign-born, the highest proportion since the 1920s.[33] But greater changes are yet to come. By mid-century, the mix of American racial or ethnic groups will change considerably, with the United States becoming half (54%) racial or ethnic minority. Non-Hispanic whites are projected to decrease from 63% of the population in 2011 to 47% in 2050. African Americans will increase from 12%–13%, Asians from 5%–9%, and Hispanics (who may be of any race) from 17%–29%.[34] In addition, in the coming years there will be a different mix of women, immigrants, and older people in the general population, as well as in the workforce. For instance, in 2030, nearly one in five U.S. residents is expected to be 65 and older. This age group is projected to increase to 88.5 million in 2050, more than doubling the number in 2013 (41.4 million).[35]

Some scholars think that diversity and variety in staffing produce organizational strength, as we consider elsewhere.[36] Clearly, however, the challenge to the manager of the near future is to maximize the contributions of employees diverse in gender, age, race, ethnicity, and sexual orientation. We discuss this matter in more detail in Chapter 11.

Challenge #3: Managing for Globalization—The Expanding Management Universe

When you ask some Russians "How are you?" the response may not be a simple "Fine" but rather the complete truth as to how they really feel—"a blunt pronouncement of dissatisfaction punctuated by, say, the details of any recent digestive troubles," as one American world traveler explained it.[37] And when you meet Cambodians or Burmese and are asked "Have you eaten yet?" you should not mistake this as an invitation to lunch—all it means is just "Hello."[38]

Cross-border burger business. American businesspeople operating overseas often face unique problems. The manager of this Johnny Rockets hamburger store, which opened in Lagos, Nigeria, in 2012, found that to achieve an authentic, U.S. style taste he needed to fly in the toppings—onions, mushrooms, and iceberg lettuce—which meant that he had to start prices at $14 for a single-patty burger.

The point is this: verbal expressions and gestures don't have the same meaning to everyone throughout the world. Not understanding such differences can affect how well organizations manage globally.

American firms have been going out into the world in a major way, even as the world has been coming to us—leading to what *New York Times* columnist Thomas Friedman has called, in *The World Is Flat,* a phenomenon in which globalization has leveled (made "flat") the competitive playing fields between industrial and emerging-market countries.[39] Managing for globalization will be a complex, ongoing challenge, as we discuss at length in Chapter 4.[40]

Challenge #4: Managing for Information Technology—Dealing with the "New Normal"

The challenge of managing for information technology, not to mention other technologies affecting your business, will require your unflagging attention. Most important is the **Internet, the global network of independently operating but interconnected computers, linking hundreds of thousands of smaller networks around the world.**

By 2017, consumers worldwide are projected to spend $2.3 trillion online, a rise of 14.8% over the year before.[41] This kind of **e-commerce, or electronic commerce—the buying and selling of goods or services over computer networks**—has reshaped entire industries and revamped the very notion of what a company is. More important than e-commerce, information technology has led to the growth of **e-business, using the Internet to facilitate *every* aspect of running a business.** Because the Internet so dramatically lowers the cost of communication, it can radically alter any activity that depends heavily on the flow of information. The result is that disruption has become the "new normal."[42] Some of the implications of information technology that we will discuss throughout the book are as follows:

- **Far-ranging electronic management: e-communication all the time.** Using mobile devices such as smartphones and tablets, 21st-century managers will need to become masters of electronic communication, able to create powerful messages to create, motivate, and lead teams of specialists all over the world. Their means for doing so will range from **e-mail, electronic-mail messages and documents transmitted over a computer network;** to **texting, quick text messages exchanged among smartphones;** and **social media, Internet-based and mobile technologies such as Facebook and Twitter for generating interactive dialogue with others on a network.** Getting the right balance is important, because many messages may be useful, but many are not. Employees can lose valuable time and productivity when dealing with excessive and unimportant e-mail and text messages, leading to increased conflict and stress.[43]
- **More and more data: challenges to decision making.** Every day, a typical American office worker puts out about 5,000 megabytes of data, whether from e-mail, word processing, downloaded movies, or other items generated by computers.[44] The Internet, then, not only speeds everything up, it also, through **cloud computing—the storing of software and data on gigantic collections of computers located away from a company's principal site** (out there somewhere, "in the cloud")—and huge, interconnected **databases—computerized collections of interrelated files**—can assemble astonishing quantities of information and make them available to us instantaneously. This has led to the phenomenon known as **Big Data, stores of data so vast that conventional database management systems cannot handle them,** and so very sophisticated analysis software and supercomputers are required. The challenge: How do we deal with this massive amount of data to make useful decisions without violating people's right to privacy?

- **The rise of artificial intelligence: more automation in the workforce.** "Software and automation—think self-driving cars, robotic factories, and artificially intelligent reservationists," writes Thomas Friedman, "are not only replacing blue-collar jobs at a faster rate, but now also white-collar skills."[45] **Artificial intelligence (AI) is the discipline concerned with creating computer systems that simulate human reasoning and sensation,** as represented by robots, natural language processing, pattern recognition, and similar technologies. The job losses caused by automation among autoworkers, film processors, travel agents, and the like will probably extend to other fields as robot surgeons, driverless cars, drones (pilotless aircraft), and molecule-sized nanobots (used in medicine) come into use.[46] What will be the implications of these events for you as a manager for staffing and training employees and for your own professional development?[47]
- **Organizational changes: shifts in structure, jobs, goals, and knowledge management.** With computers and telecommunications technology, organizations and teams become "virtual"; they are no longer as bound by time zones and locations. Employees, for instance, may **telecommute, or work from home or remote locations using a variety of information technologies.** Meetings may be conducted via **videoconferencing, using video and audio links along with computers to let people in different locations see, hear, and talk with one another.** In addition, **collaborative computing, using state-of-the-art computer software and hardware, will help people work better together.** Goal setting and feedback will be conducted via web-based software programs such as eWorkbench, which enables managers to create and track employee goals. Such managers will also rely on **project management software, programs for planning and scheduling the people, costs, and resources to complete a project on time.** All such forms of interaction will require managers and employees to be more flexible, and there will be an increased emphasis on **knowledge management—the implementing of systems and practices to increase the sharing of knowledge and information throughout an organization.**

Challenge #5: Managing for Ethical Standards

With the pressure to meet sales, production, and other targets, managers can find themselves confronting ethical dilemmas. What do you do when, as a manager for a cruise line, say, you learn that an important safety measure will have to be skipped if a 4,200-passenger cruise ship is to sail on time?[48] As a sales manager, how much should you allow your sales reps to criticize the competition? How much leeway do you have in giving gifts to prospective clients in a foreign country to try to land a contract? In an era of climate change, with changing temperatures and rising sea levels, what is your responsibility to "act green"—avoid company policies that are damaging to the environment?

Ethical behavior is not just a nicety; it is a very important part of doing business. This was certainly made clear in December 2008, when financier Bernard Madoff confessed that his investments were all "one big lie"—not investments at all, but rather a $50 billion scheme (*Ponzi scheme*), using cash from newer investors to pay off older ones. A few months later, this perpetrator of the world's biggest fraud, then age 71, was sentenced to 150 years in prison. Madoff joined a long list of famous business scoundrels of the early 21st century: Tyco International CEO Dennis Kozlowski (now on parole after serving prison time for grand larceny, securities fraud, and tax evasion), WorldCom head Bernard Ebbers (doing 25 years for fraud), Adelphia CEO John Rigas (15 years for conspiracy and bank fraud), former Enron chief Jeffrey Skilling (24 years for similar white-collar crimes), Galleon Group hedge fund head Raj Rajaratnam and Goldman Sachs director Rajat Gupta (11 years each for insider trading).

Dread Pirate. Ross Ulbricht, a former Eagle Scout and holder of a master's degree in materials science, was alleged by federal prosecutors to be a drug kingpin and attempted murderer named Dread Pirate Roberts. He was scheduled to go on trial in late 2014 as the founder of Silk Road, an online site for selling narcotics. He pled not guilty to drug trafficking, computer hacking, money laundering, and running a continuing criminal conspiracy.

Of course, business crime is not perpetrated just by respectable-looking people wearing suits. Hippie entrepreneur Ross Ulbricht, 29, was arrested in late 2013 for allegedly being the founder of Silk Road, described as an "online illegal-goods bazaar that had been dubbed the eBay of vice," from which he purportedly made nearly half a billion dollars in under three years by selling drugs.[49]

We consider ethics in Chapter 3 and elsewhere in the book.

PRACTICAL ACTION

Preparing Yourself to Behave Right When You're Tempted to Cheat

There are all kinds of things that influence people to cheat. They may cheat more in the afternoon than in the morning. (Perhaps because mental fatigue sets in as the day wears on.)[50] They may cheat more when technology makes it easy. (Access to copy/paste tools was associated with a higher rate of cheating.)[51] They may even cheat because it makes them feel good. (Really! Cheaters in one study reported more positive feelings than subjects who acted honestly.)[52]

Of course, just because somehow you feel okay about cheating doesn't mean it's right, or, from a hard-headed business point of view, even effective—either for you or for the organization you work for.[53] Did you know, for instance, that you can be fired for lying on a job application or resume?

Learning to Be Ethical. Concerned about transgressions in the managerial world, some of the top U.S. researchers in business ethics in January 2014 introduced a new website, EthicalSystems.org (*www.ethicalsystems.org*). One of its purposes is to examine the problem that, as *The New York Times* describes it, "how we think we're going to act when faced with a moral decision and how we really do act are often vastly different."[54] Originally business ethics grew out of philosophy and was concerned with the right thing to do. Now research is directed toward the underlying reasons people act the way they do, to develop a more psychologically realistic approach and learn what tools will nudge people toward right behavior.

Doing Right versus Being Liked. When people predict how they're going to act in a given situation, "the 'should' self dominates—we should be fair, we should be generous, we should assert our values," says business ethics professor Ann E. Tenbrunsel. "But when the time for action comes, the 'want' self dominates—I don't want to look like a fool, I don't want to be punished."[55] Thus, you may see some wrong occur (such as an act of cheating) and actually mean to do something about it, but can't quite figure how—and then the moment passes and you let it go and tell yourself that what you did was okay.

YOUR CALL

How can you learn to be ethical? First, you need to be aware of when you are apt not to speak up about a matter of wrongdoing—as when it might alienate your friends ("No one will speak to me after this"), when it might cause others to disrespect you ("I'm going to look like an idiot"), or when an authority figure is present ("This will get me fired"). Once you become aware of such thoughts, you need to try to override them, letting the discomfort you're experiencing signal you that you need to be courageous and take action, not just lapse into inaction. Can you tell yourself how you should—and must—behave the next time you're tempted to cheat or see someone cheating?

Challenge #6: Managing for Sustainability—The Business of Green

An apparently changing climate, bringing increased damage from hurricanes, floods, and fires throughout the United States and the world, has brought the issue of "being green" to increased prominence. Former U.S. Vice President Al Gore's documentary film *An Inconvenient Truth,* along with his book by the same name, further popularized the concepts of global climate change and the idea of sustainability as a business model.[56]

Our economic system has brought prosperity, but it has also led to unsustainable business practices because it has assumed that natural resources are limitless, which they are not. **Sustainability is defined as economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs.**[57] In the United States, the U.S. Chamber of Commerce, which is supposed to represent the views of business, has been resistant to climate change legislation.[58] However, several companies—Levi Strauss, Apple, Tiffany, Exelon, Pacific Gas & Electric, PNM Resources, and Mohawk Fine Papers—have resigned from the Chamber in protest. Perhaps, then, business can begin to take the lead. After years of being slow to address climate change, major corporations—including industrial giants that make products ranging from electricity to chemicals to bulldozers—have begun to call for limits on global warming emissions.

Challenge #7: Managing for Happiness & Meaningfulness

Which would you rather have, a happy life or a meaningful life?

One study found that "Happiness was linked to being a taker rather than a giver, whereas meaningfulness went with being a giver rather than a taker," as a study author put it.[59] Happiness is getting what you want, of having your desires fulfilled. Meaningfulness—which may not always make you happy—is achieving a valued sense of one's self and one's purpose within the larger context of life and community. Research clearly shows that a sense of meaningfulness in your life is associated with better health, work and life satisfaction, and performance.[60]

Many people find being a manager doesn't make them happy.[61] They may complain that they have to go to too many meetings, that they can't do enough for their employees, that they are caught in the middle between bosses and subordinates. They may feel, at a time when Dilbert cartoons have created such an unflattering portrayal of managers, that they lack respect. They may decide that, despite the greater income, money doesn't buy happiness.

On the other hand, being a manager can be one of the greatest avenues to a meaningful life, particularly if you are working within a supportive or interesting organizational culture. (We discuss company culture, or style, in Chapter 8.) As Oakland, California, productivity-improvement expert Odette Pollar has stated, being a manager is "an opportunity to counsel, motivate, advise, guide, empower, and influence large groups of people. These important skills can be used in business as well as in personal and volunteer activities." And, we might add, in nonprofit organizations as well. "If you truly like people," she goes on, "and enjoy mentoring and helping others to grow and thrive, management is a great job."[62]

How Strong Is Your Motivation to Be a Manager? The First Self-Assessment

As we stated at the beginning of this chapter, it is our desire to make this book *as practical as possible* for you. As an important means of advancing this goal, from time to time we present **self-assessments**—two or more to a chapter—which allow you to gauge how you feel about the material you are reading and how you can make use of it. The way this works is you go to the self-assessment website at *connect.mheducation.com* complete the assessment, then answer the self-assessment questions in the book. Here is the first one. ●

SELF-ASSESSMENT 1.1 connect

How Strong Is My Motivation to Be a Manager?

How motivated are you to manage others? Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. Does this instrument accurately assess your potential as a manager? Explain.
2. Which of the seven dimensions do you think is likely the best predictor of managerial success? Which is the least? Explain.
3. The instrument emphasizes competition with others in a win–lose mentality. Describe the pros and cons of this approach to management.

1.4 MAJOR QUESTION

Pyramid Power: Levels & Areas of Management

What are the levels and areas of management I need to know to move up, down, and sideways?

THE BIG PICTURE

Within an organization, there are four levels of managers: *top, middle,* and *first-line managers* and also *team leaders.* Managers may also be *general managers,* or they may be *functional managers,* responsible for just one organizational activity, such as Research & Development, Marketing, Finance, Production, or Human Resources. Managers may work for for-profit, nonprofit, or mutual-benefit organizations.

The workplace of the future may resemble a symphony orchestra, famed management theorist Peter Drucker said.[63] Employees, especially so-called knowledge workers—those who have a great deal of technical skills—can be compared to concert musicians. Their managers can be seen as conductors.

In Drucker's analogy, musicians are used for some pieces of music—that is, work projects—and not others, and they are divided into different sections (teams) based on their instruments. The conductor's role is not to play each instrument better than the musicians but to lead them all through the most effective performance of a particular work.

This model differs from the traditional pyramid-like organizational model, where one leader sits at the top, with layers of managers beneath, each of whom must report to and justify his or her work to the manager above (what's called *accountability,* as we discuss in Chapter 8). We therefore need to take a look at the traditional arrangement first.

The Traditional Management Pyramid: Levels & Areas

A new Silicon Valley technology start-up company staffed by young people in sandals and shorts may be so small and so loosely organized that only one or two members may be said to be a manager. General Motors or the U.S. Army, in contrast, has thousands of managers doing thousands of different things. Is there a picture we can draw that applies to all the different kinds of organizations and describes them in ways that make sense? Yes: by levels and by areas, as the pyramid on the next page shows. *(See Figure 1.2.)*

Four Levels of Management

Not everyone who works in an organization is a manager, of course, but those who are may be classified into four levels—top, middle, and first-line managers and team leaders.

Top Managers: Determining Overall Direction Their offices may be equipped with expensive leather chairs and have lofty views. Or, as with one Internet company, they may have plastic lawn chairs in the CEO's office and beat-up furniture in the lobby. Whatever their decor, an organization's top managers tend to have titles such as "chief executive officer (CEO)," "chief operating officer (COO)," "president," and "senior vice president."

Some may be the stars in their fields, the men and women whose pictures appear on the covers of business magazines, people such as Facebook founder Mark Zuckerberg or Yahoo! CEO Marissa Mayer, who appeared on *Fortune.* As we've seen, the median salary is $168,140 a year for CEOs and presidents of small and midsize companies and can range up to the millions for top executives in large companies.

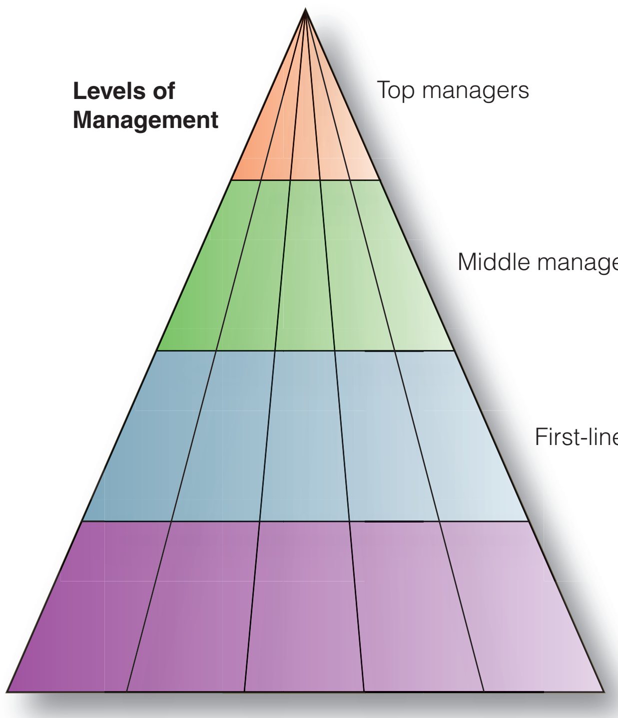


FIGURE 1.2

The levels and areas of management

Top managers make long-term decisions, middle managers implement those decisions, and first-line managers make short-term decisions. Team leaders facilitate team activities toward achieving a goal.

Top managers make long-term decisions about the overall direction of the organization and establish the objectives, policies, and strategies for it. They need to pay a lot of attention to the environment outside the organization, being alert for long-run opportunities and problems and devising strategies for dealing with them. Thus, executives at this level must be future oriented, dealing with uncertain, highly competitive conditions.

These people stand at the summit of the management pyramid. But the nature of a pyramid is that the farther you climb, the less space remains at the top. Thus, most pyramid climbers never get to the apex. However, that doesn't mean that you shouldn't try. Indeed, you might end up atop a much smaller pyramid of some other organization than the one you started out in—and happier with the result.

Middle Managers: Implementing Policies & Plans **Middle managers implement the policies and plans of the top managers above them and supervise and coordinate the activities of the first-line managers below them.** Titles might include "plant manager," "district manager," and "regional manager" among others. In the nonprofit world, middle managers may have titles such as "clinic director," "dean of student services," and the like. Their salaries may range from under $45,000 up to $120,000 a year.

Middle managers are critical for organizational success because they implement the strategic plans created by CEOs and top managers. (Strategic planning is discussed in Chapter 6.) In other words, these managers have the type of **"high touch" *jobs*—dealing with people rather than computer screens or voice-response systems—**that can directly affect employees, customers, and suppliers.[64]

First-Line Managers: Directing Daily Tasks The job titles at the bottom of the managerial pyramid tend to be on the order of "department head," "foreman" or "forewoman," or "supervisor"—clerical supervisor, production supervisor, research supervisor, and so on. Indeed, *supervisor* is the name often given to first-line managers as a whole. Their salaries may run from $35,000 to $65,000 a year.

Following the plans of middle and top managers, **first-line managers make short-term operating decisions, directing the daily tasks of nonmanagerial personnel,** who

One kind of top manager. India-born Satya Nadella, who joined Microsoft in 1992, became CEO of the technology company in early 2014. He will likely receive $18 million in compensation in 2015. Nadella will have his hands full, as shareholders have grumbled for years about Microsoft's strategy and direction. Do you see yourself joining a company and staying with it for life, as Nadella has (after an earlier job at Sun Microsystems), or is that even possible anymore?

Top manager of another sort. In 1999, at age 24, Tony Hsieh (pronounced *Shay*), sold advertising network LinkExchange, the company he co-founded, to Microsoft for $265 million and then joined Zappos.com, the Nevada online shoe and clothing retailer, as an investor and advisor. Later he became CEO and helped grow Zappos to $1 billion in sales. He is also author of the book *Delivering Happiness.* Do you think a top manager is always an adventurous type?

are, of course, all those people who work directly at their jobs but don't oversee the work of others.

No doubt the job of first-line manager will be the place where you would start your managerial career. This can be a valuable experience because it will be the training and testing ground for your management ideas.

Team Leaders: Facilitating Team Activities Not all companies have *teams*—small groups of people with complementary skills who are committed to a common purpose—but teams and teamwork are largely the standard way of operating in today's organizations. (Teams are thoroughly discussed in Chapter 13.)

Members of a team generally report to a first-line manager, who has the authority to hire and fire, controls resources, and is responsible for the team's performance. But one of the members of the team may be charged with being the **team leader, a manager who is responsible for facilitating team activities toward achieving key results.** Team leaders may not have authority over other team members, but they are expected to provide guidance, instruction, and direction to the others; to coordinate team efforts; to resolve conflicts; to represent the team to the first-level manager; and to make decisions in the absence of consensus.

Areas of Management: Functional Managers versus General Managers

We can represent the levels of management by slicing the organizational pyramid horizontally. We can also slice the pyramid vertically to represent the organization's departments or functional areas, as we did in Figure 1.2.

In a for-profit technology company, these might be *Research & Development, Marketing, Finance, Production,* and *Human Resources.* In a nonprofit college, these might be *Faculty, Student Support Staff, Finance, Maintenance,* and *Administration.* Whatever the names of the departments, the organization is run by two types of managers—functional and general. (These are line managers, with authority to direct employees. Staff managers mainly assist line managers.)

Functional Managers: Responsible for One Activity If your title is Vice President of Production, Director of Finance, or Administrator for Human Resources, you are a functional manager. **A functional manager is responsible for just one organizational activity.** Google is particularly noteworthy for its unusual functional management job titles, such as Fitness Program Manager, Green Team Lead, and Vice President of Search Products & User Experience, which was Marissa Mayer's former title before she left to head Yahoo!. (Yahoo! has its own unusual functional titles, such as VP of Talent Acquisition, VP Consumer Platforms, and VP of Research for Europe & LatAm.)

General Managers: Responsible for Several Activities If you are working in a small organization of, say, 100 people and your title is Executive Vice President, you are probably a general manager over several departments, such as Production and Finance and Human Resources. **A general manager is responsible for several organizational activities.** At the top of the pyramid, general managers are those who seem to be the subject of news stories in magazines such as *Bloomberg Businessweek, Fortune, Forbes,* and *Inc.* Examples are big-company CEOs Denise Morrison of Campbell Soup and Jeff Bezos of Amazon.com, and also small-company CEOs such as Gayle Martz, who heads New York–based Sherpa's Pet Trading Co., which sells travel carriers for dogs and cats. But not all general managers are in for-profit organizations.

Saundra Pelletier is chief executive of WomanCare Global, a San Diego, California, nonprofit provider of health care products for women and girls. (Simultaneously, she is also CEO of Evofem Inc., a for-profit biotechnology company.) As the founding CEO, Pelletier secured start-up funding from major foundations and investors and worked to reach women globally in over 100 countries, particularly focusing on underserved parts of Africa and Asia. Previously she worked for pharmaceutical giant G.D. Searle and other companies as a top manager.[65]

Nonprofit general manager. A general manager is responsible for several organizational activities. As CEO of WomanCare Global, Saundra Pelletier developed the organization's initial business plan and secured funding, as well as made several product acquisitions. She leads a team with private sector, global public health, and pharmaceutical experience to serve women in need worldwide. Do you think managerial skills are different for nonprofit and for-profit organizations?

Managers for Three Types of Organizations: For-Profit, Nonprofit, Mutual-Benefit

There are three types of organizations classified according to the three purposes for which they are formed—*for-profit, nonprofit,* and *mutual-benefit.*[66]

1. For-Profit Organizations: For Making Money For-profit, or business, organizations are formed to make money, or profits, by offering products or services. When most people think of "management," they think of business organizations, ranging from Allstate to Zynga, from Amway to Zagat.

2. Nonprofit Organizations: For Offering Services Managers in nonprofit organizations are often known as "administrators." Nonprofit organizations may be either in the public sector, such as the University of California, or in the private sector, such as Stanford University. Either way, their purpose is to offer services to some clients, not to make a profit. Examples of such organizations are hospitals, colleges, and social-welfare agencies (the Salvation Army, the Red Cross).

One particular type of nonprofit organization is called the *commonweal organization.* Unlike nonprofit service organizations, which offer services to *some* clients, commonweal organizations offer services to *all* clients within their jurisdictions. Examples are the military services, the U.S. Postal Service, and your local fire and police departments.

3. Mutual-Benefit Organizations: For Aiding Members Mutual-benefit organizations are voluntary collections of members—political parties, farm cooperatives, labor unions, trade associations, and clubs—whose purpose is to advance members' interests.

Different Organizations, Different Management?

If you become a manager, would you be doing the same types of things regardless of the type of organization? Generally you would be; that is, you would be performing the four management functions—planning, organizing, leading, and controlling—that we described in Section 1.2.

The single biggest difference, however, is that in a for-profit organization, the measure of its success is how much profit (or loss) it generates. In the other two types of organizations, although income and expenditures are very important concerns, the measure of success is usually the effectiveness of the services delivered—how many students were graduated, if you're a college administrator, or how many crimes were prevented or solved, if you're a police chief. ●

1.5 MAJOR QUESTION

The Skills Exceptional Managers Need

To be a terrific manager, what skills should I cultivate?

THE BIG PICTURE

Good managers need to work on developing three principal skills. The first is *technical,* the ability to perform a specific job. The second is *conceptual,* the ability to think analytically. The third is *human*, the ability to interact well with people.

Lower- and middle-level managers are a varied lot, but what do top managers have in common? A supportive spouse or partner, suggests one study.[67] Regardless of gender, reaching the top demands a person's all-out commitment to work and career, and someone needs to be there to help with children and laundry. Thus, in 2011, 27 of 29 current or former Fortune 500 female CEOs were married (but only 18 had children), and their husbands were apparently willing to defer their ambitions to their wives'—just as so many spouses of men have.

General Motors CEO Mary Barra, who is married and is the mother of two teenage children, has been assisted in her rise by her husband, Tony Barra, a technology consultant. Although female managers with supportive partners are becoming more common, society is still struggling with what it means for men and women to be peers and whether one's career should come first or both should be developed simultaneously.

Whether or not they have support at home, aspiring managers also need to have other kinds of the "right stuff." In the mid-1970s, researcher **Robert Katz** found that through education and experience managers acquire three principal skills—*technical, conceptual,* and *human.*[68]

1. Technical Skills—The Ability to Perform a Specific Job

Mary Barra has a bachelor's degree in electrical engineering and a master's in business administration and a well-rounded resume that includes important experience as executive assistant to the CEO, being head of midsize car engineering, managing GM's Detroit-Hamtramck plant, and leading the company's human resources division. Then in 2011 she was made head of GM's huge worldwide product development, where she "brought order to chaos," according to one account, "mostly by flattening its bureaucracy . . . , reducing the number of expensive, global vehicle platforms, and bringing new models to market faster and at lower cost."[69] Said by her predecessor to be "one of the most gifted executives" he had met in his career, she displays an engineer's enthusiasm for cars, a quality not found among other car-company CEOs promoted from finance operations.[70] Indeed, says one account, "Ms. Barra can often be found on the company's test track putting vehicles through their paces at high speeds."[71]

Technical skills consist of the job-specific knowledge needed to perform well in a specialized field. Having the requisite technical skills seems to be most important at the lower levels of management—that is, among employees in their first professional job and first-line managers.

2. Conceptual Skills—The Ability to Think Analytically

Conceptual skills are more important as you move up the management ladder. Said a GM executive about Barra, "When you put her in a position that's completely new to her, she does an amazing job of getting grounded, understanding what's important and what's not, and executing very well."[72] Or, as Barra said about her management approach, "Problems don't go away when you ignore them—they get bigger. In my experience, it is much better to get the right people together, to make a plan, and to address every challenge head on."[73] At every stop along the way in rising through GM, Barra analyzed the situation and simplified things. For example, in her product-development job, she streamlined designs by using the same parts in many different models. She also assigned engineers to work in car dealerships to learn more about what customers want in their vehicles.[74]

Conceptual skills consist of the ability to think analytically, to visualize an organization as a whole and understand how the parts work together. Conceptual skills are particularly important for top managers, who must deal with problems that are ambiguous but that could have far-reaching consequences.

3. Human Skills—"Soft Skills," the Ability to Interact Well with People

This may well be the most difficult set of skills to master. **Human skills consist of the ability to work well in cooperation with other people to get things done**—especially with people in teams, an important part of today's organizations (as we discuss in Chapter 13). Often these are thought of as "soft skills." **Soft skills—the ability to motivate, to inspire trust, to communicate with others**—are necessary for managers of all levels. But because of the range of people, tasks, and problems in an organization, developing your human-interacting skills may turn out to be an ongoing, lifelong effort.[75]

During her more than three decades at GM, Barra has demonstrated exceptionally strong soft skills. She has "an ability with people," says her previous boss, that is critical to GM's team-first approach.[76] "She is known inside GM as a consensus builder who calls her staff together on a moment's notice to brainstorm on pressing issues," says another report.[77] "She's fiercely intelligent yet humble and approachable," says a third account. "She's collaborative but is often the person who takes charge. And she's not afraid to make changes."[78]

General Motors headquarters. The Renaissance Center in Detroit is headquarters for most of GM's enterprises, including CEO Mary Barra's office. Barra seems to have the three skills—technical, conceptual, and human—necessary to be a terrific manager for such a complex organization. Which skill do you think you need to work on the most? (Human skills are the most difficult to master.)

The Most Valued Traits in Managers

Clearly, Barra embodies the qualities sought in star managers, especially top managers. "The style for running a company is different from what it used to be," says a top executive recruiter of CEOs. "Companies don't want dictators, kings, or emperors."[79] Instead of someone who gives orders, they want executives who ask probing questions and force the people beneath them to think and find the right answers.

Among the chief skills companies seek in top managers are the following:

- The ability to motivate and engage others.
- The ability to communicate.
- Work experience outside the United States.
- High energy levels to meet the demands of global travel and a 24/7 world.[80]

Let's see how you can begin to acquire these and other qualities for success.

1.6 MAJOR QUESTION

Roles Managers Must Play Successfully

To be an exceptional manager, what roles must I play successfully?

THE BIG PICTURE

Managers tend to work long hours at an intense pace; their work is characterized by fragmentation, brevity, and variety; and they rely more on verbal than on written communication. According to management scholar Henry Mintzberg, managers play three roles—*interpersonal, informational,* and *decisional*. Interpersonal roles include figurehead, leader, and liaison activities. Informational roles are monitor, disseminator, and spokesperson. Decisional roles are entrepreneur, disturbance handler, resource allocator, and negotiator.

Clearly, being a successful manager requires playing several different roles and exercising several different skills. What are they?

The Manager's Roles: Mintzberg's Useful Findings

Maybe, you think, it might be interesting to follow some managers around to see what it is, in fact, they actually do. That's exactly what management scholar **Henry Mintzberg** did when, in the late 1960s, he shadowed five chief executives for a week and recorded their working lives.[81] And what he found is valuable to know, since it applies not only to top managers but also to managers on all levels.

Consider this portrait of a manager's workweek: "There was no break in the pace of activity during office hours," reported Mintzberg about his subjects. "The mail (average of 36 pieces per day), telephone calls (average of five per day), and meetings (average of eight) accounted for almost every minute from the moment these executives entered their offices in the morning until they departed in the evening."[82]

Only five phone calls per day? And, of course, this was back in an era before e-mail, texting, and Twitter, which nowadays can shower some executives with 100, even 300, messages a day. Indeed, says Ed Reilly, who heads the American Management Association, all the e-mail, cellphone calls, text messaging, and so on can lead people to end up "concentrating on the urgent rather than the important."[83]

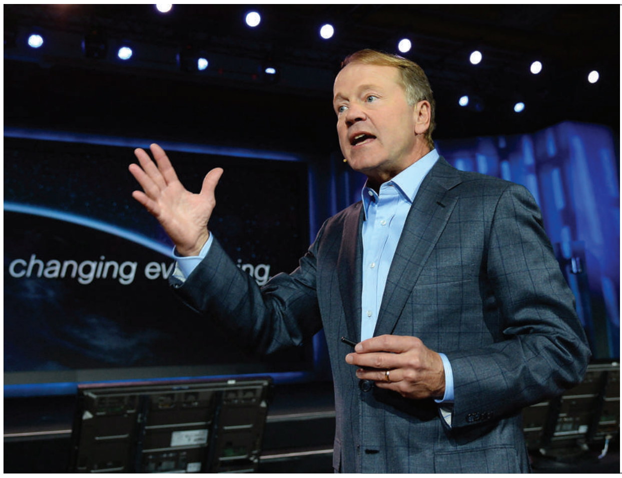
Multitasking. Multiple activities are characteristic of a manager—which is why so many managers use their smartphones to keep track of their schedules. Do you use a mobile electronic device for this purpose?

Obviously, the top manager's life is extraordinarily busy. Here are three of Mintzberg's findings, important for any prospective manager:

1. A Manager Relies More on Verbal than on Written Communication Writing letters, memos, and reports takes time. Most managers in Mintzberg's research tended to get and transmit information through telephone conversations and meetings. No doubt this is still true, although the technologies of e-mail, texting, and Twitter now make it possible to communicate almost as rapidly in writing as with the spoken word.

2. A Manager Works Long Hours at an Intense Pace "A true break seldom occurred," wrote Mintzberg about his subjects. "Coffee was taken during meetings, and lunchtime was almost always devoted to formal or informal meetings."

Long hours at work are standard, he found, with 50 hours being typical and up to 90 hours not unheard of. A 1999 survey by John P. Kotter of the Harvard Business School found that the general managers he studied worked just under 60 hours per week.[84] Four decades following the Mintzberg research, another study found that many professionals worked a whopping 72 hours a week, including weekend work.[85] Prior to the



A Mintzberg manager. John T. Chambers, CEO of network gear maker Cisco Systems, relies more on verbal than on written communication, works long hours, and experiences an "interrupt-driven day." Interestingly, Chambers is successful despite having had lifelong dyslexia, the common language-related learning disability. He compensates by leaving 40 or 50 voice mails a day, studies summaries in briefing binders, and tapes videos for employees. What kind of personal adversity have you had to overcome?

2007–2009 Great Recession, researchers at Purdue and McGill universities found that more companies were allowing managers to reduce their working hours and spend more time with their families yet still advance their high-powered careers.[86] However, during economic hard times, top managers may be more apt to see subordinates' work–life flexibility as a luxury they can no longer afford.

3. A Manager's Work Is Characterized by Fragmentation, Brevity, & Variety

Only about a tenth of the managerial activities observed by Mintzberg took more than an hour; about half were completed in under 9 minutes. Phone calls averaged 6 minutes, informal meetings 10 minutes, and desk-work sessions 15 minutes. "When free time appeared," wrote Mintzberg, "ever-present subordinates quickly usurped it."

No wonder the executive's work time has been characterized as "the interrupt-driven day" and that many managers—such as GM's Mary Barra—are often in their offices by 6 a.m., so that they will have a quiet period in which to work undisturbed. No wonder that finding balance between work and family lives—"work–life balance," as we consider in Chapter 12—is an ongoing concern.[87] No wonder, in fact, that the division between work and nonwork hours is considered almost obsolete in newer industries such as information technology, where people seem to use their smartphones 24/7 to stay linked to their jobs.[88]

It is clear from Mintzberg's work that *time and task management* are major challenges for every manager. The Practical Action box below, "Executive Functioning: How Good Are You at Focusing Your Thoughts, Controlling Your Impulses, & Avoiding Distractions?" examines this challenge further. The box "Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career" at the end of this chapter also offers some important suggestions.

PRACTICAL ACTION

Executive Functioning: How Good Are You at Focusing Your Thoughts, Controlling Your Impulses, & Avoiding Distractions?

Managers are executives, of course, and good managers have what psychologists call good "executive functioning." This is a psychological term, rather than a workplace one, and it involves the ability to manage oneself and one's resources in order to achieve a goal. Specifically, this means the ability to focus your thoughts, control your impulses, and avoid distractions.[89]

Gen Z. The 20 million people born from 1990 to the present, known as Generation Z, or the Net Generation, were "practically born with a smartphone in their hand," in one description.[90] Indeed, one study found that 92% of college undergraduates are cellphone or tablet users.[91] How good is their executive functioning? The typical college student plays with his or her digital device an average of 11 times a day while in class, and more than 80% admit that their use of smartphones, tablets, and laptops can interfere with their learning. More than a fourth say their grades suffer.[92] In addition, students do a lot of multitasking—as in checking out Facebook and listening to music while reading this textbook. You may think you're simultaneously doing three separate tasks, but you're really not. "It's like playing tennis with three balls," says one expert.[93]

The Finite Brain. "Life," says Winifred Gallagher, author of *Rapt,* "is the sum of what you focus on."[94] Another writer says, "You can drive yourself crazy trying to multitask and answer every e-mail message instantly. Or you can recognize your brain's finite capacity for processing information."[95] To be successful not only in school but in the workplace—especially as a manager—you need to learn to *direct your attention.* This is known as *focus* or *mindfulness,* as we explore further later in the book.[96]

YOUR CALL

Do you procrastinate about getting your work done? Most people do—and in fact the problem has worsened over the years: Today about 26% of Americans think of themselves as chronic procrastinators, up from 5% in 1978, and 80%–95% of college students procrastinate on a regular basis The major reason: too many tempting diversions, especially electronic ones.[97] Is this a problem for you? What can you do to improve your "executive functioning"?

Three Types of Managerial Roles: Interpersonal, Informational, & Decisional

From his observations and other research, Mintzberg concluded that managers play three broad types of roles or "organized sets of behavior": *interpersonal, informational,* and *decisional.*

1. Interpersonal Roles—Figurehead, Leader, and Liaison In their **interpersonal roles**, managers interact with people inside and outside their work units. The three interpersonal roles include *figurehead, leader,* and *liaison activities.*

2. Informational Roles—Monitor, Disseminator, and Spokesperson The most important part of a manager's job, Mintzberg believed, is information handling, because accurate information is vital for making intelligent decisions. In their three **informational roles**—as monitor, disseminator, and spokesperson—managers receive and communicate information with other people inside and outside the organization. Mary Barra, for example, wrote an e-mail in early 2014 to all GM employees to discuss how the company was responding to a recall of 1.6 million vehicles. She already had been actively communicating with government officials and a host of senior executives regarding the matter. She noted in her e-mail that "recalls of this size and scope usually take time to play out. Various other parties will naturally be involved, and GM will cooperate fully. You can expect additional developments in the near term."[98]

3. Decisional Roles—Entrepreneur, Disturbance Handler, Resource Allocator, and Negotiator In their **decisional roles**, managers use information to make decisions to solve problems or take advantage of opportunities. The four decision-making roles are entrepreneur, disturbance handler, resource allocator, and negotiator.

These roles are summarized on the next page. *(See Table 1.1.)*

TABLE 1.1 **Three Types of Managerial Roles: Interpersonal, Informational, and Decisional**

BROAD MANAGERIAL ROLES	TYPES OF ROLES	DESCRIPTION
Interpersonal	Figurehead role	In your *figurehead role,* you show visitors around your company, attend employee birthday parties, and present ethical guidelines to your subordinates. In other words, you perform symbolic tasks that represent your organization.
	Leadership role	In your role of *leader,* you are responsible for the actions of your subordinates, as their successes and failures reflect on you. Your leadership is expressed in your decisions about training, motivating, and disciplining people.
	Liaison role	In your *liaison* role, you must act like a politician, working with other people outside your work unit and organization to develop alliances that will help you achieve your organization's goals.
Informational	Monitor role	As a *monitor,* you should be constantly alert for useful information, whether gathered from newspaper stories about the competition or gathered from snippets of conversation with subordinates you meet in the hallway.
	Disseminator role	Workers complain they never know what's going on? That probably means their supervisor failed in the role of *disseminator.* Managers need to constantly disseminate important information to employees, as via e-mail and meetings.
	Spokesperson role	You are expected, of course, to be a diplomat, to put the best face on the activities of your work unit or organization to people outside it. This is the informational role of *spokesperson.*
Decisional	Entrepreneur role	A good manager is expected to be an *entrepreneur,* to initiate and encourage change and innovation.
	Disturbance handler role	Unforeseen problems—from product defects to international currency crises—require you be a *disturbance handler,* fixing problems.
	Resource allocator role	Because you'll never have enough time, money, and so on, you'll need to be a resource *allocator,* setting priorities about use of resources.
	Negotiator role	To be a manager is to be a continual *negotiator,* working with others inside and outside the organization to accomplish your goals.

Did anyone say a manager's job is easy? Certainly it's not for people who want to sit on the sidelines of life. Above all else, managers are *doers.* ●

1.7 MAJOR QUESTION

The Link between Entrepreneurship & Management

Do I have what it takes to be an entrepreneur?

THE BIG PICTURE

Entrepreneurship, a necessary attribute of business, means taking risks to create a new enterprise. It is expressed through two kinds of innovators, the *entrepreneur* and the *intrapreneur.*

Most of the popular get-rich stories you hear these days are about technology start-ups, such as Facebook, Yelp, Foursquare, or Uber, a **start-up being defined as a newly created company designed to grow fast.**[99] But there are all kinds of new endeavors constantly being launched, not all of which are about technology and not all of which are intended to quickly become big.

Starting Up a Start-up: From Hats to Hamburgers

Big Truck Brands, founded in Truckee, California, in 2010, makes custom-designed trucker hats for Olympic skier Julia Mancuso and actor Zach Efron, as well as average consumers.[100] Brooklyn-based MOD Restoration, launched by a rabbi's daughter, Hanny Lerner, handles furniture reupholstering for clients like Barclays Center and Long Island Hospital; it currently has about 10 employees.[101] Walker & Company, headed by Tristan Walker, aims to revolutionize the skin-care and beauty-products industry for African Americans.[102]

While so far these businesses have remained small, others have experienced rapid growth. Numi, founded in 1999 by brother and sister Ahmed and Reem Rahim in their 750-square-foot Oakland, California, apartment, is now a fair-trade tea empire with annual sales of over $20 million in nearly 40 countries.[103] Denver chain Smashburger, founded in 2007, which features a $6 truffle, mushroom, and swiss burger, among other specialties, is up to 235 stores in 30 states and aiming for 765 more in the next five years.[104]

EXAMPLE

A Hot Start-Up Cleans Up: Homejoy Transforms an Old Business

As has been often demonstrated in recent years, an old work sector can be transformed by the application of new technology and new management ideas. An example is house cleaning, which until recently was fundamentally unchanged since the 1960s.

Entrepreneurs. Former South Carolinians Adora and Aaron Cheung founded their house-cleaning company, Homejoy, in the San Francisco Bay Area in 2012. Most people, even young people, prefer the security of a job with a paycheck to the risks of starting a business. Which life would you prefer?

"Everyone Deserves a Happy Home." "My brother Aaron and I started working together in 2009," says South Carolina native Adora Cheung, who had moved to the San Francisco Bay Area. "We were both engineers coding [computer programming], and we wanted a place that was clean in order to be more efficient. We tried to find someone online to clean."[105]

They discovered there were basically two choices—get highly qualified cleaning help from an agency, which might cost them $40–$60 an hour (but workers earned only minimum wage), or get someone from Craigslist, which cost much less, "but you don't know who the heck is going to show up at your door."

To find out how they might make the business more efficient and learn the needs of the cleaners themselves, Adora took a job at a cleaning company. Later, in July 2012, the two launched their own company, Homejoy, under the slogan "Everyone deserves a happy home."

The Homejoy Differences. Several things make Homejoy, which is headquartered in San Francisco with operations in 30 North American markets, different from traditional cleaning services.

First, having determined what their true costs are, the Cheungs are able to charge customers only $20 an hour—whether it's for once a year, once a month, or twice a week—with the worker keeping $12–$15 an hour, the rest going to Homejoy.

Second, to ensure a professional cleaning experience and keep customers happy, Homejoy "certifies" all their cleaners by running numerous background and reference checks, and all house cleanings are bonded and insured and frequently checked for quality. The company offers a complimentary re-clean if customers aren't satisfied.

Third, to keep cleaners happy, Homejoy allows them to select their own hours and the geographical areas where they want to work. The cleaners, who are independent contractors rather than employees, are found through contacts with city agencies, such as the Chicago mayor's office, and nonprofits, such as the Urban League—a novel form of recruitment.

Finally, the Cheungs used their expertise in information technology to set up a website that allows customers to book, cancel, and reschedule cleanings through their computers or smartphones.[106]

Not Just for the Money. Homejoy has its competitors, of course, among them Jack Rabbit, Handybook, Merrymaids.com, and Care.com. But having raised $40 million in funding by investors, the Cheungs clearly think they're on the way to making a tidy return. However, they have also established their own nonprofit foundation, the Homejoy Foundation, to provide support to build, create, or maintain a happy home environment. The foundation currently focuses on improving the living environments of veterans and military families by donating cleaning services and a slice of its profits.

"I think there's a point where start-ups get to a certain size and level of recognition which gives them a platform to do something for a greater good," says Adora Cheung. "We believe it's our social responsibility to give back."[107]

YOUR CALL

It would be nice as a start-up business owner to get to the point where you would be worth several times what your salaried counterparts are worth and able to be a magnanimous donor to good causes. But do you think you have the stomach for the risks involved in establishing and growing a start-up? What are some risks associated with owning your own business?[108]

Entrepreneurship Defined: Taking Risks in Pursuit of Opportunity

Homejoy in its early days represents one of the many small outfits in the United States that are one of the primary drivers of the nation's economy. Indeed, according to the Bureau of Labor Statistics, small companies, defined as having between 1 and 250 employees, created 46.7% of all new jobs in 2013.[109] (Note, however: Because many small firms fail, "new businesses are important to job creation primarily because they get founded," says entrepreneurial studies professor Scott Shane, "not because most of them tend to grow.")[110]

Most small businesses originate with people like the Cheungs. They are the entrepreneurs, the people with the idea, the risk takers. The most successful entrepreneurs become wealthy and make the covers of business magazines: Oprah Winfrey (Harpo Productions), Fred Smith (Federal Express), Larry Page and Sergey Brin (Google). Failed entrepreneurs may benefit from the experience to live to fight another day—as did Henry Ford, twice bankrupt before achieving success with Ford Motor Co.

What Entrepreneurship Is

Entrepreneurship is the process of taking risks to try to create a new enterprise. There are two types of entrepreneurship:

- An **entrepreneur is someone who sees a new opportunity for a product or service and launches a business to try to realize it.** Most entrepreneurs run small businesses with fewer than 100 employees.
- An **intrapreneur is someone who works inside an existing organization who sees an opportunity for a product or service and mobilizes the organization's resources to try to realize it.** This person might be a researcher or a scientist but could also be a manager who sees an opportunity to create a new venture that could be profitable.

EXAMPLE

Example of an Intrapreneur: Intel's Anthropologist Genevieve Bell Explores Possible Innovations for Automakers

If being an intrapreneur sounds more attractive than being a manager, consider this: Managers are vital to supporting the intrapreneur's efforts. Microsoft in-house researchers, for instance, have brought forth many truly cutting-edge ideas, often beating out Apple and Google. The problem, says one analysis, is that such intrapreneurs were "not getting the buy-in from management to turn their discoveries into products," a difficulty that its new CEO, Satya Nadella, has been urged to address.[111]

Backing In-House Risk Taking. Richard Branson, CEO of the Virgin Group, who says his 200 companies (including music and airline businesses) were built on the efforts of "a steady stream of intrapreneurs who looked for and developed opportunities," understands the importance of management support. In his view, CEO should stand for "chief enabling officer," to nurture in-house experimentation.[112]

Intel's Dr. Bell. Intel Corporation, most famously known for its computer chips but now anxious to go in other directions, certainly appreciates the infusion of new ideas. Indeed, it has hired anthropologist Genevieve Bell as its "director of user experience research" at Intel Labs, where she heads some 100 social scientists and designers who explore how people use technology in their homes and in public. "The team's findings help inform the company's product development process," says one report, "and are also often shared with the laptop makers, automakers, and other companies that embed Intel processors in their goods."[113]

For example, to find out how people shift back and forth between the built-in technologies in their cars and the personal mobile devices they carry, Bell and a fellow anthropologist have traveled around the world examining, photographing, and describing the contents of people's cars. They learned that, despite the fact that automakers have installed voice-command systems and other technology in their vehicles for the purpose of reducing distracted driving, drivers in traffic—especially when bored—often picked up their handheld personal devices anyway. This has led Intel to join with Jaguar Land Rover to find ways for consumers to better synchronize their personal devices with their cars.

YOUR CALL

Do you think most companies truly support intrapreneurship? Why would they not?

Multiple entrepreneur. South African–born Elon Musk, declared No. 1 on *Fortune*'s 2013 list of Top People in Business, was a co-founder of PayPal, which provides payment processing for online vendors. He went on to shake up the auto business with Tesla Motors, which builds electric cars; developed SpaceX, a space launch vehicle company; and began retooling the energy sector with SolarCity, a residential solar energy provider. He is said to be worth $7.7 billion. What is your passion that you might turn into a business?

How Do Entrepreneurs & Managers Differ? While the entrepreneur is not necessarily an inventor, he or she "always searches for change, responds to it, and exploits it as an opportunity," Peter Drucker pointed out.[114] Most people are not suited to be entrepreneurs. Let's consider the differences between entrepreneurs and managers.

Being an entrepreneur is what it takes to *start* a business; being a manager is what it takes to *grow or maintain* a business. As an entrepreneur/intrapreneur, you initiate new goods or services; as a manager you coordinate the resources to produce the goods or services—including, as we mentioned, the efforts of the intrapreneurs. Do you think it takes different skills to excel at being a good entrepreneur or manager?

Some of the examples of success we have previously mentioned—Fred Smith (FedEx) and Larry Page (Google)—are actually *both* entrepreneurs and effective managers. Other people, however, find they like the start-up part but hate the management part. For example, Stephen Wozniak, entrepreneurial co-founder with Steve Jobs of Apple Computer, abandoned the computer industry completely and went back to college. Jobs, by contrast, went on to launch another business, Pixar, which among other things became the animation factory that made the movies *Toy Story* and *Finding Nemo.*

Entrepreneurial companies have been called "gazelles" for the two attributes that make the African antelope successful: *speed and agility.* "Gazelles have mastered the art of the quick," says Alan Webber, founding editor of *Fast Company* magazine. "They have internal approaches and fast decision-making approaches that let them move with maximum agility in a fast-changing business environment."[115]

Is this the kind of smart, innovative world you'd like to be a part of? Most people prefer the security of a job and a paycheck. Entrepreneurs do seem to have psychological characteristics that are different from managers, as follows:[116]

- **Characteristic of both—high need for achievement.** Both entrepreneurs and managers have a high need for achievement. However, entrepreneurs certainly seem to be motivated to pursue moderately difficult goals through their own efforts in order to realize their ideas and, they hope, financial rewards. Managers, by contrast, are more motivated by promotions and organizational rewards of power and perks.
- **Also characteristic of both—belief in personal control of destiny.** If you believe "I am the captain of my fate, the master of my soul," you have what is known as **internal locus of control, the belief that you control your own destiny,** that external forces will have little influence. (*External locus of control* means the reverse—you believe you don't control your destiny, that external forces do.) Both entrepreneurs and managers like to think they have personal control over their lives.
- **Characteristic of both, but especially of entrepreneurs—high energy level and action orientation.** Rising to the top in an organization probably requires that a manager put in long hours. For entrepreneurs, however, creating a new enterprise may require an extraordinary investment of time and energy. In addition, while some managers may feel a sense of urgency, entrepreneurs are especially apt to be impatient and to want to get things done as quickly as possible, making them particularly action oriented.
- **Characteristic of both, but especially of entrepreneurs—high tolerance for ambiguity.** Every manager needs to be able to make decisions based on ambiguous—that is, unclear or incomplete—information. However, entrepreneurs must have more tolerance for ambiguity because they are trying to do things they haven't done before.
- **More characteristic of entrepreneurs than managers—self-confidence and tolerance for risk.** Managers must believe in themselves and be willing to make decisions; however, this statement applies even more to entrepreneurs. Precisely because they are willing to take risks in the pursuit of new opportunities—indeed, even risk personal financial failure—entrepreneurs need the confidence to act decisively.

IBM CEO Virginia "Ginni" Rometty. The Chicago-area native began her career during the early 1980s, when women began entering corporate America in droves. As the leader of "Big Blue," as IBM is called, Rometty placed No. 1 on *Fortune*'s 2013 list of The 50 Most Powerful Women in the United States. Currently she is pushing IBM resources into commercializing Watson, the supercomputer famed for winning on *Jeopardy,* whose ability to learn, Rometty believes, represents new sales opportunities. Are entrepreneurs and managers really two different breeds?

Of course, not all entrepreneurs have this kind of faith in themselves. So-called *necessity* entrepreneurs are people such as laid-off corporate workers, discharged military people, immigrants, and divorced homemakers who suddenly must earn a living and are simply trying to replace lost income and are hoping a job comes along. In the United States, these make up about a quarter of entrepreneurs. However, three-quarters are so-called *opportunity* entrepreneurs—those who start their own business out of a burning desire rather than because they lost a job.[117]

So where do you stand? Do you think you would like to be an entrepreneur? The following self-assessment was created to provide you with feedback about your entrepreneurial orientation. ●

SELF-ASSESSMENT 1.2

connect

To What Extent Do You Possess an Entrepreneurial Spirit?

How motivated are you to be an entrepreneur, to start your own company? Do you have the aptitudes and attitudes possessed by entrepreneurs? This self-assessment allows you to compare your motivations, aptitudes, and attitudes with those found in a sample of entrepreneurs from a variety of industries.[118] Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. To what extent are your motives, aptitudes, and attitudes similar to entrepreneurs? Explain.
2. Based on your results, where do you have the biggest gaps with entrepreneurs in terms of the individual motives, aptitudes, and attitudes?
3. What do these gaps suggest about your entrepreneurial spirit? Discuss.
4. Do these results encourage or discourage you from thinking about starting your own business? Explain.

TAKING SOMETHING PRACTICAL AWAY

Getting Control of Your Time: Dealing with the Information Deluge in College & in Your Career

Professionals and managers all have to deal with this central problem: how not to surrender their lives to their jobs. The place to start, however, is in college. If you can learn to manage time while you're still a student, you'll find it will pay off not only in higher grades and more free time but also in more efficient information-handling skills that will serve you well as a manager later on.[119]

Using Your "Prime Study Time"

Each of us has a different energy cycle.[120] The trick is to use it effectively. That way, your hours of best performance will coincide with your heaviest academic demands. For example, if your energy level is high during the mornings, you should plan to do your studying then.

To capitalize on your prime study time, you take the following steps: (1) Make a study schedule for the entire term, and indicate the times each day during which you plan to study. (2) Find some good places to study—places where you can avoid distractions. (3) Avoid time wasters, but give yourself frequent rewards for studying, such as a TV show, a favorite piece of music, or a conversation with a friend.

Improving Your Memory Ability

Memorizing is, of course, one of the principal requirements for succeeding in college. And it's a great help for success in life afterward.

Here are some tips on learning to concentrate:[121]

Choose What to Focus On

"People don't realize that attention is a finite resource, like money," one expert says. "Do you want to invest your cognitive cash on endless Twittering or Net surfing or couch potatoing [watching TV]?" She adds, "Where did the idea come from that anyone who wants to contact you can do so at any time? You need to take charge of what you pay attention to instead of responding to the latest stimuli."[122] For example, to block out noise, you can wear earplugs while reading, to create your own "stimulus shelter."

Devote the First 1½ Hours of Your Day to Your Most Important Task

Studying a hard subject? Make it your first task of the day, and concentrate on it for 90 minutes. After that, your brain will probably need a rest, and you can answer text messages, e-mail, and so on. But until that first break, don't do anything else, because it can take the brain 20 minutes to refocus.

Space Your Studying, Rather Than Cramming

Cramming—making a frantic, last-minute attempt to memorize massive amounts of material—is probably the least effective means of absorbing information. Research shows that it's best to space out your studying of a subject over successive days. A series of study sessions over several days is preferable to trying to do it all during the same number of hours on one day. It is *repetition* that helps move information into your long-term memory bank.

Review Information Repeatedly—Even "Overlearn It"

By repeatedly reviewing information—what is known as "rehearsing"—you can improve both your retention and your understanding of it. Overlearning is continuing to review material even after you appear to have absorbed it.

Use Memorizing Tricks

There are several ways to organize information so that you can retain it better. For example, you can make drawings or diagrams (as of the parts of a computer system). Some methods of establishing associations between items you want to remember are given in the exhibit. *(See Exhibit 1.1.)*

EXHIBIT 1.1 **Some Memorizing Tricks**

- **Mental and physical imagery:** Use your visual and other senses to construct a personal image of what you want to remember. Indeed, it helps to make the image humorous, action-filled, sexual, bizarre, or outrageous in order to establish a personal connection. Example: To remember the name of the 21st president of the United States, Chester Arthur, you might visualize an author writing the number "21" on a wooden chest. This mental image helps you associate chest (Chester), author (Arthur), and 21 (21st president).
- **Acronyms and acrostics:** An acronym is a word created from the first letters of items in a list. For instance, Roy G. Biv helps you remember the colors of the rainbow in order: red, orange, yellow, green, blue, indigo, violet. An acrostic is a phrase or sentence created from the first letters of items in a list. For example, *Every Good Boy Does Fine* helps you remember that the order of musical notes on the staff is E-G-B-D-F.
- **Location:** Location memory occurs when you associate a concept with a place or imaginary place. For example, you could learn the parts of a computer system by imagining a walk across campus. Each building you pass could be associated with a part of the computer system.
- **Word games:** Jingles and rhymes are devices frequently used by advertisers to get people to remember their products. You may recall the spelling rule "*I* before *E* except after *C* or when sounded like *A* as in *neighbor* or *weigh*." You can also use narrative methods, such as making up a story.

How to Improve Your Reading Ability: The SQ3R Method

SQ3R stands for "survey, question, read, recite, and review."[123] The strategy behind it is to break down a reading assignment into small segments and master each before moving on. The five steps of the SQ3R method are as follows:

1. *Survey the chapter before you read it:* Get an overview of the chapter or other reading assignment before you begin reading it. If you have a sense of what the material is about before you begin reading it, you can predict where it is going. In this text, we offer on the first page of every chapter a list of the main heads and accompanying key questions. At the end of each chapter we offer a Key Points, which explains what the chapter's terms and concepts mean and why they are important.
2. *Question the segment in the chapter before you read it:* This step is easy to do, and the point, again, is to get you involved in the material. After surveying the entire chapter, go to the first segment—section, subsection, or even paragraph, depending on the level of difficulty and density of information. Look at the topic heading of that segment. In your mind, restate that heading as a question. In this book, we have done this by following each main section head with a Major Question. As an example, for the first section of this chapter (Management: What It Is, What Its Benefits Are), our restatement question is, "What are the rewards of being an exceptional manager?"

   After you have formulated the question, go to steps 3 and 4 (read and recite). Then proceed to the next segment and again restate the heading there as a question.
3. *Read the segment about which you asked the question:* Now read the segment you asked the question about. Read with purpose, to answer the question you formulated. Underline or color-mark sentences that you think are important, if they help you answer the question.

Read this portion of the text more than once, if necessary, until you can answer the question. In addition, determine whether the segment covers any other significant questions, and formulate answers to these, too. After you have read the segment, proceed to step 4. (Perhaps you can see where this is all leading. If you read in terms of questions and answers, you will be better prepared when you see exam questions about the material later.)

4. *Recite the main points of the segment:* Recite means "say aloud." Thus, you should speak out loud (or softly) the answer to the principal question or questions about the segment and any other main points.
5. *Review the entire chapter by repeating questions:* After you have read the chapter, go back through it and review the main points. Then, without looking at the book, test your memory by repeating the questions.

Clearly the SQ3R method takes longer than simply reading with a rapidly moving color marker or underlining pencil. However, the technique is far more effective because it requires *your involvement and understanding.* This is the key to all effective learning.

Learning from Lectures

Does attending lectures really make a difference? Research shows that students with grades of B or above were more apt to have better class attendance than students with grades of C or below.[124] Some tips for getting the most out of lectures are the following.

Take Effective Notes by Listening Actively

Research shows that good test performance is related to good note taking.[125] And good note taking requires that you listen actively—that is, participate in the lecture process. Here are some ways to take good lecture notes:

- *Read ahead and anticipate the lecturer:* Try to anticipate what the instructor is going to say, based on your previous reading. Having background knowledge makes learning more efficient.
- *Listen for signal words:* Instructors use key phrases such as "The most important point is . . . ," "There are four reasons for . . . ," "The chief reason . . . ," "Of special importance . . . ," "Consequently . . ." When you hear such signal phrases, mark your notes with a ! or *.
- *Take notes in your own words:* Instead of just being a stenographer, try to restate the lecturer's thoughts in your own words, which will make you pay attention more.
- *Ask questions:* By asking questions during the lecture, you necessarily participate in it and increase your understanding.

Review Your Notes Regularly

Make it a point to review your notes regularly—perhaps on the afternoon after the lecture, or once or twice a week. We cannot emphasize enough the importance of this kind of reviewing.

Key Terms Used in This Chapter

artificial intelligence (AI) 15
Big Data 14
cloud computing 14
collaborative computing 15
competitive advantage 11
conceptual skills 23
controlling 10
databases 14
decisional roles 26
e-business 14
e-commerce 14
e-mail 14
effective 5
efficient 5
entrepreneur 29
entrepreneurship 29
first-line managers 19
four management functions 9
functional managers 20
general managers 20
"high-touch" jobs 19
human skills 23
informational roles 26
innovation 12
internal locus of control 31
Internet 14
interpersonal roles 26
intrapreneur 29
knowledge management 15
leading 10
management 5
management process 9
mentor 8
middle managers 19
organization 5
organizing 10
planning 9
project management software 15
social media 14
soft skills 23
start-up 28
sustainability 16
team leaders 20
technical skills 22
telecommute 15
texting 14
top managers 19
videoconferencing 15

Key Points

1.1 Management: What It Is, What Its Benefits Are

- Management is defined as the pursuit of organizational goals *efficiently*, meaning to use resources wisely and cost-effectively, and *effectively* by integrating the work of people through planning, organizing, leading, and controlling the organization's resources.

1.2 What Managers Do: The Four Principal Functions

- The management process, or four management functions, are represented by the abbreviation *POLC.*
- *Planning* is setting goals and deciding how to achieve them.
- *Organizing* is arranging tasks, people, and other resources to accomplish the work.
- *Leading* is motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals.
- *Controlling* is monitoring performance, comparing it with goals, and taking corrective action as needed.

1.3 Seven Challenges to Being an Exceptional Manager

- Managing for competitive advantage, which means an organization must stay ahead in four areas—being responsive to customers, innovating new products or services offering better quality, being more efficient.
- Managing for diversity among different genders, ages, races, and ethnicities.
- Managing for globalization, the expanding universe.
- Managing for computers and telecommunications—information technology.
- Managing for right and wrong, or ethical standards.
- Managing for sustainability.
- Managing for your own happiness and meaningful life goals.

1.4 Pyramid Power: Levels & Areas of Management

- Within an organization, there are managers at four levels.
- *Top managers* make long-term decisions about the overall direction of the organization and establish the objectives, policies, and strategies for it.
- *Middle managers* implement the policies and plans of their superiors and supervise and coordinate the activities of the managers below them.
- *First-line managers* make short-term operating decisions, directing the daily tasks of nonmanagerial personnel.

- *Team leaders* are managers who are responsible for facilitating team activities toward achieving key results.
- There are three types of organizations—for-profit, nonprofit, and mutual benefit.
- *For-profit* organizations are formed to make money by offering products or services.
- *Nonprofit* organizations offer services to some, but not to make a profit.
- *Mutual-benefit* organizations are voluntary collections of members created to advance members' interests.

1.5 The Skills Exceptional Managers Need

- The three skills that exceptional managers cultivate are technical, conceptual, and human.
- *Technical* skills consist of job-specific knowledge needed to perform well in a specialized field.
- *Conceptual* skills consist of the ability to think analytically, to visualize an organization as a whole, and to understand how the parts work together.
- *Human* skills consist of the ability to work well in cooperation with other people in order to get things done.

1.6 Roles Managers Must Play Successfully

- The Mintzberg study shows that, first, a manager relies more on verbal than on written communication; second, managers work long hours at an intense pace; and, third, a manager's work is characterized by fragmentation, brevity, and variety.
- Mintzberg concluded that managers play three broad roles: (1) *interpersonal*—figurehead, leader, and liaison; (2) *informational*—monitor, disseminator, and spokesperson; and (3) *decisional*—entrepreneur, disturbance handler, resource allocator, and negotiator.

1.7 The Link between Entrepreneurship & Management

- Entrepreneurship, a necessary attribute of business, is the process of taking risks to create a new enterprise.
- Two types are the entrepreneur and the intrapreneur.
- The *entrepreneur* sees a new opportunity for a product or service and launches a business to realize it.
- The *intrapreneur* works inside an existing organization and sees an opportunity for a product or service and mobilizes the organization's resources to realize it.
- Entrepreneurs start businesses; managers grow or maintain them. Both (but especially entrepreneurs) have a high need for achievement, high energy level and action orientation, and tolerance for ambiguity. Entrepreneurs are more self-confident and have higher tolerance for risk.

Understanding the Chapter: What Do I Know?

1. What is the difference between being efficient and being effective?
2. What is the formal, three-part definition of management?
3. How would I define the four functions of management?
4. What are the seven challenges of being a manager, and which is the one I will probably most have to worry about during my lifetime?
5. What are the differences among the four levels of managers in the organizational pyramid?
6. How would I distinguish among the three types of organizations?
7. What are the three skills that exceptional managers need to cultivate, and which one do I probably have to work on most?
8. Mintzberg's study in the 1960s came up with three important findings about a manager's routine. What are they, and are they probably still the same today?
9. Mintzberg also found that managers play three important roles. What are they, and what examples can I think of them?
10. Which would I rather be—a manager or an entrepreneur/intrapreneur, and why?

Target CEO Works to Regain Consumer Trust after the Company Was Hacked

Minneapolis—Executives settled around a square table inside a Target Corp. conference room here earlier this month and munched on store-brand snacks as they chewed over something far less appetizing.

Opinion surveys commissioned by the company found that the massive cybertheft that waylaid Target late [in 2013] had knocked confidence and trust in the 51-year-old retailer to an all-time low. . . .

Target was having trouble shaking the fallout from a key decision by Chief Executive Gregg Steinhafel that made the crisis appear even worse than it already was.

The initial evidence had indicated that credit and debit card numbers of about 40 million Target customers had been stolen. But the retailer had learned later that the hackers gained access to partial names and physical or e-mail addresses for as many as 70 million people—a breach that some top executives counseled against disclosing because it was unclear what kind of fraud danger it posed.

Nevertheless, Mr. Steinhafel insisted on making the bigger number public, sparking news reports that as many as 110 million Target customers had been affected.

At the meeting, Chief Marketing Officer Jeffrey Jones groused about the huge number. The public "keeps hearing that equals one-third of all Americans," he said. "That's hammering us."

Mr. Steinhafel says he has no regrets about the aggressive disclosure and other costly decisions in the wake of the crisis. "Target won't be defined by the breach, but how we handle the breach," he says. . . .

The executives acknowledge the crisis has damaged the retailer's bull's-eye brand, while analysts estimate it may cost Target billions of dollars. During the holiday-shopping season, Target's sales and store traffic plummeted. Call-center volume overwhelmed employees. Executives testified before congressional panels, and the company is facing federal and state investigations into how the cybercrime occurred from its store registers and computer network. . . .

Over the two months since the crisis erupted, Mr. Steinhafel, 59 years old, has lurched from one difficult decision to another.

At one point, he proposed in a meeting that Target would provide free credit monitoring and identity-theft insurance for one year to all its customers. Scott Kennedy, a senior executive, asked: "You're saying we will give this to any customer who's ever been in a store, but we aren't checking?"

Mr. Steinhafel nodded.

"Then we're offering this to all Americans," Mr. Kennedy replied.

Target went ahead with that plan.

The breach could wind up costing Target, which notched $73 billion in sales in 2012, a few billion dollars, people familiar with the matter say. . . .

New chip technology to replace magnetic strips on credit cards could cost about $100 million, one executive told Congress. Card-monitoring services for customers could cost tens of millions, according to one executive. Hundreds of millions of marketing dollars could be diverted to repairing the brand. In addition, costs are mounting for reissuing cards, staffing call centers, forensic and data-security units, and lawyers for public inquiries and private lawsuits. . . .

The CEO, who likes to say "retail is detail," is known internally for paying surprise visits to Target stores—there are about 1,800 in the U.S. that drew about 32 million customers a week before the crisis. Store managers say they warn each other to be alert for a man snooping around the aisles, frequently snacking from a box of animal crackers. . . .

Recently, Mr. Steinhafel says, he stopped a manager who was reading e-mail on her cellphone as she passed through Target's downtown Minneapolis headquarters. "Please be in the present," he recalls telling her. . . .

From November 27, the day before Thanksgiving, through December 18, Target executives say, shoppers' payment-card data was captured through "malware" installed in Target's computer network. The hackers had entered the network through a vendor. . . .

The breach got wide publicity. Shoppers clogged Target phone lines and stores. Some sent tweets and e-mails that they would never again shop at Target. On the last weekend before Christmas, the big crowds at Target stores had dwindled.

On December 20, Mr. Jones, the chief marketing officer, urged Mr. Steinhafel to appear in a video on Target's website. The CEO was reluctant. He didn't have a script and was exhausted.

With a camera rolling, Target's public-relations chief, Dustee Jenkins, asked him questions. Mr. Steinhafel, clad in Target's trademark red shirt and khakis store attire, thanked customers for their trust, provided tips to monitor their accounts, and promised zero liability to shoppers for any fraudulent charges.

Mr. Steinhafel began holding twice-daily "status meetings" in a 32nd floor conference room. . . .

Early this month, prompted by the Target data breach, Congress held hearings on cyberattacks. As Mr. Mulligan, the CFO, made his appearances, Mr. Steinhafel and his executive team watched from the company's "situation room."

A Secret Service official testified that the data breach was "highly technical and sophisticated," prompting Mr. Steinhafel to remark: "That shows it's not just our operation. It would be hard for any retailer to withstand this."

At a daily status meeting early this month, Mr. Steinhafel pushed to accelerate to early next year the timeline for Target to replace magnetic strips on its payment cards with a new chip technology widely used in Europe and Canada that is less vulnerable to fraud.

FOR DISCUSSION

1. From a management perspective, do you think Target made any major mistakes? Explain.
2. Which of the four principal managerial functions were exhibited by CEO Greg Steinhafel?
3. Which of the seven managerial challenges discussed in this chapter is Target facing? How are they handling these challenges?
4. What is your evaluation of Steinhafel's ability to effectively execute the three key managerial roles—interpersonal, informational, and decisional? Explain.
5. If you were a consultant to Target, what advice would you give to senior management about handling a crisis like this? Discuss.

Source: Excerpted from Monica Langley, "Inside Target, CEO Struggles to Regain Shoppers' Trust," The Wall Street Journal, *February 19, 2014, pp A1, A10.*

Legal/Ethical Challenge

To Delay or Not to Delay?

You have been hired by a vice president of a national company to create an employee attitude survey, to administer it to all employees, and to interpret the results. You have known this vice president for more than 10 years and have worked for her on several occasions. She trusts and likes you, and you trust and like her. You have completed your work and now are ready to present the findings and your interpretations to the vice president's management team. The vice president has told you that she wants your honest interpretation of the results, because she is planning to make changes based on the results. Based on this discussion, your report clearly identifies several strengths and weaknesses that need to be addressed. For example, employees feel that they are working too hard and that management does not care about providing good customer service. At the meeting you will be presenting the results and your interpretations to a group of 15 managers. You also have known most of these managers for at least 5 years.

You arrive for the presentation armed with slides, handouts, and specific recommendations. Your slides are loaded on the computer, and most of the participants have arrived. They are drinking coffee and telling you how enthused they are about hearing your presentation. You also are excited to share your insights. Ten minutes before the presentation is set to begin, however, the vice president takes you out of the meeting room and says she wants to talk with you about your presentation. The two of you go to another office, and she closes the door. She then tells you that her boss's boss decided to come to the presentation unannounced. She thinks that he is coming to the presentation to look solely for negative information in your report. He does not like the vice president and wants to replace her with one of his friends. If you present your results as planned, it will provide this individual with the information he needs to create serious problems for the vice president. Knowing this, the vice president asks you to find some way to postpone your presentation. You have 10 minutes to decide what to do.

SOLVING THE CHALLENGE

What would you do?

1. Deliver the presentation as planned.
2. Give the presentation but skip over the negative results.
3. Go back to the meeting room and announce that your spouse has had an accident at home and you must leave immediately. You tell the group that you just received this message and that you will contact the vice president to schedule a new meeting.
4. Invent other options. Discuss.

2

Management Theory

Essential Background for the Successful Manager

Major Questions You Should Be Able to Answer

2.1 Evolving Viewpoints: How We Got to Today's Management Outlook

Major Question: What's the payoff in studying different management perspectives, both yesterday's and today's?

2.2 Classical Viewpoint: Scientific & Administrative Management

Major Question: If the name of the game is to manage work more efficiently, what can the classical viewpoint teach me?

2.3 Behavioral Viewpoint: Behaviorism, Human Relations, & Behavioral Science

Major Question: To understand how people are motivated to achieve, what can I learn from the behavioral viewpoint?

2.4 Quantitative Viewpoints: Management Science & Operations Management

Major Question: If the manager's job is to solve problems, how might the two quantitative approaches help?

2.5 Systems Viewpoint

Major Question: How can the exceptional manager be helped by the systems viewpoint?

2.6 Contingency Viewpoint

Major Question: In the end, is there one best way to manage in all situations?

2.7 Quality-Management Viewpoint

Major Question: Can the quality-management viewpoint offer guidelines for true managerial success?

2.8 The Learning Organization in an Era of Accelerated Change

Major Question: Organizations must learn or perish. How do I build a learning organization?

the manager's toolbox

Mind-sets: How Do You Go about Learning?

Learn or die. Isn't that the challenge to us as individuals? Throughout your career, your success will depend on your constantly being a learner, making choices about how to solve various problems—which tools to apply, including the theories we will describe in this chapter. However, one barrier to learning that all of us need to be aware of is our *mind-set*.

The Enemy of Learning

By the time we are grown, the minds of many of us have become set in patterns of thinking, the result of our personal experiences and various environments, that affect how we respond to new ideas. These mind-sets determine what ideas we think are important and what ideas we ignore.

Because we can't pay attention to all the events that occur around us, say the authors of a book on critical analysis, "our minds filter out some observations and facts and let others through to our conscious awareness."[1] Herein lies the danger: "As a result, we see and hear what we subconsciously want to and pay little attention to facts or observations that have already been rejected as unimportant."

Having mind-sets makes life comfortable. However, as the foregoing writers point out, "Familiar relationships and events become so commonplace that we expect them to continue forever. Then we find ourselves completely unprepared to accept changes that are necessary even when they stare us in the face."[2]

What's Your Mind-set? Two Views

What will be your approach to studying management theory (or anything else in this book)? If you can't "get it" right away, will you take that as a reflection on your basic intelligence—that you're somehow deficient, that people will think you're dumb and you'll feel like a loser?

Based on 20 years of research, Stanford psychology professor Carol Dweck suggests that *the view you adopt about yourself profoundly affects the way you lead your life*—including how you learn. In our views of ourselves, she says, most of us have either a *fixed mind-set* or a *growth mind-set.*[3]

- **The fixed mind-set—believing your basic qualities are carved in stone.** People with a fixed mind-set are concerned about how they will be judged, as on intelligence or personal qualities. They believe "My intelligence is something very basic that can't be changed very much." Or, "I'm a certain kind of person, and there's not much that can be done to change that." They care less about learning than looking bad when failure occurs.
- **The growth mind-set—believing your basic qualities can be changed through your effort.** People with a growth mind-set are concerned with improving. They think, "You can always change your intelligence quite a bit." Or, "You can always change basic things about the kind of person you are." Failure for these kinds of people may well feel bad, but instead of hiding their deficiencies from others they try to overcome them. Fortunately, by applying themselves, people of a fixed mind-set can develop a growth mind-set.

For Discussion Your approach to learning won't stop once you leave school. As we discuss at the end of this chapter, most organizations now are "learning organizations," in which employees are continually required to expand their ability to achieve results by obtaining the right knowledge and changing their behavior. Thus, your mind-set matters. Which type are you? What can a person begin to do to move from a fixed mind-set to a growth mind-set?

forecast What's Ahead in This Chapter

This chapter gives you a short overview of the three principal *historical* perspectives or viewpoints on management—*classical, behavioral,* and *quantitative*. It then describes the three principal *contemporary* viewpoints—*systems, contingency,* and *quality-management*. Finally, we consider the concept of *learning organizations.*

2.1 Evolving Viewpoints: How We Got to Today's Management Outlook

MAJOR QUESTION

What's the payoff in studying different management perspectives, both yesterday's and today's?

THE BIG PICTURE

After studying theory, managers may learn the value of bringing rationality to the decision-making process. This chapter describes two principal theoretical perspectives—the *historical* and the *contemporary.* Studying management theory provides understanding of the present, a guide to action, a source of new ideas, clues to the meaning of your managers' decisions, and clues to the meaning of outside events.

"The best way to predict the future is to create it," Peter Drucker said.

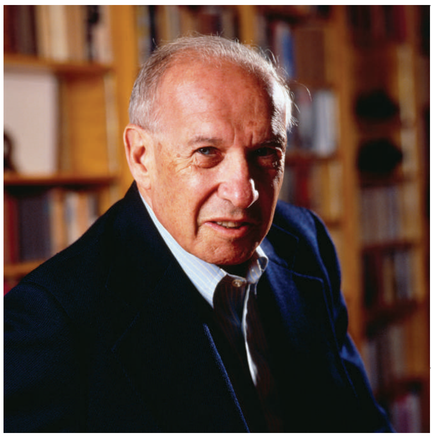
The purpose of this book is, to the extent possible, to *give you the tools to create your own future* in your career and as a manager.

Creating Modern Management: The Handbook of Peter Drucker

Who is **Peter Drucker**? "He was the creator and inventor of modern management," says management guru Tom Peters (author of *In Search of Excellence*). "In the early 1950s, nobody had a tool kit to manage these incredibly complex organizations that had gone out of control. Drucker was the first person to give us a handbook for that."[4]

An Austrian trained in economics and international law, Drucker came to the United States in 1937, where he worked as a correspondent for British newspapers and later became a college professor. In 1954, he published his famous text *The Practice of Management,* in which he proposed that management was one of the major social innovations of the 20th century and that it should be treated as a profession, like medicine or law. In this and other books, he introduced several ideas that now underlie the organization and practice of management—that workers should be treated as assets, that the corporation could be considered a human community, that there is "no business without a customer," that institutionalized management practices were preferable to charismatic cult leaders.

Many ideas that you will encounter in this book—decentralization, management by objectives, knowledge workers—are directly traceable to Drucker's pen. "Without his analysis," says one writer, "it's almost impossible to imagine the rise of dispersed, globe-spanning corporations."[5] In our time, Drucker's rational approach has culminated in *evidence-based management*, as we describe in Section 2.6 in this chapter.



True learner. In his 70-year career, Peter Drucker published over 35 books and numerous other publications, received the Presidential Medal of Freedom, and achieved near rock-star status for his management ideas, which influenced organizations from General Electric to the Girl Scouts. A true learner who constantly expanded his knowledge, he understood that new experiences are key to nurturing new ideas and new ventures. Do you have this kind of curiosity?

Six Practical Reasons for Studying This Chapter

"Theory," say business professors Clayton Christensen and Michael Raynor, "often gets a bum rap among managers because it's associated with the word 'theoretical,' which connotes 'impractical.' But it shouldn't."[6] After all, what could be more practical than studying different approaches to see which work best?

Indeed, there are six good reasons for studying theoretical perspectives:

1. **Understanding of the present.** "Sound theories help us interpret the present, to understand what is happening and why," say Christensen and Raynor.[7] Understanding history will help you understand why some practices are still favored, whether for right or wrong reasons.
2. **Guide to action.** Good theories help us make predictions and enable you to develop a set of principles that will guide your actions.
3. **Source of new ideas.** It can also provide new ideas that may be useful to you when you come up against new situations.
4. **Clues to meaning of your managers' decisions.** It can help you understand your firm's focus, where the top managers are "coming from."
5. **Clues to meaning of outside events.** It may allow you to understand events outside the organization that could affect it or you.
6. **Producing positive results.** It can help you understand why certain management practices—such as setting goals that stretch you to the limit (stretch goals), basing compensation and promotion on performance, and monitoring results—have been so successful for many firms.[8]

EXAMPLE

Pages from a Game Company's Employee Guide In Flatness Lies Greatness:

If Management 1.0 is what we're used to now, with its traditional pyramid hierarchy, what would Management 2.0 look like? What if, as management thinker Gary Hamel suggests, Management 2.0 looked a lot like Web 2.0 as represented in Wikipedia, YouTube, and other online communities?[9] Could the traditional hierarchy of boxes with lines actually become a corporate straitjacket?

Is Hierarchy Overrated? Bellevue, Washington–based Valve Corp. is an online entertainment and technology company that has created several award-winning games (Half Life, Portal) as well as Steam, an online gaming platform. Its staff consists of (1) all the employees and (2) a founder/president—who is not a manager. In fact, "we don't have any management," says Valve's employee handbook, "and nobody 'reports to' anybody else."[10]

In other words, Valve is a *flat organization,* defined as one with few or no levels of management (as we discuss further in Chapter 8). Indeed, Valve is the flattest of flat organizations because for an employee, says the handbook, it "removes every organizational barrier between your work and the customer enjoying that work."

Desks with Wheels. Not only do Valve employees have no managers, but they get to select which projects they want to work on, have the power to green-light (approve) new projects, and even ship finished products. Every employee's desk has wheels, serving two purposes. "The first is a symbolic reminder that one should always consider where they could move to be more valuable," says one account. "The other is literal—team members often move their desks close together when working on a project."[11] Instead of managers, Valve relies on rotating team leaders (called "group contributors"), who change according to each project.

YOUR CALL

The basic reason Valve has no formal managers is that it wants to attract the best talent and produce outstanding products year after year. Clearly, the flat structure works very well for Valve—as it does for other organizations, profit and not-for-profit alike, that operate in a rapidly changing environment, depend on innovation to stay on top, and have a shared purpose.[12] Flattened hierarchies even work for some large organizations, such as W.L. Gore, maker of Gore-Tex fabric, which employs 10,000 people. Why do you think, then, that many organizations resist using flat structures? Do you think studying management theory could help you answer this question?

Theory underlies all the achievements of business. Some of the greatest companies in the world are headquartered in these New York City skyscrapers: American Express, Colgate-Palmolive, J.P. Morgan Chase, JetBlue Airways, Macy's, NBC Universal, Ralph Lauren, and Time Warner. A number of start-ups are also based in New York: Etsy, Fab, Foursquare, Gilt, Meetup, Shutterstock, and Tumblr. The launch, growth, and profitability of businesses all depend on execution of solid management theory.

Two Overarching Perspectives about Management: Historical & Contemporary

In this chapter, we describe two overarching perspectives about management. *(See Figure 2.1.)* They are:

- The **historical perspective** (1911–1950s) includes three viewpoints—*classical, behavioral,* and *quantitative.*
- The **contemporary perspective** (1960s–present) also includes three viewpoints—*systems, contingency,* and *quality-management.*

FIGURE 2.1 **The Two Overarching Perspectives—Historical and Contemporary**

The Historical Perspective (1911–1950s)

Classical Viewpoint 1911–1947
Emphasis on ways to manage work more efficiently

Behavioral Viewpoint 1913–1950s
Emphasis on importance of understanding human behavior and motivating and encouraging employees toward achievement

Quantitative Viewpoint 1940s–1950s
Applies quantitative techniques to management

The Contemporary Perspective (1960s–Present)

The Systems Viewpoint
Regards the organization as systems of interrelated parts that operate together to achieve a common purpose

The Contingency Viewpoint
Emphasizes that a manager's approach should vary according to—i.e., be contingent on—the individual and environmental situation

The Quality-Management Viewpoint
Three approaches

2.2 Classical Viewpoint: Scientific & Administrative Management

MAJOR QUESTION If the name of the game is to manage work more efficiently, what can the classical viewpoint teach me?

THE BIG PICTURE

The *three historical management viewpoints* we will describe include (1) the classical, described in this section; (2) the behavioral; and (3) the quantitative. The classical viewpoint, which emphasized ways to manage work more efficiently, had two approaches: (a) scientific management and (b) administrative management. *Scientific management,* pioneered by Frederick W. Taylor and Frank and Lillian Gilbreth, emphasized the scientific study of work methods to improve the productivity of individual workers. *Administrative management,* pioneered by Henri Fayol and Max Weber, was concerned with managing the total organization.

Bet you've never heard of a "therblig," although it may describe some physical motions you perform from time to time—as when you have to wash dishes, say. A made-up word you won't find in most dictionaries, *therblig* was coined by Frank Gilbreth and is, in fact, "Gilbreth" spelled backward, with the "t" and the "h" reversed. It refers to 1 of 17 basic motions. By identifying the therbligs in a job, as in the tasks of a bricklayer (which he had once been), Frank and his wife, Lillian, were able to eliminate motions while simultaneously reducing fatigue.

The Gilbreths were a husband-and-wife team of industrial engineers who were pioneers in one of the classical approaches to management, part of the *historical perspective (1911–1950s).* As we mentioned, there are *three historical management viewpoints* or approaches.[13] *(See Figure 2.2, next page.)* They are

- Classical viewpoint—1911–1947
- Behavioral viewpoint—1913–1950s
- Quantitative viewpoint—1940s–1950s

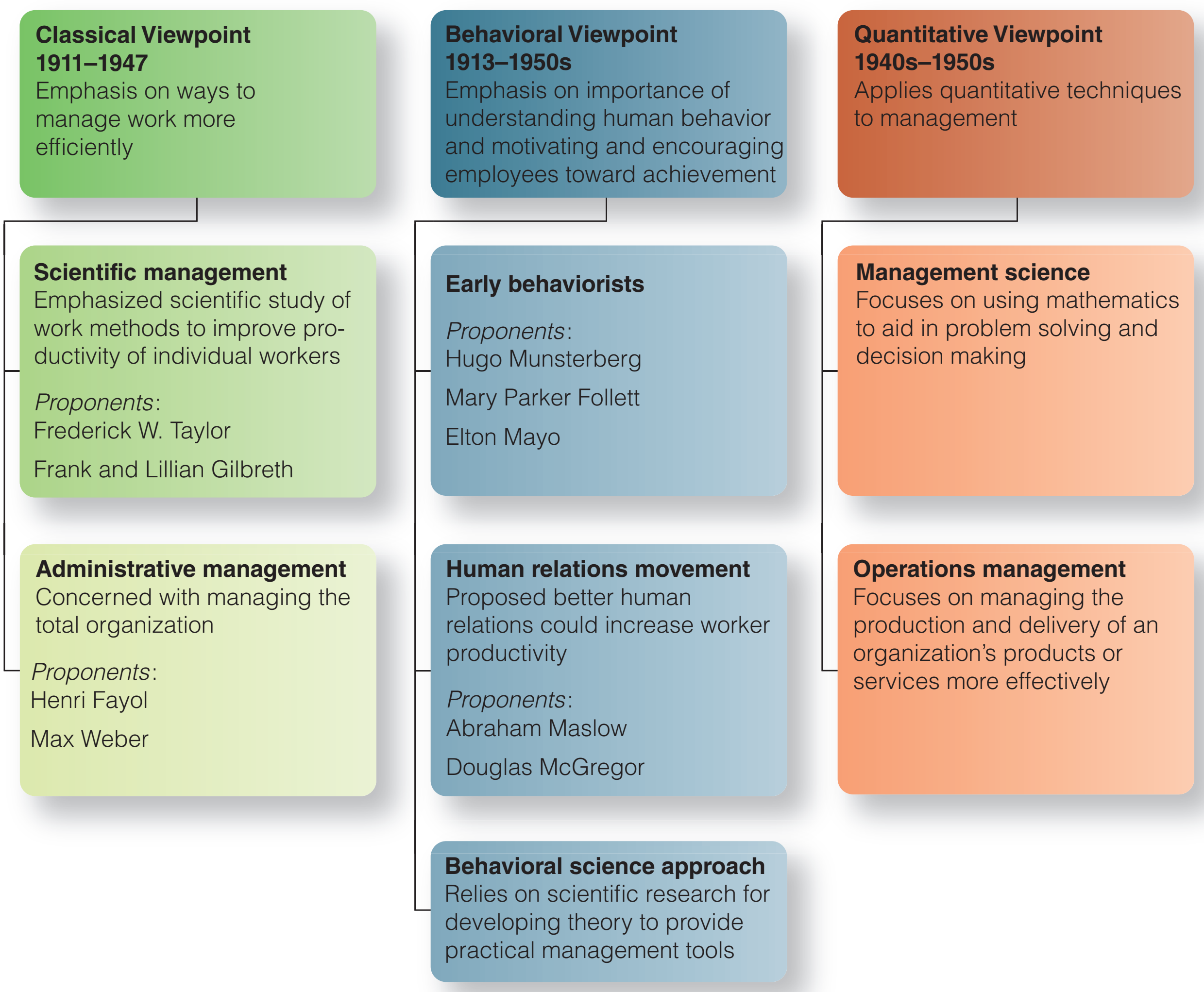
In this section, we describe the classical perspective of management, which originated during the early 1900s. **The classical viewpoint, which emphasized finding ways to manage work more efficiently, had two branches—*scientific* and *administrative*—**each of which is identified with particular pioneering theorists. In general, classical management assumes that *people are rational.* Let's compare the two approaches.

Scientific Management: Pioneered by Taylor & the Gilbreths

The problem for which scientific management emerged as a solution was this: In the expansive days of the early 20th century, labor was in such short supply that managers were hard-pressed to raise the productivity of workers. **Scientific management emphasized the scientific study of work methods to improve the productivity of individual workers.** Two of its chief proponents were Frederick W. Taylor and the team of Frank and Lillian Gilbreth.

Frederick Taylor & the Four Principles of Scientific Management No doubt there are some days when you haven't studied, or worked, as efficiently as you could. This could be called "underachieving," or "loafing," or what Taylor called it—*soldiering,* deliberately working at less than full capacity. Known as "the father of scientific management," Taylor was an American engineer from Philadelphia

FIGURE 2.2 **The Historical Perspective: Three Viewpoints—Classical, Behavioral, and Quantitative**



Frederick W. Taylor. Called the father of scientific management, Taylor published *The Principles of Scientific Management* in 1911.

who believed that managers could eliminate soldiering by applying four principles of science:

1. Evaluate a task by scientifically studying each part of the task (not use old rule-of-thumb methods).
2. Carefully select workers with the right abilities for the task.
3. Give workers the training and incentives to do the task with the proper work methods.
4. Use scientific principles to plan the work methods and ease the way for workers to do their jobs.

Taylor based his system on *motion studies,* in which he broke down each worker's job—moving pig iron at a steel company, say—into basic physical motions and then trained workers to use the methods of their best-performing coworkers. In addition, he suggested employers institute a *differential rate system,* in which more efficient workers earned higher wages.

Why Taylor Is Important: Although "Taylorism" met considerable resistance from employees fearing that working harder would lead to lost jobs except for the highly productive few, Taylor believed that by raising production both labor and management could increase profits to the point where they no longer would have to quarrel

Lillian and Frank Gilbreth with 11 of their dozen children. As industrial engineers, the Gilbreths pioneered time and motion studies. If you're an athlete, you can appreciate how small changes can make you more efficient.

over them. If used correctly, the principles of scientific management can enhance productivity, and such innovations as motion studies and differential pay are still used today.

Frank & Lillian Gilbreth & Industrial Engineering As mentioned, Frank and Lillian Gilbreth were a husband-and-wife team of industrial engineers who lectured at Purdue University in the early 1900s. Their experiences in raising 12 children—to whom they applied some of their ideas about improving efficiency (such as printing the Morse Code on the back of the bathroom door so that family members could learn it while doing other things)—later were popularized in a book, two movies, and a TV sitcom, *Cheaper by the Dozen*. The Gilbreths expanded on Taylor's motion studies—for instance, by using movie cameras to film workers at work in order to isolate the parts of a job.

Lillian Gilbreth, who received a PhD in psychology, was the first woman to be a major contributor to management science.

Administrative Management: Pioneered by Fayol & Weber

Scientific management is concerned with the jobs of individuals. **Administrative management is concerned with managing the total organization.** Among the pioneering theorists were Henri Fayol and Max Weber.

Henri Fayol & the Functions of Management Fayol was not the first to investigate management behavior, but he was the first to systematize it. A French engineer and industrialist, he became known to American business when his most important work, *General and Industrial Management,* was translated into English in 1930.

Why Fayol Is Important: Fayol was the first to identify the major functions of management (see page 9)—planning, organizing, leading, and controlling, as well as coordinating—the first four of which you'll recognize as the functions providing the framework for this and most other management books.[14]

Max Weber & the Rationality of Bureaucracy In our time, the word *bureaucracy* has come to have negative associations: impersonality, inflexibility, red tape, a molasseslike response to problems. But to German sociologist Max Weber, a *bureaucracy* was a rational, efficient, ideal organization based on principles of logic. After all, in Weber's Germany in the late 19th century, many people were in positions of authority (particularly in the government) not because of their abilities but because of their social status. The result, Weber wrote, was that they didn't perform effectively.

A better-performing organization, he felt, should have five positive bureaucratic features:

1. A well-defined hierarchy of authority.
2. Formal rules and procedures.
3. A clear division of labor, with parts of a complex job being handled by specialists.
4. Impersonality, without reference or connection to a particular person.
5. Careers based on merit.

Why Weber Is Important: Weber's work was not translated into English until 1947, but it came to have an important influence on the structure of large corporations, such as the Coca-Cola Company.

The Problem with the Classical Viewpoint: Too Mechanistic

A flaw in the classical viewpoint is that it is mechanistic: It tends to view humans as cogs within a machine, not taking into account the importance of human needs. Behavioral theory addressed this problem, as we explain next.

Why the Classical Viewpoint Is Important: The essence of the classical viewpoint was that work activity was amenable to a rational approach, that through the application of scientific methods, time and motion studies, and job specialization it was possible to boost productivity. Indeed, these concepts are still in use today, the results visible to you every time you visit McDonald's or Pizza Hut. The classical viewpoint also led to such innovations as management by objectives and goal setting, as we explain elsewhere. ●

Scientific management. Carmakers have broken down automobile manufacturing into its constituent tasks, as shown here for an assembly plant. This reflects the contributions of the school of scientific management. Is there anything wrong with this approach? How could it be improved?

2.3 Behavioral Viewpoint: Behaviorism, Human Relations, & Behavioral Science

MAJOR QUESTION To understand how people are motivated to achieve, what can I learn from the behavioral viewpoint?

THE BIG PICTURE

The second of the three historical management perspectives was the *behavioral* viewpoint, which emphasized the importance of understanding human behavior and of motivating employees toward achievement. The behavioral viewpoint developed over three phases: (1) *Early behaviorism* was pioneered by Hugo Munsterberg, Mary Parker Follett, and Elton Mayo. (2) The *human relations movement* was pioneered by Abraham Maslow (who proposed a hierarchy of needs) and Douglas McGregor (who proposed a Theory X and Theory Y view to explain managers' attitudes toward workers). (3) The *behavioral science approach* relied on scientific research for developing theories about behavior useful to managers.

The **behavioral viewpoint emphasized the importance of understanding human behavior and of motivating employees toward achievement.** The behavioral viewpoint developed over three phases: (1) early behaviorism, (2) the human relations movement, and (3) behavioral science.

Early Behaviorism: Pioneered by Munsterberg, Follett, & Mayo

The three people who pioneered behavioral theory were Hugo Munsterberg, Mary Parker Follett, and Elton Mayo.

Hugo Munsterberg & the First Application of Psychology to Industry Called "the father of industrial psychology," German-born Hugo Munsterberg had a PhD in psychology and a medical degree and joined the faculty at Harvard University in 1892. Munsterberg suggested that psychologists could contribute to industry in three ways. They could:

1. Study jobs and determine which people are best suited to specific jobs.
2. Identify the psychological conditions under which employees do their best work.
3. Devise management strategies to influence employees to follow management's interests.

Why Munsterberg Is Important: His ideas led to the field of *industrial psychology,* the study of human behavior in workplaces, which is still taught in colleges today.

Mary Parker Follett & Power Sharing among Employees & Managers A Massachusetts social worker and social philosopher, Mary Parker Follett was lauded on her death in 1933 as "one of the most important women America has yet produced in the fields of civics and sociology." Instead of following the usual hierarchical arrangement of managers as order givers and employees as order takers, Follett thought organizations should become more democratic, with managers and employees working cooperatively.

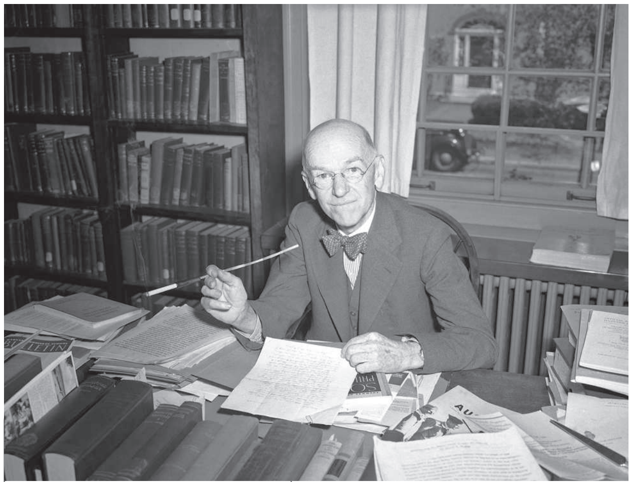
The following ideas were among her most important:

1. Organizations should be operated as "communities," with managers and subordinates working together in harmony.
2. Conflicts should be resolved by having managers and workers talk over differences and find solutions that would satisfy both parties—a process she called *integration*.
3. The work process should be under the control of workers with the relevant knowledge, rather than of managers, who should act as facilitators.

Why Follett Is Important: With these and other ideas, Follett anticipated some of today's concepts of "self-managed teams," "worker empowerment," and "interdepartmental teams"—that is, members of different departments working together on joint projects.

Elton Mayo & the Supposed "Hawthorne Effect" Do you think workers would be more productive if they thought they were receiving special attention? This was the conclusion drawn by a Harvard research group in the late 1920s.

Conducted by Elton Mayo and his associates at Western Electric's Hawthorne (Chicago) plant, what came to be called the *Hawthorne studies* began with an investigation into whether workplace lighting level affected worker productivity. (This was the type of study that Taylor or the Gilbreths might have done.) In later experiments, other variables were altered, such as wage levels, rest periods, and length of workday. Worker performance varied but tended to increase over time, leading Mayo and his colleagues to hypothesize what came to be known as the *Hawthorne effect*—namely, that employees worked harder if they received added attention, if they thought that managers cared about their welfare and that supervisors paid special attention to them.



Elton Mayo. In the 1920s, Elton Mayo (shown with long cigarette holder) and his team conducted studies of Western Electric's Hawthorne plant. Do you think you'd perform better in a robotlike job if you thought your supervisor cared about you and paid more attention to you?

However, later investigators found flaws in the studies, such as variations in ventilation and lighting or inadequate follow-through, that were overlooked by the original researchers. Critics also point out that it's doubtful that workers improved their productivity merely on the basis of receiving more attention rather than because of a particular instructional method or social innovation.[15]

Why the Hawthorne Studies Are Important: Ultimately, the Hawthorne studies were faulted for being poorly designed and not having enough empirical data to support the conclusions. Nevertheless, they succeeded in drawing attention to the importance of "social man" (social beings) and how managers using good human relations could improve worker productivity. This in turn led to the so-called human relations movement in the 1950s and 1960s.

The Human Relations Movement: Pioneered by Maslow & McGregor

The two theorists who contributed most to the **human relations movement—which proposed that better human relations could increase worker productivity**—were Abraham Maslow and Douglas McGregor.

Abraham Maslow & the Hierarchy of Needs What motivates you to perform: Food? Security? Love? Recognition? Self-fulfillment? Probably all of these, Abraham Maslow would say, although some needs must be satisfied before others. The chairman of the psychology department at Brandeis University and one of the earliest researchers to study motivation, in 1943 Maslow proposed his famous *hierarchy of human needs:* physiological, safety, love, esteem, and self-actualization.[16] We discuss this hierarchy in detail in Chapter 12, where we explain why Maslow is important.

Douglas McGregor & Theory X versus Theory Y Having been for a time a college president (at Antioch College in Ohio), Douglas McGregor came to realize that it was not enough for managers to try to be liked; they also needed to be aware of their attitudes toward employees.[17] Basically, McGregor suggested in a 1960 book, these attitudes could be either "X" or "Y."

Theory X represents a pessimistic, negative view of workers. In this view, workers are considered to be irresponsible, to be resistant to change, to lack ambition, to hate work, and to want to be led rather than to lead.

Theory Y represents the outlook of human relations proponents—an optimistic, positive view of workers. In this view, workers are considered to be capable of accepting responsibility, self-direction, and self-control and of being imaginative and creative.

Why Theory X/Theory Y Is Important: The principal contribution offered by the Theory X/Theory Y perspective is that it helps managers understand how their beliefs affect their behavior. For example, Theory X managers are more likely to micromanage, which leads to employee dissatisfaction, because they believe employees are inherently lazy. Managers can be more effective by considering how their behavior is shaped by their expectations about human nature.

Underlying both Maslow's and McGregor's theories is the notion that more job satisfaction leads to greater worker performance—an idea that is somewhat controversial, as we'll discuss in Chapter 11.

What is your basic view of human nature? Your attitude could be key to your career success. To see the general direction of your outlook, try the following self-assessment.

SELF-ASSESSMENT 2.1 connect

What Is Your Orientation toward Theory X/Theory Y?

This self-assessment is designed to reveal your orientation as a manager—whether it tends toward Theory X or Theory Y. Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. To what extent do you think your results are an accurate reflection of your beliefs about others? Are you surprised by the results?
2. As a leader of a student or work-related project team, how might your results affect your approach toward leading others? Explain.
3. If an employee doesn't seem to show ambition, can that be changed? Discuss.

The Behavioral Science Approach

The human relations movement was a necessary correction to the sterile approach used within scientific management, but its optimism came to be considered too simplistic for practical use. More recently, the human relations view has been superseded by the behavioral science approach to management. **Behavioral science relies on scientific research for developing theories about human behavior that can be used to provide practical tools for managers.** The disciplines of behavioral science include psychology, sociology, anthropology, and economics. ●

EXAMPLE

Application of Behavioral Science Approach: The Open-Plan Office—Productivity Enhancer or Productivity Killer?

Today some office layouts mix managers and workers in completely open offices using communal tables. The theory is that this fosters more interaction and increased productivity. But does it work?

The Distraction Next to You. On any given day, probably 40%–60% of all your workplace interactions (including face-to-face chats and e-mails) will be with your immediate fellow employees, says a behavioral scientist who studies such things. There is only a 5%–10% chance of your interacting with someone two rows away.[18] And, research shows, face-to-face interruptions constitute one-third more intrusions than do e-mail or phone calls.[19] So how are conscientious workers in open-plan offices to get anything done—to avoid "pesky, productivity-sapping interruptions," in one writer's phrase?[20]

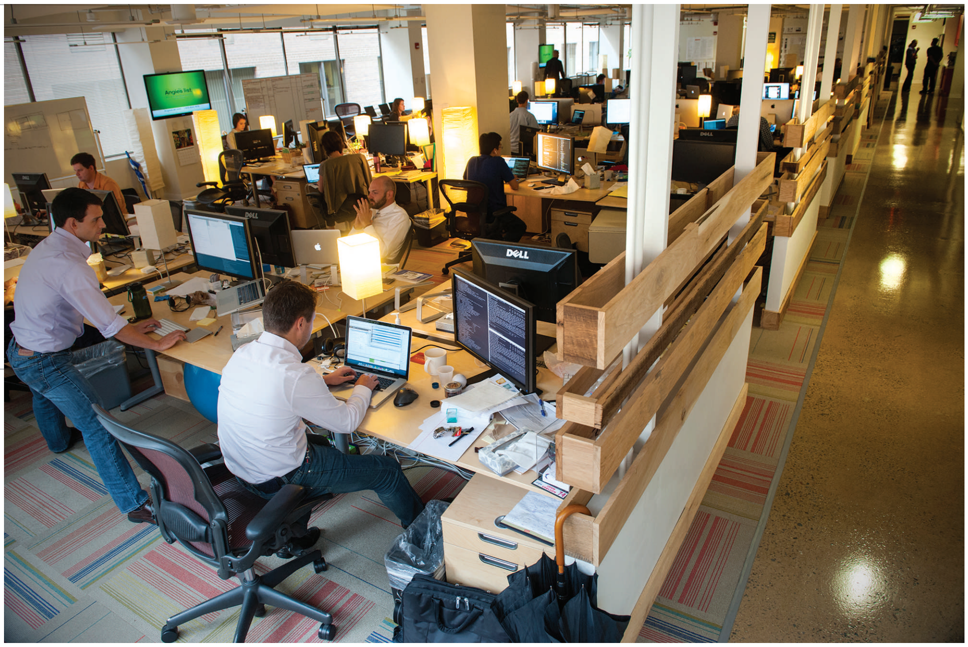
"This Means I'm Busy!" Various workers have come up with their own ways of alerting others that they are not to be interrupted. Some wear special bright-colored sashes or vests or hats. Some block off their work spaces with neon-yellow plastic DO NOT DISTURB barricade tape (from CubeGuard). Some retreat to designated closed offices as "no interruption" zones to get necessary work done.

The Right Seating Mix. Another way to reduce disruption is for companies to assign who sits next to whom, rather than using unassigned seating. In open-plan offices, "people literally catch emotions from one another like a virus," says Wharton School management professor Sigal Barsade, who suggests that the people who work best together are those with similar emotional temperaments.[21] For instance, mixing extroverts and introverts can lower the productivity of both, as introverts, who are quiet and like to keep their distance, may resent the intrusions of extroverts, those outgoing coworkers who need interaction and love to talk and talk.[22] Paul English, co-founder of the travel website Kayak.com, uses new hires as an excuse to alter existing open-office seating arrangements, taking into careful consideration everything from "employees' personalities to their political views to their propensity for arriving at work early—or, more important, their propensity for judging colleagues who arrive late," says one report.[23] "If I put someone next to you that's annoying or there's a total style clash, I'm going to make your job depressing," English says.

YOUR CALL

The open office is designed to encourage spontaneous interaction, cooperation, and teamwork, with the goal of fostering achievement and productivity among employees. Is there a case to be made for intermingling employees with different personalities and different skills to foster the potential for stimulating breakthrough ideas? What kind of fellow workers in an open office would you like to be seated with and why?

Open-plan seating. What kind of office would you prefer to have for yourself—a private office, a shared private office, a partitioned cubicle, or a desk in an open office scattered with other desks with no partitions? Which would be most comfortable for you personally? Why, theoretically, would the open office best promote superior performance?



2.4 Quantitative Viewpoints: Management Science & Operations Management

MAJOR QUESTION If the manager's job is to solve problems, how might the two quantitative approaches help?

THE BIG PICTURE

The third and last category under historical perspectives consists of *quantitative viewpoints,* which emphasize the application to management of quantitative techniques, such as statistics and computer simulations. Two approaches of quantitative management are *management science* and *operations management.*

During the air war known as the Battle of Britain in World War II, a relative few of England's Royal Air Force fighter pilots and planes were able to successfully resist the overwhelming might of the German military machine. How did they do it? Military planners drew on mathematics and statistics to determine how to most effectively allocate use of their limited aircraft.

When the Americans entered the war in 1941, they used the British model to form *operations research (OR)* teams to determine how to deploy troops, submarines, and other military personnel and equipment most effectively. For example, OR techniques were used to establish the optimum pattern that search planes should fly to try to locate enemy ships.

After the war, businesses also began using these techniques. One group of former officers, who came to be called the Whiz Kids, used statistical techniques at Ford Motor Co. to make better management decisions. Later Whiz Kid Robert McNamara, who had become Ford's president, was appointed Secretary of Defense and introduced similar statistical techniques and cost-benefit analyses throughout the Department of Defense. Since then, OR techniques have evolved into **quantitative management**, **the application to management of quantitative techniques, such as statistics and computer simulations. Two branches of quantitative management are *management science* and *operations management.***

Management Science: Using Mathematics to Solve Management Problems

How would you go about deciding how to assign utility repair crews during a blackout? Or how many package sorters you needed and at which times for an overnight delivery service such as FedEx or UPS? You would probably use the tools of management science.

Management science is not the same as Taylor's scientific management. **Management science** **focuses on using mathematics to aid in problem solving and decision making.** Sometimes management science is called *operations research.*

Why Management Science Is Important: Management science stresses the use of rational, science-based techniques and mathematical models to improve decision making and strategic planning Management science is a forerunner to analytics and Big Data, as we will discuss in Chapter 7.

FedEx. What management tools do you use to schedule employees and aircraft to deal with wide variations in package volume—such as December 23 versus December 26?

EXAMPLE

Management Science: "Find Me More Music I Like!"

"Once, all you needed to succeed in the music business were a pair of gold ears and some hustle," says writer Ben Sisario. "Now, it also takes mountains of data."[24]

Tim Westergren studied music composition and computer science in college, played in unsuccessful rock bands, and worked as a film-score composer. Then he thought to try to map song musical qualities in what he called the Music Genome Project, which he described as "an enormous collection of songs that have been analyzed, one song at a time, using 400 unique qualities."[25] In 2005 the genome became the basis for Oakland, California–based Pandora Internet Radio, which essentially applies management science (metrics) to music selection. Pandora is an online music streaming and automated music recommendation service that allows users to type in a favorite song or artist, and then Pandora's software plays other music with the same musical characteristics. In 2014 the company "that plays only music you like" reported it had 75 million active listeners.[26]

YOUR CALL

Today there are many companies that have computer "recommendation engines" to suggest new products keyed to a consumer's individual tastes, such as Spotify, Warner Music, and iTunes for music; Amazon for books; and Netflix for films. Do you think there's any room left for experienced human decision makers who don't rely on numbers? (See, for example, Beats Music, which Apple acquired in 2014.)[27] Do you think reliance on the automated recommendation process cheats consumers out of "pleasant surprises" and new discoveries?

Operations Management: Being More Effective

Operations management focuses on managing the production and delivery of an organization's products or services more effectively. Operations management is concerned with work scheduling, production planning, facilities location and design, and optimum inventory levels.

Why Operations Management Is Important: Through the rational management of resources and distribution of goods and services, operations management helps ensure that business operations are efficient and effective.

EXAMPLE

Operations Management: Using "the Toyota Way" to Benefit Hospital Patients

Over the years, Toyota Motor Corp. has developed a variety of production techniques that drew in part on operations management.[28] Together these methods constitute "the Toyota Way," the company's systematic approach to producing vehicles efficiently, with the ultimate aim of pleasing the customer.

First, the process emphasizes the smoothest possible *flow of work,* by identifying the many steps in a production process and eliminating unnecessary ones (called *value-stream mapping*). It also uses teamwork to examine problems and fix them as soon as they appear (*mistake proofing*). In addition, the carmaker uses the *just-in-time* approach to obtain supplies from vendors only as they are needed in the factory. These efficient techniques, which all come under the term "lean management," has enabled Toyota to sell its cars on the basis of their superior quality.[29]

Adapting Toyota's Philosophy & Practices to Hospitals. A growing number of U.S. hospitals have been forced to compete harder under the federal Affordable Care Act as formerly uninsured patients have begun to understand they do not necessarily have to go to their closest public safety-net hospital but could be a little more choosey. That realization put public hospitals "in the unusual position of having to attract and retain 'paying customers' to survive," writes reporter Victoria Colliver.[30] Accordingly, around 2000, hospital administrators began to apply Toyota's techniques to improving hospital quality, safety, and patient satisfaction.

"A Million Small Changes." The Toyota method is "really focused on the small things," a hospital CEO told Colliver. A team of employees meets for a week-long hands-on session to come up with a plan that makes specific, small changes that can have a major impact. One team, for instance, focused on whittling 10 minutes off the typical 40 minutes of time it took from wheeling a patient into the operating room until the first surgical incision. "Ten minutes may not sound like a lot," observes Colliver, "but those minutes can add up in wasted time and cost when a staff of nurses and doctors has to wait for a piece of equipment or a patient to be ready for them." Another team was able to reduce outpatient wait time from 4–6 hours to 2.5 hours.

YOUR CALL

In Chapter 1, we described the problem of "efficiency versus effectiveness." Which is the focus of lean management?

2.5 Systems Viewpoint

MAJOR QUESTION

How can the exceptional manager be helped by the systems viewpoint?

THE BIG PICTURE

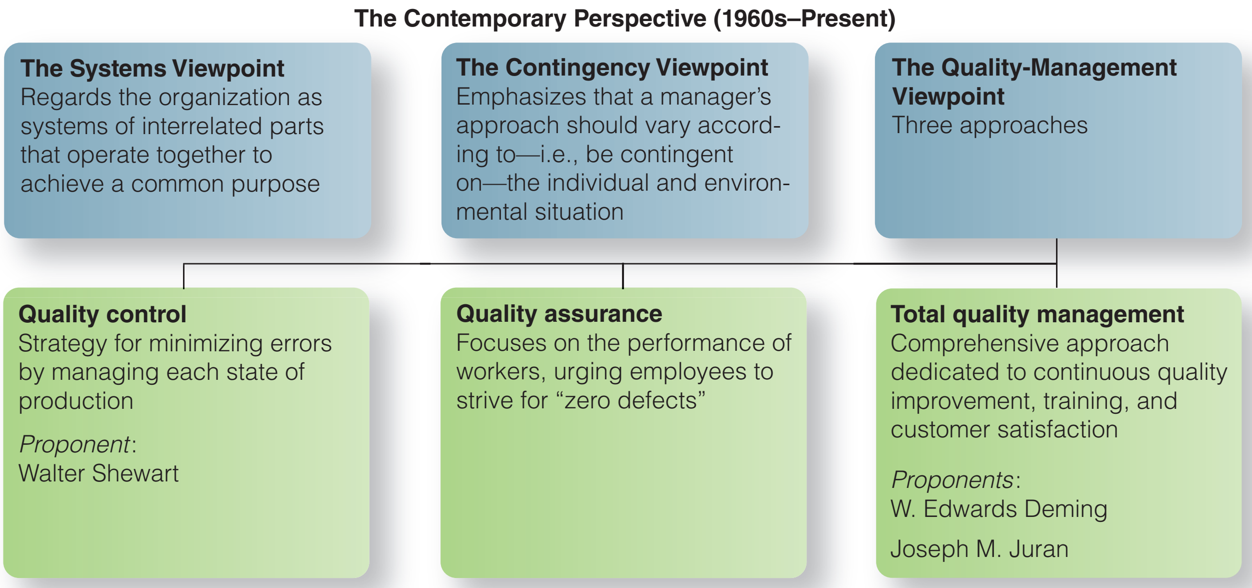
Three contemporary management perspectives are (1) the *systems,* (2) the *contingency,* and (3) the *quality-management* viewpoints. The *systems viewpoint* sees organizations as a system, either open or closed, with inputs, outputs, transformation processes, and feedback. The systems viewpoint has led to the development of complexity theory, the study of how order and pattern arise from very complicated, apparently chaotic systems. The *contingency viewpoint* emphasizes that a manager's approach should vary according to the individual and environmental situation. It is a forerunner to evidence-based management. The *quality-management viewpoint* has two traditional approaches: *quality control,* the strategy for minimizing errors by managing each stage of production, and *quality assurance,* which focuses on the performance of workers, urging employees to strive for zero defects. A third quality approach is the movement of *total quality management (TQM),* a comprehensive approach dedicated to continuous quality improvement, training, and customer satisfaction.

Being of a presumably practical turn of mind, could you run an organization or a department according to the theories you've just learned? Probably not. The reason: people are complicated. To be an exceptional manager, you need to learn to deal with individual differences in a variety of settings.

Thus, to the historical perspective on management (classical, behavioral, and quantitative viewpoints), let us now add the *contemporary perspective,* which consists of three viewpoints. *(See Figure 2.3 below.)* These consist of:

- Systems
- Contingency
- Quality-management

FIGURE 2.3 **The Contemporary Perspective: Three Viewpoints—Systems, Contingency, and Quality-Management**



In this section, we discuss the systems viewpoint.

The Systems Viewpoint

The 27 bones in the hand. The monarchy of Great Britain. A weather storm front. Each of these is a system. A **system is a set of interrelated parts that operate together to achieve a**

common purpose. Even though a system may not work very well—as in the inefficient way the Italian government collects taxes, for example—it is nevertheless still a system.

The systems viewpoint regards the organization as a system of interrelated parts. By adopting this point of view, you can look at your organization both as (1) a collection of **subsystems—parts making up the whole system**—and (2) a part of the larger environment. A college, for example, is made up of a collection of academic departments, support staffs, students, and the like. But it also exists as a system within the environment of education, having to be responsive to parents, alumni, legislators, nearby townspeople, and so on.

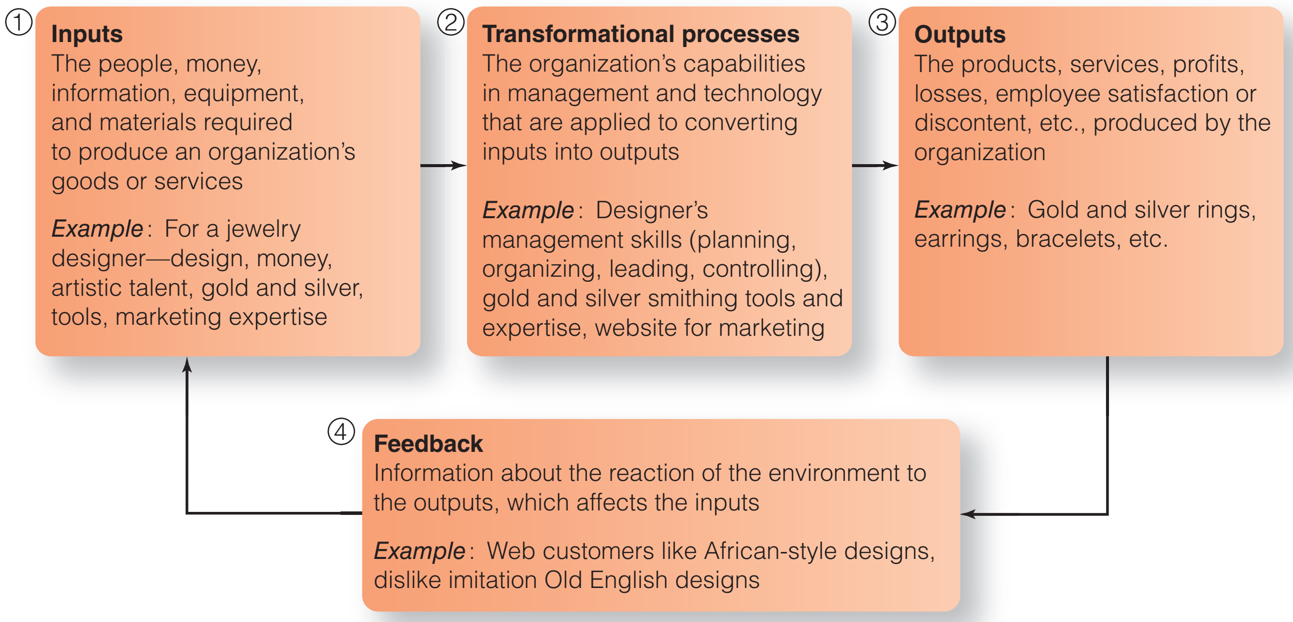
The Four Parts of a System

The vocabulary of the systems perspective is useful because it gives you a way of understanding many different kinds of organizations. The four parts of a system are defined as follows:

1. **Inputs are the people, money, information, equipment, and materials required to produce an organization's goods or services.** Whatever goes into a system is an input.
2. **Transformational processes are the organization's capabilities in management, internal processes, and technology that are applied to converting inputs into outputs.** The main activity of the organization is to transform inputs into outputs.
3. **Outputs are the products, services, profits, losses, employee satisfaction or discontent, and the like that are produced by the organization.** Whatever comes out of the system is an output.
4. **Feedback is information about the reaction of the environment to the outputs that affects the inputs.** Are the customers buying or not buying the product? That information is feedback.

The four parts of a system are illustrated below. *(See Figure 2.4.)*

FIGURE 2.4 The Four Parts of a System



Open & Closed Systems

Nearly all organizations are, at least to some degree, open systems rather than closed systems. An **open system continually interacts with its environment.** A **closed system has little interaction with its environment;** that is, it receives very little feedback from the outside. The classical management viewpoint often considered an organization a closed system. So does the management science perspective, which simplifies organizations for purposes of analysis. However, any organization that ignores feedback from the environment opens itself up to possibly spectacular failures.

Complexity Theory: The Ultimate Open System The systems viewpoint has led to the development of **complexity theory, the study of how order and pattern arise from very complicated, apparently chaotic systems.** Complexity theory recognizes that all complex systems are networks of many interdependent parts that interact with each other according to certain simple rules. Used in strategic management and organizational studies, the discipline seeks to understand how organizations, considered as relatively simple and partly connected structures, adapt to their environments.

Why the Systems Viewpoint—Particularly the Concept of Open Systems—Is Important: History is full of accounts of products that failed (such as the 1959 Ford Edsel) because they were developed in closed systems and didn't have sufficient feedback. Open systems stress multiple feedback from both inside and outside the organization, resulting in a continuous learning process to try to correct old mistakes and avoid new ones. ●

EXAMPLE

Closed versus Open Systems: Penney's versus Macy's

Retail shopping habits are being remade by two powerful forces (1) the erosion of the middle class and (2) the rise of online sales.

Thus, stores are either focusing on rock-bottom prices to attract penny-pinching customers, reports *The New York Times,* or offering high-end products to attract the rich.[31] With increased online purchases and declining walk-in foot traffic, even shopping malls face extinction, and chains such as RadioShack and Staples are closing stores and rethinking their Internet strategies.[32] This is the difficult environment in which J.C. Penney and Macy's have been operating.

Closed System: Penney's CEO "Goes with His Gut." Ron Johnson was a well-regarded executive at Target and then had a meteoric rise as the developer of Apple's sleek, hands-on retail stores. In 2011, he was hired as CEO to revive J.C. Penney, a tired, low-end department store chain that he hoped to rebuild into an exciting, more upscale brand by, among other things, eliminating discounts, sales, and coupons and filling stores with name-brand clothes (Izod, Liz Claiborne) highlighted in store-within-a-store boutiques.

Although most retailers regularly try out new ideas in a limited way before committing them to all their stores, Johnson preferred to go with his gut, adhering to a closed system. That is, Johnson took the Apple approach, whose then-leader Steve Jobs famously once said, "A lot of times, people don't know what they want until you show it to them." Penney's customers, however, made it clear they were very much into value and that coupons and sales were important. Johnson's strategy failed, and in early 2014, Penney reported sales were down 7.4% and announced the closing of 33 stores. Johnson left the company.[33]

Open System: Macy's Uses Research & "Magic Selling." Led by seasoned retail executive Terry Lundgren, Macy's has so transformed itself that even during difficult times (recession, harsh weather) its profits have grown, rising 11% during 2013.[34] What is its secret?

Retailing fashion goods is much less predictable than selling staples, such as food, but Macy's has managed to stay close to its customers by using technology that cues a store when, for instance, to restock on particular Clinique cosmetics and at the same time reveals that Clinique shoppers are purchasers of fashion jewelry, which can be marketed accordingly. In other words, Macy's operates an open system. Another initiative has been the "My Macy's" localization strategy, in which the goal is to take into account local tastes and seek a more personalized touch.[35]

To compete with websites, Macy's has refined the "My Macy's" approach by integrating mobile technologies, such as GPS, so customers can use their smartphones to navigate store aisles. In one key insight, Macy's found that "more than half of consumers do research online before visiting a physical store," according to one report, "so they expect more insight [from store salespeople] than basic product information." Out of this came Macy's "Magic Selling" program, which empowers employees to improve the customer experience by being able "to differentiate the in-store experience through their personalities and service, while still delivering the basics of price, assortment, and convenience that customers get through online shopping."[36] The store's integrated inventory system also enables salespeople to find in-stock products and ship them directly to the customer.

YOUR CALL

"Sometimes you have to destroy your business in order to save it," says financial writer James Surowiecki."[37] Besides the retrenching of RadioShack and Staples, can you think of other retail businesses that need a makeover—that should do more to become open systems? What should they do?

2.6 Contingency Viewpoint

MAJOR QUESTION

In the end, is there one best way to manage in all situations?

THE BIG PICTURE

The second viewpoint in the contemporary perspective, the contingency viewpoint, emphasizes that a manager's approach should vary according to the individual and environmental situation.

The classical viewpoints advanced by Taylor and Fayol assumed that their approaches had universal applications—that they were "the one best way" to manage organizations. The contingency viewpoint began to develop when managers discovered that under some circumstances better results could be achieved by breaking the one-best-way rule. **The contingency viewpoint emphasizes that a manager's approach should vary according to—that is, be contingent on—the individual and the environmental situation.**

A manager subscribing to the Gilbreth approach might try to get workers to be more productive by simplifying the steps. A manager of the Theory X/Theory Y persuasion might try to use motivational techniques. But the manager following the contingency viewpoint would simply ask, "What method is the best to use under these particular circumstances?"

EXAMPLE

The Contingency Viewpoint: What Are the Best Kinds of Benefits?

Money is not the only motivator for employee productivity. Applying the contingency approach, managers have found there are incentives in offering various kinds of fringe benefits—one recent report listed more than 300 such benefits, from health plans to house down-payment assistance.[38]

Small Incentives. Small businesses may not be able to dangle big raises, but they can offer imaginative benefits that big organizations may find too expensive or impractical. "Free Beer Friday" is the morale booster offered by news-media analysis company Universal Information Services in Omaha, Nebraska. "Bring Your Pet to Work" (no messes or barking, please) is the benefit extended by Internet equipment company VoIP Supply of Amherst, New York. Litzky Public Relations in Hoboken, New Jersey, provides space for twice-a-week yoga instruction. NextStepU.com, a teen-counseling company in Rochester, New York, offers a paid week off to volunteer for good causes. Various companies offer other options: at-your-desk meditation, drop-off laundry services, free theme park tickets, even adoption assistance and funeral planning.[39]

Large Incentives. Are little perks all that's required? Netflix has decided that the best way to keep top talent is to hire people who are "fully formed adults" who will put the company first and support a high-performance workplace. Thus, instead of having a rigid system of vacation days and a formal travel and expense policy, Netflix decided to take the ultimate contingency approach, embodied in the policy "Act in Netflix's best interests." This means salaried employees can take whatever time they feel is appropriate and enforce their own travel and expense policies—in other words, they are trusted to act as fully formed adults.[40]

YOUR CALL

One career analyst suggests that people are motivated most by autonomy, developing their skills, and a sense of higher purpose.[41] This opinion is echoed in a survey that found the top factors in determining people's happiness at work are whether they enjoy the tasks required of them, are able to focus on the things they do best, and are proud of their employer.[42] Another study found that people care, first, about the office environment, positive culture, and compensation; second, a job that makes the world a better place or a company that shares their values; and third, company prestige and rapid promotion.[43]

Considering these findings and applying a contingency approach to stimulating productivity at work, what different kinds of incentives or benefits would you offer for hourly shift workers, salaried middle managers, and work-at-home employees?

Contingency approach. Giving employees more money is not the only way to motivate them to be more productive. Sometimes small rewards, such as allowing pets at work, are equally effective. What incentives would make you stay at a job for which you are not really suited and to do your best while there?

Gary Hamel: Management Ideas Are Not Fixed, They're a Process

Discussion of the contingency viewpoint leads us naturally to the thoughts of **Gary Hamel,** co-founder of the Management Innovation Lab and ranked by *The Wall Street Journal* in 2008 as the most influential business thinker.[44] "Over time," he says, "every great invention, management included, travels a road that leads from birth to maturity, and occasionally to senescence."[45] Hamel holds that much of management theory is dated and doesn't fit the current realities of organizational life and that management innovation is essential to future organizational success. Indeed, he suggests, what we need to do is look at management as a *process,* and then make improvements and innovation ongoing and systematic. After all, if managers now innovate by creating new products or new business strategies, why can't they be equally innovative in how they manage their companies?

How do forward-looking managers get the ball rolling in management innovation, particularly in a traditional, conventional company? Hamel believes that the answer can be found by identifying *core beliefs that people have about the organization,* especially those that detract from the pursuit of management innovation. He suggests that these beliefs can be rooted out by repeatedly asking the right questions—namely, the following:

1. **Is this a belief worth challenging?** Is it debilitating? Does it get in the way of an important organizational attribute that we'd like to strengthen?
2. **Is this belief universally valid?** Are there counterexamples? If so, what do we learn from those cases?
3. **How does this belief serve the interests of its adherents?** Are there people who draw reassurance or comfort from this belief?
4. **Have our choices and assumptions conspired to make this belief self-fulfilling?** Is this belief true simply because we have made it true—and, if so, can we imagine alternatives?[46]

Why the Contingency Viewpoint Is Important: The contingency viewpoint would seem to be the most practical of the viewpoints discussed so far because it addresses problems on a case-by-case basis and varies the solution accordingly.

Evidence-Based Management: Facing Hard Facts, Rejecting Nonsense

Evidence-based management is very much in the spirit of the contingency viewpoint's practical approach to management. **Evidence-based management** means translating

principles based on best evidence into organizational practice, bringing rationality to the decision-making process.

As its two principal proponents, Stanford business scholars **Jeffrey Pfeffer and Robert Sutton,** put it, evidence-based management is based on the belief that "facing the hard facts about what works and what doesn't, understanding the dangerous half-truths that constitute so much conventional wisdom about management, and rejecting the total nonsense that too often passes for sound advice will help organizations perform better."[47]

Learning to make managerial decisions based on evidence is the approach we hope you will learn to take after studying many other approaches—the perspectives we covered in this chapter. We will consider evidence-based management further, along with analytics and Big Data, in Chapter 7.

PRACTICAL ACTION

Evidence-Based Management: An Attitude of Wisdom

"These days, there aren't any hot, new trends, just a lot of repackaged ones from the past," writes *Wall Street Journal* columnist Carol Hymowitz.[48] "Executives have been treated to an overdose of management guides that mostly haven't delivered what they promised. Many bosses have adopted them all, regardless of their company's business model, balance sheet, competition, employee bench strength, or any other unique qualities. They have become copycat managers, trying to find a one-stop, fix-it-all answer to their various problems."

How will you know whether the next "fix-it-all" book to hit the business bestseller list is simply a recycling of old ideas? The answer is: you have to have studied history—the subject of this chapter.[49]

Management: Art or Science? Is the practice of management an art or a science? Certainly it *can* be an art. Lots of top executives have no actual training in management, although General Motors CEO Mary Barra, discussed in Chapter 1, has an MBA in addition to a degree in electrical engineering. Great managers, like great painters or actors, have the right mix of intuition, judgment, and experience.

But management is also a science. That is, rather than being performed in a seat-of-the-pants, make-it-up-as-you-go-along kind of way—which can lead to big mistakes—management can be approached deliberately, rationally, systematically. That's what the scientific method is, after all—a logical process, embodying four steps: (1) You observe events and gather facts. (2) You pose a possible solution or explanation based on those facts. (3) You make a prediction of future events. (4) You test the prediction under systematic conditions.

Following the Evidence. The process of scientific reasoning underlies what is known as evidence-based management. As we stated, *evidence-based management* means translating principles based on best evidence into organizational practice, bringing rationality to the decision-making process.[50] Evidence-based management derives from evidence-based medicine, embracing what Jeffrey Pfeffer and Robert Sutton call *an attitude of wisdom.* This is a mind-set that, first, is willing to set aside belief and conventional wisdom and to act on the facts and, second, has an unrelenting commitment to gathering information necessary to make informed decisions and to keeping pace with new evidence to update practices.[51]

"The way a good doctor or a good manager works," Sutton says, "is to act with knowledge while doubting what you know. So if a patient goes to a doctor, you hope the doctor would do two things: first look at the literature and make the best decision given what's available. Then actually track the progress of the treatment and see what unexpected side effects you're having and what things are working."[52]

Three Truths. Evidence-based management is based on three truths:

- **There are few really new ideas:** Most supposedly new ideas are old, wrong, or both.
- **True is better than new:** Effective organizations and managers are more interested in what is true than in what is new.
- **Doing well usually dominates:** Organizations that do simple, obvious, and even seemingly trivial things well will dominate competitors who search for "silver bullets and instant magic."

YOUR CALL

Do you think managers are often driven by fads, by what they've read in the latest book or heard in the latest management seminar? Have you ever heard of a manager taking an experimental approach, as in trying out a new idea with an open mind to see what happens? How could you profit by taking an evidence-based approach to the ideas we discussed in this chapter?

2.7 Quality-Management Viewpoint

MAJOR QUESTION

Can the quality-management viewpoint offer guidelines for true managerial success?

THE BIG PICTURE

The quality-management viewpoint, the third category under contemporary perspectives, consists of *quality control, quality assurance,* and especially the movement of *total quality management (TQM),* dedicated to continuous quality improvement, training, and customer satisfaction.

In 1971, in his book *Wheels,* author Arthur Hailey advised Americans not to buy cars that were assembled on Mondays or Fridays—days when cars supposedly suffered from quality problems because they were put together when absenteeism and hangovers were highest among dissatisfied autoworkers. Although cars are not built all in one day (various parts are built at different times) and are not stamped with a "birth date," Hailey's claim reinforced the notion that, despite the efforts of quantitative management, the American cars produced on those days were the most shoddily made of what were coming to look like generally shoddy products.

The energy crisis of the 1970s showed different possibilities, as Americans began to buy more fuel-efficient, better-built cars made in Japan. Today the average American car lasts much longer than it used to, and some U.S. cars are equal or superior to the best foreign competitors—for example, the 2014 Cadillac CTS 3.6 beat the 2014 Mercedes-Benz E350, according to one automotive review.[53]

Although not a "theory" as such, the **quality-management viewpoint, which includes quality control, quality assurance, and total quality management,** deserves to be considered because of its impact on contemporary management perspectives.

Quality Control & Quality Assurance

Quality refers to the total ability of a product or service to meet customer needs. Quality is seen as one of the most important ways of adding value to products and services, thereby distinguishing them from those of competitors. Two traditional strategies for ensuring quality are quality control and quality assurance.

Quality Control

Quality control is defined as the strategy for minimizing errors by managing each stage of production. Quality control techniques were developed in the 1930s at Bell Telephone Labs by **Walter Shewart,** who used statistical sampling to locate errors by testing just some (rather than all) of the items in a particular production run.

Quality Assurance

Developed in the 1960s, **quality assurance focuses on the performance of workers, urging employees to strive for "zero defects."** Quality assurance has been less successful because often employees have no control over the design of the work process.

Total Quality Management: Creating an Organization Dedicated to Continuous Improvement

In the years after World War II, the imprint "Made in Japan" on a product almost guaranteed that it was cheap and flimsy. That began to change with the arrival in Japan of two Americans, **W. Edwards Deming** and **Joseph M. Juran.**

W. Edwards Deming

Desperate to rebuild its war-devastated economy, Japan eagerly received mathematician W. Edwards Deming's lectures on "good management." Deming believed that quality stemmed from "constancy of purpose"—steady focus on

TQM pioneer. W. Edwards Deming in 1961. Deming proposed his so-called 85–15 rule—namely, when things go wrong, there is an 85% chance that the system is at fault, only a 15% chance that the individual worker is at fault. Most of the time, he thought, managers erroneously blamed individuals rather than the system.

an organization's mission—along with statistical measurement and reduction of variations in production processes. He also thought that managers should stress teamwork, be helpful rather than simply give orders, and make employees feel comfortable about asking questions.

Joseph M. Juran Another pioneer with Deming in Japan's quality revolution was Joseph M. Juran, who defined quality as "fitness for use." By this he meant that a product or service should satisfy a customer's real needs. Thus, the best way to focus a company's efforts, Juran suggested, was to concentrate on the real needs of customers.

TQM: What It Is From the work of Deming and Juran has come the strategic commitment to quality known as total quality management. **Total quality management (TQM) is a comprehensive approach—led by top management and supported throughout the organization—dedicated to continuous quality improvement, training, and customer satisfaction.**

The four components of TQM are as follows:

1. **Make continuous improvement a priority.** TQM companies are never satisfied. They make small, incremental improvements an everyday priority in all areas of the organization. By improving everything a little bit of the time all the time, the company can achieve long-term quality, efficiency, and customer satisfaction.
2. **Get every employee involved.** To build teamwork, trust, and mutual respect, TQM companies see that every employee is involved in the continuous improvement process. This requires that workers must be trained and empowered to find and solve problems.
3. **Listen to and learn from customers and employees.** TQM companies pay attention to their customers, the people who use their products or services. In addition, employees within the companies listen and learn from other employees, those outside their own work areas.
4. **Use accurate standards to identify and eliminate problems.** TQM organizations are always alert to how competitors do things better, then try to improve on them—a process known as benchmarking. Using these standards, they apply statistical measurements to their own processes to identify problems.

Why Total Quality Management Is Important: The total quality management viewpoint emphasizes infusing concepts of quality throughout the total organization in a way that will deliver quality products and services to customers. The adoption of TQM helped American companies deal with global competition.

Want to find out how committed to TQM the organizations are that you are most familiar with? Even the most sophisticated organizations, you may be surprised to learn in the following self-assessment, may not measure up very well when it comes to the quality of their products. ●

SELF-ASSESSMENT 2.2 connect

To What Extent Is Your Organization Committed to Total Quality Management?

This self-assessment is designed to gauge the extent to which the organization you have in mind is committed to Total Quality Management (TQM). Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. Which of the five dimensions is most and least important to the organization? Are you surprised by this conclusion? Explain.
2. Based on the three lowest-rated items in the survey, what advice would you give to senior leaders in the company?
3. Considering all of the questions in the survey, which three do you think are most important in terms of fostering TQM in a company? Why?

2.8 The Learning Organization in an Era of Accelerated Change

MAJOR QUESTION

Organizations must learn or perish. How do I build a learning organization?

THE BIG PICTURE

Learning organizations actively create, acquire, and transfer knowledge within themselves and are able to modify their behavior to reflect new knowledge. There are three ways you as a manager can help build a learning organization.

Ultimately, the lesson we need to take from the theories, perspectives, and viewpoints we have described is this: we need to keep on learning. Organizations are the same way: like people, they must continually learn new things or face obsolescence. A key challenge for managers, therefore, is to establish a culture of shared knowledge and values that will enhance their employees' ability to learn—to build so-called learning organizations.

Learning organizations, says Massachusetts Institute of Technology professor **Peter Senge,** who coined the term, are places "where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together."[54]

The Learning Organization: Handling Knowledge & Modifying Behavior

More formally, a **learning organization is an organization that actively creates, acquires, and transfers knowledge within itself and is able to modify its behavior to reflect new knowledge.**[55] Note the three parts:

1. **Creating and acquiring knowledge.** In learning organizations, managers try to actively infuse their organizations with new ideas and information, which are the prerequisites for learning. They acquire such knowledge by constantly scanning their external environments, by not being afraid to hire new talent and expertise when needed, and by devoting significant resources to training and developing their employees.
2. **Transferring knowledge.** Managers actively work at transferring knowledge throughout the organization, reducing barriers to sharing information and ideas among employees. Electronic Data Systems (EDS), for instance, practically invented the information-technology services industry, but by 1996 it was slipping behind competitors—missing the onset of the Internet wave, for example. When a new CEO, Dick Brown, took the reins in 1999, he changed the culture from "fix the problem yourself" to sharing information internally.[56]
3. **Modifying behavior.** Learning organizations are nothing if not results oriented. Thus, managers encourage employees to use the new knowledge obtained to change their behavior to help further the organization's goals.[57]

The learning organization. In rigid organizations, employees often keep information to themselves. In learning organizations, workers are encouraged to share information with each other—both inside and outside their department.

How to Build a Learning Organization: Three Roles Managers Play

To create a learning organization, managers must perform three key functions or roles: (1) *build a commitment to learning,* (2) *work to generate ideas with impact,* and (3) *work to generalize ideas with impact.*[58]

1. **You can build a commitment to learning.** To instill in your employees an intellectual and emotional commitment to the idea of learning, you as a manager need to lead the way by investing in it, publicly promoting it, creating rewards and symbols of it, and performing other similar activities. For example, to encourage employees to overcome fears about losing their jobs and exert some boldness in decision making, Jim Donald, CEO of Extended Stay America, created miniature "Get Out of Jail, Free" cards, which employees could call in whenever they took a big risk on behalf of the company—in effect giving them permission to make and learn from mistakes.[59]
2. **You can work to generate ideas with impact.** As a manager, you need to try to generate ideas with impact—that is, ideas that add value for customers, employees, and shareholders—by increasing employee competence through training, experimenting with new ideas, and engaging in other leadership activities. Xerox, for example, hired researchers called "innovation managers" to hunt for inventions and products from start-ups in India that could be adapted for the North American market. Hewlett-Packard used its research lab in India to see how it could adapt mobile phone web-interface applications in Asia and Africa to markets in developed countries.[60]
3. **You can work to generalize ideas with impact.** Besides generating ideas with impact, you can also generalize them—that is, reduce the barriers to learning among employees and within your organization. You can create a climate that reduces conflict, increases communication, promotes teamwork, rewards risk taking, reduces the fear of failure, and increases cooperation. In other words, you can create a psychologically safe and comforting environment that increases the sharing of successes, failures, and best practices.

Based on the above discussion, do you wonder about the specific behaviors that people exhibit in a learning organization? It would be interesting to determine if you have ever worked for such an organization. The following self-assessment was created to evaluate whether an organization you now work for or formerly worked for could be considered a serious learning organization. The survey items provide a good indication of what it takes to become a learning organization. ●

SELF-ASSESSMENT 2.3 connect

Are You Working for a Learning Organization?

This self-assessment provides a measure of the extent to which an organization of your choice is a learning organization. Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. What are the strengths and weaknesses of this company in terms of being a learning organization?
2. If you were CEO of this organization, what changes would you make based on your survey results? Explain.
3. What suggestions would you make for how this organization might (1) build a commitment to learning, (2) work to generate ideas with impact, and (3) work to generalize ideas with impact? Discuss.
4. How does the learning score for the organization probably compare with the scores of other organizations you are familiar with?

Key Terms Used in This Chapter

administrative management 47
behavioral science 51
behavioral viewpoint 49
classical viewpoint 45
closed system 56
complexity theory 57
contemporary perspective 44
contingency viewpoint 58
evidence-based management 59
feedback 56
historical perspective 44
human relations movement 50
inputs 56
learning organization 63
management science 53
open system 56
operations management 54
outputs 56
quality 61
quality assurance 61
quality control 61
quality-management viewpoint 61
quantitative management 53
scientific management 45
subsystems 56
system 55
systems viewpoint 56
total quality management (TQM) 62
transformation processes 56

Key Points

2.1 Evolving Viewpoints: How We Got to Today's Management Outlook

- The two overarching perspectives on management are (1) the historical perspective, which includes three viewpoints—classical, behavioral, and quantitative; and (2) the contemporary perspective, which includes three other viewpoints—systems, contingency, and quality-management.
- Six practical reasons for studying theoretical perspectives are that they provide (1) understanding of the present, (2) a guide to action, (3) a source of new ideas, (4) clues to the meaning of your managers' decisions, (5) clues to the meaning of outside ideas, and (6) understanding as to why certain management practices produce positive outcomes.

2.2 Classical Viewpoint: Scientific & Administrative Management

- The first of the historical perspectives is the classical viewpoint, which emphasized finding ways to manage work more efficiently. It had two branches, scientific management and administrative management.
- Scientific management emphasized the scientific study of work methods to improve productivity by individual workers. It was pioneered by Frederick W. Taylor, who offered four principles of science that could be applied to management, and by Frank and Lillian Gilbreth, who refined motion studies that broke job tasks into physical motions.
- Administrative management was concerned with managing the total organization. Among its pioneers were Henri Fayol, who identified the major functions of management (planning, organizing, leading, controlling), and Max Weber, who identified five positive bureaucratic features in a well-performing organization.
- The classical viewpoint showed that work activity was amenable to a rational approach, but it has been criticized as being too mechanistic, viewing humans as cogs in a machine.

2.3 Behavioral Viewpoint: Behavorism, Human Relations, & Behavioral Science

- The second of the historical perspectives, the behavioral viewpoint emphasized the importance of understanding human behavior and of motivating employees toward achievement. It developed over three phases: (1) early behaviorism (2) the human relations movement, and (3) the behavioral science approach.
- Early behaviorism had three pioneers: (a) Hugo Munsterberg suggested that psychologists could contribute to industry by studying jobs, identifying the psychological conditions for employees to do their best work. (b) Mary Parker Follett thought organizations should be democratic, with employees and managers working together. (c) Elton Mayo hypothesized a so-called Hawthorne effect, suggesting that employees worked harder if they received added attention from managers.
- The human relations movement suggested that better human relations could increase worker productivity. Among its pioneers were (a) Abraham Maslow, who proposed a hierarchy of human needs, and (b) Douglas McGregor, who proposed a Theory X (managers have pessimistic view of workers) and Theory Y (managers have positive view of workers).

- The behavioral science approach relied on scientific research for developing theories about human behavior that can be used to provide practical tools for managers.

2.4 Quantitative Viewpoints: Management Science & Operations Management

- The third of the historical perspectives, quantitative viewpoints emphasized the application to management of quantitative techniques.
- Two approaches are (1) management science, which focuses on using mathematics to aid in problem solving and decision making; and (2) operations management, which focuses on managing the production and delivery of an organization's products or services more effectively.

2.5 Systems Viewpoint

- Following the historical perspective, the contemporary perspective includes three viewpoints: (1) systems, (2) contingency, and (3) quality-management.
- The systems viewpoint regards the organization as a system of interrelated parts or collection of subsystems that operate together to achieve a common purpose. A system has four parts: inputs, outputs, transformational processes, and feedback. A system can be open, continually interacting with the environment, or closed, having little such interaction.
- The systems viewpoint has led to the development of complexity theory, the study of how order and pattern arise from very complicated, apparently chaotic systems.

2.6 Contingency Viewpoint

- The second viewpoint in the contemporary perspective, the contingency viewpoint emphasizes that a manager's approach should vary according to the individual and the environmental situation.
- In the spirit of the contingency viewpoint is evidence-based management, which means translating principles based on best evidence into organizational practice, bringing rationality to the decision-making process.

2.7 Quality-Management Viewpoint

- The third category in the contemporary perspective, the quality-management viewpoint is concerned with quality, the total ability of a product or service to meet customer needs.
- Quality management has three aspects: (1) Quality control is the strategy for minimizing errors by managing each stage of production. (2) Quality assurance focuses on the performance of workers, urging employees to strive for "zero defects." (3) Total quality management (TQM) is a comprehensive approach dedicated to continuous quality improvement, training, and customer satisfaction.
- TQM has four components: (a) make continuous improvement a priority; (b) get every employee involved; (c) listen to and learn from customers and employees; and (d) use accurate standards to identify and eliminate problems.

2.8 The Learning Organization in an Era of Accelerated Change

- A learning organization is one that actively creates, acquires, and transfers knowledge within itself and is able to modify its behavior to reflect new knowledge.
- Three roles that managers must perform to build a learning organization are to (1) build a commitment to learning, (2) work to generate ideas with impact, and (3) work to generalize ideas with impact.

Understanding the Chapter: What Do I Know?

1. What are the two overarching perspectives about management, and what are the three viewpoints that each one covers?
2. What are six practical reasons for studying theoretical perspectives?
3. What are the contributions of scientific management?
4. How would I summarize the behavioral viewpoint and what are its contributions?
5. What is the difference between management science and operations management?
6. What would be an example of the application of the four parts of a system?
7. What would be an example of the application of the contingency viewpoint?
8. Where have I seen an organization employ evidence-based management?
9. Why should I adopt a total quality management viewpoint?
10. What are three roles I could play as a manager in a learning organization?

GM's New CEO, Mary Barra, Must Manage a Major Recall

[General Motors CEO Mary] Barra, in a letter to employees posted on a company blog [March 4, 2014], said she is leading a group of senior executives who are monitoring the auto maker's recall of 1.6 million vehicles equipped with potentially defective ignition switches and built in the years before GM's publicly funded bankruptcy.

The cars could suddenly turn off when the keys are jarred, shutting down the engine and the airbags. Thirteen deaths have been linked to the problem, which GM engineers first discovered more than nine years ago.

GM issued a recall for the affected vehicles late last month [February], and the National Highway Traffic Safety Administration has said it is reviewing whether the auto maker should be fined for taking so long to act. . . .

Ms. Barra had not commented publicly on the situation until GM posted her letter. In her post, Ms. Barra wrote that she is now leading the company's response to the problem, and promised that an internal investigation will produce an "unvarnished report on what happened. We will hold ourselves accountable and improve our processes so our customers do not experience this again." . . .

Ms. Barra wrote in her letter that the ignition switch issue was being reviewed by "experienced technical experts" who work independently of managers with responsibility for other aspects of the business. The issue was brought to Ms. Barra and other senior executives "a few weeks ago," she wrote.

Now, she wrote, she has created "a working group of senior executives, which I lead, to direct our response, monitor our progress and make adjustments as necessary." Among other steps, GM is working with parts makers to get repair parts to dealers more rapidly and has provided federal regulators with "comprehensive information on this issue," she wrote.

"While I deeply regret the circumstances that brought us to this point, I appreciate how today's GM has responded so far," Ms. Barra said. "We have much more work ahead of us and I'm confident we will do the right thing for our customers."

Ms. Barra's comments come amid the growing likelihood that GM will face more lawsuits and a federal fine for as much as $35 million if regulators determine that the auto maker violated federal rules that govern the timeliness of recalls. . . .

GM engineers knew of the potential problem in 2004 when a switch failure incident was reported around the time of the launch of the 2005 Cobalt, according to a timeline submitted by GM and provided to NHTSA last week. GM looked into the problem, but decided to close its inquiry with no action.

In 2007, a group of GM employees met with NHTSA regulators in Washington, D.C., to discuss another matter when a federal official told the GM personnel that a fatal crash had occurred on July 29, 2005, in which a 2005 Chevrolet Cobalt was involved in a front-end collision, and the airbags didn't deploy, according to the GM chronology.

But court documents reviewed by *The Wall Street Journal* show that concerns about the safety of vehicles equipped with the suspect ignition systems continued to bounce around the company's engineering department in the years after the meeting.

GM, on three separate occasions, "repurchased" vehicles from owners who complained of stalling or losing power while they were driving, according to a deposition by a GM employee.

One customer, a New Jersey woman who had her 2005 Cobalt repurchased, said the vehicle died on the highway four times. She only had about 600 miles on the vehicle. She said the stalling issue seemed to occur on right-hand turns. The dealer reported that the customer "has the fear of God in her about the car," according to a deposition.

GM's chronology says that a higher-level team to investigate the ignition switch problem was formed in 2011. The chronology does not identify the members of this team.

Over the next two years, GM conducted tests and investigated the problem which finally led to a meeting on January 31, 2014, where executives decided a recall was needed, the GM chronology states.

On February 13, GM announced it would recall about 778,000 Chevrolet Cobalt and Pontiac G5 cars. Twelve days later, the company widened the recall to 1.6 million vehicles after growing consumer complaints and issued a second formal apology to consumers. . . .

Ms. Barra in her letter addressed employee concerns about the potential damage to GM's reputation and sales.

"My answer is simple: that's not the issue," she wrote. "The vehicles we make today are the best in memory and I'm confident that they will do fine, on their own merits. And our company's reputation won't be determined by the recall itself, but by how we address the problem going forward."

FOR DISCUSSION

1. To what extent is GM using evidence-based management? Are they overdoing it? Explain your rationale.
2. To what extent are the managerial practices being used at GM consistent with principles associated

with management science and operations management techniques? Discuss.

3. Use Figure 2.4 to analyze the extent to which GM is using a systems viewpoint.
4. How are the managerial practices being used at GM consistent with a quality-management viewpoint? Explain your rationale.
5. To what extent does GM represent a learning organization? Discuss.

Source: Excerpted from J. Bennett, "Recall Is First Big Test for GM Chief Barra," The Wall Street Journal, *March 5, 2014, http://online.wsj.com/news/articles/SB10001424052702304360704579419494191216588 (accessed March 5, 2014).*

Legal/Ethical Challenge

Is an Apology Enough?

This dilemma involves a scandal at the University of North Carolina (UNC). The issue revolves around whether or not the school's Department of African and Afro-American Studies offered courses that never met and sponsored hundreds of independent study classes of limited value to student athletes. The university did an internal review and determined the department "offered more than 200 lecture courses that never met. The department also sponsored hundreds of independent study classes of dubious value. Internal reviews have identified forged faculty signatures and more than 500 grades changed without authorization. The students affected were disproportionately football and basketball players."[61]

College athletics is a $16 billion industry, and schools enjoy the related revenues in light of their nonprofit, tax-exempt status as organizations dedicated to education and research. This means that it is important for the "stars" to keep playing and winning games.

Management at UNC took action and eight employees either resigned or were fired, including the Chancellor. The new Chancellor, Carol Foyt, initially resisted calls for further investigation, but changed her mind in January 2014. An investigation is currently taking place.

The scandal was exposed by Mary Willingham, a campus reading specialist. Mary told reporters that she and other academic advisers "knowingly steered some of their charges into the fake classes to keep the sports stars eligible." She said that "18 out of about 180 athletes whose records she assessed could be considered to read at a grammar school level."[62]

Willingham's comments resulted in her being demoted and stripped of her supervisory title and public condemnation by some school officials. For example, James Dean Jr., the executive vice chancellor and provost, said that "Mary Willingham has done our students a great disservice." He initially declared that Willingham was a liar, but later stated that he misspoke. Head basketball coach Roy Williams said that Willingham had impugned the moral character of his players. He claimed that "every one of the kids that we've recruited in 10 years you'd take home and let guard your grandchildren." Sadly, Willingham has in turned received e-mails containing death threats, and recent reports in *Bloomberg Businessweek* revealed that Dean continues to attack Willingham in internal meetings.[63]

SOLVING THE CHALLENGE

Assuming that you are the university's chancellor, what would you do at this point in the scandalous saga?

1. Acknowledge wrongdoing, reinstate Mary Willingham to her former position, and continue the internal investigation.
2. Acknowledge wrongdoing, but Mary stays where she is. She should not have blown the whistle to local reporters without first going to upper management at the university.
3. Reprimand both James Dean and the basketball coach for their comments, and continue the internal investigation.
4. Invent other options.

3 The Manager's Changing Work Environment & Ethical Responsibilities

Doing the Right Thing

Major Questions You Should Be Able to Answer

3.1 The Triple Bottom Line: People, Planet, & Profit

Major Question: Is profit the only important goal of a business? What are others?

3.2 The Community of Stakeholders Inside the Organization

Major Question: Stockholders are only one group of stakeholders. Who are the stakeholders important to me inside the organization?

3.3 The Community of Stakeholders Outside the Organization

Major Question: Who are stakeholders important to me outside the organization?

3.4 The Ethical Responsibilities Required of You as a Manager

Major Question: What does the successful manager need to know about ethics and values?

3.5 The Social Responsibilities Required of You as a Manager

Major Question: Is being socially responsible really necessary?

3.6 Corporate Governance

Major Question: How can I trust a company is doing the right thing?

the manager's toolbox

How Do People Excuse Lying & Cheating?

"Students don't just say 'OK I cheated in school, but now I'm in the workplace and it ends here,'" says an Arizona professor of legal and ethical studies. "They are forming bad habits that carry over into the market."[1]

The "Holier-Than-Thou" Effect & Motivated Blindness

Have you ever cheated—had unauthorized help on tests? Or plagiarized—misrepresented others' work as your own? If it's wrong, why do it?

The psychological mechanisms operating here are:

- **The "holier-than-thou" effect.** "People tend to be overly optimistic about their own abilities and fortunes—to overestimate their standing in class, their discipline, their sincerity," suggests science writer Benedict Carey. "But this self-inflating bias may be even stronger when it comes to moral judgment."[2]
- **Motivated blindness.** This is the tendency to overlook information that works against our best interest. "People who have a vested self-interest, even the most honest among us, have difficulty being objective," says one report. "Worse yet, they fail to recognize their lack of objectivity."[3] Motivated blindness enables us to behave unethically while maintaining a positive self-image.[4]

Because of this psychology, cheating and plagiarism have become alarming problems in education, from high school to graduate school.[5] Most students rationalize their behavior by saying "I don't usually do this, but I really have to do it." They would rather cheat, that is, than show their families they got an F.[6]

The Dynamics behind Cheating

Habitual cheating, Carey suggests, "begins with small infractions—illegally downloading a few songs, skimming small amounts from the register, lies of omission on taxes—and grows by increments." As success is rewarded, these "small infractions" can burgeon into an ongoing deliberate strategy of deception or fraud.

How do people rationalize cheating? The justifications are mainly personal and emotional:

- **Cheating provides useful shortcuts.** We constantly make choices "between short- and long-term gains," suggests Carey, "between the more virtuous choice and the less virtuous one." The brain naturally seeks useful shortcuts and so may view low-level cheating as productive.
- **Cheating arises out of resentment.** People often justify lying and cheating because they have resentments about a rule or a boss.[7]
- **Cheating seeks to redress perceived unfairness.** The urge to cheat may arise from a deep sense of unfairness, such as your sense that other people had special advantages.
- **Cheating is to avoid feeling like a chump.** Many people cheat to avoid feeling like a chump—to "not being smart" and "finishing out of the money."

For Discussion How would *you* justify cheating and plagiarism? Is it simply required behavior in order to get through college? ("I'm not going to be a chump.") What do you say to the fact that, as the research shows, students who cheat and thus don't actually do the assigned work are more likely to fail anyway?[8] Do you think you can stop the lying and deception once you're out in the work world?

forecast What's Ahead in This Chapter

The triple bottom line of People, Planet, and Profit represents new standards of success for businesses. This helps define the new world in which managers must operate and their responsibilities, including the community of stakeholders, both internal and external, they must deal with. The chapter also considers a manager's ethical and social responsibilities, as well as the importance of corporate governance.

3.1 MAJOR QUESTION

The Triple Bottom Line: People, Planet, & Profit

Is profit the only important goal of a business? What are others?

THE BIG PICTURE

Many businesses, small and large, are beginning to subscribe to a new standard of success—the triple bottom line, representing People, Planet, and Profit. This outlook has found favor with many young adults (millennials) who are more concerned with finding meaning than material success.

"Profit is a tool," says Judy Wicks, who founded the White Dog Café in Philadelphia 30 years ago. "The major purpose of business is to serve."[9]

In traditional business accounting, the "bottom line" of a revenue-and-expenses statement is the organization's profit (or loss). But in Wicks's view, making money should be only one goal of business. The others are to foster social and environmental consciousness—the two other elements of what's known as the "triple bottom line." **The triple bottom line—representing People, Planet, and Profit (the 3 Ps)—measures an organization's social, environmental, and financial performance.** In this view of corporate performance, an organization has a responsibility to its employees and to the wider community (People), is committed to sustainable (green) environmental practices (Planet), and includes the costs of pollution, worker displacement, and other factors in its financial calculations (Profit). Success in these areas can be measured through a **social audit, a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.**

The White Dog Café, for instance, is known for such social and environmental activities as buying wind-powered electricity, organic produce, and humanely raised meat and poultry, as well as sharing ideas with competitors and opening up its premises for educational forums and speakers. But the triple bottom line isn't just to be practiced by small businesses. As a co-author of *Everybody's Business: The Unlikely Story of How Big Business Can Fix the World* observes, "big businesses can . . . be really powerful, positive engines for social change."[10]

The Millennials' Search for Meaning

The notion of the triple bottom line has particular appeal to many of those in the "millennial" generation, which includes the two parts dubbed Generation Y, born 1977–1989, and Generation Z, born 1990–2000. (The definition of birth years varies.)[11] In Chapter 1, we mentioned that one of the great challenges for a manager is in trying to achieve personal success, whether in striving for a happy life or a meaningful life—or, if possible, both.

"Millennials," write two scholars who have done research in this area, "appear to be more interested in living lives defined by meaning than by what some would call happiness. They report being less focused on financial success than they are on making a difference."[12] In support of this view, one study found that the principal factor young adults ages 21–31 wanted in a successful career was a sense of meaning.[13] Another study found that millennials who came of age during the 2007–2009 Great Recession reported more concern for others and less interest in material goods.[14]

In this chapter, we discuss two factors in achieving a meaningful life:

- Understanding the environment in which a manager operates—the community of stakeholders inside and outside the organization.
- The ethical and social responsibilities of being a manager.

3.2 The Community of Stakeholders Inside the Organization

MAJOR QUESTION

Stockholders are only one group of stakeholders. Who are stakeholders important to me inside the organization?

THE BIG PICTURE

Managers operate in two organizational environments—internal and external—both made up of stakeholders, the people whose interests are affected by the organization. The first, or internal, environment consists of employees, owners, and the board of directors.

In September 2010, a buried Pacific Gas & Electric natural-gas pipeline in the San Francisco–area suburb of San Bruno blew up in a spectacular pillar of fire, killing eight people and destroying 38 homes. "The gas-fed flames burned for more than 90 minutes while PG&E scrambled to find a way to shut off the line," reported the *San Francisco Chronicle.*[15] How did this come about?

To Whom Should a Company Be Responsible?

It turned out that PG&E had relied on gas-leak surveys to determine whether transmission pipelines were safe, but the company's incentive system awarded bonuses to supervisors whose crews found fewer leaks and kept repair costs down.[16] Indeed, the company's own internal audit found the incentives actually *encouraged* crews to produce inaccurate surveys.

An independent audit found that over an 11-year period PG&E collected $430 million more from its gas operations than the government had authorized—and it "chose to use the surplus revenues for general corporate purposes" rather than for improved safety.[17] In fact, in the three years prior to the explosion, the company spent $56 million a year on an incentive plan—stock awards, performance shares, and deferred compensation—for its executives and directors, including millions to the CEO. Despite this sleazy history—which will require the utility to spend $10 billion to test and replace gas lines

San Bruno explosion. This 2010 gas explosion and fire in San Bruno, California, which killed eight people, was linked to utility PG&E's low priority given to pipeline safety and high priority to its "focus on financial performance." What group should a company be most responsible to—stockholders, managers, customers, the public?

and cost a proposed $2.45 billion in penalties—it was unclear, the *Chronicle* said in 2012, "whether PG&E broke any criminal statutes governing its behavior, unless there was fraud."[18] Two years later, however, the utility was indicted on 12 criminal counts, for repeatedly violating the federal Pipeline Safety Act.[19]

Consider: Is a company principally responsible only to its stockholders and executives? Or are other groups equal in significance? Further, is it sufficient that a company simply be legal, as PG&E believes it was?[20] Or, isn't it equally important that it be ethical as well?

Internal & External Stakeholders

Perhaps we need a broader term than "stockholders" to indicate all those with a stake in an organization. That term, appropriately, is **stakeholders—the people whose interests are affected by an organization's activities.**

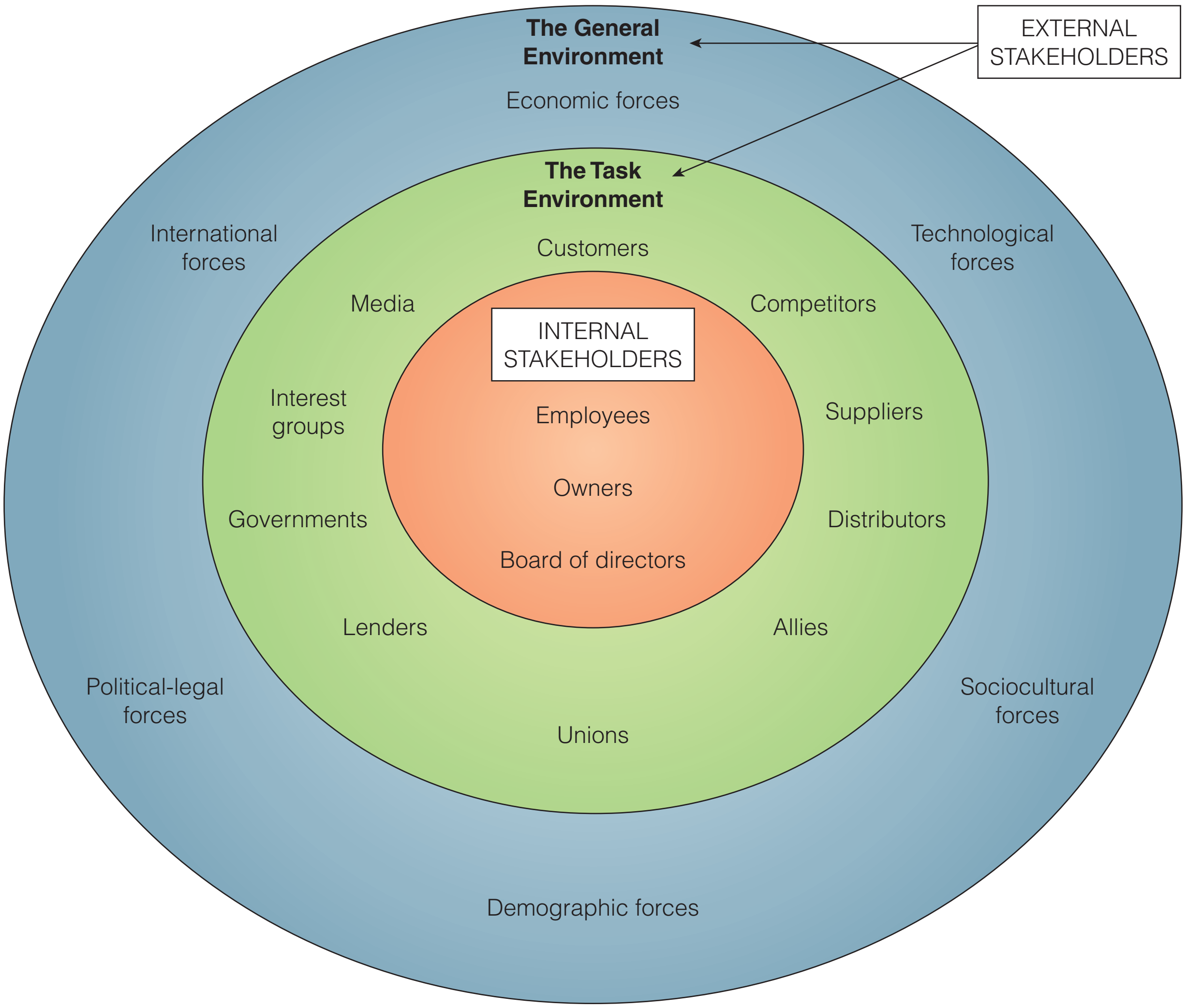
Managers operate in two organizational environments, both made up of various stakeholders. *(See Figure 3.1.)* As we describe in the rest of this section, the two environments are these:

- Internal stakeholders
- External stakeholders

FIGURE 3.1 **The Organization's Environment**

The two main groups are internal and external stakeholders

Source: From Diverse Teams at Work *by Lee Gardenswartz. Reprinted with permission of the Society for Human Resource Management (www.shrm.org), Alexandria, VA. Copyright © 2003, Society for Human Resource Management.*



Internal Stakeholders

Whether small or large, the organization to which you belong has people in it who have an important stake in how it performs. These **internal stakeholders consist of employees, owners, and the board of directors, if any.** Let us consider each in turn.

Employees

As a manager, could you run your part of the organization if you and your employees were constantly in conflict? Labor history, of course, is full of accounts of just that. But such conflict may lower the performance of the organization, thereby hurting everyone's stake. In many of today's forward-looking organizations, employees are considered "the talent"—the most important resource.

"My chief assets drive out the gate every day," says Jim Goodnight, CEO of North Carolina–based SAS. "My job is to make sure they come back."[21] SAS is the world's largest privately held software business and was ranked No. 2 (behind Google) on *Fortune*'s 2014 list of "100 Best Companies to Work For." (It ranked 1, 1, 3, and 2, respectively, in the years 2010–2013.) Even during the Great Recession, when there were six unemployed workers for every available U.S. job opening, SAS continued to treat employees exceptionally well, resulting in a turnover rate of only 2% in 2009, compared with a software industry average of 22%.

Owners

The **owners of an organization consist of all those who can claim it as their legal property,** such as Walmart's stockholders. In the for-profit world, if you're running a one-person graphic design firm, the owner is just you—you're what is known as a sole proprietorship. If you're in an Internet start-up with your brother-in-law, you're both owners—you're a partnership. If you're a member of a family running a car dealership, you're all owners—you're investors in a privately owned company. If you work for a company that is more than half owned by its employees (such as W. L. Gore & Associates, maker of Gore-Tex fabric and No. 22 on *Fortune*'s 2014 "Best Companies to Work For" list, or Lakeland, Florida, Publix Super Markets, No. 75), you are one of the joint owners—you're part of an Employee Stock Ownership Plan (ESOP).[22] And if you've bought a few shares of stock in a company whose shares are listed for sale on the New York Stock Exchange, such as General Motors, you're one of thousands of owners—you're a stockholder. In all these examples, of course, the stated goal of the owners is to make a profit.

Employee ownership. Employees of New Belgium Brewing, maker of Fat Tire ale, raised $500,000 for nonprofits through the bicycling carnival Tour de Fat. The Fort Collins, Colorado, brewer is 100% employee owned, through a device known as an Employee Stock Ownership Plan, in which employees buy company stock in order to become owners. Although the idea was conceived over 50 years ago, there are only about 10,000 ESOPs today out of hundreds of thousands of businesses. Why do you suppose more companies aren't owned by their employees?

Board of Directors

Who hires the chief executive of a for-profit or nonprofit organization? In a corporation, it is the *board of directors,* whose members are elected by the stockholders to see that the company is being run according to their interests. In nonprofit organizations, such as universities or hospitals, the board may be called the *board of trustees* or *board of regents.* Board members are very important in setting the organization's overall strategic goals and in approving the major decisions and salaries of top management.

Not all firms have a board of directors. A lawyer, for instance, may operate as a sole proprietor, making all her own decisions. A large corporation might have eight or so members on its board of directors. Some of these directors (inside directors) may be top executives of the firm. The rest (outside directors) are elected from outside the firm. ●

3.3 The Community of Stakeholders Outside the Organization

MAJOR QUESTION

Who are stakeholders important to me outside the organization?

THE BIG PICTURE

The external environment of stakeholders consists of the task environment and the general environment. The task environment consists of customers, competitors, suppliers, distributors, strategic allies, employee associations, local communities, financial institutions, government regulators, special-interest groups, and the mass media. The general environment consists of economic, technological, sociocultural, demographic, political-legal, and international forces.

In the preceding section we described the environment inside the organization. Here let's consider the environment outside it, which consists of **external stakeholders—people or groups in the organization's external environment that are affected by it.** This environment consists of:

- The task environment.
- The general environment.

The Task Environment

The **task environment consists of 11 groups that present you with daily tasks to handle: customers, competitors, suppliers, distributors, strategic allies, employee organizations, local communities, financial institutions, government regulators, special-interest groups, and mass media.**

1. Customers

The first law of business (and even nonprofits), we've said, is *take care of the customer.* **Customers are those who pay to use an organization's goods or services.** Many customers value service over price, and are generally frustrated by poor customer relations at telecommunications companies, airlines, and social media sites. "In defense of these industries," says one observer, "no one notices them when things go well, but people get outraged when they lose service or get stuck for hours at an airport."[23] On the other hand, he adds, "these industries often don't have to worry about making customers happy" because they have few competitors.

EXAMPLE

Taking Care of Customers: Amazon's Jeff Bezos Obsesses about "the Customer Experience"

Since launching Amazon in 1995, founder and CEO Jeff Bezos has been "obsessed," in his words, with what he calls "the customer experience." Customers "care about having the lowest prices, having vast selection, so they have choice, and getting the products . . . fast," Bezos has said. "And the reason I'm so obsessed with these drivers of the customer experience is that I believe that the success we have had over the past . . . years has been driven exclusively by that customer experience."[24]

"Simple Is Not Easy." Amazon has led the "Hall of Fame" of one online national survey of customer satisfaction four years in a row. The reason? "Amazon has always been very good at being simple, and simple is not easy," says a consultant.[25] The company's user-friendly website, low prices, one-click shopping, free-shipping options, no-hassle returns policy, "and even the sense of community it fosters," says one reporter, "has welcomed some 180 million happy buyers into the fold. Combined, those contented clickers buy an average of 9.6 million items a day."[26]

Detractors. Not every stakeholder finds Amazon so congenial. States have objected to its hardball policies on avoiding taxes on Internet sales. Suppliers grumble about being squeezed. Walk-in retailers have worried as shoppers have deserted them en masse for Amazon e-commerce. Book publishers and sellers have seethed over loss of readers to online order systems and Kindle e-books. And Amazon's own employees have complained about severe workplace rules in the company's 115 distribution centers.[27] For most customers, however, none of this other stuff matters, and Amazon's famed customer service helped the company grow to $74.5 billion in revenues in 2013.

YOUR CALL

Does it matter to you how harshly a company treats other stakeholders so long as it handles its customer relations well? To what extent are Amazon's policies consistent with the triple bottom line?

2. Competitors

Is there any line of work you could enter in which there would *not* be **competitors—people or organizations that compete for customers or resources,** such as talented employees or raw materials? Every organization has to be actively aware of its competitors. Owners of florist shops and delicatessens must be aware that customers can buy the same products at Safeway or Kroger.

3. Suppliers

A **supplier is a person or an organization that provides supplies—that is, raw materials, services, equipment, labor, or energy—to other organizations.** Suppliers in turn have their own suppliers: The printer of this book buys the paper on which it is printed from a paper merchant, who in turn is supplied by several paper mills, which in turn are supplied wood for wood pulp by logging companies with forests in the United States or Canada.

4. Distributors

A **distributor is a person or an organization that helps another organization sell its goods and services to customers.** Publishers of magazines, for instance, don't sell directly to newsstands; rather, they go through a distributor, or wholesaler. Tickets to Maroon Five, Phish, or other artists' performances might be sold to you directly by the concert hall, but they are also sold through such distributors as TicketMaster, LiveNation, and StubHub.

Distributors can be quite important because in some industries (such as movie theaters and magazines) there is not a lot of competition, and the distributor has a lot of power over the ultimate price of the product. However, the popularity of the Internet has allowed manufacturers of cell phones, for example, to cut out the "middleman"—the distributor—and to sell to customers directly.

5. Strategic Allies

Companies, and even nonprofit organizations, frequently link up with other organizations (even competing ones) in order to realize strategic advantages. The term **strategic allies describes the relationship of two organizations who join forces to achieve advantages neither can perform as well alone.**

With their worldwide reservation systems and slick marketing, big companies—Hilton, Hyatt, Marriott, Starwood, and so on—dominate the high-end business-center hotels. But in many cities, there are still independents—such as The Rittenhouse in Philadelphia, The Hay-Adams in Washington, DC, and The Adolphus in Dallas—that compete with the chains by promoting their prestigious locations, grand architecture, rich history, and personalized service. In recent years, however, some high-end independents have become affiliated with chains as strategic allies because chains can buy supplies for less and they have more far-reaching sales channels. The 105-year-old U.S. Grant in downtown San Diego, for example, became part of Starwood's Luxury Collection to get better worldwide exposure.

6. Employee Organizations: Unions & Associations

As a rule of thumb, labor unions (such as the United Auto Workers or the Teamsters Union) tend to represent hourly workers; professional associations (such as the National Education Association or the Newspaper Guild) tend to represent salaried workers. Nevertheless, during a labor dispute, salary-earning teachers in the American Federation of Teachers might well picket in sympathy with the wage-earning janitors in the Service Employees International Union.

In recent years, the percentage of the labor force represented by unions has steadily declined (from 35% in the 1950s to 11.3% in 2013).[28] Indeed, more than five times as many union members are now public-sector workers compared to private-sector workers, whose unionizing has sharply fallen off, mainly because of recession-related job losses in manufacturing and construction. The composition of the membership has also changed, with 45% of the unionized workforce now female and 38% of union members holding a four-year college degree or more.[29]

7. Local Communities

As more educated Gen Yers (ages 18–34) say they want to live in cities, more companies are following them by relocating their headquarters out of suburbia—as has Motorola Mobility, for instance, moving from small town Libertyville, Illinois, to downtown Chicago.[30] Is this a problem? Local communities are obviously important stakeholders, as becomes evident not only when a big organization arrives but also when it leaves, sending government officials scrambling to find new industry to replace it. Schools and municipal governments rely on the organization for their tax base. Families and merchants depend on its employee payroll for their livelihoods. In addition, everyone from the United Way to the Little League may rely on it for some financial support.

If a community gives a company tax breaks in return for the promise of new jobs and the firm fails to deliver, does the community have the right to institute **clawbacks—rescinding the tax breaks when firms don't deliver promised jobs**? But what is a town to do if a company goes bankrupt, as did Hoku Materials, manufacturer of materials for solar panels, after the struggling town of Pocatello, Idaho, gave it numerous concessions?[31]

EXAMPLE

Local Communities as Stakeholders: Are Financial Incentives to Business Really Necessary?

In 2013, only two movies with production budgets higher than $100 million were filmed in Los Angeles. The reason: "successful efforts by a host of states to use tax incentives to poach [movie] production business from California," says one report.[32] The states included Georgia, Louisiana, Nevada, New Mexico, New York, Oregon, and Texas, all seeking the supposed economic benefits film companies bring, such as purchasing supplies from local businesses.[33]

Public Incentives to Private Business. Film productions aren't the only beneficiaries of such government incentives, which may come in the form of cash grants and loans, sales tax breaks, income tax credits and exemptions, free services, and property tax abatements. In San Francisco, tech companies Twitter, Microsoft, Zendesk, Zoosk, and Spotify have sought tax breaks for locating in seedy areas in need of revival.[34] In Arizona, the town of Mesa "offered tax breaks, built power lines, fast-tracked building permits, and got the state to declare a vacant 1.3 million-square-foot plant a foreign trade zone," says one account, to lure Apple Inc. to build a factory employing 700 people.[35] In Connecticut, the government gave sports network ESPN, with headquarters located in Bristol, $260 million in tax breaks and credits over 12 years—just to preclude the highly unlikely possibility the multibillion-dollar conglomerate might want to move elsewhere.[36]

Community stakeholder. Sports network ESPN in Bristol, Connecticut, is located on 123 acres, employs about 4,000 workers, takes in more than $6 billion a year in subscriber fees, and has received millions in government tax incentives. No longer a start-up but a billion-dollar conglomerate, should the company continue to receive state tax subsidies to induce it to stay in Bristol? Or should that money be given to struggling entrepreneurs or provide teacher raises?

"Help Us Help You." Such government inducements are extraordinarily commonplace—but often to the financial detriment of the local community. "A portrait arises," *The New York Times* wrote, "of mayors and governors who are desperate to create jobs, outmatched by multinational corporations, and short on tools to fact-check what companies tell them. Many of the officials said they feared that companies would move jobs overseas if they did not get subsidies in the United States."[37] Although most incentive funds are directed toward manufacturing, followed by agriculture, the oil, gas, and mining sectors are in third place, the film business fourth, and technology companies not far behind.

YOUR CALL

How would you advise local public officials to handle the whole matter of tax incentives for business—especially if they are across the negotiating table from a conglomerate like Royal Dutch Shell or heavy-equipment maker Caterpillar? What obligations should a community expect of the companies located there?

8. Financial Institutions Want to launch a small company? Although normally reluctant to make loans to start-ups, financial institutions—banks, savings and loans, and credit unions—may do so if you have a good credit history or can secure the loan with property such as a house. During the Great Recession, even good customers found loans hard to get. There then emerged a new kind of financing called **crowdfunding, or *crowdsourcing,* raising money for a project or venture by obtaining many small amounts of money from many people ("the crowd"),** as we discuss further in Chapter 10.

Established companies also often need loans to tide them over when revenues are down or to finance expansion, but they rely for assistance on lenders such as commercial banks, investment banks, and insurance companies.

9. Government Regulators The preceding groups are external stakeholders in your organization since they are clearly affected by its activities. But why would **government regulators—regulatory agencies that establish ground rules under which organizations may operate—**be considered stakeholders?

We are talking here about an alphabet soup of agencies, boards, and commissions that have the legal authority to prescribe or proscribe the conditions under which you may conduct business. To these may be added local and state regulators on the one hand and foreign governments and international agencies (such as the World Trade Organization, which oversees international trade and standardization efforts) on the other.

Such government regulators can be said to be stakeholders because not only do they affect the activities of your organization, they are in turn affected by it. The Federal Aviation Agency (FAA), for example, specifies how far planes must stay apart to prevent midair collisions. But when the airlines want to add more flights on certain routes, the FAA may have to add more flight controllers and radar equipment, since those are the agency's responsibility.

10. Special-Interest Groups In recent times, efforts to ban horse-drawn carriages that serve tourists wanting to take in urban sights have spread across the country, from Salt Lake City to Atlanta. In New York City, the 1,200 operators of horse-drawn carriage rides were being pressured by opponents who insisted the horses weren't equipped to handle city noise and traffic, as well as intense summer heat. Spurred by some highly publicized deaths and injuries to horses, many of the complaints came from animal-rights groups, such as People for the Ethical Treatment of Animals (PETA). In New York, however, two-thirds of city voters said they didn't want the bans. Some visitors also said they liked "the clip-clop of the horse's feet."[38]

Special-interest groups are groups whose members try to influence specific issues, some of which may affect your organization. Examples are PETA, Mothers Against Drunk Driving, the National Organization for

Special interests. Fast-food workers demonstrate to demand a $15-an-hour guaranteed wage and the right to union representation.

Women, and the National Rifle Association. Special-interest groups may try to exert political influence, as in contributing funds to lawmakers' election campaigns or in launching letter-writing efforts to officials. Or they may organize picketing and *boycotts*—holding back their patronage—of certain companies. In 2013, some Americans began a boycott of Stolichnaya vodka to protest what they saw as state-sponsored homophobia in Russia—until they learned the vodka was made not in Russia but in Latvia.[39]

11. Mass Media No manager can afford to ignore the power of the mass media—print, radio, TV, and the Internet—to rapidly and widely disseminate news both bad and good. Thus, most companies, universities, hospitals, and even government agencies have a public-relations person or department to communicate effectively with the press. In addition, top-level executives often receive special instruction on how to best deal with the media.

EXAMPLE

Managing the Media: What's the Best Practice for Handling Product Recalls?

Every now and then, a company has to issue a product recall for defective products, but recently there has been almost a "recall sprawl."

Lululemon Athletica was forced to recall some top-selling yoga pants after it found them to be too see-through.[40] Children's car seat makers Graco and Evenflo recalled 4.2 million and 1.4 million child restraints, respectively, because of buckle problems.[41] GlaxcoSmithKline recalled an over-the-counter weight-loss drug after customer complaints about missing labels and possible tampering with seals.[42] The biggest news, however, has been in automobiles—most recently those made by General Motors.

GM's Cobalt Recall. In 2004 (five years before the company's bankruptcy and government takeover), General Motors received the first reports of engines suddenly shutting down in Chevrolet Cobalts, owing to a defective ignition switch, a condition that ultimately led to 13 fatal crashes. It was not until December 2013, however, when Mary Barra (introduced in Chapter 1) was about to become GM chief, that top management was alerted to the problem, proving the adage that the larger an organization gets, the less likely bad news will travel smoothly up the hierarchy.[43] Although government regulators had been alerted in 2007, they did not open an investigation.[44] Barra herself said she had known nothing about the matter prior to becoming CEO.

Barra Steps Up. In 2014, amid a firestorm of consumer criticism, GM issued recalls, for Cobalts and other vehicles, covering 6.3 million cars and trucks.[45] In a move intended to reassure the public that GM had become more trustworthy and less bureaucratic and arrogant since it emerged from bankruptcy, Barra also testified before a congressional committee, but "her measured, carefully worded responses only seemed to inflame senators," says one report.[46]

On the other hand, Barra has met with families of people killed in Cobalt accidents, something old GM managers would not have done. She also ordered an internal investigation to find out why GM failed to fix a safety defect for more than a decade.[47]

The Gold Standard. What is a company supposed to do when it has a public relations disaster? The gold standard in brand crisis management is the path followed by health products company Johnson & Johnson in 1982, after several consumers died from taking tainted Tylenol pills. J&J responded in a way that has become the preferred strategy taught in business schools, according to one account: "Communicate clearly with the public about a crisis, cooperate with government officials, swiftly begin its own investigation of a problem, and, if necessary, quickly institute a product recall."[48] A big part of the strategy is communicating honestly and frequently through the media.

YOUR CALL

For GM, "Mary Barra seems to fully embody the position of the CEO who is sorry," says business ethics professor Amy Sepinwall. "She recognizes that she has to pass on the [corporation's] deepest regrets, and I think she's been pretty convincing on that score."[49] Do you agree? What else should she have done?

The General Environment

Beyond the task environment is the **general environment, or macroenvironment, which includes six forces: economic, technological, sociocultural, demographic, political-legal, and international.**

You may be able to control some forces in the task environment, but you can't control those in the general environment. Nevertheless, they can profoundly affect your organization's task environment without your knowing it, springing nasty surprises on you. Clearly, then, as a manager you need to keep your eye on the far horizon because these forces of the general environment can affect long-term plans and decisions.

1. Economic Forces

Economic forces consist of the general economic conditions and trends—unemployment, inflation, interest rates, economic growth—that may affect an organization's performance. These are forces in your nation and region and even the world over which you and your organization probably have no control, as happened in the Great Recession and its aftermath.

Are banks' interest rates going up in the United States? Then it will cost you more to borrow money to open new stores or build new plants. Is your region's unemployment rate rising? Then maybe you'll have more job applicants to hire from, yet you'll also have fewer customers with money to spend. (A record 46 million Americans are presently considered poor; the poverty rate has fallen only to 15% from 19% in two generations.)[50] Are natural resources getting scarce in an important area of supply? Then your company will need to pay more for them or switch to alternative sources.

One indicator that managers often pay attention to is productivity growth. Rising productivity leads to rising profits, lower inflation, and higher stock prices. In recent times, companies have been using information technology to cut costs, resulting in productivity growing at an annual rate of 2.7% from 2001 to 2007, slumping to 1.2% in the recession year 2008, then roaring back to 3.9% in 2010 and 2.8% in 2011, and slipping to 1.8% in 2012 and 2013.[51] Aided by technology, U.S. manufacturing has actually surged 40.4% since 2001, although manufacturing jobs have declined.[52]

2. Technological Forces

Technological forces are new developments in methods for transforming resources into goods or services. For example, think what the United States would have been like if the elevator, air-conditioning, the combustion engine, and the airplane had not been invented. No doubt changes in computer and communications technology—especially the influence of the Internet—will continue to be powerful technological forces during your managerial career. But other technological currents may affect you as well.

For example, biotechnology may well turn health and medicine upside down in the coming decades. Researchers can already clone animals, and some reports say they are close to doing the same with humans.

3. Sociocultural Forces

Americans are driving less, more households are without vehicles, and young people are evincing a lack of interest in cars—causing deep worry in the auto industry.[53] Long an American rite of passage, the act of getting a driver's license at age 16 is no longer as popular as it was and is on the wane among the digital generation. In other words, Facebook, Twitter, and other social media are altering long-standing sociocultural patterns.

Sociocultural forces are influences and trends originating in a country's, a society's, or a culture's human relationships and values that may affect an organization. Seismic changes are occurring in Americans' views about sociocultural issues, recent polls show: 86% in approval of interracial marriage in 2011 (versus 48% in 1991), 55% in favor of same-sex marriage in 2013 (versus 27% in 1996), 52% supporting legalization of marijuana in 2013 (versus 12% in 1969), and so on.[54]

Entire industries have been rocked when the culture underwent a lifestyle change, most notably changes in

Sociocultural forces. The U.S. obesity rate is one of those sociocultural forces capable of altering entire industries. Which ones do you think would be most affected?

approaches to health. Diet sodas, for instance, have gone through a nearly decade-long decline, causing major concerns for Coca-Cola and PepsiCo, because more Americans worry that artificial sweeteners are unhealthy, despite numerous studies that find them safe.[55] Some killer diseases, such as measles, whooping cough, and meningitis, are creeping back because of an anti-vaccine movement based on philosophical and religious exemptions.[56] Recently, with more attention focused on the epidemic of obesity, there has been some turnaround, with Americans consuming fewer calories and cutting back on fast food, cholesterol, and fat.[57]

4. Demographic Forces

Demographics derives from the ancient Greek word for "people"—*demos*—and deals with statistics relating to human populations. Age, gender, race, sexual orientation, occupation, income, family size, and the like are known as demographic characteristics when they are used to express measurements of certain groups. **Demographic forces are influences on an organization arising from changes in the characteristics of a population, such as age, gender, or ethnic origin.**

Among recent changes: marriage rates are down, more couples are marrying later, black-white and same-sex marriages are increasing, one-person households are growing, the decline in fertility rates is leveling off, divorce rates are down, secularism (being nonreligious) is up, more households are multigenerational, and the percentage of people living in rural areas is the lowest ever.[58] By 2050, it's predicted, the U.S. population will soar to 401 million (from about 317 million today), and minorities are expected to exceed 50% of the population by around 2043.[59]

5. Political-Legal Forces

Political-legal forces are changes in the way politics shape laws and laws shape the opportunities for and threats to an organization. In the United States, whatever political view tends to be dominant at the moment may be reflected in how the government handles antitrust issues, in which one company tends to monopolize a particular industry. Should Comcast and Time Warner Cable, for instance, be allowed to merge and have a dominant share of the pay-TV market?

As for legal forces, some countries have more fully developed legal systems than others. And some countries have more lawyers per capita. (The United States reportedly has more lawyers per person in its population than any of 29 countries studied except Greece.)[60] American companies may be more willing to use the legal system to advance their interests, as in suing competitors to gain competitive advantage. But they must also watch that others don't do the same to them.

6. International Forces

International forces are changes in the economic, political, legal, and technological global system that may affect an organization.

This category represents a huge grab bag of influences. How does the economic integration of the European Union create threats and opportunities for American companies? U.S. companies that do significant business in Europe are subject to regulation by the European Union. For instance, in a three-year antitrust case, several companies in Europe were able to get Google to change the way it displays its search results, after they complained that, as one consumer rights advocacy group stated, Google could "stack its search results as suits itself."[61] We consider global concerns in Chapter 4.

How well Americans can handle international forces depends a lot on their training. Unfortunately, only 18% of Americans report speaking a language other than English, whereas 53% of Europeans, for example, can converse in a second language.[62] One writer suggests U.S. companies should hire more key managers whose native language isn't English because "research shows that we behave more rationally when we think in another language"—that is, it reduces biases in decision making.[63]

3.4 The Ethical Responsibilities Required of You as a Manager

MAJOR QUESTION

What does the successful manager need to know about ethics and values?

THE BIG PICTURE

Managers need to be aware of what constitutes ethics, values, the four approaches to ethical dilemmas, and how organizations can promote ethics.

Would you take supplies from the office supply closet on leaving a job? (Twenty-six percent of workers said they would, 74% said they wouldn't, in one survey.)[64] That may be an easy decision. But how would you handle a choice between paying a client money under the table in order to land a big contract, for example, and losing your job? That's a much harder matter.

In business, choosing between *economic performance* and *social performance* is what most ethical conflicts are about.[65] This is known as an **ethical dilemma, a situation in which you have to decide whether to pursue a course of action that may benefit you or your organization but that is unethical or even illegal.**

Defining Ethics & Values

Seventy-three percent of American employees working full time say they have observed ethical misconduct at work, and 36% have been "distracted" by it.[66] Most of us assume we know what "ethics" and "values" mean, but do we? Let's consider them.

Ethics

Ethics are the standards of right and wrong that influence behavior. These standards may vary among countries and among cultures. **Ethical behavior is behavior that is accepted as "right" as opposed to "wrong" according to those standards.**

What are the differences among a tip, a gratuity, a gift, a donation, a commission, a consulting fee, a kickback, a bribe? Regardless of the amount of money involved, each one may be intended to reward the recipient for providing you with better service, either anticipated or performed.

Sunshine on gifts. Some doctors say that medicine changes so rapidly that they rely on drug companies and fellow M.D.'s to keep them up to date, as through presentations at medical society dinners financed by pharmaceutical companies. However, the Physician Payments Sunshine Act now requires that pharmaceutical companies report meals, travel expenses, grants, lecture fees, drug samples, and other gifts to physicians. Do you think such disclosures are necessary?

For years, pharmaceutical companies have provided doctors with small gifts—pads with logos, tickets to sports events, free drug samples—to promote their drugs. However, in recent years, points out one editorial, "those trinkets have evolved into big money for doctors to speak to other doctors about new drugs," as in presentations at dinner lectures.[67] What if the drug makers' strategy, as some critics accuse, is to use such methods even to expand the whole concept of high blood pressure or attention deficit disorder so as to increase the pool of people taking medications?[68] Because of such concerns, a Sunshine Act provision was written into the Affordable Care Act, requiring drug companies to report payments to individual doctors.[69]

Values Ethical dilemmas often take place because of an organization's **value system, the pattern of values within an organization. Values are the relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior,** such as the belief that "Fairness means hiring according to ability, not family background." Values and value systems are the underpinnings for ethics and ethical behavior.

Organizations may have two important value systems that can conflict: (1) the value system stressing financial performance versus (2) the value system stressing cohesion and solidarity in employee relationships.[70]

Four Approaches to Deciding Ethical Dilemmas

How do alternative values guide people's decisions about ethical behavior? Here are four approaches, which may be taken as guidelines:

1. The Utilitarian Approach: For the Greatest Good Ethical behavior in the **utilitarian approach is guided by what will result in the greatest good for the greatest number of people.** Managers often take the utilitarian approach, using financial performance—such as efficiency and profit—as the best definition of what constitutes "the greatest good for the greatest number."[71]

Thus, a utilitarian "cost-benefit" analysis might show that in the short run the firing of thousands of employees may improve a company's bottom line and provide immediate benefits for the stockholders. The drawback of this approach, however, is that it may result in damage to workforce morale and the loss of employees with experience and skills—actions not so readily measurable in dollars.

2. The Individual Approach: For Your Greatest Self-Interest Long Term, Which Will Help Others Ethical behavior in the **individual approach is guided by what will result in the individual's best *long-term* interests, which ultimately are in everyone's self-interest.** The assumption here is that you will act ethically in the short run to avoid others harming you in the long run.

The flaw here, however, is that one person's short-term self-gain may *not,* in fact, be good for everyone in the long term. After all, the manager of an agribusiness that puts chemical fertilizers on the crops every year will always benefit, but the fishing industries downstream could ultimately suffer if chemical runoff reduces the number of fish. Indeed, this is one reason why Puget Sound Chinook, or king salmon, are now threatened with extinction in the Pacific Northwest.[72]

3. The Moral-Rights Approach: Respecting Fundamental Rights Shared by Everyone Ethical behavior in the **moral-rights approach is guided by respect for the fundamental rights of human beings,** such as those expressed in the U.S. Constitution's Bill of Rights. We would all tend to agree that denying people the right to life, liberty, privacy, health and safety, and due process is unethical. Thus, most of us would have no difficulty condemning the situation of immigrants illegally brought into the United States and then effectively enslaved—as when made to work 7 days a week as maids.

The difficulty, however, is when rights are in conflict, such as employer and employee rights. Should employees on the job have a guarantee of privacy? Actually, it is legal for employers to listen to business phone calls and monitor all nonspoken personal communications.[73]

4. The Justice Approach: Respecting Impartial Standards of Fairness Ethical behavior in the **justice approach** **is guided by respect for impartial standards of fairness and equity.** One consideration here is whether an organization's policies—such as those governing promotions or sexual harassment cases—are administered impartially and fairly regardless of gender, age, sexual orientation, and the like.

Fairness can often be a hot issue. For instance, many employees are loudly resentful when a corporation's CEO is paid a salary and bonuses worth hundreds of times more than what they receive—even when the company performs poorly—and when fired is then given a "golden parachute," or extravagant package of separation pay and benefits.

White-Collar Crime, SarbOx, & Ethical Training

At the beginning of the 21st century, U.S. business erupted in an array of scandals represented in such names as Enron, WorldCom, Tyco, and Adelphia, and their chief executives—Jeffrey Skilling, Bernard Ebbers, Dennis Kozlowski, and John Rigas—went to prison on various fraud convictions. Executives' deceits generated a great deal of public outrage, as a result of which Congress passed the Sarbanes–Oxley Act, as we'll describe. Did that stop the raft of business scandals? Not quite.

Next to hit the headlines were cases of **insider trading,** **the illegal trading of a company's stock by people using confidential company information.** In 2004, Sam Waksal, CEO of ImClone, a biotechnology company, sold his shares of stock when he learned—before the news was made public—that the U.S. government was blocking ImClone's new cancer drug. For this act of insider trading, he ultimately was sentenced to 87 months in prison and fined $3 million. (This was the case that affected lifestyle guru Martha Stewart, who also went to prison.) In 2011, billionaire hedge-fund manager Raj Rajaratnam was sentenced to 11 years in prison for trading on tips from persons at companies who slipped him advance word on inside information.[74] In 2014, Mathew Martoma, a former portfolio manager at SAC Capital Advisors, went on trial for insider trading for using confidential information about an experimental Alzheimer's drug.[75] There were even cases in which two San Francisco Bay Area men were accused by federal authorities of doing insider trading because they traded stocks using confidential information gleaned from listening to their wives' phone conversations.[76]

Also there was the shocking news of financier Bernard Madoff, who confessed to a $50 billion **Ponzi scheme,** **using cash from newer investors to pay off older ones.**[77] He was sentenced to 150 years in prison.[78] Another convicted of creating a Ponzi scheme was Texas financier R. Allen Stanford, who built a flashy offshore $7 billion financial empire; he was sentenced to 110 years in prison in 2012.[79]

Ponzi schemer. Phony financier R. Allen Stanford on the day of his sentencing to 110 years in prison without parole for masterminding a $7 billion Ponzi scheme involving fraudulent high-interest certificates of deposit at his Caribbean bank. A federal prosecutor said Allen was "utterly without remorse" and "treated all his victims as roadkill." The 28,000 Stanford victims received less than one penny on the dollar in attempting to recover their investments.

The Sarbanes–Oxley Reform Act The **Sarbanes–Oxley Act of 2002,** **often shortened to *SarbOx,* or *SOX,* established requirements for proper financial record keeping for public companies and penalties of as much as 25 years in prison for noncompliance.**[80] Administered by the Securities and Exchange Commission, SarbOx requires a company's chief executive officer and chief financial officer to personally certify the organization's financial reports, prohibits them from taking personal loans or lines of credit, and makes them reimburse the organization for bonuses and stock options when required by restatement of corporate profits. It also requires the company to have established procedures and guidelines for audit committees.[81]

How Do People Learn Ethics? Kohlberg's Theories

American business history is permeated with occasional malfeasance, from railroad tycoons trying to corner the gold market (the 1872 Crédit Mobilier scandal) to 25-year-old bank customer service representatives swindling elderly customers out of their finances. Legislation such as SarbOx can't head off all such behavior. No wonder that now many colleges and universities have required more education in ethics.

"Schools bear some responsibility for the behavior of executives," says Fred J. Evans, dean of the College of Business and Economics at California State University at Northridge. "If you're making systematic errors in the [business] world, you have to go back to the schools and ask, 'What are you teaching?'"[82] The good news is that high school students are lying, cheating, and stealing less than they did a decade earlier.[83] In addition, more graduate business schools are changing their curriculums to teach ethics.[84] The bad news, however, is that a 2006 survey of 50,000 undergraduates found that 26% of business majors admitted to serious cheating on exams, and 54% admitted to cheating on written assignments.[85] Another survey of 5,331graduate students at 32 universities found that 56% of the graduate business students and 47% of nonbusiness graduate students admitted to cheating one or more times during the preceding year.[86]

Of course, most students' levels of moral development are established by personalities and upbringing long before they get to college, with some being more advanced than others. One psychologist, **Laurence Kohlberg,** has proposed three levels of personal moral development—preconventional, conventional, and postconventional.[87]

- **Level 1, preconventional—follows rules.** People who have achieved this level tend to follow rules and to obey authority to avoid unpleasant consequences. Managers of the Level 1 sort tend to be autocratic or coercive, expecting employees to be obedient for obedience's sake.
- **Level 2, conventional—follows expectations of others.** People whose moral development has reached this level are conformist but not slavish, generally adhering to the expectations of others in their lives. Level 2 managers lead by encouragement and cooperation and are more group and team oriented. Most managers are at this level.
- **Level 3, postconventional—guided by internal values.** The farthest along in moral development, Level 3 managers are independent souls who follow their own values and standards, focusing on the needs of their employees and trying to lead by empowering those working for them. Only about a fifth of American managers are said to reach this level.

What level of development do you think you've reached?

How Organizations Can Promote Ethics

Ethics needs to be an everyday affair, not a one-time thing. This is why many large U.S. companies now have a *chief ethics officer,* whose job is to make ethical conduct a priority issue.

There are several ways an organization may promote high ethical standards on the job, as follows.[88]

1. Creating a Strong Ethical Climate

An **ethical climate** represents employees' perceptions about the extent to which work environments support ethical behavior. It is important for managers to foster ethical climates because they significantly affect the frequency of ethical behavior. Managers can promote ethical climates through the policies, procedures, and practices that are used on a daily basis.

2. Screening Prospective Employees

Companies try to screen out dishonest, irresponsible employees by checking applicants' resumes and references. Some firms, for example, run employee applications through E-Verify, a federal program that allows employers to check for illegal immigrants. Some also use personality tests and integrity testing to identify potentially dishonest people.

3. Instituting Ethics Codes & Training Programs A **code of ethics** consists of **a formal written set of ethical standards guiding an organization's actions.** Most codes offer guidance on how to treat customers, suppliers, competitors, and other stakeholders. The purpose is to clearly state top management's expectations for all employees. As you might expect, most codes prohibit bribes, kickbacks, misappropriation of corporate assets, conflicts of interest, and "cooking the books"—making false accounting statements and other records. Other areas frequently covered in ethics codes are political contributions, workforce diversity, and confidentiality of corporate information.

In addition, according to a Society for Human Resource Management Weekly Survey, 32% of human resources professionals indicated that their organizations offered ethics training.[89] The approaches vary, but one way is to use a case approach to present employees with ethical dilemmas. By clarifying expectations, this kind of training may reduce unethical behavior.[90]

4. Rewarding Ethical Behavior: Protecting Whistle-Blowers It's not enough to simply punish bad behavior; managers must also reward good ethical behavior, as in encouraging (or at least not discouraging) whistle-blowers.

A **whistle-blower** **is an employee, or even an outside consultant, who reports organizational misconduct to the public,** such as health and safety matters, waste, corruption, or overcharging of customers.[91] For instance, the law that created the Occupational Safety and Health Administration allows workers to report unsafe conditions, such as "exposure to toxic chemicals; the use of dangerous machines, which can crush fingers; the use of contaminated needles, which expose workers to the AIDS virus; and the strain of repetitive hand motion, whether at a computer keyboard or in a meatpacking plant."[92] In some cases, whistle-blowers may receive a reward; the IRS, for instance, is authorized to pay tipsters rewards as high as 30% in cases involving large amounts of money.[93]

True whistle-blowing involves acts that are against the law. However, the principal kinds of misconduct reported in one study—misuse of company time, abusive behavior, and lying to employees—aren't necessarily illegal, although they may create an offensive work environment, the leading reason people leave their jobs.[94] Retaliation against whistle-blowers is also on the rise, ranging from giving them the cold shoulder to passing them over for promotion.

In exposing unethical behavior, then, it's important to be clear why you're doing it (trying to help the company or just get someone in trouble), not report something for the wrong reason (discuss your concerns with someone who has similar values), and follow proper channels (like addressing the supervisor of the supposed culprit). Don't try to report externally (lashing out on Facebook, for instance) without speaking to those who might resolve the problem.[95]

Have you ever thought about blowing the whistle on something you thought was unethical or illegal? Yes or no, your decision was guided in part by your own moral standards or ethical identity. We created the following self-assessment to aid your awareness about your propensity to expose unethical or illegal acts. ●

SELF-ASSESSMENT 3.1 connect

Assessing Your Ethical Ideology

This survey is designed to assess your ethical ideology. Go to **connect.mheducation.com** and take Self-Assessment 3.1. When you're done, answer the following questions:

1. Where do you stand in terms of idealism and relativism? Are you surprised by the results?
2. Based on your two lowest-scored items for idealism and relativism, what beliefs are getting in the way of increasing your ethical ideology?
3. How might a low ethical ideology impact your career? How about a high ethical ideology?

3.5 The Social Responsibilities Required of You as a Manager

MAJOR QUESTION

Is being socially responsible really necessary?

THE BIG PICTURE

Managers need to be aware of the viewpoints supporting and opposing social responsibility and whether being and doing good pays off financially for the organization.

The slow economic recovery from the Great Recession has had a powerful impact on today's college freshmen, with 86.3% in 2013 declaring that getting "a better job" is the top reason for going to college, the principal goal of freshmen for the past five years. (The second most cited reason, at 81.6%, was "to learn more about things that interest me," which held the top spot for the first half of the past decade.)[96] But is money the be-all and end-all in business? This is the concern behind the triple bottom line discussed earlier (p. 72).

If ethical responsibility is about being a good individual citizen, social responsibility is about being a good organizational citizen. More formally, **social responsibility is a manager's duty to take actions that will benefit the interests of society as well as of the organization.** When generalized beyond the individual to the organization, social responsibility is called **corporate social responsibility (CSR), the notion that corporations are expected to go above and beyond following the law and making a profit.**

Corporate Social Responsibility: The Top of the Pyramid

According to University of Georgia business scholar **Archie B. Carroll,** corporate social responsibility rests at the top of a pyramid of a corporation's obligations, right up there with economic, legal, and ethical obligations. Some people might hold that a company's first and only duty is to make a profit. However, Carroll suggests the responsibilities of an organization in the global economy should take the following priorities, with profit being the most fundamental (base of the pyramid) and corporate citizenship at the top:[97]

- *Be a good global corporate citizen,* as defined by the host country's expectations.
- *Be ethical in its practices,* taking host-country and global standards into consideration.
- *Obey the law* of host countries as well as international law.
- *Make a profit* consistent with expectations for international business.

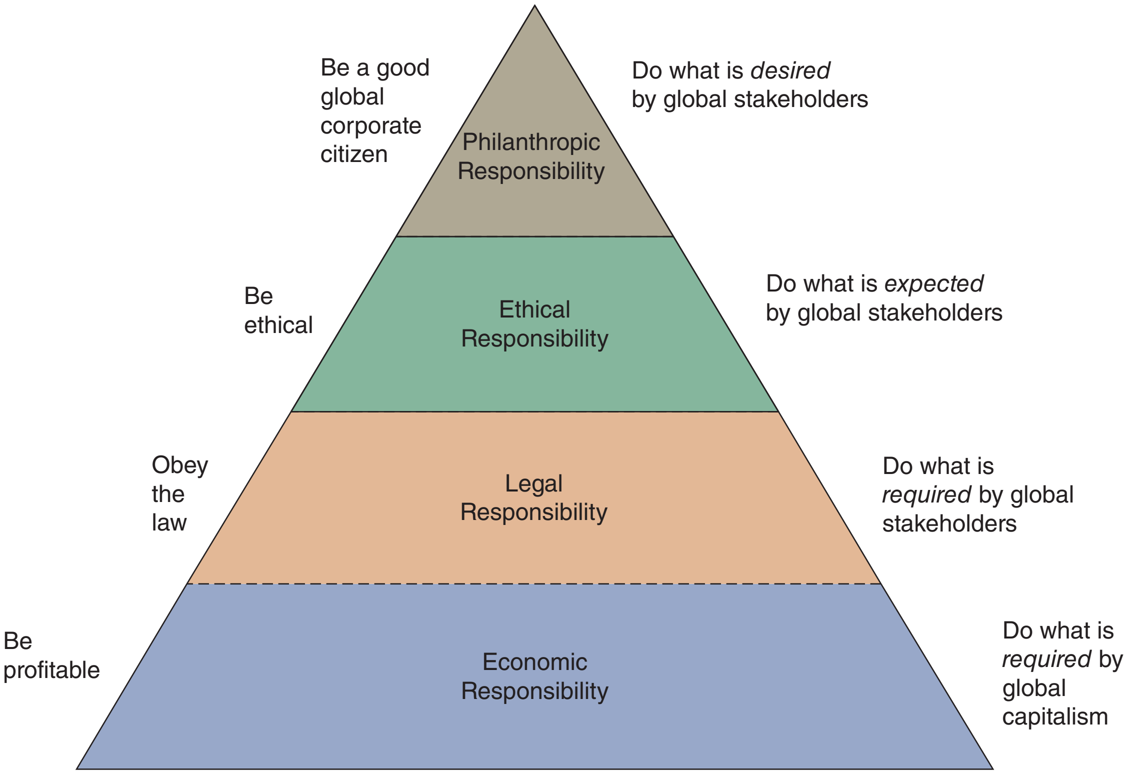
These priorities are illustrated in the pyramid opposite. *(See Figure 3.2.)*

Is Social Responsibility Worthwhile? Opposing & Supporting Viewpoints

In the old days of cutthroat capitalism, social responsibility was hardly thought of. A company's most important goal was to make money pretty much any way it could, and the consequences be damned. Today for-profit enterprises generally make a point of "putting something back" into society as well as taking something out.

FIGURE 3.2 **Carroll's global corporate social responsibility pyramid**

Source: Republished with permission of Academy of Management, from A. Carroll, "Managing Ethically and Global Stakeholders: A Present and Future Challenge," Academy of Management Executive, *May 2004, p. 116; permission conveyed through Copyright Clearance Center, Inc.*



Not everyone, however, agrees with these new priorities. Let's consider the two viewpoints.

Against Social Responsibility "Few trends could so thoroughly undermine the very foundations of our free society," argued the late free-market economist Milton Friedman, "as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible."[98]

Friedman represents the view that, as he said, "The social responsibility of business is to make profits." That is, unless a company focuses on maximizing profits, it will become distracted and fail to provide goods and services, benefit the stockholders, create jobs, and expand economic growth—the real social justification for the firm's existence.

This view would presumably support the efforts of companies to set up headquarters in name only in offshore Caribbean tax havens (while keeping their actual headquarters in the United States) in order to minimize their tax burden.

For Social Responsibility "A large corporation these days not only may engage in social responsibility," said famed economist Paul Samuelson, who passed away in 2009, "it had damned well better to try to do so."[99] That is, a company must be concerned for society's welfare as well as for corporate profits.

Beyond the fact of ethical obligation, the rationale for this view is that since businesses create problems (environmental pollution, for example), they should help solve them. Moreover, they often have the resources to solve problems in ways that the nonprofit sector does not. Finally, being socially responsible gives businesses a favorable public image that can help head off government regulation.

EXAMPLE

Corporate Social Responsibility: Salesforce.com Wants to Change the Way the World Works

There are all kinds of ways by which corporate social responsibility is expressed. Salesforce.com, a San Francisco business software company, supports all the following four.[100]

Operating with Integrity. Salesforce.com has adopted Business Conduct Principles and a Code of Conduct that, among other things, support ethical business practices, anticorruption, antidiscrimination, and rejection of forced or involuntary labor.

"1/1/1" Charitable Giving. When founder and CEO Marc Benioff set up Salesforce.com in 1999, he also created a foundation with a powerful but simple vision: donate 1% of Salesforce.com resources, 1% of employees' time, and 1% of the firm's technology to improving communities around the world.

Journey toward Sustainability. Although Salesforce.com does no manufacturing or mineral extraction, it still strives to reduce carbon emissions in the operation of its data centers and office buildings, as well as in employee travel.

Fostering Employee Success. At Salesforce.com, says the company, "our goal is to deliver a dreamjob experience for our employees. We are intense, passionate people on a mission to change the way the world works."

YOUR CALL

Do you believe corporate social responsibility really has benefits? Can you think of any highly profitable and legal businesses that *do not* practice any kind of social responsibility?

One Type of Social Responsibility: Climate Change, Sustainability, & Natural Capital

Nearly everyone is aware of the growing threat of climate change and global warming, which the vast majority (75%) of Americans agree is real, serious, and man-made.[101] (Scientists say global warming is "unequivocal" and that it is extremely likely that humans are the primary contributors to it."[102]) **Climate change refers to major changes in temperature, precipitation, wind patterns, and similar matters occurring over several decades. Global warming, one aspect of climate change, refers to the rise in global average temperature near the Earth's surface, caused mostly by increasing concentrations in the atmosphere of greenhouse gases, such as carbon emissions from fossil fuels.**[103] *Sustainability,* as we said in Chapter 1, is economic development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

The Benefits of Being Green

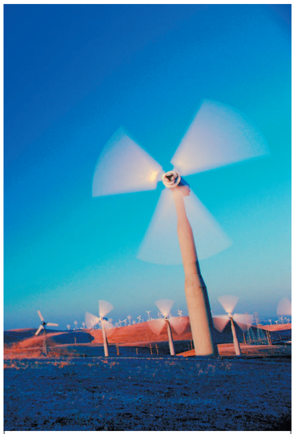
"Coca-Cola has always been more focused on its economic bottom line than on global warming," writes reporter Coral Davenport. But "as global droughts dried up the water needed to produce its soda," its profits took some serious hits. Now the company "has embraced the idea of climate change as an economically disruptive force," she writes, and is focused on water-conservation technologies, along with other sustainability measures.[104]

Today going green has entered the business mainstream, where sustainability programs are producing not only environmental benefits but also cost savings, revenue growth, and competitive advantages.[105] Car maker Subaru of Indiana Automotive, for example, has proved that adopting environmentally friendly processes does not add to the cost of doing business but actually makes it more efficient (reducing water use by 50%, electricity by 14%, and so on).[106] Dow Chemical, collaborating with the Nature Conservancy, an environmental group, is exploring coastal marsh and dune restoration (and paying nearby homeowners to replace lawns with native plants) to shield its Freeport, Texas, chemical complex from storm surges coming off the Gulf of Mexico.[107]

The Value of Earth's Resources: Natural Capital

Indeed, Planet (of the triple bottom line People, Planet, and Profit) is now identified by the name *natural capital* (or *natural capital accounting*), which many scholars think should figure seriously in economic decision making. **Natural capital is the value of natural resources, such as topsoil, air, water, and genetic diversity, which humans depend on.** "We're driving natural capital to its lowest levels ever in human history," says Stanford University ecologist Gretchen Daily.[108]

According to this view, we are approaching the planet's limitations, with human activity threatening to exceed the earth's capacity to generate resources and absorb wastes. For example, the mountain of electrical waste disposed of annually worldwide—cell phones, laptops, appliances, anything with a battery or a cord—is forecast to grow by a third by 2017.[109] One United Nations report suggests climate change poses a risk to world food supplies, with output dropping perhaps 2% each decade, as rising temperatures make it harder for crops to thrive.[110] The report also warns that waiting to cut carbon emissions could even outstrip technology's ability to preserve the planet.[111] Alarming predictions indeed.



Green power. Many electricity users can run their homes on renewable energy simply by asking their local utility.

Another Type of Social Responsibility: Philanthropy, "Not Dying Rich"

"He who dies rich dies thus disgraced," 19th-century steel magnate Andrew Carnegie is supposed to have said, after he turned his interests from making money to **philanthropy, making charitable donations to benefit humankind.** Carnegie became well known as a supporter of free libraries.

When Bill Gates of Microsoft, the richest person in the world for 15 of the last 20 years (present net worth: $72 billion), stepped down from day-to-day oversight of Microsoft, the company he co-founded, he turned his attention to the Bill and Melinda Gates Foundation, through which he and his wife have pledged to spend billions on health, education, and overcoming poverty.[112] The Gateses have been joined by other billionaires—Facebook founder Mark Zuckerberg and his wife (the most generous American philanthropists in 2013), oil and gas financier T. Boone Pickens, Berkshire Hathaway chairman Warren Buffett, and others—in taking the Giving Pledge, a commitment to dedicate a majority of their wealth to philanthropy.[113]

Not only do wealthy individuals and companies practice philanthropy, so even do ordinary individuals. Mona Purdy, an Illinois hairdresser, noticed while vacationing in Guatemala that many children coated their feet with tar in order to be able to run in a local race. So she went home and established the nonprofit Share Your Soles, which collects shoes and sends them around the world. "I always thought I was too busy to help others," she says. "Then I started this and found myself wondering where I'd been all my life."[114]

How Does Being Good Pay Off?

From a hardheaded manager's point of view, does ethical behavior and high social responsibility pay off financially? Here's what some of the research shows.[115]

Effect on Customers

According to one survey, 88% of the respondents said they were more apt to buy from companies that are socially responsible than from companies that are not.[116] Another survey of 2,037 adults found that 72% would prefer to purchase products and services from a company with ethical business practices and higher prices compared with 18% who would prefer to purchase from a company with questionable business practices and lower prices.[117]

Effect on Employees' Work Effort

Workers are more efficient, loyal, and creative when they feel a sense of purpose—when their work has meaning, says Daniel H. Pink.[118] When employers make profits their primary focus, employees develop negative feelings toward the organization. "They tend to perceive the CEO as autocratic and focused on the short term," says one report, "and they report being less willing to sacrifice for the company."[119] When employees observe the CEO balancing the concerns of customers, employees, and the community, plus being watchful of environmental effects, they report being more willing to exert extra effort—and corporate results improve![120]

Effect on Job Applicants & Employee Retention Ethics can also affect the quality of people who apply to work in an organization, as can a firm's record on social and environmental issues.[121] One online survey of 1,020 people indicated that 83% rated a company's record of business ethics as "very important" when deciding whether to accept a job offer; only 2% rated it as "unimportant."[122] A National Business Ethics Survey found that 79% of employees said their firms' concern for ethics was a key reason they remained.[123]

Effect on Sales Growth The announcement of a company's conviction for illegal activity has been shown to diminish sales growth for several years.[124] One survey found that 80% of people said they decide to buy a firm's goods or services partly on their perception of its ethics.[125]

Effect on Company Efficiency One study found that 71% of employees who saw honesty applied rarely or never in their organization had seen misconduct in the past year, compared with 52% who saw honesty applied only occasionally and 25% who saw it frequently.[126]

Effect on Company Revenue Unethical behavior in the form of employee fraud costs U.S. organizations around $652 billion a year, according to the Association of Certified Fraud Examiners.[127] Employee fraud, which is twice as common as consumer fraud (such as credit card fraud and identity theft), costs employers about 20% of every dollar earned.[128]

Effect on Stock Price One survey found that 74% of people polled said their perception of a firm's honesty directly affected their decision about whether to buy its stock.[129] Other research found that, following fraud or financial restatement (redoing an earlier public financial statement), companies on average lose more than a quarter of their stock value but can nurse the stock price back to health by stepping up charitable giving along with other actions.[130]

Effect on Profits Studies suggest that profitability is enhanced by a reputation for honesty and corporate citizenship.[131]

Ethical behavior and social responsibility are more than just admirable ways of operating. They give an organization a clear competitive advantage. Where do you stand on these issues? We created the following self-assessment to measure your attitudes toward corporate social responsibility. Taking it will enhance your understanding about your views on social responsibility. ●

SELF-ASSESSMENT 3.2 connect

Assessing Your Attitudes toward Corporate Responsibility

Go to **connect.mheducation.com** and take Self-Assessment 3.2. It assesses your attitudes toward corporate social responsibility. Then answer the following questions:

1. Where do you stand on corporate social responsibility?
2. What life events have influenced your attitudes toward corporate social responsibility? Discuss.
3. Based on the three lowest-rated items in the survey, how might you foster a more positive attitude toward social responsibility? Explain.

3.6 Corporate Governance

MAJOR QUESTION

How can I trust a company is doing the right thing?

THE BIG PICTURE

Corporate governance is the system of governing a company so that the interests of corporate owners and other stakeholders are protected. Company directors should be clearly separated in their authority from the CEO by insisting on strong financial reporting systems and more accountability.

Where, you might ask, were the company boards of directors in recent years when the CEOs of firms such as Enron, WorldCom, Tyco, and Adelphia were doing the things that got them convicted for fraud? Aren't directors supposed to protect the stockholders and other stakeholders by keeping an eye on senior management? Indeed, after the Enron and other scandals, there was a resumed interest in what is known as **corporate governance, the system of governing a company so that the interests of corporate owners and other stakeholders are protected.**

The Need for Independent Directors

Perhaps the biggest complaint concerns the independence of the directors. As we mentioned earlier in the chapter, inside directors may be members of the firm, but outside directors are supposed to be elected from outside the firm. However, in some companies, the outside directors have been handpicked by the CEO—because they are friends, because they have a business relationship with the firm, or because they supposedly "know the industry." In such instances, how tough do you think the board of directors is going to be on its CEO when he or she asks for leeway to pursue certain policies?

Now, more attention is being paid to strengthening corporate governance so that directors are clearly separated in their authority from the CEO. While, of course, directors are not supposed to get involved with day-to-day management issues, they are now feeling more pressure from stockholders and others to have stronger financial reporting systems and more accountability.[132]

EXAMPLE

Corporate Governance: Chesapeake Energy's CEO Gets Some Unusual Breaks from His Board of Directors

In 2008, CEO Aubrey K. McClendon topped the list of highest-paid chief executives for companies in the Standard & Poor's 500-stock index. His firm, Oklahoma City–based Chesapeake Energy, which he co-founded at age 23, was the second-largest producer of natural gas after ExxonMobil, and his personal fortune was estimated by *Forbes* as exceeding $1.2 billion. One interviewer described him as "without doubt the most admired—and feared—man" in the U.S. petroleum and natural gas industry but "also the most reckless, . . . with an off-the-charts risk tolerance."[133]

A Little Help from the Company. Because aggressive financing practices combined with plunging oil and gas prices in 2008 lowered the value of Chesapeake stock by 80%, McClendon was forced to sell nearly all of his own shares. Strapped for cash, he turned to his handpicked board of directors, which gave him a $100 million pay package plus $75 million over five years to invest for a 2.5% stake in every well the company drilled.

In addition, the company agreed to buy McClendon's personal collection of historical maps of the American Southwest (which decorated the company's headquarters) for $12.1 million.[134] The $12.1 million, the firm pointed out, was McClendon's cost of acquiring the collection over the preceding six years—an appraisal, it noted, that came from "the dealer who had assisted Mr. McClendon in acquiring this collection."[135]

Shareholders Sue. Besides the above-mentioned perks, the Chesapeake board also voted to give McClendon $600,000 for the private use of the corporate jets, nearly $600,000 for accounting services, and $131,000 for "personal engineering support"—and it agreed to pay $4.6 million to sponsor the NBA's Oklahoma City Thunder, the pro basketball team that is one-fifth owned by McClendon.[136] But when outsiders and stockholders found out about the maps, the story took on a life of its own, prompting several shareholder lawsuits.

Big shareholder groups sued Chesapeake for what they considered an irresponsibly generous 2008 compensation package to McClendon and demanded that the company overhaul its compensation practices. In the resulting settlement, McClendon agreed to buy back the 19th-century maps for $12.1 million plus pay a 2.28% interest for the repurchase. In addition, Chesapeake agreed to some corporate governance reforms: installation of a "more transparent" management pay plan, electing board members by majority vote, and discontinuance of the practice of allowing senior management, such as McClendon, use of their company stock as collateral to buy more company stock, a major cause of the firm's financial strains.[137]

The map collector. Aubrey McClendon, chief of natural gas producer Chesapeake Energy, was the highest-paid of CEOs in 2008. But when plunging gas prices reduced the value of company shares by 80%, he was forced to sell off an antique map collection for $12.1 million. The appraiser: the expert who assembled the collection in the first place. The buyer: Chesapeake Energy. Does this pass the smell test?

Unfinished Business. McLendon resigned from Chesapeake Energy in 2013, citing "philosophical differences" with a reconstituted board, after burning through $19.4 billion in 2011 and $21.6 billion in 2012. (His successor cut those cash outlays in half.) Among the unfinished business McClendon left behind are lawsuits over hundreds of millions of dollars in personal loans made to him by company lenders, a Securities and Exchange Commission investigation into Chesapeake, and a Justice Department investigation into possible violations of antitrust law for collusion with another company over buying some Michigan acreage.[138]

YOUR CALL

If McClendon had stayed on as Chesapeake Energy's CEO, what kinds of corporate reforms would you, as a shareholder, have insisted on so that you could trust what the company told you?

The Need for Trust

In the end, suggests Fordham professor Robert Hurley, "We do not have a crisis of ethics in business today. We have a crisis of trust."[139] Customers or employees may well think that certain people or companies are ethical—that is, moral, honest, and fair—but that does not mean they should trust them. Trust, says Hurley, "comes from delivering every day on what you promise—as a manager, an employee, and a company. It involves constant teamwork, communication, and collaboration."

Trust comes from asking how likely the people you're dealing with are to serve your interests, how much they have demonstrated concern for others, how well they delivered on their promises, how much they try to keep their word—and how effectively they communicate these skills.

Would you agree?

Key Terms Used in This Chapter

clawbacks 78
climate change 89
code of ethics 87
competitors 77
corporate governance 93
corporate social responsibility (CSR) 88
crowdfunding 72
customers 76
demographic forces 82
distributor 77
economic forces 81
ethical behavior 83
ethical climate 86
ethical dilemma 83
ethics 83
external stakeholders 76
general environment 80
global warning 89
government regulators 79
individual approach 84
insider trading 85
internal stakeholders 75
international forces 82
justice approach 85
macroenvironment 80
moral-rights approach 84
natural capital 90
owners 75
philanthropy 91
political-legal forces 82
Ponzi scheme 85
Sarbanes–Oxley Act of 2002 85
social audit 72
social responsibility 88
sociocultural forces 81
special-interest groups 79
stakeholders 74
strategic allies 77
supplier 77
task environment 76
technological forces 81
triple bottom line 72
utilitarian approach 84
value system 84
values 84
whistle-blower 87

Key Points

3.1 The Triple Bottom Line: People, Planet, & Profit

- Many businesses subscribe to a new standard of success—the triple bottom line, representing People, Planet, and Profit. It measures an organization's social, environmental, and financial performance.
- Success in these areas can be measured through a social audit, a systematic assessment of a company's performance in implementing socially responsible programs, often based on predefined goals.
- The triple bottom line has particular appeal to many young adults (millennials) who are less concerned with finding financial success than with making a difference and achieving a meaningful life.

3.2 The Community of Stakeholders Inside the Organization

- Managers operate in two organizational environments—internal and external—both made up of stakeholders, the people whose interests are affected by the organization's activities.
- The first, or internal, environment includes employees, owners, and the board of directors.

3.3 The Community of Stakeholders Outside the Organization

- The external environment of stakeholders consists of the task environment and the general environment.
- The task environment consists of 11 groups that present the manager with daily tasks to deal with. (1) Customers pay to use an organization's goods and services. (2) Competitors compete for customers or resources. (3) Suppliers provide supplies—raw materials, services, equipment, labor, or energy—to other organizations. (4) Distributors help another organization sell its goods and services to customers. (5) Strategic allies join forces to achieve advantages neither organization can perform as well alone. (6) Employee organizations are labor unions and employee associations.
- (7) Local communities are residents, companies, governments, and nonprofit entities that depend on the organization's taxes, payroll, and charitable contributions. (8) Financial institutions are commercial banks, investment banks, and insurance companies that deal with the organization. (9) Government regulators are regulatory agencies that establish the ground rules under which the organization operates. (10) Special-interest groups are groups whose members try to influence specific issues that may affect the organization. (11) The mass media are print, radio, TV, and Internet sources that affect the organization's public relations.
- The general environment includes six forces. (1) Economic forces consist of general economic conditions and trends—unemployment, inflation, interest rates, economic growth—that

may affect an organization's performance. (2) Technological forces are new developments in methods for transforming resources into goods and services. (3) Sociocultural forces are influences and trends originating in a country, society, or culture's human relationships and values that may affect an organization. (4) Demographic forces are influences on an organization arising from changes in the characteristics of a population, such as age, gender, and ethnic origin. (5) Political-legal forces are changes in the way politics shapes laws and laws shape the opportunities for and threats to an organization. (6) International forces are changes in the economic, political, legal, and technological global system that may affect an organization.

3.4 The Ethical Responsibilities Required of You as a Manager

- Ethics are the standards of right and wrong that influence behavior. Ethical behavior is behavior that is accepted as "right" as opposed to "wrong" according to those standards.
- Ethical dilemmas often take place because of an organization's value system. Values are the relatively permanent and deeply held underlying beliefs and attitudes that help determine a person's behavior.
- There are four approaches to deciding ethical dilemmas. (1) Utilitarian—ethical behavior is guided by what will result in the greatest good for the greatest number of people. (2) Individual—ethical behavior is guided by what will result in the individual's best long-term interests, which ultimately is in everyone's self-interest. (3) Moral-rights—ethical behavior is guided by respect for the fundamental rights of human beings, such as those expressed in the U.S. Constitution's Bill of Rights. (4) Justice—ethical behavior is guided by respect for the impartial standards of fairness and equity.
- Public outrage over white-collar crime (Enron, Tyco) led to the creation of the Sarbanes–Oxley Act of 2002 (SarbOx), which established requirements for proper financial record keeping for public companies and penalties for noncompliance.
- Laurence Kohlberg proposed three levels of personal moral development: (1) preconventional level of moral development—people tend to follow rules and to obey authority; (2) conventional level—people are conformist, generally adhering to the expectations of others; and (3) postconventional level—people are guided by internal values.
- There are three ways an organization may foster high ethical standards. (1) Top managers must support a strong ethical climate. (2) The organization may have a code of ethics, which consists of a formal written set of ethical standards. (3) An organization must reward ethical behavior, as in not discouraging whistle-blowers, employees who report organizational misconduct to the public.

3.5 The Social Responsibilities Required of You as a Manager

- Social responsibility is a manager's duty to take actions that will benefit the interests of society as well as of the organization.
- The idea of social responsibility has opposing and supporting viewpoints. The opposing viewpoint is that the social responsibility of business is to make profits. The supporting viewpoint is that since business creates some problems (such as pollution) it should help solve them.
- One scholar, Archie Carroll, suggests the responsibilities of an organization in the global economy should have the following priorities: (1) Be a good global corporate citizen; (2) be ethical in its practices; (3) obey the law; and (4) make a profit.
- One type of social responsibility is sustainability, "going green," or meeting humanity's needs without harming future generations. A major threat is climate change, which refers to major changes in temperature, precipitation, wind patterns, and similar matters over several decades. Global warming, one aspect of climate change, refers to the rise in global average temperature near the Earth's surface, caused mostly by increasing concentrations in the atmosphere of greenhouse gases, such as carbon emissions from fossil fuels.
- The component of the triple bottom line called Planet is now identified by the name *natural capital,* which is the value of natural resources, such as topsoil, air, water, and genetic diversity, which many scholars think should figure seriously in economic decision making.
- Another type of social responsibility is philanthropy, making charitable donations to benefit humankind.
- Positive ethical behavior and social responsibility can pay off in the form of customer goodwill, more efficient and loyal employees, better quality of job applicants and retained employees, enhanced sales growth, less employee misconduct and fraud, better stock price, and enhanced profits.

3.6 Corporate Governance

- Corporate governance is the system of governing a company so that the interests of corporate owners and other stakeholders are protected.
- One way to further corporate governance is to be sure directors are clearly separated in their authority from the CEO by insisting on stronger financial reporting systems and more accountability.

Understanding the Chapter: What Do I Know?

1. How would you explain the difference between internal and external stakeholders?
2. Among external stakeholders, what's the difference between the task environment and the general environment?
3. Of the 11 groups in the task environment, which five do you consider most important and why?
4. Of the six groups in the general environment, which one do you think has the least importance, and why?
5. Distinguish among the four approaches to deciding ethical dilemmas.
6. What's the difference between insider trading and a Ponzi scheme?
7. How would you summarize Kohlberg's levels of personal moral development?
8. What are four ways that organizations can promote ethics?
9. Describe the levels in Carroll's corporate social responsibility pyramid. Where does trying to achieve sustainability fit in?
10. How would you explain the concept of corporate governance?

Management in Action

UPS Actively Pursues Sustainability

Kurt Kuehn is the Chief Financial Officer at UPS and a 2013 winner of the C. K. Prahalad Award for Global Sustainability Leadership.

As a CFO who advocates sustainability, I've noticed that many of my peers take a lukewarm view of the idea, perhaps because they simply don't see how sustainability can produce returns for a business. I can relate: I too am always looking for ways to allocate resources effectively and create value. . . .

As a founding member of UPS's sustainability steering committee, I have wrestled with the challenge, and I've developed a point of view—one that emphasizes the power of organizational momentum and embraces "enlightened self-interest." My approach is rooted in two beliefs: that companies have a responsibility to contribute to society and the environment, and that every investment a company makes should return value to the business.

These beliefs don't have to be at odds. . . . In fact, the programs with greatest impact not only align with companies' strategies but move in tandem with their activities. . . . UPS has established a five-step approach toward sustainability in order to balance the needs of various constituents. They are considered below.

1. **Assess your strengths**. What does your company have to offer that could make a big difference? Find out by assessing your core competencies, infrastructures, and relationships as part of your sustainability strategizing. You will probably discover strengths that charitable partners often lack, such as:
   - Capital
   - Specialized knowledge and experience
   - Relationships
   - Processes
   - Physical assets
   - Business acumen
2. **Choose your spots**. Finding the right space for your efforts in sustainability has to begin with narrowing down the field somehow. You might take cues from either external stakeholders or internal managers. Stakeholders include customers, shareholders, and suppliers that increasingly prefer to do business with companies they see as responsible—but also activists, who may be a risk. Managers know the company's capabilities, cost structure, and objectives well, and can see the strategic fit of one proposed initiative versus another.

We think both these perspectives are important, and we combine them in what's called a materiality matrix . . . one axis indicates how relevant our external stakeholders believe certain issues are to being a good corporate citizen; the other indicates which ones senior executives consider strategic and important to the company's future success. . . .

One priority that UPS was able to identify through this method is safety training for drivers in certain emerging economies. Stakeholders were concerned that the rapid expansion of the middle class in Vietnam, Cambodia, South Africa, and elsewhere has created new traffic nightmares—not only more commercial vehicles on the road but also a huge influx of first-time drivers. They perceived UPS as an expert in road and workplace safety because of its systems and performance. Meanwhile, company managers recognized that these countries are strategically important to UPS as new growth markets. Thus a program that involved working with nonprofits and humanitarian relief agencies to deliver our proven safety training programs wouldn't encounter resistance from either inside or outside stakeholders. Even public officials have endorsed it.

Environmental projects, too, are a strategic fit. We know that our vehicles and planes produce emissions and that we have an obligation to invest in a cleaner planet.

3. **Find momentum**. A materiality matrix narrows the field of possibilities, but it rarely points to a specific initiative. For example, it might indicate that a given company would do well to join the fight against AIDS or help preserve pristine forests or improve air quality, but within any of those areas numerous organizations are working in various places on different parts of the solution.

   Having a bias toward adding to momentum makes the next step easier. It leads you to focus on where energy is already in motion and where your company's additional efforts could make a big difference. Ideally, your existing operations and initiatives will dovetail with societal or environmental needs for which others are already driving change.

   Sometimes the momentum a company needs to recognize comes from governmental priorities. Indeed, failing to respond to them may imperil its license to operate. . . .

4. **Build productive partnerships.** Most companies just sign up existing projects on the assumption that they and the NGO [nongovernmental organization] will figure out some way to shoehorn in the company's strengths. . . .

   To ensure a productive collaboration from the outset, it helps to clearly articulate that the business's hope is to apply its strengths and add to its momentum. Then the partners can proceed to understand each other's strengths, weaknesses, and shared values and to compare perspectives about the impact they want to achieve. Next they should draft a strategic plan; define goals and objectives; establish a timetable, metrics, and milestones; and agree on the resources required and what will define success. Both sides need clear rules of engagement and an open dialogue to adjust to each other, or to know when it's time to part ways. . . .

5. **Convene other sources of strength**. Large businesses all participate in networks of organizations, in their extended supply chains and across their industries. They have the power to convene other players and combine their strengths. If they do so for a good sustainability cause, they can add even more to its momentum.

   UPS has enjoyed success with multicompany projects, particularly those relating to humanitarian logistics and disaster relief. Most notably, we've joined with our competitors TNT and Agility to support the UN's World Food Programme during disasters. . . .

   UPS has also joined forces with some customers on disaster relief projects, ensuring that their donated products are received on time around the world. The effort is particularly productive when we can combine multiple customer-donation shipments, reducing transportation costs for all by sharing trucks and planes or using employee volunteers to pack emergency supplies. . . .

What We Are Choosing Not to Do

Following the principle of adding to momentum, UPS has moved its philanthropic giving over the past decade toward expertise and in-kind donations and has aligned it with the corporate mission to enable global commerce through logistics. Our more strategic approach to sustainability has led to many of the projects we've taken on recently. But the test of a good strategy is not just whether it has you doing good things; it must also allow you to decide what *not* to do. Aiming for "maximum efficiency, minimum effort," we've been able to see more clearly that some projects and ideas aren't for us.

More generally, UPS makes fewer one-off contributions. When all the components of a sustainability program are guided by a materiality matrix analysis and a plan to find and increase momentum, connections tend to form among them, creating a cumulative effect. . . .

Momentum's Extra Benefits

When you approach sustainability from a position of your strengths, the line between the two realms of value creation—helping to make the business profitable and helping to keep the planet well—begins to blur. As I've noted, business competencies can reveal social possibilities. At the same time, sustainability work can inspire business improvements.

This can happen in very small ways—and small ways add up.

FOR DISCUSSION

1. How does UPS's approach toward sustainability impact the triple bottom line? Be specific.
2. Which internal and external stakeholders are positively and negatively affected by UPS's approach to sustainability?
3. Which of the six general environmental forces influenced Mr. Kuehn's approach toward sustainability? Discuss.
4. To what extent is UPS's approach toward sustainability consistent with the four approaches to deciding ethical dilemmas?
5. Evaluate UPS's approach toward sustainability against Carroll's model of social responsibility shown in Figure 3.2.
6. How does UPS's approach toward sustainability "pay off"? Discuss.

Source: Extracted from Kurt Kuehn and Lynette McIntire, "Sustainability a CFO Can Love," Harvard Business Review, *April 2014, pp. 66–74.*

Legal/Ethical Challenge

Is It Fair to Have Different Standards for Paying Bills versus Collecting Bills?

Mondelez International, a snack and food company formerly owned by Kraft Foods, is using different time frames to pay and collect money. In 2013, the company decided to extend the time it takes to pay bills from suppliers. The company sent a letter to all of its key suppliers indicating that it would wait 120 days before paying a bill.

Why would a company extend its payment schedule? Quite simply, the company uses the money for investments and thereby increases profits. This practice, however, can hurt small businesses, which are a big driver of new job creation in the U.S. Bill Dunkelberg, chief economist for the National Federation of Independent Businesses, said "It's mean" to extend payment periods because "a small company is often vulnerable because one large customer may make up the bulk of its sales, leaving it with no choice but to accept the demands of the giant company, effectively financing the customer for 120 days." It's hard for a small company to pay its bills when it has to wait 120 days to collect for its goods and services.

According to an article in *Fortune,* Mondelez International has a different standard for collecting from companies that owe it money. "The company tailors its terms so that customers are penalized if they don't pay for confections within 15 days of receipt and for snacks within 25 days."

Experts contend that this practice takes a toll on the supply chain, particularly for small businesses. This happens because suppliers will in turn start to pay their bills more slowly. Defenders conclude that it's "all just part of a free-market system that will naturally set its own parameters on billing."

SOLVING THE CHALLENGE

Assume that you are a high-level manager at Mondelez International and that you can affect the corporate policy of paying bills. What would you suggest that the company do in regard to paying and collecting money?

1. Nothing. This is a free market decision and shareholders are the company's most important constituent: This policy maximizes the value to shareholders.
2. Change the policy so that the company uses a consistent "time standard" in paying and collecting money. This approach will also create good will among suppliers.
3. It's okay to have different "time standards" for paying and collecting money, but 120 days seems too long. I would use the industry average for both paying and collecting money.
4. Invent other options. Discuss.

Source: Excerpted from B. Quick, "A Snack Maker's Unsavory Business Practices," Fortune, *September 2, 2013, p. 54.*

4

Global Management

Managing across Borders

Major Questions You Should Be Able to Answer

4.1 Globalization: The Collapse of Time & Distance
Major Question: What three important developments of globalization will probably affect me?

4.2 You & International Management
Major Question: Why learn about international management, and what characterizes the successful international manager?

4.3 Why & How Companies Expand Internationally
Major Question: Why do companies expand internationally, and how do they do it?

4.4 The World of Free Trade: Regional Economic Cooperation
Major Question: What are barriers to free trade, and what major organizations and trading blocs promote trade?

4.5 The Importance of Understanding Cultural Differences
Major Question: What are the principal areas of cultural differences?

the manager's toolbox

Learning to Be a Success Abroad: How Do You Become a World Citizen?

Whether you travel abroad on your own or on a work assignment for your company, there are several ways to make your experience enhance your career success.

Learn How Not to Be an "Ugly American"

Americans "are seen throughout the world as an arrogant people, totally self-absorbed and loud," says Keith Reinhard, former head of advertising conglomerate DDB Worldwide, who is leading an effort to reverse that through a nonprofit group called Business for Diplomatic Action (BDA), from which many suggestions here are drawn.[1] A survey conducted by DDB in more than 100 countries found that respondents repeatedly mentioned "arrogant," "loud," and "uninterested in the world" when asked their perceptions of Americans.[2] Some sample advice for Americans traveling abroad is: Be patient, be quiet, listen at least as much as you talk, don't use slang, and don't talk about wealth and status.[3]

Be Global in Your Focus, but Think Local

Study up on your host country's local customs and try to meet new people who might help you in the future. For example, Bill Roedy, President of MTV Networks International, spent time hanging out with Arab rappers and meeting the mayor of Mecca before trying to sign a contract that would launch MTV Arabia.[4] His efforts helped seal the deal.

Learn What's Appropriate Behavior

Before you go, spend some time learning about patterns of interpersonal communication. In Japan, for instance, it is considered rude to look directly into the eye for more than a few seconds. In Greece the hand-waving gesture commonly used in America is considered an insult. In Afghanistan, a man does not ask another man about his wife.[5] In China, people generally avoid hugs—at least until recently.[6]

Learn rituals of respect, including exchange of business cards.[7] Understand that shaking hands is always permissible, but social kissing may not be. Dress professionally. For women, this means no heavy makeup, no flashy jewelry, no short skirts or sleeveless blouses (particularly in Islamic countries). In some countries, casual dressing is a sign of disrespect. Don't use first names and nicknames with fellow employees overseas, especially in countries with strict social strata.[8]

Know Your Field

If you know your field and behave with courtesy and assurance, you will be well received around the world. Indra Nooyi successfully uses this advice in her role as CEO of PepsiCo. She's cosmopolitan and well educated and is respected by people around the globe.[9]

Become at Least Minimally Skilled in the Language

Whatever foreign country you're in, at the very least you should learn a few key phrases, such as "hello," "please," and "thank you," in your host country's language. Successful international managers have learned there is no adequate substitute for knowing the local language.[10]

For Discussion Have you done much traveling? What tricks have you discovered to make it more satisfying?

forecast What's Ahead in This Chapter

This chapter covers the importance of globalization—the rise of the global village, of one big market, of both worldwide megafirms and minifirms. We also describe the characteristics of the successful international manager and why and how companies expand internationally. We describe the barriers to free trade and the major organizations promoting trade. Finally, we discuss some of the cultural differences you may encounter if you become an international manager.

4.1 Globalization: The Collapse of Time & Distance

MAJOR QUESTION

What three important developments of globalization will probably affect me?

THE BIG PICTURE

Globalization, the trend of the world economy toward becoming a more interdependent system, is reflected in three developments: the rise of the "global village" and e-commerce, the trend of the world's becoming one big market, and the rise of both megafirms and Internet-enabled minifirms worldwide.

Is everything for sale in the United States now made outside our borders?

Not quite everything—and Roger Simmermaker, 48, an Orlando, Florida, electronics technician who drives a 1996 Michigan-made Lincoln Town Car, is seriously focused on buying U.S. In fact, Simmermaker has authored a book, *How Consumers Can Buy American,* which lists more than 16,000 U.S.-made products.[11] "It's important to understand that workers in China don't pay taxes to America," he says.[12]

As it happens, the vast majority of goods and services sold in the United States *are* still made in this country. However, we might be forgiven for thinking otherwise. With shoes and clothing, for instance, about 36% of U.S. dollars are spent on Chinese-made products, compared with 25% on U.S.-made items.[13]

TABLE 4.1 **Country Rankings for Competitiveness, 2013–2014**

1. Switzerland
2. Singapore
3. Finland
4. Germany
5. United States
6. Sweden
7. Hong Kong
8. Netherlands
9. Japan
10. United Kingdom
11. Norway
12. Taiwan
13. Qatar
14. Canada
15. Denmark

Source: World Economic Forum, The Global Competitiveness Report 2013–2014, *http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf (accessed April 15, 2014).*

Competition & Globalization: Who Will Be No. 1 Tomorrow?

It goes without saying that the world is a competitive place. Where does the United States stand in it? What's our report card?

Although Americans may like to think "We're No. 1!" on most measures, other nations are in constant pursuit—and in some cases have overtaken us. (China, incidentally, was projected to overtake the United States as the world's largest economy in 2014.[14])

Are we the most competitive? Actually, the World Economic Forum ranks the United States as No. 5 (down from No. 2 in 2008), behind Switzerland, Singapore, Finland, and Germany. *(See Table 4.1, left.)*

Are we the richest? On a per-person basis, the United States ranks No. 6, behind Qatar, Luxembourg, Singapore, Norway, and Brunei Darussalam. Canada is No. 9.[15]

How about "most free"? Here Hong Kong, a "special administrative region" of the People's Republic of China, is No. 1. The United States is No. 12, according to criteria embraced by the 2014 Index of Economic Freedom (by *The Wall Street Journal* and the Heritage Foundation). Canada, at No. 6, is considered "free" by this standard; the U.S. is "mostly free."[16]

There are many reasons why the winners on these lists achieved their enviable status, but one thing is clear: They didn't do it all by themselves; other countries were involved. We are living in a world being rapidly changed by **globalization—the trend of the world economy toward becoming a more interdependent system.** Time and distance, which have been under assault for 150 years, have now virtually collapsed, as reflected in three important developments we shall discuss.[17]

1. The rise of the "global village" and electronic commerce.
2. The world's becoming one market instead of many national ones.
3. The rise of both megafirms and Internet-enabled minifirms worldwide.

The Rise of the "Global Village" & Electronic Commerce

The hallmark of great civilizations has been their great systems of communications. In the beginning, communications was based on transportation: The Roman Empire had its network of roads, as did other ancient civilizations, such as the Incas. Later the great European powers had their far-flung navies. In the 19th century, the United States and Canada unified North America by building transcontinental railroads. Later the airplane reduced travel time between continents.

From Transportation to Communication Transportation began to yield to the electronic exchange of information. Beginning in 1844, the telegraph ended the short existence of the Pony Express and, beginning in 1876, found itself in competition with the telephone. The amplifying vacuum tube, invented in 1906, led to commercial radio. Television came into being in England in 1925. During the 1950s and 1960s, as television exploded throughout the world, communications philosopher Marshall McLuhan posed the notion of a "global village," where we all share our hopes, dreams, and fears in a "worldpool" of information. **The global village refers to the "shrinking" of time and space as air travel and the electronic media have made it easier for the people around the globe to communicate with one another.**

Then the world became even faster and smaller. Twenty-five years ago, cell phones, pagers, fax, and voice-mail links barely existed. When AT&T launched the first cellular communications system in 1983, it predicted fewer than a million users by 2000. By the end of 1993, however, there were more than 16 million cellular phone subscribers in the United States.[18] And by 2014, there were nearly 7 billion mobile-cellular subscriptions, with global penetration reaching almost 96%.[19]

The Net, the Web, & the World Then came the Internet, the worldwide computer-linked "network of networks." Today, of the 7.2 billion people in the world, 39% are Internet users.[20] The Net might have remained the province of academicians had it not been for the contributions of Tim Berners-Lee, who came up with the coding system, linkages, and addressing scheme that debuted in 1991 as the World Wide Web. "He took a powerful communications system [the Internet] that only the elite could use," says one writer, "and turned it into a mass medium."[21]

The arrival of the web quickly led to **e-commerce, or electronic commerce, the buying and selling of products and services through computer networks.** U.S. retail e-commerce sales were estimated at $263.3 billion for 2013, up 16.9% over the previous year.[22]

One Big World Market: The Global Economy

"We are seeing the results of things started in 1988 and 1989," said Rosabeth Moss Kantor of the Harvard Business School, referring to three historic global changes.[23] The first was in the late 1980s when the Berlin Wall came down, signaling the beginning of the end of communism in Eastern Europe. The second was when Asian countries began to open their economies to foreign investors. The third was the worldwide trend of governments deregulating their economies. These three events set up conditions by which goods, people, and money could move more freely throughout the world—a global economy. **The global economy refers to the increasing tendency of the economies of the world to interact with one another as one market instead of many national markets.**

It's no secret the economies of the world are increasingly tied together, connected by information arriving instantaneously through currency traders' screens, CNN news reports, twitter feeds, text messages, and other technology. Money, represented by digital blips, changes hands globally in a matter of keystrokes.

Positive Effects Is a global economy really good for the United States? "Ultimately, the medium- to long-term benefits of globalization are positive for everybody," says the CEO of Infosys Technologies in India. "Let me give you an example. As our industry has

Globalization. Coke and Pepsi already dominate India's beverage market of 1.2 billion people, and now both companies are going after the fruit-juice market among India's increasingly health-conscious consumers. Do you see any negative effects to this?

increased economic activity in India, it's becoming a bigger market for American exports. . . . Today you can't find any soft drinks in India except Coke or Pepsi."[24]

In addition, foreign firms are building plants in the United States, revitalizing parts of industrial America.[25] Indeed, foreign direct investment makes up 15% of the country's gross domestic product (total value of all goods and services). Companies based overseas provide jobs for approximately 10% of the U.S. workforce.[26] Eventually, suggests Gregg Easterbrook, author of *Sonic Boom: Globalization at Mach Speed,* worldwide economic growth will create "rising prosperity and higher living standards. . . . The world will be far more interconnected, leading to better and more affordable products, as well as ever better communication among nations."[27]

Negative Effects However, global economic interdependency can also be dangerous. Financial crises throughout the world resulted in vast surplus funds from global investments flowing into the United States and being invested badly in a housing-and-credit bubble that burst (the so-called subprime mortgages meltdown), leading to the 2007–2009 Great Recession that hurt so many people.[28]

Another negative effect is the movement, or outsourcing, of formerly well-paying jobs overseas as companies seek cheaper labor costs, particularly in manufacturing. Soaring new U.S. skyscrapers, for example, are more apt to have windows made in China than in Ohio, a glassmaking state.[29] The developers of apps, or software for cell phones and other mobile platforms, are more likely to be overseas, even though more and more people in the United States owe their jobs to the existence of apps.[30] Some economists fear that many jobs lost through the recession and offshoring may simply never come back.[31] (But some are, as we will see.)

Indeed, while "the horizon has never been brighter," says Easterbrook, "we may not feel particularly happy about it." The reasons: "Job instability, economic insecurity, a sense of turmoil, the fear that even when things seem good a hammer is about to fall—these are also part of the larger trend. As world economies become ever more linked by computers, job stress will become a 24/7 affair. Frequent shakeups in industries will cause increasing uncertainty."[32] But the global economy isn't going to go away just because we don't like some of its destabilizing aspects.

Cross-Border Business: The Rise of Both Megamergers & Minifirms Worldwide

The global market driven by electronic information "forces things to get bigger and smaller at the same time," suggests technology philosopher Nicholas Negroponte. "There will be an increasing absence of things that aren't either very local or very global."[33]

If Negroponte is correct, this means we will see more and more of two opposite kinds of businesses: mergers of huge companies into even larger companies, and small, fast-moving, start-up companies.

Megamerger. For a time after Italian automaker Fiat acquired U.S. automaker Chrysler, the corporate logos of both companies appeared independently. In 2014, the merged entity, Fiat Chrysler Automobiles, began to display its new logo, FCA. Do you think the two companies should have retained their distinct identities?

FCA
FIAT CHRYSLER AUTOMOBILES

Megamergers Operating Worldwide

Union Pacific + Southern Pacific. Kmart + Sears. Whole Foods + Wild Oats. Bank of America + Merrill Lynch. Roche + Genentech. Ticketmaster + Live Nation. Mattel (maker of Barbie Doll) + Hit Entertainment (Bob the Builder). Signet Jewelers + Zales. Jos. A. Bank + Eddie Bauer. Comcast + Time Warner Cable. Cerberus (Albertsons) + Safeway.

The last 20 years have seen a surge in mergers.[34] Certain industries—oil, telecommunications, automobiles, financial services, and pharmaceuticals, for instance—aren't suited to being midsize, let alone small and local, so companies in these industries are trying to become bigger and cross-border. The means for doing so is to merge with other big companies. In telecommunications, for instance, Comcast targeted Time Warner Cable and in automobiles Fiat targeted Chrysler. Indeed, auto companies are among the firms expected to accelerate the trend in partnerships and mergers with rivals in order to share the cost of research and streamline their production.[35] Utilities have also turned to mergers as power demands have slowed (despite the increase in tablet computers, data centers, and electric vehicles).[36]

Minifirms Operating Worldwide

The Internet and the World Wide Web allow almost anyone to be global, with two important results:

1. **Small companies can get started more easily.** Because anyone can put goods or services on a website and sell worldwide, this wipes out the former competitive advantages of distribution and scope that large companies used to have.
2. **Small companies can maneuver faster.** Little companies can change direction faster, which gives them an advantage in terms of time and distance over large companies. ●

4.2 You & International Management

MAJOR QUESTION

Why learn about international management, and what characterizes the successful international manager?

THE BIG PICTURE

Studying international management prepares you to work with foreign customers or suppliers, for a foreign firm in the United States or for a U.S. firm overseas. Successful international managers aren't ethnocentric or polycentric but geocentric.

Can you see yourself working overseas? It can definitely be an advantage to your career. "There are fewer borders," says Paul McDonald, executive director of recruitment firm Robert Half Management Resources. "Anyone with international experience will have a leg up, higher salary, and be more marketable."[37] The recent brutal U.S. job market has also spurred more Americans to hunt for jobs overseas.[38]

EXAMPLE

Americans Working Overseas

When Charles Wang, an industrial engineering major, completed his junior year at Georgia Institute of Technology, he joined UPS (United Parcel Service) as a project manager. His assignment: Go to Dubai for 10 months and develop a delivery system for the Arab country's first-ever network of streets and addresses. Following graduation, he said he planned to return to Dubai for a permanent job "because of . . . my inability to find good jobs in the U.S."[39]

Jacob Schickler, 25, moved to Beijing and found a job with a German company working in business development. He hoped the China experience would give him an edge over other young adults in the United States. "Many of my friends are bright, intelligent people with very expensive degrees," he said, "but they have not been able to put them to use yet. I'm getting real work experience."[40]

Wang and Schickler aren't just doing a little travel overseas for "exposure" to the culture (which many Americans do, frequently hauling mobile gadgets that allow them to "dwell in a snugly tailored reality of our own creation," complains one critic in a column headed "Traveling without Seeing").[41] These two young Americans resemble their Chinese counterparts who come to the United States or Canada to seek an edge that will pay off in career boosts at home.[42]

This is the kind of experience endorsed by Bob Moritz, who leads U.S. consulting firm PricewaterhouseCoopers. Moritz says that living in Japan "taught me big lessons that I actually have developed into a leadership style."[43] The lessons: (1) "Over there, I was the [racial] minority. . . . I was the guy discriminated against. So it gave me a different perspective on diversity." (2) It also taught him "about diversity of thought and cultural diversity. In Japan, you respect titles. You respect age. And you don't challenge authority." This has allowed him to understand and practice global business "in a way so that people feel good and not threatened."

YOUR CALL

How do you feel about following these intrepid travelers? How can you begin to prepare yourself for working overseas?

Foreign experience demonstrates independence, resourcefulness, and entrepreneurship, according to management recruiters. "You are interested in that person who can move quickly and is nimble and has an inquiring mind," says one. People who have worked and supported themselves overseas, she says, tend to be adaptive and inquisitive—valuable skills in today's workplace.[44]

Part of the action. If "all of the action in business is international," as one expert says, what role do you think you might play in it? Do you think cultural bias against women in some foreign countries contributes to the low percentage of U.S. female executives working abroad?

Why Learn about International Management?

International management is management that oversees the conduct of operations in or with organizations in foreign countries, whether it's through a multinational corporation or a multinational organization.

Multinational Corporations

A **multinational corporation, or multinational enterprise, is a business firm with operations in several countries.** Our publisher, McGraw-Hill, is one such multinational (with a presence in 17 foreign cities). In terms of sales revenue, the largest American multinational corporations in 2013 were Wal-Mart Stores, Exxon Mobil, Chevron, Phillips 66, Apple, Berkshire Hathaway, General Motors, General Electric, and Ford. The largest foreign firms were the oil companies Royal Dutch Shell (Netherlands), SinoPec China Petroleum, BP (Britain), and PetroChina, followed by Volkswagen (Germany), and Toyota Motor (Japan). Of the world's 2,000 largest multinational public companies, the United States has 543 members, Japan 251, and China 136.[45]

Multinational Organizations

A **multinational organization is a nonprofit organization with operations in several countries.** Examples are the World Health Organization, the International Red Cross, the Church of Latter Day Saints.

Even if in the coming years you never travel to the wider world outside North America—an unlikely proposition, we think—the world will assuredly come to you. That, in a nutshell, is why you need to learn about international management.

PRACTICAL ACTION

Being an Effective Road Warrior

Since business travelers who fly 100,000-plus miles a year are no longer a rare breed, should you prepare for the possibility of joining them?

Business travel can have its rewards. Many people like getting away from their everyday workplace, with its endless meetings, coworker distractions, and work "fires" to put out. In addition, millennials in particular, for whom the line between "business" and "personal" time is becoming blurred, in one poll cited discovering a new city as the best benefit of business travel (65%), along with experiencing new things (45%) and connecting with new people (37%).[46]

Business travelers have learned the following three lessons.

Lesson 1: Frequent Travel May Be Needed because Personal Encounters Are Essential. Nearly all business travelers—more than nine in 10—agree travel is important to achieving their business goals, according to one survey, with 82% of U.S. responders being the most positive about the critical value of face-to-face client contacts.[47] Yes, technologies such as smartphones, e-mail, and videoconferencing make it easier to connect with others—superficially, at least. "But," says an investment banker, "in a global world you have to get in front of your employees, spend time with your clients, and show commitment when it comes to joint ventures, mergers, and alliances. The key is thoughtful travel—traveling when necessary."[48] Adds another top executive, "If you are going to disagree with somebody, you certainly don't want to do it by e-mail, and if possible you don't even want to do it by phone. You want to do it face to face."[49]

Lesson 2: Travel May Be Global, but Understanding Must Be Local. "In China, we had translators, but we were still used to conducting business American style, where you can get a deal done in two hours and everyone leaves happy," says Ty Morse, whose company develops things like text messaging platforms and mobile payment processing solutions. "But in Asia, every meeting was about 10 hours long and everyone wanted to serve us food. We were so stuffed and jet-lagged, it was ridiculous."[50]

Being a road warrior is all about making bets with one's time, calculating the strategy of where to be when. Thus, world-traveling executives must do their homework to know cultures, organizations, and holders of power.

"Cull information on the individuals and companies you're visiting," says one expert. "Follow the news relating to the region. If possible try to read a few books about the history and culture of the lands you will visit. . . . Learn a few words too."[51] Because in Asia and the Middle East personal relationships are crucial to getting things done, you need to engage in small talk and avoid business talk during after-hours outings. Says Ted Dale, president of international business consulting firm Aperian Global, "You need to spend out-of-office time in social settings." In Asia, the Middle East, and Latin America, it's important to understand organizational hierarchy, as represented by professional titles and age.[52]

Lesson 3: Travel Downtime Can Be Used to Expand Business Contacts. It's tempting at the end of a business day to head to your hotel room and the TV set. But savvy travelers know that downtime is a great opportunity to network and make new contacts. Columnist Anita Bruzzese points out that some hotels offer evening socials that businesspeople can use to meet others in a relaxed setting with food and drink at hand. Bruzzese tells of one veteran, Patricia Rossi, who contacts her regular Twitter followers and asks them to meet her if she's in their city. "You've already developed those relationships online," Rossi says. "But this is a chance to get kneecap to kneecap, which is so important."[53]

YOUR CALL

As we discussed, managers must be prepared to work for organizations that operate not only countrywide but worldwide. To stay connected with colleagues, employees, clients, and suppliers, you may have to travel a lot. Does this give you cause for concern? What do you think you should do about it?

More specifically, consider yourself in the following situations:

You May Deal with Foreign Customers or Partners While working for a U.S. company you may have to deal with foreign customers. Or you may have to work with a foreign company in some sort of joint venture. The people you're dealing with may be outside the United States or visitors to it.[54] Either way you would hate to blow a deal—and maybe all future deals—because you were ignorant of some cultural aspects you could have known about.

Examples are legion.[55] One American executive inadvertently insulted or embarrassed Thai businessmen by starting gatherings talking about business. "That's a no-no," he says. "I quickly figured out that I was creating problems by talking business before eating lunch and by initiating the talks."

You May Deal with Foreign Employees or Suppliers While working for an American company you may have to purchase important components, raw materials, or services from a foreign supplier.[56] And you never know where foreign practices may diverge from what you're accustomed to.

Many software developer jobs, for instance, have been moved outside the United States—to places such as India, New Zealand, and Eastern Europe. A lot of U.S. software companies—Microsoft, IBM, Oracle, Motorola, Novell, Hewlett-Packard, and Texas Instruments—have opened offices in India to take advantage of high-quality labor. General Electric, Caterpillar, and 3M have spent millions expanding their overseas research labs.[57]

Working for a foreign firm. If you thought you might work for a foreign firm, either at home or overseas, what should you be doing now to prepare for it?

You May Work for a Foreign Firm in the United States You may sometime take a job with a foreign firm doing business in the United States, such as an electronics, pharmaceutical, or car company. And you'll have to deal with managers above and below you whose outlook is different from yours. For instance, Japanese companies, with their emphasis on correctness and face saving, operate in significantly different ways from American companies.

Sometimes it is even hard to know that an ostensibly U.S. company actually has foreign ownership. For example, among some classic American brands that are now foreign owned are Budweiser beer (introduced in St. Louis in 1876 by Anheuser-Busch, which is now owned by Belgian-Brazilian conglomerate InBev), and Vaseline (founded in Brooklyn in 1870, now owned by Anglo-Dutch company Unilever), as well as Popsicle (Unilever), Purina (Nestlé of Switzerland), Frigidaire (AB Electrolux, Sweden), and 7-Eleven (Seven & I Holdings, Japan).[58]

You May Work for an American Firm Outside the United States—or for a Foreign One You might easily find yourself working abroad in the foreign operation of a U.S. company. Most big American corporations have overseas subsidiaries or divisions. On the other hand, you might also well work for a foreign firm in a foreign country, such as a big Indian company in Bangalore or Mumbai.

The Successful International Manager: Geocentric, Not Ethnocentric or Polycentric

Maybe you don't really care that you don't have much understanding of the foreign culture you're dealing with. "What's the point?" you may think. "The main thing is to get the job done." Certainly there are international firms with managers who have this perspective. They are called *ethnocentric,* one of three primary attitudes among international managers, the other two being *polycentric* and *geocentric*.[59]

Ethnocentric Managers—"We Know Best" What do foreign executives fluent in English think when they hear Americans using an endless array of baseball, basketball, and football phrases (such as "out of left field" or "Hail Mary pass").[60] **Ethnocentric managers believe that their native country, culture, language, and behavior are superior to all others.** Ethnocentric managers tend to believe that they can export the managers and practices of their home countries to anywhere in the world and that they will be more capable and reliable. Often the ethnocentric viewpoint is less attributable to prejudice than it is to ignorance, since such managers obviously know more about their home environment than the foreign environment. Ethnocentrism might also be called **parochialism—that is, a narrow view in which people see things solely through their own perspective.**

Is ethnocentrism bad for business? It seems so. A survey of 918 companies with home offices in the United States, Japan, and Europe found that ethnocentric policies were linked to such problems as recruiting difficulties, high turnover rates, and lawsuits over personnel policies.[61]

Ethnocentric views also affect our purchasing decisions. Some people believe that we should only purchase products made in our home country. What are your views about being an ethnocentric consumer? You can find out by taking Self-Assessment 4.1.

SELF-ASSESSMENT 4.1 connect

Assessing Your Consumer Ethnocentrism

This survey is designed to assess your consumer ethnocentrism. Go to **connect.mheducation.com** and take the Self-Assessment 4.1. When you're done, answer the following questions:

1. Are you surprised by the results? What do they suggest about your purchasing decisions? What are the pros and cons of being an ethnocentric consumer?
2. How do American companies, associations, and unions encourage us to be ethnocentric consumers?

Polycentric Managers—"They Know Best" **Polycentric managers take the view that native managers in the foreign offices best understand native personnel and practices, and so the home office should leave them alone.** Thus, the attitude of polycentric managers is nearly the opposite of that of ethnocentric managers.

Geocentric Managers—"What's Best Is What's Effective, Regardless of Origin" **Geocentric managers accept that there are differences and similarities between home and foreign personnel and practices and that they should use whatever techniques are most effective.** Clearly, being an ethno- or polycentric manager takes less work. But the payoff for being a geocentric manager can be far greater. The Manager's Toolbox at the beginning of this chapter gives some tips on being geocentric, which you should review again.

4.3 MAJOR QUESTION

Why & How Companies Expand Internationally

Why do companies expand internationally, and how do they do it?

THE BIG PICTURE

Multinationals expand to take advantage of availability of supplies, new markets, lower labor costs, access to finance capital, or avoidance of tariffs and import quotas. Five ways they do so are by global outsourcing; importing, exporting, and countertrading; licensing and franchising; joint ventures; and wholly-owned subsidiaries.

Who makes Apple's iPhone? An estimated 90% of the components are manufactured overseas, by workers in Germany, Singapore, Korea, and elsewhere. The display screens, for instance, come mostly from Asia, especially South Korea and Japan; the phone itself is assembled in China.[62] Who makes the furniture sold by Ethan Allen, that most American of names, evoking Ethan Allen and the Green Mountain Boys of the American Revolution? Most of it still is made in the United States, but a lot is made by suppliers in Mexico, China, the Philippines, Indonesia, and Vietnam.[63] Where is consumer-products giant Procter & Gamble going to seek additional consumers? Nearly two-thirds of P&G's sales and more than half its profits come from outside the United States, and the company is aggressively pursing business in developing markets like Africa and parts of Latin America and Asia.[64] (In Mexico, for example, it sells to poor consumers at small, rudimentary markets who will buy a single-use P&G shampoo packet.)[65] There are many reasons why American companies are going global. Let us consider why and how they are expanding beyond U.S. borders.

U.S. export. Popular entertainment is a major U.S. export, as was the 2014 film *The Amazing Spider-Man 2,* which took top spot in Chinese theaters. Are there any negatives to sending American popular culture overseas?

Why Companies Expand Internationally

Many a company has made the deliberate decision to restrict selling its product or service to just its own country. Is anything wrong with that?

The answer is: It depends. It would probably have been a serious mistake for NEC, Sony, or Hitachi to have limited their markets solely to Japan during the 1990s, a time when the country was in an economic slump and Japanese consumers weren't consuming. During that same period, however, some American banks might have been better off not making loans abroad, when the U.S. economy was booming but foreign economies were not. Going international or not going international—it can be risky either way.

Why, then, do companies expand internationally? There are at least five reasons, all of which have to do with making or saving money.

1. Availability of Supplies Antique and art dealers, mining companies, banana growers, sellers of hard woods—all have to go where their basic supplies or raw materials are located. For years oil companies, for example, have expanded their activities outside the United States in seeking cheaper or more plentiful sources of oil.

2. New Markets Sometimes a company will find, as cigarette makers have, that the demand for their product has declined domestically but that they can still make money overseas. Or sometimes a company will steal a march on its competitors by aggressively expanding into foreign markets, as did Coca-Cola over PepsiCo under the leadership of legendary CEO Robert Goizueta. From 2000 to 2010, exports of American goods jumped 66%; the export of services increased even more—84%.[66]

3. Lower Labor Costs The decline in manufacturing jobs in the United States is directly attributable to the fact that American companies have found it cheaper to do their manufacturing outside the States. For example, the rationale for using **maquiladoras—manufacturing plants allowed to operate in Mexico with special privileges in return for employing Mexican citizens**—is that they provide less expensive labor for assembling everything from appliances to cars. Even professional or service kinds of jobs, such as computer programming, may be shipped overseas. (However, a countertrend, called "deglobalization," is that some companies are moving production back home, because long supply chains can be easily affected by the whims of geopolitics and energy prices and the United States remains a manufacturing power for higher-value products.)[67]

4. Access to Finance Capital Companies may be enticed into going abroad by the prospects of capital being put up by foreign companies or sudsidies from foreign governments. For example, Woody Allen's 2013 film *Blue Jasmine,* in which Cate Blanchett plays a woman whose husband is revealed to be a Bernie Madoff–like con man, received most of its financing from overseas investors, as do many other American movies.[68]

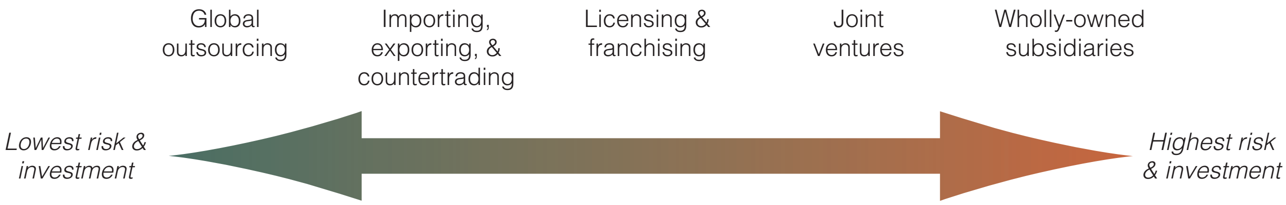
5. Avoidance of Tariffs & Import Quotas Countries place tariffs (fees) on imported goods or impose import quotas—limitations on the numbers of products allowed in—for the purpose of protecting their own domestic industries. For example, Japan imposes tariffs on agricultural products, such as rice, imported from the United States. To avoid these penalties, a company might create a subsidiary to produce the product in the foreign country. General Electric and Whirlpool, for example, have foreign subsidiaries to produce appliances overseas.

How Companies Expand Internationally

Most companies don't start out to be multinationals. Generally, they edge their way into international business, at first making minimal investments and taking minimal risks, as shown in the drawing below. *(See Figure 4.1.)*

FIGURE 4.1 **Five Ways of Expanding Internationally**

These range from lowest risk and investment *(left)* to highest risk and investment *(right).*



Let's consider the five ways of expanding internationally shown in the figure.

1. Global Outsourcing A common practice of many companies, **outsourcing is defined as using suppliers outside the company to provide goods and services.** For example, airlines farm out a lot of aircraft maintenance to other companies. Management philosopher Peter Drucker believed that in the near future organizations might be outsourcing all work that is "support"—such as information systems—rather than revenue producing.

Global outsourcing extends this technique outside the United States. **Global outsourcing,** or **offshoring,** **is defined as using suppliers outside the United States to provide labor, goods, or services.** The reason may be that the foreign supplier has resources not available in the United States, such as Italian marble. Or the supplier may have special expertise, as do Pakistani weavers. Or—more likely these days—the supplier's labor is cheaper than American labor. As a manager, your first business trip outside the United States might be to inspect the production lines of one of your outsourcing suppliers.

2. Importing, Exporting, & Countertrading When **importing,** **a company buys goods outside the country and resells them domestically.** Nothing might seem to be more American than Caterpillar tractors, but they are made not only in the United States but also in Canada, from which they are imported and made available for sale in the United States.[69] Many of the products we use are imported, ranging from Heineken beer (Netherlands) to Texaco gasoline (Saudi Arabia) to Honda snowblowers (Japan).

PRACTICAL ACTION

Global Outsourcing: Which Jobs Are Likely to Fall Victim to Offshoring?

Will there be any good jobs left for new college graduates?

Americans are rightly concerned about the changing jobs picture, brought about not only by the dismal aftermath of the 2007–2009 Great Recession but also earlier in part by offshoring of work to low-wage countries such as China, India, and the Philippines. Few of the millions of factory jobs that have been lost during the last 10 years have been replaced, and today just 9% of American workers are employed in manufacturing. This has forced many workers—when they were able to work at all—to accept lower-paying alternatives, such as jobs in retail and health care, which pay far less than manufacturing jobs.[70]

More recently, the same trend—global outsourcing—has been happening with white-collar jobs. Forrester Research estimates that 3.4 million service jobs will have moved offshore between 2000 and 2015.[71] Among them are jobs in office support, computer, business operations, architecture, legal, sales, and art and design.[72]

How Can You Prepare for an Offshored World? "I believe [companies] should outsource everything for which there is no career track that could lead into senior management," said management philosopher Peter Drucker. An example, he said, is the job of total-quality-control specialist, work that can be done overseas.[73]

"As soon as a job becomes routine enough to describe in a spec sheet, it becomes vulnerable to outsourcing," says another writer. "Jobs like data entry, which are routine by nature, were the first among obvious candidates for outsourcing." But even "design and financial-analysis skills can, with time, become well-enough understood to be spelled out in a contract and signed away."[74] Says Fred Levy, a Massachusetts Institute of Technology economist, "If you can describe a job precisely, or write rules for doing it, it's unlikely to survive. Either we'll program a computer to do it, or we'll teach a foreigner to do it."[75]

Which Jobs Will Remain in the United States? It is difficult to predict which jobs will remain at home, since even the Bureau of Labor Statistics often can't get it right. However, jobs that endure may share certain traits, listed below, regardless of the industry they serve:[76]

- **Face-to-face.** Some involve *face-to-face contact,* such as being a salesperson with a specific territory or an emergency room doctor.
- **Physical contact.** Other jobs involve *physical contact,* such as those of dentists, nurses, massage therapists, gardeners, and nursing-home aides.
- **Making high-end products.** *High-end products* that require intensive research, precision assembly, and complex technology requiring skilled workers are good candidates for the U.S. labor market, says Eric Spiegel, CEO of the Siemens Corp. Low-end, low-technology products, such as textiles and furniture, will doubtless continue to be offshored.[77]
- **Recognizing complex patterns.** Others involve the human ability to *recognize complex patterns,* which are hard to computerize, such as a physician's ability to diagnose an unusual disease (even if the X-rays are read by a radiologist in India). This also describes such jobs as teaching first

grade or selling a mansion to a millionaire or jobs that demand an intimate knowledge of the United States, such as marketing to American teenagers or lobbying Congress.

Survival Rules For you, as a prospective manager, there are perhaps three ideas to take away from all this:

- **Teamwork and creativity.** "Jobs that persist are dynamic and creative and require the ability to team with others," says Jim Spohrer of the IBM Almaden Research Center in San Jose, California, which studies the business operations of IBM's corporate clients. "At its heart, a company is simply a group of teams that come together to create" products and services.[78]
- **Flexibility.** "Jobs used to change very little or not at all over the course of several generations," says Spohrer. "Now, they might change three or four times in a single lifetime." Flexibility—as in being willing to undergo retraining—thus becomes important. Fortunately, as Drucker pointed out, the United States is "the only country that has a very significant continuing education system. This doesn't exist anywhere else." The United States is also the only country, he said, in which it is easy for younger people to move from one area at work to another.[79]
- **Education.** The more education one has, the more one is apt to prevail during times of economic change. Men and women with four years of college, for instance, earn nearly 45% more on average than those with only a high school diploma.[80]

YOUR CALL

What kind of job or jobs are you interested in that would seem to provide you with some hopes of prevailing in a fast-changing world?

When **exporting, a company produces goods domestically and sells them outside the country.** One of the greatest U.S. exports is American pop culture, in the form of movies, music, and fashion. The United States is also a leader in exporting computers and other information technology. The U.S. was ranked the number 3 exporter in the world in 2013, down from number 1 a few years earlier. *(See Table 4.2.)*

TABLE 4.2

Top 10 exporting countries, 1999 and 2013

Source: "Country Comparison: Exports, Top Ten," Index Mundi and CIA Fact Book, www.indexmundi.com/g/r.aspx?v=85&t=10 (accessed April 15, 2014). Exports are measured in U.S. dollars.

RANK IN 1999	RANK IN 2013
1. U.S	China
2. Germany	Germany
3. Japan	U.S.
4. France	Japan
5. Britain	France
6. Canada	South Korea
7. Italy	Netherlands
8. Netherlands	Italy
9. China	Russia
10. Belgium	United Kingdom

Sometimes other countries may wish to import American goods but lack the currency to pay for them. In that case, the exporting U.S. company may resort to **countertrading—that is, bartering goods for goods.** When the Russian ruble plunged in value in 1998, some goods became a better medium of exchange than currency.

3. Licensing & Franchising

Licensing and franchising are two aspects of the same thing, although licensing is used by manufacturing companies and franchising is used more frequently by service companies.

In **licensing,** **a company allows a foreign company to pay it a fee to make or distribute the first company's product or service.** For example, the Du Pont chemical company might license a company in Brazil to make Teflon, the nonstick substance that is found on some frying pans. Thus, Du Pont, the licensor, can make money without having to invest large sums to conduct business directly in a foreign company. Moreover, the Brazilian firm, the licensee, knows the local market better than Du Pont probably would.

Franchising **is a form of licensing in which a company allows a foreign company to pay it a fee and a share of the profit in return for using the first company's brand name and a package of materials and services.** For example, Burger King, Hertz, and Hilton Hotels, which are all well-known brands, might provide the use of their names plus their operating know-how (facility design, equipment, recipes, management systems) to companies in the Philippines in return for an up-front fee plus a percentage of the profits.

By now Americans traveling throughout the world have become accustomed to seeing so-called U.S. stores everywhere. Some recently active companies: Toys R Us opened a store in Poland. Gap opened an Old Navy store in Japan and a Banana Republic store in Paris. Tiffany's opened a jewelry store in Russia. Starbucks opened a store in Colombia.[81]

4. Joint Ventures

Strategic allies (described in Chapter 3) are two organizations that have joined forces to realize strategic advantages that neither would have if operating alone. A U.S. firm may form a **joint venture,** **also known as a *strategic alliance,* with a foreign company to share the risks and rewards of starting a new enterprise together in a foreign country.** For instance, General Motors operates a joint venture with Shanghai Automotive Industry Group to build Buicks in China.[82] Ford also has a joint venture in China with Changan Ford.[83]

Sometimes a joint venture is the only way an American company can have a presence in a certain country, whose laws may forbid foreigners from ownership. Indeed, in China, this is the only way foreign cars may be sold in that country.

Volvo. Who owns what car brand these days? Formerly British brands Jaguar and Land Rover now belong to Tata of India. Volkswagen owns the formerly British Bentley and Italian Lamborghini. Volvo, whose cars and trucks are still made in Sweden, is owned by Chinese automaker Geely. Do you think the American companies General Motors and Ford could ever wind up under foreign ownership, as Chrysler has (owned by Fiat)?

5. Wholly-Owned Subsidiaries

A **wholly-owned subsidiary** **is a foreign subsidiary that is totally owned and controlled by an organization.** The foreign subsidiary may be an existing company that is purchased outright. A **greenfield venture** **is a foreign subsidiary that the owning organization has built from scratch.**

General Motors owns majority stakes in Adam Opel AG in Germany and Vauxhall Motor Cars Ltd. in the United Kingdom.

4.4 The World of Free Trade: Regional Economic Cooperation

MAJOR QUESTION

What are barriers to free trade, and what major organizations and trading blocs promote trade?

THE BIG PICTURE

Barriers to free trade are tariffs, import quotas, and embargoes. Organizations promoting international trade are the World Trade Organization, the World Bank, and the International Monetary Fund. Major trading blocs are NAFTA, the EU, APEC, ASEAN, Mercosur, and CAFTA.

If you live in the United States, you see foreign products on a daily basis—cars, appliances, clothes, foods, beers, wines, and so on. Based on what you see every day, which countries would you think are our most important trading partners? China? Japan? Germany? United Kingdom? South Korea?

These five countries do indeed appear among the top leading U.S. trading partners. Interestingly, however, our foremost trading partners are our immediate neighbors—Canada and Mexico—whose products may not be quite so visible. *(See Table 4.3, right.)*

Let's begin to consider **free trade, the movement of goods and services among nations without political or economic obstruction.**

TABLE 4.3 **Top 10 U.S. trading partners in goods, February 2014**

TOP 10 NATIONS THE U.S. EXPORTS TO	TOP 10 NATIONS THE U.S. IMPORTS FROM
1. Canada	China
2. Mexico	Canada
3. China	Mexico
4. Japan	Japan
5. Germany	Germany
6. United Kingdom	South Korea
7. South Korea	Saudi Arabia
8. Brazil	United Kingdom
9. Hong Kong	France
10. Netherlands	India

Source: U.S. Census Bureau, "Top Trading Partners—February 2014," April 3, 2014, www.census.gov/foreign-trade/statistics/highlights/top/top1402cm.html (accessed April 15, 2014).

Barriers to International Trade

Countries often use **trade protectionism—the use of government regulations to limit the import of goods and services**—to protect their domestic industries against foreign competition. The justification they often use is that this saves jobs. Actually, protectionism is not considered beneficial, mainly because of what it does to the overall trading atmosphere.

The devices by which countries try to exert protectionism consist of *tariffs, import quotas,* and *embargoes.*

1. Tariffs

A tariff is a trade barrier in the form of a customs duty, or tax, levied mainly on imports. At one time, for instance, to protect the American shoe industry, the United States imposed a tariff on Italian shoes. Actually, there are two types of tariffs: One, called a *revenue tariff,* is designed simply to raise money for the government, such as a tax on all oil imported into the United States. The other, which concerns us more, is a *protective tariff,* which is intended to raise the price of imported goods to make the prices of domestic products more competitive.

Beginning in late 2011, in a dispute that was still ongoing three years later, seven U.S. makers of solar panels sought trade tariffs from the U.S. Commerce Department of more than 100% on solar panels made in China, on the grounds that it used billions of dollars in government subsidies to help gain sales in the American market.[84] A couple of months later, four U.S. makers of steel towers for wind turbines also filed a trade complaint against China and Vietnam seeking tariffs of 60% for the same reasons.[85] For its part, China raised tariffs on foreign auto brands, presumably to protect

Playing by the rules? Four of the five top solar cell producers are based in China, where the government has subsidized the development of this technology, to the detriment of American and European solar industries. What do you think the United States should do to equalize the situation? Impose tariffs (special taxes) on some Chinese imports? Subsidize our own solar industry?

its own domestic car industry.[86] (Today a fully loaded Mini Cooper costing $52,500 in the United States goes for $85,000 in China, which has a 25% import tax plus a 17% value-added and consumption tax.[87])

2. Import Quotas **An import quota is a trade barrier in the form of a limit on the numbers of a product that can be imported.** Its intent is to protect domestic industry by restricting the availability of foreign products.

As a condition of being allowed into the World Trade Organization, China agreed, starting in 2005, to cancel car import quotas, which it had used to protect its domestic car manufacturing industry against imported vehicles from the United States, Japan, and Germany.[88] However, it has not done the same with export quotas, where it has been found to have broken international trade law by imposing quotas on the export from China of rare earth elements (17 minerals with names like indium, gallium, and tellurium), which are crucial to making high-technology products, including mobile phones, hybrid cars, and 3-D TV screens.[89]

Quotas are designed to prevent **dumping, the practice of a foreign company's exporting products abroad at a lower price than the price in the home market—or even below the costs of production—in order to drive down the price of the domestic product.** In 2009, the U.S. International Trade Commission imposed antidumping duties of 10%–16% more on Chinese government–subsidized steel imported into the United States that damaged the American steel industry.[90]

3. Embargoes Ever seen a real Cuban cigar? They're difficult for Americans to get, since they're embargoed. **An embargo is a complete ban on the import or export of certain products.** It has been years since anyone was allowed to import Cuban cigars and sugar into the United States or for an American firm to do business in Cuba.[91] (Even so, the United States reportedly exported more than $350 million in goods, such as food and medicine, to the island in 2013, mainly through cash remittances that Cuban Americans sent relatives.)[92] In early 2012, European countries agreed to embargo—refuse to import—any oil from Iran, amounting to about a fifth of Iran's total exports, if that country did not agree to allow continued sea traffic through the Gulf of Hormuz; the United States is also embargoing Iran.[93]

Organizations Promoting International Trade

In the 1920s, the institution of tariff barriers did not so much protect jobs as depress the demand for goods and services, thereby leading to the loss of jobs anyway—and the massive unemployment of the Great Depression of the 1930s.[94] As a result of this lesson, after World War II the advanced nations of the world began to realize that if all countries could freely exchange the products that each could produce most efficiently, this would lead to lower prices all around. Thus began the removal of barriers to free trade.

The three principal organizations designed to facilitate international trade are the *World Trade Organization,* the *World Bank,* and the *International Monetary Fund.*

1. The World Trade Organization (WTO) Consisting of 159 member countries, the **World Trade Organization (WTO) is designed to monitor and enforce trade agreements.** The agreements are based on the *General Agreement on Tariffs and Trade (GATT),* an international accord first signed by 23 nations in 1947, which helped to reduce worldwide tariffs and other barriers. Out of GATT came a series of "rounds," or negotiations, that resulted in the lowering of barriers; for instance, the Uruguay Round, implemented in 1996, cut tariffs by one-third. The current round of negotiations, the Doha Round, which began in Doha, Qatar, is aimed at helping the world's poor by, among other things, reducing trade barriers, including improving customs rules and procedures.[95]

Founded in 1995 and headquartered in Geneva, Switzerland, WTO succeeded GATT as the world forum for trade negotiations and has the formal legal structure for deciding trade disputes. WTO also encompasses areas not previously covered by GATT, such as services and intellectual property rights. A particularly interesting area of responsibility covers telecommunications—cell phones, pagers, data transmission, satellite communications, and the like—with half of the WTO's 159 members agreeing to open their markets to foreign telecommunications companies.[96]

2. The World Bank The World Bank was founded after World War II to help European countries rebuild. Today the purpose of the **World Bank is to provide low-interest loans to developing nations for improving transportation, education, health, and telecommunications.** The bank has 188 member nations, with most contributions coming from Britain, the United States, Japan, and Germany.

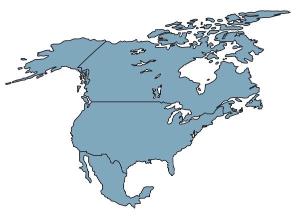
In recent times, protesters have complained the World Bank has financed projects that could damage the ecosystem, such as the Three Gorges Dam on China's Yangtze River, or supported countries that permit low-paying sweatshops or that suppress religious freedom. Others think it has dragged its feet on getting affordable AIDS drugs to less-developed countries in Africa and lent millions to a palm oil company in Honduras accused of links to assassinations and forced evictions.[97] In 2014 the World Bank underwent a sweeping reorganization to encourage better collaboration and a quicker response.[98] It also announced it was nearly doubling its potential lending to developing countries such as China, India, and Brazil.[99]

3. The International Monetary Fund Founded in 1945 and now affiliated with the United Nations, the International Monetary Fund is the second pillar supporting the international financial community. Consisting of 188 member nations, the **International Monetary Fund (IMF) is designed to assist in smoothing the flow of money between nations.**

The IMF operates as a last-resort lender that makes short-term loans to countries suffering from unfavorable balance of payments (roughly the difference between money coming into a country and money leaving the country, because of imports, exports, and other matters). In recent times, the IMF has become more high profile because of its role in trying to shore up some weaker European economies, including making loans to Greece, Portugal, and Ireland and considering how to assist Italy and Spain.[100] Lately it has been more concerned with addressing income inequality, which has worsened in most countries in the past three decades.[101]

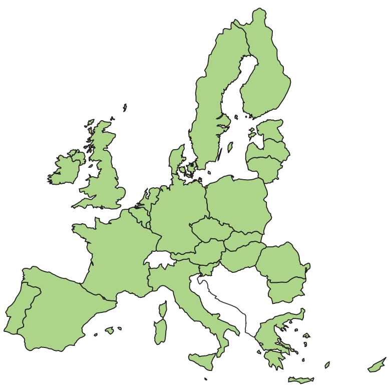
Major Trading Blocs: NAFTA, EU, APEC, ASEAN, Mercosur, & CAFTA

A trading bloc, also known as an *economic community,* is a group of nations within a geographical region that have agreed to remove trade barriers with one another. The six major trading blocs are the *NAFTA nations,* the *European Union,* the *APEC countries,* the *ASEAN countries,* the *Mercosur,* and *CAFTA.*



1. NAFTA—the Three Countries of the North American Free Trade Agreement Formed in 1994, the **North American Free Trade Agreement (NAFTA) is a trading bloc consisting of the United States, Canada, and Mexico,** encompassing 444 million people. The agreement is supposed to eliminate 99% of the tariffs and quotas among these countries, allowing for freer flow of goods, services, and capital in North America. Trade with Canada and Mexico in 2010 accounted for one-third of the U.S. total, up from one-quarter in 1989, and trade among the three nations has gone from $290 billion in 1993 to $1 trillion, according to government data.[102] Still, as one reporter points out, "the treaty never met many of its sweeping promises to close Mexico's wage gap with the United States, boost job growth, fight poverty, and protect the environment."[103]

Is NAFTA a job killer, as some have complained? In Mexico, it has failed to generate substantial job growth and has hurt hundreds of thousands of subsistence farmers, leading to a surge in illegal immigration across the U.S. southern border. As for the United States, around 845,000 jobs have been lost because of increased imports from Canada and Mexico and the relocation of factories in the past two decades, according to government watchdog group Public Citizen.[104] However, some experts suggest that many jobs lost to Mexico during this period would probably have gone to China or elsewhere.[105] It also spurred a U.S. trade deficit—$177 billion in 2013, a nearly sevenfold increase above the pre-NAFTA level.[106] However, supporters insist NAFTA ultimately will result in more jobs and a higher standard of living among all trading partners.

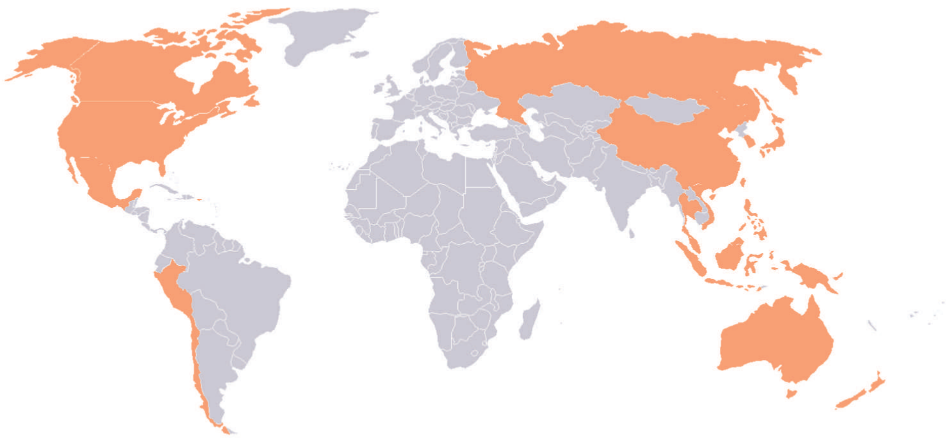


2. The EU—the 28 Countries of the European Union Formed in 1957, the **European Union (EU) consists of 28 trading partners in Europe,** covering nearly 500 million consumers.

Nearly all internal trade barriers have been eliminated (including movement of labor between countries), making the EU a union of borderless neighbors and the world's largest free market, with a gross domestic product of $15.83 trillion in 2013, second only to that of the United States ($16.72 trillion).[107]

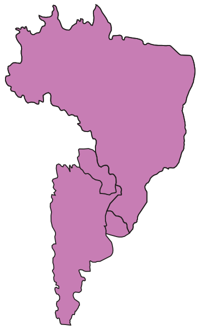
By 2002, such national symbols as the franc, the mark, the lira, the peseta, and the guilder had been replaced with the EU currency, the euro, which has been adopted by 18 European countries. There was even speculation that someday the euro could replace the U.S. dollar as the dominant world currency.[108] However, in 2010 and 2011, the shaky finances and massive government debts of Portugal, Ireland, Italy, Greece, and Spain (so-called PIIGS) revealed an inherent weakness of the union—that both weak and strong economies were expected to coexist.

3. APEC—21 Countries of the Pacific Rim Founded in 1989, the **Asia-Pacific Economic Cooperation (APEC) is a group of 21 Pacific Rim countries whose purpose is to improve economic and political ties.** Most countries with a coastline on the Pacific Ocean are members of the organization, as highlighted below, although there are a number of exceptions. APEC members, which include the United States, Canada, and China, work to reduce tariffs and other trade barriers across the Asia-Pacific region.



4. ASEAN—10 Countries of the Association of Southeast Asian Nations

The **Association of Southeast Asian Nations (ASEAN)** **is a trading bloc consisting of 10 countries in Asia:** Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. Like other trading blocs, ASEAN is working on reducing trade barriers among member countries. ASEAN nations comprise a market of 610 million people; in January 2010, a China-ASEAN Free Trade Area was established, the largest free trade area in the world in terms of population.[109]

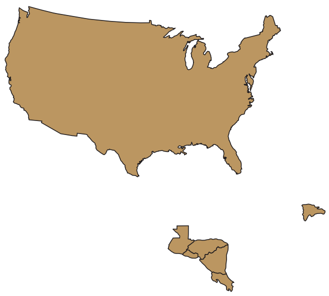


5. Mercosur—12 Countries of Latin America

The **Mercosur** **is the largest trade bloc in Latin America and has five core members—Argentina, Brazil, Paraguay, Uruguay, and Venezuela—and seven associate members: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname.** Besides reducing tariffs by 75%, Mercosur nations are striving for full economic integration, and the alliance is also negotiating trade agreements with NAFTA, the EU, and Japan.[110]

6. CAFTA-DR—Seven Countries of Central America

The **Central America Free Trade Agreement (CAFTA-DR),** **which involves the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua,** is intended to reduce tariffs and other barriers to free trade.



Most Favored Nation Trading Status

Besides joining together in trade blocs, countries will also extend special, "most favored nation" trading privileges to one another. **Most favored nation** **trading status describes a condition in which a country grants other countries favorable trading treatment such as the reduction of import duties.** The purpose is to promote stronger and more stable ties between companies in the two countries.

Exchange Rates

The **exchange rate** **is the rate at which the currency of one area or country can be exchanged for the currency of another's.** Americans deal in dollars with each other, but beyond the U.S. border we have to deal with pounds in England, euros in Europe, pesos in Mexico, and yuan in China. Because of changing economic conditions, the values of currencies fluctuate in relation to each other, so that sometimes a U.S. dollar, for example, will buy more goods and sometimes it will buy less.

EXAMPLE

An American in London Dealing with Currency Exchange—How Much *Are* Those Jeans, Really?

Let's pretend $1 trades equal to 1 British pound, symbolized by £1. Thus, an item that costs 3 pounds (£3) can be bought for $3. If the exchange rate changes so that $1 buys £1½, then an item that costs £3 can be bought for $2 (the dollar is said to be "stronger" against the pound). If the rate changes so that $1 buys only ½ a pound (£0.5), an item that costs £6 can be purchased for $9 (the dollar is "weaker").[111] In mid-2014, the dollar was weaker, buying only .59 of a pound, whereas back in 2010 it had reached a high, averaging .67 of a pound. (Stated another way, £1 bought $1.56 in 2010 and $1.68 in April 2014.)

How the Exchange Rate Matters. As this is written, the dollar is weaker again, and will buy only .59 of a pound. Thus, staying in London became more expensive for Americans. A hotel room that rents for £100 cost an American only $156 in 2010, but cost $168 in 2014. Indeed, if during those years, 2010 to 2014, you were an American living in England working for a U.S. company and paid in dollars, your standard of living went down.

The Varying Cost of Living for Different Cities. Prices also vary among countries and cities throughout the world, with the standard of living of Chicago, say, being 40% less than that of London (the most expensive city in the world). To give you a sense of what an American's purchasing power is worth in London when $1 equals .59 British pound (or £1 equals $1.68)—the exchange rate in April 2014—consider these prices for various goods in Chicago versus London (estimated in U.S. dollars, computed on *www.expatistan.com*):

	CHICAGO	LONDON
2-liter Coke	$1.74	$3.20 (£1.90)
Big Mac meal	$6	$9 (£5.60)
Levi's 501 jeans	$57	$108 (£64)
Nike sports shoes	$88	$107 (£63)
Volkswagen Golf 2.0 TDI	$22,526	$38,315 (£22,797)

With this example you can see why it's important to understand how exchange rates work and what value your U.S. dollars actually have.

Of course, if you're a Londoner looking at this kind of currency exchange rate and price differentials, it's a terrific time to visit Chicago.[112]

YOUR CALL

Planning to visit Mexico, Canada, or one of those European countries (Germany, France) that uses the euro? Go online to *www.x-rates.com* and figure out the exchange rate of the U.S. dollar and that country's currency. Then go to *www.expatistan.com* and figure out what things cost in that country's principal city versus a U.S. city near you. Could you afford to go?

Get out much? Over one-third of Americans (110 million) have passports, more than double the number of U.S. passports (48 million) in circulation in 2000 and 15 times those in 1989 (7 million). At the same time, more visitors from foreign countries are coming to the United States, with four countries expected to account for 59% of the projected growth in the near future: Canada (23%), China (18%), Mexico (11%), and Brazil (7%). How does the travel boom figure in your career plans?

4.5 The Importance of Understanding Cultural Differences

MAJOR QUESTION

What are the principal areas of cultural differences?

THE BIG PICTURE

Managers trying to understand other cultures need to understand the importance of national culture and cultural dimensions and basic cultural perceptions embodied in language, interpersonal space, communication, time orientation, religion, and law and political stability.

In 2007, while hooking up his laptop to a projector to make a video presentation to a roomful of Chinese executives in Shanghai, American management consultant Scott Margolis put up on the screen a desktop photo of his three children for a few seconds—and, he says, "the room got very quiet." The reason, a Chinese colleague explained later: Displaying multiple children in a country that allowed only one child per family was potentially insulting.[113] Today China is loosening its single-child rule, but Margolis's story shows the potential cultural pitfalls of doing business in other countries. "Whether a multinational or a start-up business out of a garage, everybody is global these days," says international consultant Dean Foster. "In today's economy, there is no room for failure. Companies have to understand the culture they are working in from Day 1."[114]

There are a lot of cultural differences American managers are going to have to get used to. In China, for instance, people draw different lines between personal and work spaces, so that, for example, it is permissible for office colleagues to inquire about the size of your apartment and your salary and to give assessments of your wardrobe and your muscle tone, matters considered personal in the United States. In South Korea, if you want to give a gift that's considered classy and glamorous, you might present a can or two of Spam—yes, Spam, viewed as a thrifty tinned-meat staple in the United States but in Korea still thought of as a symbol of luxury descending from a time of deprivation during the Korean war when only Americans had the product.[115] In the Arab world, which has historically been segregated by sex, men spend a lot of time together, and so holding hands, kissing cheeks, and long handshakes are meant to

Tipping point. The culture of tipping in restaurants varies from country to country. Whereas in the U.S. and Canada 15%–20% of the total bill is considered a standard tip (and 10% insulting), in Japan and China tips are not expected and are even considered inappropriate. In Hong Kong and Singapore, it's up to the diner's discretion (a 10% service charge is already added to the bill). In Europe, hotels and restaurants add a 10% charge and tipping is expected only for exceptional service. In Latin America, a tip of 10% is customary in most restaurants, and you're expected to hand it to the person directly, not just leave it on the table. All clear?

express devotion and equality in status. We considered some other cultural differences in the Manager's Toolbox that opened this chapter.

The Importance of National Culture

A nation's **culture is the shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people.** We begin learning our culture starting at an early age through everyday interaction with people around us. This is why, from the outside looking in, a nation's culture can seem so intangible and perplexing. As cultural anthropologist Edward T. Hall puts it, "Since much of culture operates outside our awareness, frequently we don't even know what we know. . . . We unconsciously learn what to notice and what not to notice, how to divide time and space, how to walk and talk and use our bodies, how to behave as men or women, how to relate to other people, how to handle responsibility. . . ."[116] Indeed, says Hall, what we think of as "mind" is really internalized culture.

And because a culture is made up of so many nuances, this is why visitors to another culture may experience *culture shock*—the feelings of discomfort and disorientation associated with being in an unfamiliar culture. According to anthropologists, culture shock involves anxiety and doubt caused by an overload of unfamiliar expectations and social cues.[117]

Cultural Dimensions: The GLOBE Project

Misunderstandings and miscommunications often arise in international business relationships because people don't understand the expectations of the other side. A person from North America, Great Britain, Scandinavia, Germany, or Switzerland, for example, comes from a **low-context culture in which shared meanings are primarily derived from written and spoken words.** Someone from China, Korea, Japan, Vietnam, Mexico, or many Arab cultures, on the other hand, comes from a **high-context culture in which people rely heavily on situational cues for meaning when communicating with others,** relying on nonverbal cues as to another person's official position, status, or family connections.

One way to avoid cultural collisions is to have an understanding of various cultural dimensions, as expressed in the GLOBE project.

The GLOBE Project's Nine Cultural Dimensions Started in 1993 by University of Pennsylvania professor **Robert J. House, the GLOBE project is a massive and ongoing cross-cultural investigation of nine cultural dimensions involved in leadership and organizational processes.**[118] (GLOBE stands for Global Leadership and Organizational Behavior Effectiveness.) GLOBE has evolved into a network of more than 150 scholars from 62 societies, and most of the researchers are native to the particular cultures they study. The nine cultural dimensions are as follows:

- **Power distance—how much unequal distribution of power should there be in organizations and society?** *Power distance* expresses the degree to which a society's members expect power to be unequally shared.
- **Uncertainty avoidance—how much should people rely on social norms and rules to avoid uncertainty?** *Uncertainty avoidance* expresses the extent to which a society relies on social norms and procedures to alleviate the unpredictability of future events.
- **Institutional collectivism—how much should leaders encourage and reward loyalty to the social unit?** *Institutional collectivism* expresses the extent to which individuals are encouraged and rewarded for loyalty to the group as opposed to pursuing individual goals.
- **In-group collectivism—how much pride and loyalty should people have for their family or organization?** In contrast to individualism, *in-group*

collectivism expresses the extent to which people should take pride in being members of their family, circle of close friends, and their work organization.[119]

- **Gender egalitarianism—how much should society maximize gender role differences?** *Gender egalitarianism* expresses the extent to which a society should minimize gender discrimination and role inequalities.
- **Assertiveness—how confrontational and dominant should individuals be in social relationships?** *Assertiveness* represents the extent to which a society expects people to be confrontational and competitive as opposed to tender and modest.
- **Future orientation—how much should people delay gratification by planning and saving for the future?** *Future orientation* expresses the extent to which a society encourages investment in the future, as by planning and saving.
- **Performance orientation—how much should individuals be rewarded for improvement and excellence?** *Performance orientation* expresses the extent to which society encourages and rewards its members for performance improvement and excellence.
- **Humane orientation—how much should society encourage and reward people for being kind, fair, friendly, and generous?** *Humane orientation* represents the degree to which individuals are encouraged to be altruistic, caring, kind, generous, and fair.

Data from 18,000 managers yielded the country profiles shown below. *(See Table 4.4.)*

TABLE 4.4 **Countries Ranking Highest and Lowest on the Globe Cultural Dimensions**

DIMENSION	HIGHEST	LOWEST
Power distance	Morocco, Argentina, Thailand, Spain, Russia	Denmark, Netherlands, South Africa (black sample), Israel, Costa Rica
Uncertainty avoidance	Switzerland, Sweden, Germany (former West), Denmark, Austria	Russia, Hungary, Bolivia, Greece, Venezuela
Institutional collectivism	Sweden, South Korea, Japan, Singapore, Denmark	Greece, Hungary, Germany (former East), Argentina, Italy
In-group collectivism	Iran, India, Morocco, China, Egypt	Denmark, Sweden, New Zealand, Netherlands, Finland
Gender egalitarianism	Hungary, Poland, Slovenia, Denmark, Sweden	South Korea, Egypt, Morocco, India, China
Assertiveness	Germany (former East), Austria, Greece, United States, Spain	Sweden, New Zealand, Switzerland, Japan, Kuwait
Future orientation	Singapore, Switzerland, Netherlands, Canada (English speaking), Denmark	Russia, Argentina, Poland, Italy, Kuwait
Performance orientation	Singapore, Hong Kong, New Zealand, Taiwan, United States	Russia, Argentina, Greece, Venezuela, Italy
Human orientation	Philippines, Ireland, Malaysia, Egypt, Indonesia	Germany (former West), Spain, France, Singapore, Brazil

Source: Adapted from M. Javidan and R. J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," Organizational Dynamics, *Spring 2001, pp. 289–305.*

Have you thought about how you stand in relation to various norms—in both your society and others? Would your views affect your success in taking an international job? The following self-assessment was created to provide feedback regarding these questions and to aid your awareness about your views of the GLOBE dimensions.

SELF-ASSESSMENT 4.2 connect

Assessing Your Standing on the GLOBE Dimensions

This survey is designed to assess your values in terms of the GLOBE dimensions. Go to **connect.mheducation.com** and take Self-Assessment 4.2. When you're done, answer the following questions:

1. What are your three highest and lowest rated dimensions? How might these beliefs affect your ability to work with people from Europe, Asia, and South America?
2. How do your dimensional scores compare to the norms for Americans shown in Table 4.4?

Recognizing Cultural Tendencies to Gain Competitive Advantage The GLOBE dimensions show a great deal of cultural diversity around the world, but they also show how cultural patterns vary. For example, the U.S. managerial sample scored high on assertiveness and performance orientation—which is why Americans are widely perceived as being pushy and hardworking. Switzerland's high scores on uncertainty avoidance and future orientation help explain its centuries of political neutrality and world-renowned banking industry. Singapore is known as a great place to do business because it is clean and safe and its people are well educated and hardworking—no surprise, considering the country's high scores on social collectivism, future orientation, and performance orientation. By contrast, Russia's low scores on future orientation and performance orientation could foreshadow a slower-than-hoped-for transition from a centrally planned economy to free-enterprise capitalism. The practical lesson to draw from all this: *Knowing the cultural tendencies of foreign business partners and competitors can give you a strategic competitive advantage.*[120]

GLOBE researchers also set out to find which, if any, attributes of leadership were universally liked or disliked. Throughout the world, visionary and inspirational leaders who are good team builders generally do the best; self-centered leaders seen as loners or face-savers received a poor reception.

Other Cultural Variations: Language, Interpersonal Space, Communication, Time Orientation, Religion, & Law & Political Stability

How do you go about bridging cross-cultural gaps? It begins with understanding. Let's consider variations in six basic culture areas: (1) *language,* (2) *interpersonal space,* (3) *communication,* (4) *time orientation,* (5) *religion,* and (6) *law and political stability.*

Note, however, that such cultural differences are to be viewed as *tendencies* rather than absolutes. We all need to be aware that the *individuals* we are dealing with may be exceptions to the cultural rules. After all, there *are* talkative and aggressive Japanese, just as there are quiet and deferential Americans, stereotypes notwithstanding.[121]

1. Language More than 3,000 different languages are spoken throughout the world, and it's indeed true that global business speaks English.[122] However, even if you are operating in English, there are nuances between cultures that can lead to misperceptions. For instance, in Asia, a "yes" answer to a question "simply means the question is understood," says one well-traveled writer. "It's the beginning of negotiations."[123]

In communicating across cultures you have four options: (a) You can speak your own language. (The average American believes that about half the world can speak

English, when actually it's close to 18%.)[124] (b) You can use a translator. (Try to get one who will be loyal to you rather than to your overseas host.) (c) You can try using a translation app, such as Google Translate, that turns a smartphone into an interpreter, although this can be cumbersome.[125] (d) You can learn the local language—by far the best option. In 2011, Gallup pollsters surveyed 2,007 U.S. citizens and 250 opinion leaders and asked them, "If you were given a chance to learn a new foreign language, which language would you rather learn?" Spanish led the way (58%), followed by Chinese (15%), Arabic (11%), and Japanese (10%).[126]

2. Interpersonal Space Men holding hands may raise eyebrows among most Americans, but it is common in the Middle East and does not carry any sexual connotation. "Holding hands is the warmest expression of affection between men," says one Lebanese sociologist. "It's a sign of solidarity and friendship."[127]

People of different cultures have different ideas about what is acceptable interpersonal space—that is, how close or far away one should be when communicating with another person. For instance, the people of North America and northern Europe tend to conduct business conversations at a range of 3–4 feet. For people in Latin American and Asian cultures, the range is about 1 foot. For Arabs, it is even closer.

This can lead to cross-cultural misunderstandings. "Arabs tend to get very close and breathe on you," says anthropologist Hall. "The American on the receiving end can't identify all the sources of his discomfort but feels that the Arab is pushy. The Arab comes close, the American backs up. The Arab follows, because he can only interact at certain distances."[128] However, once the American understands that Arabs handle interpersonal space differently and that "breathing on people is a form of communication," says Hall, the situation can sometimes be redefined so that the American feels more comfortable.

3. Communication For small companies doing business abroad, "the important thing to remember is that you don't know what you don't know," says the head of a U.S. firm that advises clients on cross-cultural matters.[129] For instance, an American who had lived in Brazil and was fluent in Portuguese was angling to make a deal in São Paulo and thought his pitch was going well. "It was picture-perfect until my client suggested I stay for the weekend to go to a soccer game" and enjoy the local food with him. The American diplomatically declined the invitation, but the next day found the prospective clients not as receptive, saying they liked the program but would need more time to decide. On the plane home, he analyzed what had gone wrong and realized he had given them a "task" reason instead of a "relationship" reason for declining the invitation. "It's a relationship culture, and I could just as easily and more successfully [have said], 'There are people back home who are expecting me to be with them.' " But the reason he gave "sent the message that I was not as Brazilian as they initially thought—and it came out of my profit."[130]

Even single words and sounds can pose difficulties: Promoters of Apple's "iPad," it's been pointed out, might encounter difficulties in Ireland, where the sound is indistinguishable from "iPod," or in Japan, where the language doesn't even have a sound for the "a" in iPad.[131]

If you, like a growing number of young Americans, head to China for employment, you need to recall that you were brought up in a commercial environment, but younger Chinese were raised at a time when China was evolving from a government-regulated economy to a more free-market system, and so they may have less understanding of business concepts and client services. "In the West, there is such a premium on getting things done quickly," says an American manager, "but when you come to work in China, you need to work on listening and being more patient and understanding of local ways of doing business."[132] In particular, Americans have to be careful about giving criticism directly, which the Chinese consider rude and inconsiderate.

We consider communication matters in more detail in Chapter 15.

4. Time Orientation Time orientation is different in many cultures. For example, Americans are accustomed to calling ahead for appointments, but South Koreans believe in spontaneity. Thus, when Seoul erupted in protests over tainted American beef, Korean legislators simply hopped on a plane to the United States, saying they would negotiate with the U.S. government. "But since they failed to inform the Americans ahead of time," says one report, "they were unable to meet with anyone of importance."[133]

Anthropologist Hall makes a useful distinction between monochronic time and polychronic time:

- **Monochronic time.** This kind of time is standard American business practice—at least until recently. That is, **monochronic time is a preference for doing one thing at a time.** In this perception, time is viewed as being limited, precisely segmented, and schedule driven. This perception of time prevails, for example, when you schedule a meeting with someone and then give the visitor your undivided attention during the allotted time.[134]

  Indeed, you probably practice monochronic time when you're in a job interview. You work hard at listening to what the interviewer says. You may well take careful notes. You certainly don't answer your cell phone or gaze repeatedly out the window.
- **Polychronic time.** This outlook on time is the kind that prevails in Mediterranean, Latin American, and especially Arab cultures. **Polychronic time is a preference for doing more than one thing at a time.** Here time is viewed as being flexible and multidimensional.

  This perception of time prevails when you visit a Latin American client, find yourself sitting in the waiting room for 45 minutes, and then learn in the meeting that the client is dealing with three other people at the same time.

EXAMPLE

Dinner at 10? Spain's Cultural Differences in Time

Spaniard Miguel Carbayo, 26, who once interned in the Netherlands, where work started at 8 and ended at 5, with a half hour for lunch, is appalled at the notion of Spain doing away with its customary two- or three-hour midday meal. "Reduce lunchtime?" he said. "No, I'm completely against that. It is one thing to eat. It is another thing to nourish oneself."[135]

Out of Whack. Spain operates on its own clock and rhythms, different from the rest of Europe. But the country's apportionment of time, say critics, is out of whack, "dictating notoriously late hours that sap the country of efficiency and make it hard for anyone with a regular job to have time for much else," says one report.[136]

Spaniards generally start work at 9, pause for a late-morning snack (which cuts into work productivity), then quit for lunch around 2 or 2:30 to take a siesta break—although fewer and fewer people actually take naps. They then return to work around 4 or so and work well into the evening. Most workplaces close at 9.

Thus, at a time when people in other countries are getting ready for bed, that is the point in the day when Spaniards are sitting down to dinner. Prime-time television shows start at 10 p.m. and don't end until after 1 a.m. Night life goes on into the wee hours.

Longer on the Job & Sleepier. What's the effect of this? "Everything is late in Spain, and this has a detrimental effect on everyone," says a business school professor. "We live in a permanent jet lag."[137] She points out that, compared to other Europeans, Spaniards sleep nearly an hour less per night and frequently doze in school and at work. Spanish workers are also on the job longer than German workers but complete only 59% of their daily tasks, says the president of the Association for the Rationalization of Spanish Working Hours, which advocates revising the country's business hours.[138] Finally, for 70 years, the entire country has been one hour out of step with the countries around it.

Varying Tempos. Every culture has its own "tempo," or sense of time, points out psychologist Robert Levine, with different definitions of "what constitutes early and late, waiting and rushing, the past, the present, and the future."[139] Cultures that work on "clock time" (such as the United States and most of Europe), where a timepiece governs the start and end of activities, tend to value punctuality. In cultures that work on "event time" (such as Mexico, Brazil, and Indonesia), schedules are spontaneous and events happen when participants "feel" the time is right.[140]

YOUR CALL

Where does Spain fit in here in terms of tempo? If you were starting a business in Spain that depended on close interaction with nearby European countries observing different business times, how would you ask your Spanish staff to adjust?

5. Religion Trying to get wealthy Muslim investors in Dubai to buy some of your bank's financial products? Then you need to know that any investment vehicle needs to "conform to the spirit of the Koran, which forbids any investments that pay interest," as one writer puts it. "No mortgages. No bonds."[141] Are you a Protestant doing business in a predominantly Catholic country? Or a Muslim in a Buddhist country? What are the most popular world religions, and how does religion influence the work-related values of the people we're dealing with? *(See Table 4.5.)*

A study of 484 international students at a midwestern university uncovered wide variations in the work-related values for different religious affiliations.[142] For example, among Catholics, the primary work-related value was found to be consideration. For Protestants, it was employer effectiveness; for Buddhists, social responsibility; for Muslims, continuity. There was, in fact, virtually *no agreement* among religions as to what is the most important work-related value. This led the researchers to conclude: "Employers might be wise to consider the impact that religious differences (and more broadly, cultural factors) appear to have on the values of employee groups."

TABLE 4.5 Current Followers of the Major World Religions

All population counts are estimated. Adherents .com actually puts "Secular/nonreligious/agnostic/atheist" in third place, with a population of 1.1 billion. Judaism is estimated to have 14 million followers.

RELIGION	NUMBER OF ADHERENTS
Christianity	2.1 billion
Islam	1.5 billion
Hinduism	900 million
Buddhism	376 million
Chinese traditional religions	394 million
Primal-indigenous	300 million
African traditional & diasporic	100 million

Source: Adapted from Adherents.com, "Major Religions of the World Ranked by Major Adherents," last modified August 9, 2007, www.adherents .com/Religions_By_Adherents.html (accessed April 15. 2014).

6. Law & Political Stability Every firm contemplating establishing itself abroad must deal with other countries' laws and business practices, which frequently involves making calculations about political risk that might cause loss of a company's assets or impair its foreign operations. Among the risks an organization might anticipate abroad are *instability, expropriation, corruption,* and *labor abuses.*

- **Instability.** Even in a developed country a company may be victimized by political instability, such as riots or civil disorders, as happened in 2014 among Russian-speaking populations in Ukraine. In some developed nations, their very existence is threatened by separatist movements, with large sections clamoring to split off and become independent states—Quebec from Canada, Scotland from the United Kingdom, and Catalonia from Spain, for example—which could result in changes to the currency in use. (Would an independent Scotland stay with the British pound or switch to the euro, for example?)
- **Expropriation.** **Expropriation is defined as a government's seizure of a domestic or foreign company's assets.** After socialist Hugo Chavez became president of Venezuela, his government stepped up a campaign to seize land and businesses, such as a rice plant owned by Cargill, one of the United States' largest privately owned companies. The government has also taken over oil, electricity, steel, cement, and telecommunications companies.[143]

Prayer. The term "Muslim culture" covers many diverse groups—Middle Eastern, African, Asian Muslim, and European and American Muslims—each with its own customs. Muslims are required to pray five times a day, prostrating themselves on a prayer mat. Some American Muslims keep a prayer mat in their cars.

- **Corruption.** Whether it's called *mordida* (Mexico), *huilu* (China), or *vzyatka* (Russia), it means the same thing: a bribe. Although the United States is relatively free of such corruption, it is an acceptable practice in other countries. In African, Latin American, and newly independent states, frequent bribe paying is the norm; in Asia and the Pacific and southeast Europe, it is moderate; and in North America and the European Union, bribes are seldom paid for services.[144]

  American businesspeople are prevented from participating in overseas bribes under the 1978 **Foreign Corrupt Practices Act, which makes it illegal for employees of U.S. companies to make "questionable" or "dubious" contributions**

to political decision makers in foreign nations. While this creates a competitive disadvantage for Americans working in foreign countries in which government bribery may be the only way to obtain business, the United Nations Global Compact is attempting to level the playing field by promoting anti-corruption standards for business.

- **Labor abuses.** Overseas suppliers may offer low prices, but working conditions can be harsh, as has been the case with garment makers in Bangladesh, Cambodia, the Dominican Republic, Haiti, Mexico, Pakistan, and Vietnam. Among the problems: "padlocked fire exits, buildings at risk of collapse, falsified wage records, and repeated hand punctures from sewing needles when workers were pushed to hurry up," according to one report.[145] Some suppliers have been accused of using underage workers, and some (such as Apple iPhone suppliers) of pushing their workers to the point of suicide.[146]

U.S. Managers on Foreign Assignments: Why Do They Fail?

Somewhere between 2.2 million and 6.8 million Americans live outside American borders, in at least 100 countries—a class of people known as **expatriates—people living or working in a foreign country.**[147] Many of them, perhaps 300,000, are managers, and supporting them and their families overseas is not cheap. A partner at one human resources consulting firm estimates that it costs twice an executive's $300,000 salary to send him or her from the United States to Shanghai for a year.[148] Are the employers getting their money's worth? Probably not.

One study of about 750 companies (U.S., European, and Japanese) asked expatriates and their managers to evaluate their experiences. They found that 10%–20% of all U.S. managers sent abroad returned early because of job dissatisfaction or adjustment difficulties. Of those who stayed for the length of their assignments, about one-third did not perform to their superiors' expectations and one-fourth left the company, often to join a competitor—a turnover rate double that of managers who did not go abroad.[149]

Unfortunately, problems continue when expatriates return home. "Studies suggest between 8% to 25% of managers may leave a company after returning to the U.S.," says one report.[150] Another study indicated that 25% of repatriated employees quit their jobs within one year. Organizations can help reduce this turnover by communicating with employees throughout the international assignment and by providing at least 6 months' notice of when employees will return home.[151]

If you were to go abroad as a manager, what are the survival skills or outlook you would need? Perhaps the bottom line is revealed in a study of 72 human resource managers who were asked to identify the most important success factors in a foreign assignment. Nearly 35% said the secret was *cultural adaptability:* patience, flexibility, and tolerance for others' beliefs.[152]

Do you think you have what it takes to be an effective global manager? The following self-assessment can provide input to answering this question. It assesses your potential to be a successful global manager. ●

SELF-ASSESSMENT 4.3 connect

Assessing Your Global Manager Potential

This survey is designed to assess how well suited you are to becoming a global manager. Go to **connect.mheducation.com** and take Self-Assessment 4.3. When you're done, answer the following questions:

1. What is your reaction to the results?
2. Based on considering your five lowest-rated survey items, what can you do to improve your global manager potential?

Key Terms Used in This Chapter

Key Points

4.1 Globalization: The Collapse of Time & Distance

- Globalization is the trend of the world economy toward becoming more interdependent. Globalization is reflected in three developments: (1) the rise of the global village and e-commerce; (2) the trend of the world's becoming one big market; and (3) the rise of both megafirms and Internet-enabled minifirms.
- The rise of the "global village" refers to the "shrinking" of time and space as air travel and the electronic media have made global communication easier. The Internet and the web have led to e-commerce, the buying and selling of products through computer networks.
- The global economy is the increasing tendency of the economies of nations to interact with one another as one market.
- The rise of cross-border business has led to megamergers, as giant firms have joined forces, and minifirms, small companies in which managers can use the Internet and other technologies to get enterprises started more easily and to maneuver faster.

4.2 You & International Management

- Studying international management prepares you to work with foreign customers or partners, with foreign suppliers, for a foreign firm in the United States, or for a U.S. firm overseas. International management is management that oversees the conduct of operations in or with organizations in foreign countries.
- The successful international manager is not ethnocentric or polycentric but geocentric. Ethnocentric managers believe that their native country, culture, language, and behavior are superior to all others. Polycentric managers take the view that native managers in the foreign offices best understand native personnel and practices. Geocentric managers accept that there are differences and similarities between home and foreign personnel and practices, and they should use whatever techniques are most effective.

4.3 Why & How Companies Expand Internationally

- Companies expand internationally for at least five reasons. They seek (1) cheaper or more plentiful supplies, (2) new markets, (3) lower labor costs, (4) access to finance capital, and (5) avoidance of tariffs on imported goods or import quotas.
- There are five ways in which companies expand internationally. (1) They engage in

global outsourcing, using suppliers outside the company and the United States to provide goods and services. (2) They engage in importing, exporting, and countertrading (bartering for goods). (3) They engage in licensing (allow a foreign company to pay a fee to make or distribute the company's product) and franchising (allow a foreign company to pay a fee and a share of the profit in return for using the first company's brand name). (4) They engage in joint ventures, a strategic alliance to share the risks and rewards of starting a new enterprise together in a foreign country. (5) They become wholly-owned subsidiaries, or foreign subsidiaries that are totally owned and controlled by an organization.

4.4 The World of Free Trade: Regional Economic Cooperation

- Free trade is the movement of goods and services among nations without political or economic obstructions.
- Countries often use trade protectionism—the use of government regulations to limit the import of goods and services—to protect their domestic industries against foreign competition. Three barriers to free trade are tariffs, import quotas, and embargoes. (1) A tariff is a trade barrier in the form of a customs duty, or tax, levied mainly on imports. (2) An import quota is a trade barrier in the form of a limit on the numbers of a product that can be imported. (3) An embargo is a complete ban on the import or export of certain products.
- Three principal organizations exist that are designed to facilitate international trade. (1) The World Trade Organization is designed to monitor and enforce trade agreements. (2) The World Bank is designed to provide low-interest loans to developing nations for improving transportation, education, health, and telecommunications. (3) The International Monetary Fund is designed to assist in smoothing the flow of money between nations.
- A trading bloc is a group of nations within a geographical region that have agreed to remove trade barriers. There are six major trading blocs: (1) North American Free Trade Agreement (NAFTA: U.S., Canada, and Mexico); (2) European Union (EU: 28 trading partners in Europe); (3) the Association of Southeast Asian Nations (ASEAN, 10 countries); (4) Asia-Pacific Economic Cooperation (APEC, 21 Pacific Rim countries); (5) Mercosur (Argentina, Brazil, Paraguay, and Uruguay); and (6) the Central America Free Trade Agreement (CAFTA: United States and six Central American countries).
- Besides joining together in trade blocs, countries also extend special, "most favored nation" trading privileges—that is, grant other countries favorable trading treatment such as the reduction of import duties.
- When doing overseas trading, managers must consider exchange rates, the rate at which the currency of one area or country can be exchanged for the currency of another's, such as American dollars in relation to Mexican pesos or European euros.

4.5 The Importance of Understanding Cultural Differences

- Misunderstandings and miscommunications often arise because one person doesn't understand the expectations of a person from another culture. In low-context cultures, shared meanings are primarily derived from written and spoken words. In high-context cultures, people rely heavily on situational cues for meaning when communicating with others.
- Robert House and others created the GLOBE (for Global Leadership and Organizational Behavior Effectiveness) Project, a massive and ongoing cross-cultural investigation of nine cultural dimensions involved in leadership and organizational processes: (1) power distance, (2) uncertainty avoidance, (3) institutional collectivism, (4) in-group collectivism, (5) gender egalitarianism, (6) assertiveness, (7) future orientation, (8) performance orientation, and (9) humane orientation.
- A nation's culture is the shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people. Visitors to another culture may experience culture shock—feelings of discomfort and disorientation. Managers trying to understand other cultures need to understand six basic cultural perceptions embodied in (1) language, (2) interpersonal space, (3) communication, (4) time orientation, (5) religion, and (6) law and political stability.
- Regarding language, when you are trying to communicate across cultures you have three options: Speak your own language (if others can understand you), use a translator, or learn the local language.
- Interpersonal space involves how close or far away one should be when communicating with another person, with Americans being comfortable at 3–4 feet but people in other countries often wanting to be closer.
- Communication involves not only differences in understanding about words and sounds and their meanings but also in expectations about relationships and business concepts.

- Time orientation of a culture may be either monochronic (preference for doing one thing at a time) or polychronic (preference for doing more than one thing at a time).
- Managers need to consider the effect of religious differences. In order of size (population), the major world religions are Christianity, Islam, Hinduism, Buddhism, Chinese traditional religions, primal-indigenous, and African traditional and diasporic religions.
- Every company must deal with other countries' laws and business practices, which means weighing the risks of political instability; expropriation, or government seizure of a domestic or foreign company's assets; political corruption, including bribery; and labor abuses.

Understanding the Chapter: What Do I Know?

1. What are three important developments in globalization?
2. What are some positives and negatives of globalization?
3. What are the principal reasons for learning about international management?
4. How do ethnocentric, polycentric, and geocentric managers differ?
5. What are five reasons companies expand internationally, and what are five ways they go about doing this expansion?
6. What are some barriers to international trade?
7. Name the three principal organizations designed to facilitate international trade and describe what they do.
8. What are the principal major trading blocs?
9. Define what's meant by "culture" and describe some of the cultural dimensions studied by the GLOBE project.
10. Describe the six important cultural areas that international managers have to deal with in doing cross-border business.

Management in Action

Norwegian Air Shuttle Aspires to Become the Cheapest Global Airline

It's snowing in Copenhagen as Norwegian Air Shuttle Flight DY7041 lifts off. There are nearly 30 passengers on board, most of them Norwegians, Swedes, and Danes eager to escape the gloom that engulfs their part of the world in late November. Today they will arrive in Florida faster than usual. This is the first direct flight from Scandinavia to Fort Lauderdale. And it's a bargain: The tickets are a fraction of what larger airlines charge.

Norwegian Air Shuttle Chief Executive Officer Bjorn Kjos has come along to celebrate the occasion. . . .

Norwegian is Europe's fourth-largest discount airline. Until recently, it was little known outside Scandinavia. Then, in 2012, Kjos made the largest airplane order in European history, buying 222 jets from Boeing and Airbus Group for \$21.5 billion. Most of these are narrow-bodied Boeing 737 Max 8's and Airbus A320neos that will begin arriving in 2016. Kjos will use them to increase Norwegian's presence in Europe and challenge the top three discount carriers: Ireland's Ryanair, Britain's EasyJet, and Germany's Air Berlin. Last year, Norwegian acquired its first two Dreamliners, which list for as much as \$289 million each. Kjos is using these wider-bodied jets to offer cheaper international flights to distant places such as New York, Los Angeles, and Bangkok, undercutting established carriers in Europe and the U.S. Norwegian's \$180 tickets between New York and Oslo cost 10% of the equivalent ticket on British Airways. In effect, Kjos wants Norwegian to become a global version of Southwest Airlines.

Other upstart airlines have tried this and failed. Kjos says Norwegian will succeed because it has the Dreamliner and a new group of travelers to fly: the emerging middle-class citizens of China and India. He predicts that in the next decade there will also be 500 million new airline passengers, and he hopes to attract them with low fares.

Kjos will have to do many things right for it all to work, and he's already run into turbulence. He narrowly averted a strike by 600 pilots in November. They are unhappy with his plan to base Dreamliner flights outside Norway and to staff them with lower-paid workers from Thailand and elsewhere. The Dreamliner still needs debugging. Kjos's new jets have been grounded repeatedly by technical problems. . . .

Four U.S. airlines are trying to keep the U.S. Department of Transportation [DOT] from allowing Norwegian flights into the country because they worry that their foreign competitor will launch what they describe as an unfair price war with them. Kjos, however, doesn't think anything will get in the way of his plan to reshape international travel. "In the future, you will travel to Asia for nothing," he says, "You think I'm joking. You wait and see."

Obscure outside the aviation industry, Kjos is a celebrity at home; he's Norway's Richard Branson. In the early Aughts, Kjos introduced low-cost flights to a region that has historically been dominated by Scandinavian Airlines (SAS). At the time, SAS, which is controlled by the governments of Norway, Sweden, and Denmark, had some of the highest fares in Europe. "He has changed the lives of many, many Scandinavians," says Hans Erik Jacobsen, an analyst at First Securities ASA. . . .

The company went public in December 2003 at 32 kroner a share. Then, Kjos says, SAS reduced its prices in an effort to destroy its rival. (SAS denies that this was its intent.) Norwegian again lowered its prices. Its revenue dwindled, along with its stock price. . . . Then, they say, they learned from government investigators that SAS had been tapping into Norwegian's computer system and using data about its ticket sales to underprice it. Norwegian sued SAS for illegally using its trade secrets, eventually winning a 160 million kroner judgment in 2010. SAS says it accepts the court judgment.

Kjos says the revelations ended SAS's predatory pricing, and Norwegian had its first profitable year in 2005. But Kjos soon had something else to worry about: rising oil prices. Oil had soared from \$25 to \$75 per barrel in the previous five years. Kjos and his top executives modeled what would happen if oil prices continued to climb at that rate. "We found out . . . if we hit \$120, we're going bankrupt," Kjos says. Norwegian's planes were burning too much gas. The company needed a new fleet to survive. . . .

In August 2007, Kjos reached an agreement to buy 42 new jets from Boeing for \$3 billion. Frode Foss, Norwegian's CFO, said the company couldn't afford it. "Frode, would you like to go bankrupt with old airplanes or with new airplanes?" Kjos swaggeringly replied. He later increased the order to 84.

Three years later in 2010, revenue and profit had more than doubled. Norwegian was flying twice as many passengers and routes. The new planes "really enabled them to drive down the cost level," says Jacobsen. "It was a big step forward." Later that same year, Kjos ordered Norwegian's eight Dreamliners, but he also concluded that his newish fleet of short-range planes was already becoming outmoded. In 2012 he and [Norwegian Airlines chairman of the board Bjorn] Kise took advantage of the euro crisis to get favorable terms from both Boeing and Airbus for 100 planes. . . .

Norwegian's international routes will prevail, Kjos says, because the Dreamliner burns much less fuel than previous jets. "The Dreamliner is the first airplane that can do it," he says. He's also counting on lower personnel costs. Although the airline is headquartered in a country with some of the highest salaries in Europe, Kjos is trying to get around this by basing flights in lower-salaried countries such as Thailand. That's why Norwegian's pilots wanted assurances that he wouldn't try to use geography to cut their salaries. . . .

Norwegian also faces opposition in the U.S., where American Airlines, Delta Airlines, United Airlines, and US Airways are urging the federal government to reject an application by Norwegian Air International. The company is a Norwegian subsidiary that Kjos has set up in Ireland to operate its Dreamliner flights. Norwegian's critics say Kjos is doing this so he can hire cheap nonunion pilots and cabin crews. "[Norwegian's] scheme must be immediately and unequivocally rejected," Lee Moak, president of the Air Line Pilots Association International in Washington, said in a statement last month. "The DOT must not permit U.S. airlines and their employees to face an unfair competitive advantage from this runaway shop." A Norwegian spokesman, Lasse Sandaker-Nielsen, says the company isn't doing anything improper and its critics are making "false and misleading statements."

As for the Dreamliners, they have been problematic. The U.S. Federal Aviation Administration ordered Boeing to stop delivering them last year until it fixed their lithium batteries, which had caught fire. Norwegian's Dreamliners never burned, but one jet was grounded in Bangkok in September [2013] because of pump problems, stranding 200 passengers bound for Stockholm. In December, Stockholm-bound Norwegian customers were stuck in Fort Lauderdale before Christmas because of a disabled Dreamliner. On New Year's Eve, 276 passengers headed for Oslo spent the night stewing in hotels near John F. Kennedy International Airport in New York because of brake problems on one of the jets. Norwegian's Sandaker-Nielsen says the company apologizes for the delays. . . .

Kjos responded to the latest crisis by doubling down. He announced in December that Norwegian would lease two more Dreamliners.

Source: Excerpted from Devin Leonard, "Barbarian at Gate G17," Bloomberg Businessweek, *January 13–19, 2014, pp. 58, 60–61.*

FOR DISCUSSION

1. What are the biggest challenges Norweigan experienced in trying to expand its airline across the globe?
2. To what extent did you observe examples of ethnocentric, polycentric, or geocentric attitudes in this case? Provide examples to support your conclusions.
3. Use Table 4.3 to identify cultural differences that are likely to arise between Norwegian employees working in Denmark and Sweden and Thailand. How might these differences affect interpersonal interactions, and what can the company do to reduce any unintended conflict from these differences?
4. What are the most important lessons to be learned about global management from this case? Discuss.

Legal/Ethical Challenge

Should Families of Passengers on Malaysia Flight 370 Be Allowed to Sue for Damages in the U.S.?

This challenge revolves around the mysterious crash of Malaysia Flight 370 en route from Kuala Lumpur, Malaysia, to Beijing: To date, no remains of the plane have been found. Two-thirds of the passengers on this flight were Chinese. There were three Americans on the plane.

Lawyers from multiple countries have been meeting with families of missing passengers discussing the possibility of filing lawsuits. “If Chinese families sued the Malaysian carrier in China, they could get around 1.5 million yuan ($250,000) per passenger, depending on their age, job income and other factors” said Beijing-based lawyer Zhang Quhuai. In contrast, a suit in Malaysia would problably result in the court’s decision to “not stray too far from the $175,000 compensation limit set by the Montreal convention,” according to Jeremy Joseph, a lawyer from Malaysia.

Some lawyers are encouraging families to file suit against Boeing in the U.S.: Boeing is the maker of the missing plane. Lawyers are doing this because “America is the land of liability opportunity,” said Professor Steve Dedmono, an aviation law expert. Wang Guanhua, a Chinese-based lawyer, commented that “as long as the possibility that the Boeing plane is related to the incident is not eliminated, there are no limitations on seeking compensation from Boeing.” Wang believes that he can get $6 million in damages for each passenger. Other lawyers believe that this approach is misleading to families and that they would be better served by trying to reach a settlement with Malaysia Airlines insurers.

SOLVING THE CHALLENGE

Do you think lawyers should encourage families to sue Boeing in the U.S.?

1. No. There is no evidence that Boeing was responsible for the crash, and people should get what they can from Malaysian Airlines.
2. No. Such suits should be filed in the country in which the accident occurred.
3. Yes. This is a tragedy and families should get all they can.
4. No. Malaysia Airlines has agreed to pay at least $5,000 to each family. Also, large settlements might bankrupt Malaysia Airlines and the Montreal Convention provides damages for passengers on international flights.

Source: Materials drawn from Gillain Wong, “Malaysia Airlines Lawsuits Unlikely to Be Heard in U.S.,” Claims Journal, *April 17, 2014, www.claimsjournal.com/news/national/2014/04/17/247610.htm (accessed April 20, 2014); and W. J. Hennigan, Ralph Vartabedian, and Don Lee, “Missing Malaysia Plane: Relatives Protest and Legal Action Begins,”* Los Angeles Times, *March 25, 2014, www.latimes.com/world/asia/la-fg-malaysia-plane-20140326,0,6450323 (accessed April 20, 2014).*

5

Planning

The Foundation of Successful Management

Major Questions You Should Be Able to Answer

5.1 Planning & Strategy

Major Question: What are planning, strategy, and strategic management, and why are they important to me as a manager?

5.2 Fundamentals of Planning

Major Question: What are mission and vision statements, and what are three types of planning?

5.3 Goals & Plans

Major Question: What are the three types of goals, and what are different kinds of plans?

5.4 Promoting Goal Setting: SMART Goals & Management by Objectives

Major Question: What are SMART goals and MBO and how can they be implemented?

5.5 The Planning/Control Cycle

Major Question: How does the planning/control cycle help keep a manager's plans headed in the right direction?

the manager's toolbox

Setting Big Goals: Is This the Road to Success?

What's a big goal? A four-year college degree.

Worth it? Not getting a degree has been estimated at about half a million dollars in lost income over your lifetime![1] People with such degrees averaged 98% more an hour than those without them.[2] College graduates ages 25–32 are more apt than non–college graduates (86% versus 57%) to say their job is a path to a career.[3]

Big Goals, Hard Goals

Getting a college degree is not only a big goal, it's a hard goal—difficult, stressful, expensive, time consuming. Still, do you perform better when you set difficult goals? If goals are made harder, people may achieve them less often, but they nevertheless perform at a higher level.[4]

If you have outsize ambitions, you might set yourself a *really hard* goal ("Increase study time 50%)—what's known as a *stretch goal,* "stretching yourself beyond what your mind might think is safe," in one definition.[5] Richard Branson, founder of Virgin Atlantic airlines, Virgin records, and many other enterprises, has done a lot of incredible things, in part because of setting stretch goals: "My interest in life," he says, "comes from setting myself huge, apparently unachievable challenges and trying to rise above them."[6] However, in organizations, stretch goals may spur extraordinary efforts but may also lead to excessive risk taking, cheating, and interpersonal strife.[7]

Writing Out Your Goals

Research suggests that writing about two paragraphs outlining your goals will help you feel more confident and energetic when entering a new group.[8] Some advice for writing out—and *achieving*—your biggest goals are as follows:[9]

- Make a concrete plan—which embeds your intentions firmly in your memory.
- Break your goals into manageable bites—and set out clear steps that you can use to record and track your progress.
- Put something of value on the line—such as money that will be forfeited if you're unsuccessful. (You can deposit the money at stickK.com.)
- Bundle your temptations or rewards to your efforts—such as tying your reading of pleasurable trashy novels to when you do gym workouts.
- Seek social support—pursue your goal with the help of a mentor or fellow strivers.

If you fail, don't give up entirely. Realize that you may have other opportunities to make a fresh start.

For Discussion One writer advises setting one somewhat "crazy" personal goal from time to time. This is a stretch goal, he suggests, "that if accomplished would create a new, different, and exciting future state, the kind of goal that if you can only get halfway there, you will still feel good about the progress you have made and will be better for the effort."[10] What would that goal be for you?

forecast What's Ahead in This Chapter

We describe planning and its link to strategy. We define planning, strategy, and strategic management and state why they are important. We deal with the fundamentals of planning, including the mission and vision statements and the three types of planning—strategic, tactical, and operational. We consider goals, action plans, and operating plans; SMART goals and management by objectives; and finally the planning/control cycle.

5.1 Planning & Strategy

MAJOR QUESTION

What are planning, strategy, and strategic management, and why are they important to me as a manager?

THE BIG PICTURE

The first of four functions in the management process is planning, which involves setting goals and deciding how to achieve them and which is linked to strategy. We define planning, strategy, and strategic management. We then describe three reasons why strategic management and strategic planning are important and how they may work for both large and small firms.

The *management process,* as you'll recall (from Chapter 1), involves the four management functions of *planning, organizing, leading,* and *controlling,* which form four of the part divisions of this book. In this and the next two chapters we discuss *planning* and *strategy.*

Planning, Strategy, & Strategic Management

Planning, which we discuss in this chapter, is used in conjunction with *strategy* and *strategic management,* as we describe in Chapter 6. Let's consider some definitions.

Planning: Coping with Uncertainty As we've said (Chapter 1), **planning is defined as setting goals and deciding how to achieve them.** Another definition: **planning is coping with uncertainty by formulating future courses of action to achieve specified results.**[11] When you make a plan, you make a blueprint for action that describes what you need to do to realize your goals.

Example: One important type of plan is a **business plan, a document that outlines a proposed firm's goals, the strategy for achieving them, and the standards for measuring success.** Here you would describe the basic idea behind your business—the **business model, which outlines the need the firm will fill, the operations of the business, its components and functions, as well as the expected revenues and expenses.** It also describes the industry you're entering, how your product will be different, how you'll market to customers, how you're qualified to run the business, and how you will finance your business.

EXAMPLE

Is Planning Necessary? Launching a Vending-Machine Business on $425

Brian Allman of Reno, Nevada, was 17 years old when he bought a simple vending machine at Sam's Club for $425 and used it to start Bear Snax Vending, stocking the machine and four others he added later with Skittles, M&Ms, and Snickers to serve several small to midsize businesses, such as banks. Allman did this without apparently drawing up a business plan.[12]

Why Plan? Almost everyone starting a new business is advised to write a business plan. The reasons: Creating such a plan helps you get financing. ("If you want us to invest our money, show us your plan.") It helps you think through important details. ("Don't rush things; it's best to get the strategy right.") Finally, it better guarantees your firm will succeed. (A study of 396 entrepreneurs in Sweden found that a greater number of firms that failed never had a formal business plan.[13])

"Going with What You've Got." Even so, sometimes major decisions, including starting up companies, are made without much planning. Indeed, one study found that 41% of *Inc.* magazine's 1989 list of fastest-growing private firms didn't have a business plan and 26% had only rudimentary plans, percentages essentially unchanged in 2002.[14] Planning of any sort, of course, requires time, and sometimes you need to make a quick decision and "go with what you've got"—with or without a plan.[15]

YOUR CALL

Nine years after founding Bear Snax Vending without a formal business plan, Brian Allman was still running it. (Allman was also working as a financial advisor for financial services firm Edward Jones.) If you had a few hundred dollars with which to launch a small business, do you think writing a business plan would help you or just be a waste of time?

Strategy: Large-Scale Action Plan **A strategy is a large-scale action plan that sets the direction for an organization.** It represents an "educated guess" about what must be done in the long term for the survival or the prosperity of the organization or its principal parts. We hear the word expressed in terms like "Budweiser's ultimate strategy . . ." or "Visa's overseas strategy . . ." or *financial strategy, marketing strategy,* and *human resource strategy.*

An example of a strategy is "Find out what customers want, then provide it to them as cheaply and quickly as possible" (the strategy of Walmart). However, strategy is not something that can be decided on just once. It needs to be revisited from time to time due to ever changing business conditions.

Strategic Management: Involving All Managers in Strategy In the late 1940s, most large U.S. companies were organized around a single idea or product line. By the 1970s, Fortune 500 companies were operating in more than one industry and had expanded overseas. It became apparent that to stay focused and efficient, companies had to begin taking a strategic-management approach.

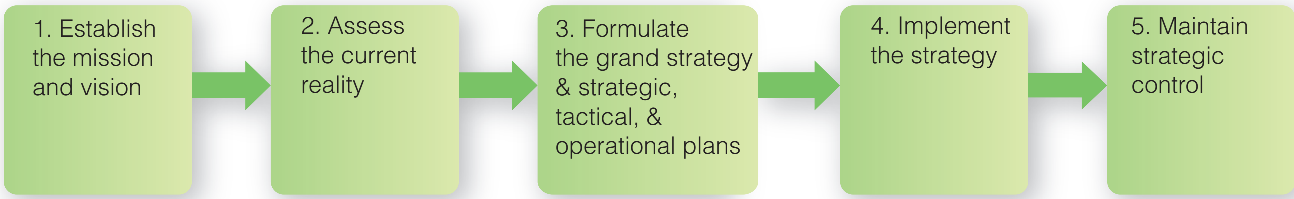
Strategic management is a process that involves managers from all parts of the organization in the formulation and the implementation of strategies and strategic goals. This definition doesn't mean that managers at the top dictate ideas to be followed by people lower down. Indeed, precisely because middle managers in particular are the ones who will be asked to understand and implement the strategies, they should also help to formulate them.

As we will see, strategic management is a process that involves managers from all parts of the organization—top managers, middle managers, and first-line managers—in the formulation, implementation, and execution of strategies and strategic goals to advance the purposes of the organization. Thus, planning covers not only strategic planning (done by top managers) but also tactical planning (done by middle managers) and operational planning (done by first-line managers).

Planning and strategic management derive from an organization's mission and vision about itself, as we describe in the next section. *(See Figure 5.1.)*

FIGURE 5.1 **Planning and strategic management**

The details of planning and strategic management are explained in Chapters 5 and 6.



Why Planning & Strategic Management Are Important

An organization should adopt planning and strategic management for three reasons: They can (1) *provide direction and momentum,* (2) *encourage new ideas,* and above all (3) *develop a sustainable competitive advantage.*[16] Let's consider these three matters.

1. Providing Direction & Momentum Some executives are unable even to articulate what their strategy is.[17] Others are so preoccupied with day-to-day pressures that their organizations can lose momentum. But planning and strategic management can help people focus on the most critical problems, choices, and opportunities.

If a broad group of employees is involved in the process, that can foster teamwork, promote learning, and build commitment across the organization. Indeed, as we describe in Chapter 8, strategy can determine the very structure of the organization—for example, a top-down hierarchy with lots of management levels, as might be appropriate for an electricity-and-gas power utility, versus a flat-organization with few management levels and flexible roles, as might suit a fast-moving social media start-up.

Unless a plan is in place, managers may well focus on just whatever is in front of them, putting out fires—until they get an unpleasant jolt when a competitor moves out in front because it has been able to take a long-range view of things and act more quickly. In recent times, this surprise has been happening over and over as companies have been confronted by some digital or Internet trend that emerged as a threat—as Amazon.com was to Borders; as digital cameras were to Kodak's film business; as Google News, blogs, and citizen media were to newspapers.[18]

But there are many other instances in which a big company didn't take competitors seriously (as Sears didn't Walmart, IBM didn't Microsoft, and GM didn't Toyota). "We were five years late in recognizing that [microbreweries] were going to take as much market as they did," says August Busch III, CEO of massive brewer Anheuser-Busch, "and five years late in recognizing we should have joined them."[19]

Of course, a poor plan can send an organization in the wrong direction. Bad planning usually results from faulty assumptions about the future, poor assessment of an organization's capabilities, ineffective group dynamics, and information overload.[20] And it needs to be said that while a detailed plan may be comforting, it's not necessarily a strategy.[21]

2. Encouraging New Ideas Some people object that planning can foster rigidity, that it creates blinders that block out peripheral vision and reduces creative thinking and action. "Setting oneself on a predetermined course in unknown waters," says one critic, "is the perfect way to sail straight into an iceberg."[22]

Actually, far from being a straitjacket for new ideas, strategic planning can help encourage them by stressing the importance of innovation in achieving long-range success. Management scholar Gary Hamel says that companies such as Apple have been successful because they have been able to unleash the spirit of "strategy innovation." Strategy innovation, he says, is the ability to reinvent the basis of competition within existing industries—"bold new business models that put incumbents on the defensive."[23]

100 Montaditos. Characterized as a "Spanish Starbucks for sandwiches" or "the dollar store of fast-food franchises," 100 Montaditos is a hugely successful Spanish restaurant chain that has set its sights on the United States. Named for bargain-rate traditional 5-inch sandwiches (such as those stuffed with Serrano ham or duck mousse with crispy onions for only $1), the chain's strategy emphasizes atmosphere combined with low prices. Starting with this Miami restaurant in 2011, it aimed to open 4,000 outlets from Canada to Argentina during the next five years—a growth rate that would exceed even that of Starbucks, which took three decades to achieve the same number of U.S. stores. Some business analysts say the Spanish company's plans are too ambitious. Is there anything wrong with a strategy built on bold dreams?

Some successful innovators are companies creating new wealth in the food and restaurant industries, where Starbucks Coffee, Trader Joe's, ConAgra, and Walmart, for example, developed entirely new grocery product categories and retailing concepts. Chili's, the casual-dining chain, has installed table-top computer screens that take menu orders, accept payments by credit card, and let diners play videogames, changing how diners and wait staff interact.[24] GrubHub Seamless, an online takeout and delivery company, serves customers armed with cell phones and delivery apps, delivering pizzas and other foods anywhere they want—at the gym, in the park, on the playground.[25] Vending machines are now serving everything from salads to smoothies to caviar, and supermarkets are experimenting with personalized pricing, using complex shopping data to ascertain the unique needs of individual customers.[26]

3. Developing a Sustainable Competitive Advantage Strategic management provides a sustainable *competitive advantage,* which, you'll recall (from Chapter 1), is the ability of an organization to produce goods or services more effectively than its competitors do, thereby outperforming them. Sustainable competitive advantage occurs when an organization is able to get and stay ahead in four areas: (1) in being responsive to customers, (2) in innovating, (3) in quality, and (4) in effectiveness. Today technology has made achieving a sustainable competitive advantage nearly impossible in many industries, so the advantage may well be fleeting.[27]

EXAMPLE

Developing Competitive Advantage: What's the Best Strategy in an E-Commerce Age?

E-commerce has completely changed retail shopping, as more Americans skip going into stores and order via their tablets and smartphones instead.[28] The result has severely impacted such chains as Staples, RadioShack, and Sears, which have reduced the number of stores, and forced other big retailers, such as Walmart, to ramp up their online buying and delivery operations.[29]

Adjusting to Online Competition. Other stores have shifted their focus and their services:[30] J. Crew has gone to a new format (J. Crew Mercantile) to appeal to discount shoppers. Abercombie & Fitch is reaching out to teens with less nudity on its clothing dummies, more black apparel, and larger sizes. Sears, Saks, and Macy's are instructing their clerks to encourage virtual customers by picking and packing items from the stores themselves (rather than the warehouses) and ordering a same-day UPS or FedEx pickup, to avoid losing shoppers to Amazon.

IKEA'S Advantage. However, 71-year-old Sweden-based IKEA, the world's largest furniture retailer, with 345 stores in 42 countries (50 in North America), has a different strategy—add *more* physical stores, as well as competing online and with catalogs. "We see that Internet and e-commerce is growing," says IKEA CEO Peter Agnefjäll, "but at the same time, when buying a new bed a lot of people want to try it first, and if you buy a sofa you may want to touch the fabric."[31]

YOUR CALL

For what kinds of products is a visit to a physical store a more attractive shopping experience for consumers than buying online? How realistic is the prospect of the use of holograms (which could enable consumers to try clothes on at home) and 3-D printers (which could print out three-dimensional products remotely) in the shopping experience within the next 15 years?

5.2 Fundamentals of Planning

MAJOR QUESTION

What are mission and vision statements, and what are three types of planning?

THE BIG PICTURE

Planning consists of translating an organization's mission and vision into objectives. The organization's purpose is expressed as a mission statement, and what it becomes is expressed as a vision statement. From these are derived strategic planning, then tactical planning, then operational planning.

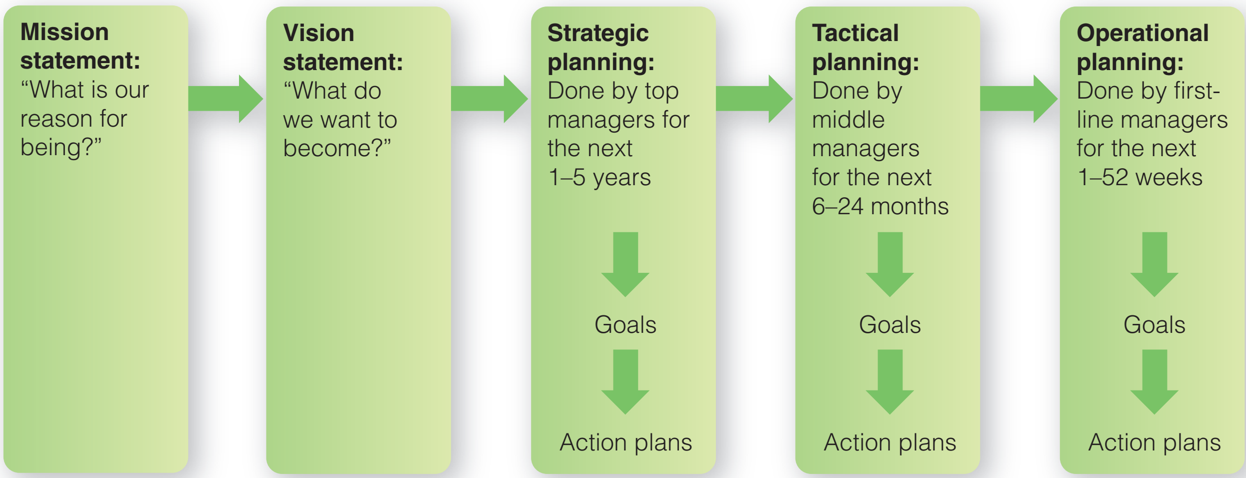
"Everyone wants a clear reason to get up in the morning," writes journalist Dick Leider. "As humans we hunger for meaning and purpose in our lives."[32]

And what is that purpose? "Life never lacks purpose," says Leider. "Purpose is innate—but it is up to each of us individually to discover or rediscover it."

An organization has a purpose, too—a mission. And managers must have an idea of where they want the organization to go—a vision. The approach to planning can be summarized in the diagram below, which shows how an organization's mission becomes translated into goals and action plans. *(See Figure 5.2.)*

FIGURE 5.2 **Making plans**

An organization's reason for being is expressed in a *mission statement.* What the organization wishes to become is expressed in a *vision statement.* From these are derived *strategic planning,* then *tactical planning,* and finally *operational planning.* The purpose of each kind of planning is to specify *goals* and *action plans* that ultimately pave the way toward achieving an organization's vision.



Mission & Vision Statements

The planning process begins with two attributes: a mission statement (which answers the question "What is our reason for being?") and a vision statement (which answers the question "What do we want to become?").

The Mission Statement—"What Is Our Reason for Being?"

An organization's mission is its purpose or reason for being. Determining the mission is the responsibility of top management and the board of directors. It is up to them to formulate a **mission statement, which expresses the purpose of the organization.**

"Only a clear definition of the mission and purpose of the organization makes possible clear and realistic . . . objectives," said Peter Drucker.[33] Whether the organization is for-profit or nonprofit, the mission statement identifies the goods or services the organization provides and will provide. Sometimes it also gives the reasons for providing them (to make a profit or to achieve humanitarian goals, for example).

EXAMPLE

Mission Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Mission statements answer the question, "What is our reason for being?" or "Why are we here?"

Here are the mission statements for three companies, drawn from their websites. The mission statement for Hilton Hotels, a large company, reads: "To fill the earth with the light and warmth of hospitality."

Amazon's mission statement is "Use the Internet to offer products that educate, inform, and inspire. We decided to build an online store that would be customer friendly and easy to navigate and would offer the broadest possible selection. . . . We believe that a fundamental measure of our success will be the shareholder value we create over the *long term.*"

Clothing maker Patagonia's mission statement is to "Build the best product, cause no unnecessary harm, [and] use business to inspire and implement solutions to the environmental crisis."

YOUR CALL

Do you think any of these mission statements could be adapted to different companies offering different products or services? Give an example.

The Vision Statement—"What Do We Want to Become?" **A vision is a long-term goal describing "what" an organization wants to become. It is a clear sense of the future and the actions needed to get there.** "[A] vision should describe what's happening to the world you compete in and what you want to do about it," says one *Fortune* article. "It should guide decisions."[34]

After formulating a mission statement, top managers need to develop a **vision statement, which expresses what the organization should become, where it wants to go strategically.**[35]

EXAMPLE

Vision Statements for Three Different Companies: Hilton, Amazon, & Patagonia

Vision statements answer the question, "What do we want to become?" or "Where do we want to go?"

Here is Hilton Hotels' statement: "To be the first choice of the world's travelers, building on the rich heritage and strength of our brands by consistently delighting our customers, investing in our team members, delivering innovative products and services, expanding our family of brands, and continuously improving performance."

Amazon's vision statement: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online."

Patagonia's statement: "We prefer the human scale to the corporate, vagabonding to tourism, and the quirky to the toned-down and flattened out."

YOUR CALL

Do these vision statements work? Do they meet *Fortune*'s criterion of describing "what's happening in the world you compete in and what you want to do about it. It should guide decisions"?

The concept of a vision statement also is important for individuals. Harvard professor Clayton Christensen believes that creating a personal life vision statement is akin to developing a strategy for your life. He finds that people are happier and lead more meaningful lives when they are directed by personal vision statements.[36] Do you have a vision for your future career? Is it vague or specific? The following self-assessment was created to help you evaluate the quality of your career vision and plan.

SELF-ASSESSMENT 5.1 connect

Assessing Your Career Vision & Plan

This self-assessment is designed to measure the quality of your personal vision statement and associated plan. Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. What is the qualitative status of your vision statement and plan? Are you surprised by the results?
2. Based on the three lowest rated survey items, what can you do in the near term to enhance your vision and plan?

Three Types of Planning for Three Levels of Management: Strategic, Tactical, & Operational

Inspiring, clearly stated mission statements and vision statements provide the focal point of the entire planning process. Then three things happen:

- ***Strategic planning by top management.*** Using their mission and vision statements, top managers do **strategic planning—they determine what the organization's long-term goals should be for the next 1–5 years with the resources they expect to have available.** "Strategic planning requires visionary and directional thinking," says one authority.[37] It should communicate not only general goals about growth and profits but also ways to achieve them. Today, because of the frequency with which world competition and information technology alter marketplace conditions, a company's strategic planning may have to be done closer to every 1 or 2 years than every 5. Still, at a big company like Boeing or Ford or Amazon (see Example box below), top executives cannot lose sight of long-range, multiyear planning.

EXAMPLE

Strategic Planning by Top Management: Amazon Manages for the Future, to the Frustration of Short-Term Investors

One thing Amazon CEO Jeff Bezos is famous for is unconventional thinking (or, in that hackneyed expression, "thinking outside the box"). For instance, his early decision to allow customers to post their own book reviews, both negative as well as positive, on the Amazon website puzzled competing booksellers, who thought negative reviews would diminish sales. Bezos's point of view—"We will sell more if we help people make purchasing decisions"—proved correct.[38] (Some of his latest ideas involve same-day delivery and delivery via drones.)[39]

Talking Long Term. Similarly, Bezos has an unconventional opinion about profitability. With most publicly owned companies, which Amazon is (Bezos holds 18% of the stock, worth $25.4 billion; most of the rest is owned by institutional investors such as Capital World or mutual funds such as American Funds), shareholders constantly pressure management to produce profits that will boost the stock every quarter (3 months) or so.[40] But back in 1997, Bezos warned stockholders that "it's all about the long term. We may make decisions and weigh trade-offs differently than some companies."[41]

Most top managers do strategic planning on a one- to three-year time line. Says Bezos, "If everything you do needs to work on a three-year time horizon, then you're competing against a lot of people. But if you're willing to invest on a seven-year horizon, you're now competing against a fraction of those people, because very few people are willing to do that." Actually, Bezos is *very* long term, operating on a 10- to 20-year time line.

Ambitions for the Future. The large time window and freedom from having to deliver immediate profits allow Amazon to pursue the powerful long-range strategy it has planned.[42] It is spending money to open new airplane hangar–size storage and shipping facilities, bringing them to an expected 94 by the end of 2013.[43] It continues to cut prices on its merchandise, which will undercut its retail competitors (Borders is gone; Barnes & Noble and Best Buy are struggling).[44] It is realizing Walmart-like economies of scale, achieving enormous savings from buying supplies in huge quantities. It has been slashing prices on its Kindle e-book reader and its Fire tablet to get more units into more buyers' hands, developing a future customer base for its e-books, apps, media, and other digital products.[45]

Profits? "Profits will come down the road," says business writer James Stewart, "when Kindle [and Fire] users buy content through Amazon."[46] Says Bezos, "We're willing to plant seeds, let them grow—and we're very stubborn."

YOUR CALL

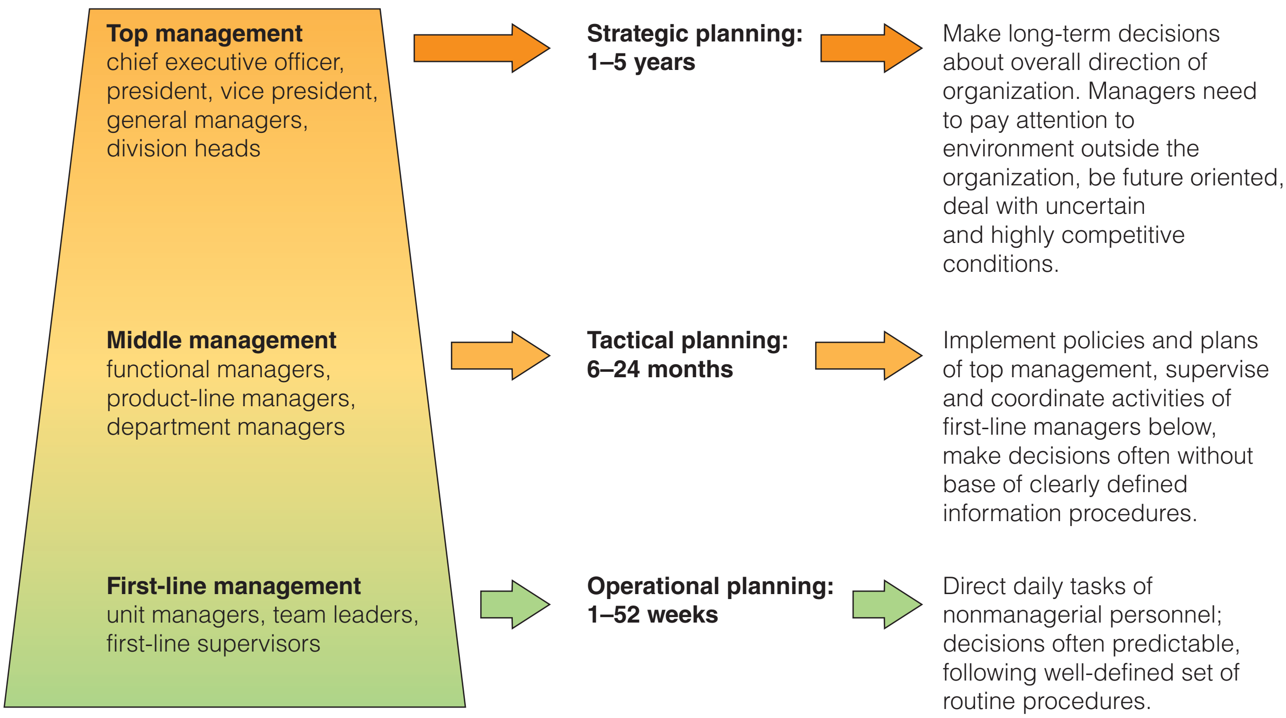
If Amazon's strategy hurts short-run profits, should your parents or grandparents invest in Amazon? Should you? What if Amazon's strategic plan is wrong?

- ***Tactical planning by middle management.*** The strategic priorities and policies are then passed down to middle managers, who must do **tactical planning**—that is, they determine what contributions their departments or similar work units can make with their given resources during the next 6–24 months.
- ***Operational planning by first-line management.*** Middle managers then pass these plans along to first-line managers to do **operational planning**—that is, they determine how to accomplish specific tasks with available resources within the next 1–52 weeks.

The three kinds of managers are described further in the figure below. *(See Figure 5.3.)*

FIGURE 5.3 **Three levels of management, three types of planning**

Each type of planning has different time horizons, although the times overlap because the plans are somewhat elastic.



5.3 MAJOR QUESTION

Goals & Plans

What are the three types of goals, and what are different kinds of plans?

THE BIG PICTURE

The purpose of planning is to set a goal and then an action plan and an operational plan. Types of plans include standing and single-use plans.

Whatever its type—strategic, tactical, or operational—the purpose of planning is to set a *goal* and then to formulate an *action plan.*

Three Types of Goals: Strategic, Tactical, & Operational

A goal, also known as an objective, is a specific commitment to achieve a measurable result within a stated period of time.

As with planning, goals are of the same three types—strategic, tactical, and operational. Also, like planning, goals are arranged in a hierarchy known as a **means-end chain because in the chain of management (operational, tactical, strategic) the accomplishment of low-level goals is the means leading to the accomplishment of high-level goals or ends.**

- **Strategic goals are set by and for top management and focus on objectives for the organization as a whole.**
- **Tactical goals are set by and for middle managers and focus on the actions needed to achieve strategic goals.**
- **Operational goals are set by and for first-line managers and are concerned with short-term matters associated with realizing tactical goals.**

As we will see later in Section 5.4, goals should be SMART—specific, measurable, attainable, results-oriented, and with target dates.

The Action Plan & the Operating Plan

The goal should be followed by an **action plan, which defines the course of action needed to achieve the stated goal,** such as a marketing plan or sales plan.

The operating plan, which is typically designed for a one-year period, defines how you will conduct your business based on the action plan; it identifies clear targets such as revenues, cash flow, and market share.

EXAMPLE

Strategic, Tactical, & Operational Goals: Southwest Airlines

Ranking No. 9 on *Fortune*'s 2014 Most Admired Companies list, Dallas-based Southwest Airlines has inspired a host of low-fare imitators—big ones like Alaska and JetBlue and small ones like Allegiant, Frontier, Spirit, Sun Country, and Virgin America—which have grown rapidly in recent years compared to mainline carriers such as United, Delta, American, and US Airways. It has continually achieved its strategic goals and as of 2014 had been profitable for 41 consecutive years.[47]

Strategic Goals. The goal of Southwest's top managers is to ensure that the airline is highly profitable, following the general strategy of (a) keeping costs and fares down, (b) offering a superior on-time arrival record, and (c) keeping passengers

Lookalikes. One key to the success of Southwest Airlines is that all the planes in its fleet have been the same type, Boeing 737s, which saves on maintenance and training costs.

happy. One of the most important strategic decisions Southwest made was to fly just one type of airplane—Boeing 737s. (Several dozen Boeing 717s, inherited when the company acquired AirTran, were leased to Delta. Southwest has about 680 jets overall.) Thus, it is able to hold down training, maintenance, and operating expenses.[48]

Another strategic decision was to create a strong corporate culture that, according to one former CEO, allows people to "feel like they're using their brains, they're using their creativity, they're allowed to be themselves and have a sense of humor, and they understand what the mission of the company is."[49]

Tactical Goals. Cutting costs and keeping fares low has traditionally been a key tactical goal for Southwest's middle managers. For example, the organization cut costs in its maintenance program by doing more work on a plane when it's in for a check instead of bringing it in three different times. In addition, it has tried to get more use out of its planes every day by limiting the turnaround time between flights to 20 minutes, compared to up to an hour for other airlines.

Although now it flies longer flights between bigger cities, which uses fuel more efficiently but is more subject to delays, until recently Southwest flew short-haul flights to midsize cities to save time and money by avoiding traffic. There is just one class of seating, doing away with the distinction between coach and first class. Originally, even the boarding passes were reusable, being made of plastic (most passengers print out their own passes now). Finally, the airline saves by not feeding passengers: it serves mostly peanuts, no in-flight meals.

How do you make arrival times more reliable? To achieve this second tactical goal, middle managers did away with guaranteed seat reservations before ticketing, so that no-shows wouldn't complicate (and therefore delay) the boarding process. (It changed that policy slightly in 2007 to ensure that passengers paying extra for "business select" fares would be placed at the front of the line.)

In addition, as mentioned, the airline has tried to turn planes around in exactly 20 minutes, so that on-time departures are more apt to produce on-time arrivals. Although the airline is about 83% unionized, turnaround was helped by looser work rules, so that workers could pitch in to do tasks outside their normal jobs. "If you saw something that needed to be done," said one former employee, "and you thought you could do it, you did."[50]

Unfortunately, in 2013, in an attempt to offer more convenient flight schedules, the airline instituted a new system to reduce times it allowed for flights and compressed its turnaround times even further—the result of which sent its on-time performance reeling to last place among U.S. carriers. Its involuntarily denied–boarding rate and mishandled-baggage rate also increased slightly.[51]

Despite the delays, Southwest still retained its top ranking for having the lowest customer complaints.[52] The difference lies in small things: the free peanuts (an emotional subject among travelers), switching of flights without charge, and no charge for checked-in luggage up to two pieces. (The airline does, however, charge for checking a third bag.)

Operational Goals. Consider how Southwest's first-line managers can enhance productivity in the unloading, refueling, and cleaning of arriving planes. "One example [of productivity] customers mention all the time," said former chairman Herb Kelleher, "is if you look out the window when the airplane is taxiing toward the jetway, you see our ground crews charging before the airplane has even come to rest. Customers tell me that with other airlines nobody moves until the airplane has turned off its engines."[53]

The New Southwest. In January 2014, Southwest began venturing into the international market, marking a significant shift.[54] Its initial flights are to the Caribbean, but other international routes may be attempted later. Some operations, such as fast turnaround times, may be difficult to implement because of departure restrictions.[55] Southwest also faces costly upgrades to its computer systems and an antiquated phone system, its traditionally low fares are not so low anymore, and it is negotiating with workers to try to achieve more productivity and flexibility.[56]

YOUR CALL

Do you think recent changes will allow the company to continue to achieve its strategic goals?

Types of Plans: Standing Plans & Single-Use Plans

Plans are of two types—*standing plans* and *single-use plans. (See Table 5.1.)*

TABLE 5.1

Standing Plans and Single-Use Plans

There are three types of standing plans and two types of single-use plans.

PLAN	DESCRIPTION
Standing plan	For activities that occur repeatedly over a period of time
• Policy	Outlines general response to a designated problem or situation
• Procedure	Outlines response to particular problems or circumstances
• Rule	Designates specific required action
Single-use plan	For activities not likely to be repeated in the future
• Program	Encompasses a range of projects or activities
• Project	Has less scope and complexity than a program

Standing Plans: Policies, Procedures, & Rules

Standing plans are plans developed for activities that occur repeatedly over a period of time. Standing plans consist of policies, procedures, and rules.

- **A policy is a standing plan that outlines the general response to a designated problem or situation.** Example: "This workplace does not condone swearing." This policy is a broad statement that gives managers a general idea about what is allowable for employees who use bad language, but gives no specifics.
- **A procedure (or *standard operating procedure*) is a standing plan that outlines the response to particular problems or circumstances.** Example: McDonald's specifies exactly how a hamburger should be dressed, including the order in which the mustard, ketchup, and pickles are applied.
- **A rule is a standing plan that designates specific required action.** Example: "No smoking is allowed anywhere in the building." This allows no room for interpretation.

Single-Use Plans: Programs & Projects

Single-use plans are plans developed for activities that are not likely to be repeated in the future. Such plans can be programs or projects.

- **A program is a single-use plan encompassing a range of projects or activities.** Example: The U.S. government space program has had several projects, including the *Challenger* project, the Hubble Telescope project, and the space shuttle project.
- **A project is a single-use plan of less scope and complexity than a program.** Example: The space shuttle project, one of several projects in the government's space program, consisted of three shuttles: *Discovery, Endeavour,* and *Atlantis*.

5.4 Promoting Goal Setting: SMART Goals & Management by Objectives

MAJOR QUESTION

What are SMART goals and MBO and how can they be implemented?

THE BIG PICTURE

This section discusses SMART goals—goals that are Specific, Measurable, Attainable, Results-oriented, and have Target dates. It also discusses a technique for setting goals, management by objectives (MBO), a four-step process for motivating employees.

Anyone can define goals. But as we mentioned earlier, the five characteristics of a good goal are represented by the acronym SMART.

SMART Goals

A SMART goal is one that is *S*pecific, *M*easurable, *A*ttainable, *R*esults-oriented, and has *T*arget dates.

Specific Goals should be stated in *specific* rather than vague terms. The goal "As many planes as possible should arrive on time" is too general. The goal that "Ninety percent of planes should arrive within 15 minutes of the scheduled arrival time" is specific.

Measurable Whenever possible, goals should be *measurable,* or quantifiable (as in "90% of planes should arrive within 15 minutes . . ."). That is, there should be some way to measure the degree to which a goal has been reached.

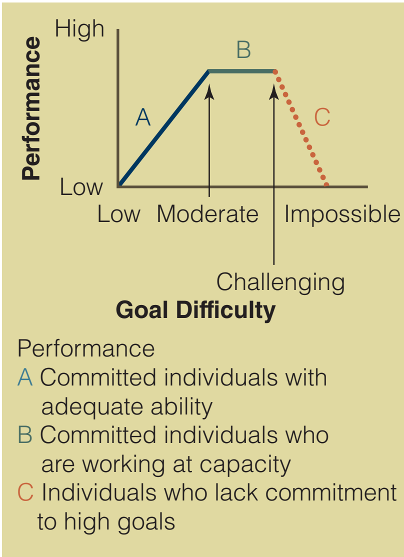
Of course, some goals—such as those concerned with improving quality—are not precisely quantifiable. In that case, something on the order of "Improve the quality of customer relations by instituting 10 follow-up telephone calls every week" will do. You can certainly quantify how many follow-up phone calls were made.

Attainable Goals should be challenging, of course, but above all they should be realistic and *attainable.* It may be best to set goals that are quite ambitious so as to challenge people to meet high standards. Always, however, the goals should be achievable within the scope of the time, equipment, and financial support available. *(See Figure 5.4.)*

If too easy (as in "half the flights should arrive on time"), goals won't impel people to make much effort. If impossible ("all flights must arrive on time, regardless of weather"), employees won't even bother trying. Or they will try and continually fail, which will end up hurting morale. Or they will cheat. (An example was the unrealistic goal of cutting wait times for appointments by more than half at Veterans Affairs hospitals, as revealed in 2014 scandals in which VA administrators were found to have falsified figures.)[57]

FIGURE 5.4 **Relationship between goal difficulty and performance**

Source: Adapted from E. A. Locke and G. P. Latham, A Theory of Goal Setting and Task Performance *(Englewood Cliffs, NJ: Prentice Hall, 1990).*



Results-Oriented Only a few goals should be chosen—say, five for any work unit. And they should be *results-oriented*—they should support the organization's vision.

In writing out the goals, start with the word "To" and follow it with action-oriented verbs—"complete," "acquire," "increase" ("to decrease by 10% the time to get passengers settled in their seats before departure").

Some verbs should not be used in your goal statement because they imply activities—the tactics used to accomplish goals (such as having baggage handlers waiting). For example, you should not use "to develop," "to conduct," "to implement."

Target Dates Goals should specify the *target dates* or deadline dates when they are to be attained. For example, it's unrealistic to expect an airline to improve its on-time arrivals by 10% overnight. However, you could set a target date—3 to 6 months away, say—by which this goal is to be achieved. That allows enough time for lower-level managers and employees to revamp their systems and work habits and gives them a clear time frame in which they know what they are expected to do.

EXAMPLE

Setting Goals: Walmart Lays Out an Agenda for Environmental Change

Tired of criticism of Walmart's business practices, its CEO at the time, H. Lee Scott Jr., in a 2008 speech laid out new environmental goals.[58] Besides continuing to promote energy-saving products at low prices in its stores, such as fluorescent light bulbs, Scott said the company would also work with suppliers of high-energy-use products, such as air conditioners, microwave ovens, and televisions, to make such products 25% more energy efficient within three years. Later Walmart pledged to eliminate 20 million tons of carbon emissions from its global supply chain by 2015.[59]

More Milestones. At its 2013 Global Sustainability Milestone Meeting, the company listed the two following goals, to be achieved by the end of 2020: (1) a 600% increase (over 2010 levels) in power purchases of renewable energy globally every year, and (2) a reduction by 20% globally (compared to 2010) in kilowatts required to power Walmart buildings. The new commitments would avoid 9 million metric tons of greenhouse gas, taking the equivalent of 1.5 million cars off the road. Such efficiencies would be achieved by adding solar power to buildings and buying wind, hydro, and geothermal sources of energy, as well as increasing LED lighting in and around stores.[60]

Better environmental objectives. Walmart aims to reduce its greenhouse gas emissions, using alternative sources of energy such as wind and solar.

Endgame. By 2014, the company had shot from 15th to 6th place in the Environmental Protection Agency's rankings of the country's top purchasers of green power—electricity produced by wind, solar, and similar means.[61] However, some organizations, such as the Institute for Local Self-Reliance, produced studies that reported that Walmart's greenhouse gas emissions had actually grown 14% because the company's calculations had failed to account for major sources of pollution such as those of international shipping, new store construction, and product manufacturing.[62]

YOUR CALL

Whether or not Walmart has included all the sources of emissions in its calculation, as critics assert, how do the objectives outlined above reflect the criteria for SMART goals?

Management by Objectives: The Four-Step Process for Motivating Employees

First suggested by **Peter Drucker** in 1954, *management by objectives* has spread largely because of the appeal of its emphasis on converting general objectives into specific ones for all members of an organization.[63]

Management by objectives (MBO) is a four-step process in which (1) managers and employees jointly set objectives for the employee, (2) managers develop action plans, (3) managers and employees periodically review the employee's performance, and (4) the manager makes a performance appraisal and rewards the employee according to results. The purpose of MBO is to *motivate* rather than to control subordinates.

Before we begin discussing these four steps, you may want to consider the quality of the goal-setting process in a current or former employer. The following self-assessment was developed to provide insight into the quality of goal setting within an organization.

SELF-ASSESSMENT 5.2

connect

What Is the Quality of Goal Setting within a Current or Past Employer?

This self-assessment is designed to assess the quality of goal setting in a company. Go to **connect.mheducation.com** and take the self-assessment. When you're done, answer the following questions:

1. What are the strengths and weaknesses of goal setting in the company you selected?
2. Based on your results, what recommendations would you provide to senior management about improving the goal-setting process in this company? Explain.
3. What actions could you take to improve the goal-setting process in this company? Be specific.

1. Jointly Set Objectives You sit down with your manager and the two of you jointly set objectives for you to attain. Later you do the same with each of your own subordinates. Joint manager/subordinate participation is important to the program. It's probably best if the objectives aren't simply imposed from above (Don't say, "Here are the objectives I want you to meet"). Managers also should not simply approve the employee's objectives ("Whatever you aim for is okay with me"). It's necessary to have back-and-forth negotiation to make the objectives practicable.[64]

One result of joint participation, research shows, is that it impels people to set more difficult goals—to raise the level of their aspirations—which may have a positive effect on their performance.[65] The objectives should be expressed in writing and should be SMART. There are three types of objectives, shown in the following table. *(See Table 5.2.)*

Jointly setting objectives. An important part of MBO is joint manager/subordinate participation in setting objectives. Have you ever held a job that featured this kind of process?

TABLE 5.2 Three Types of Objectives Used in MBO

Improvement Objectives
Purpose Express performance to be accomplished in a specific way for a specific area **Examples** "Increase sport utility sales by 10%." "Reduce food spoilage by 15%."
Personal Development Objectives
Purpose Express personal goals to be realized **Examples** "Attend five days of leadership training." "Learn basics of Microsoft Office software by June 1."
Maintenance Objectives
Purpose Express the intention to maintain performance at previously established levels **Examples** "Continue to meet the increased sales goals specified last quarter." "Produce another 60,000 cases of wine this month."

2. Develop Action Plan Once objectives are set, managers at each level should prepare an action plan for attaining them. Action plans may be prepared for both individuals and for work units, such as departments.

3. Periodically Review Performance You and your manager should meet reasonably often—either informally as needed or formally every three months—to review progress, as should you and your subordinates. Indeed, frequent communication is necessary so that everyone will know how well he or she is doing in meeting the objectives.

During each meeting, managers should give employees feedback, and objectives should be updated or revised as necessary to reflect new realities. If you were managing a painting or landscaping business, for example, changes in the weather, loss of key employees, or a financial downturn affecting customer spending could force you to reconsider your objectives.

4. Give Performance Appraisal & Rewards, If Any At the end of 6 or 12 months, you and your subordinate should meet to discuss results, comparing performance with initial objectives. *Deal with results,* not personalities, emotional issues, or excuses.

Because the purpose of MBO is to *motivate* employees, performance that meets the objectives should be rewarded—with compliments, raises, bonuses, promotions, or other suitable benefits. Failure can be addressed by redefining the objectives for the next 6- or 12-month period, or even by taking stronger measures, such as demotion. Basically, however, MBO is viewed as being a learning process. After step 4, the MBO cycle begins anew.[66]

Cascading Objectives: MBO from the Top Down

For MBO to be successful, the following three things have to happen.

1. Top Management Must Be Committed "When top-management commitment [to MBO] was high," said one review, "the average gain in productivity was 56%. When commitment was low, the average gain in productivity was only 6%."[67]

2. It Must Be Applied Organizationwide The program has to be put in place throughout the entire organization. That is, it cannot be applied in just some divisions and departments; it has to be done in all of them.

3. Objectives Must "Cascade" MBO works by **cascading objectives down through the organization; that is, objectives are structured in a *unified hierarchy,* becoming more specific at lower levels of the organization.** Top managers set general *organizational* objectives, which are translated into *divisional* objectives, which are translated into *departmental* objectives. The hierarchy ends in *individual* objectives set by each employee.

The Importance of Deadlines

There's no question that college is a pressure cooker for many students. The reason, of course, is the seemingly never-ending deadlines. But consider: Would you do all the course work you're doing—and realize the education you're getting—if you *didn't* have deadlines?

As we saw under the "T" (for "has Target dates") in SMART goals, deadlines are as essential to goal setting in business as they are to your college career. Because the whole purpose of planning and goals is to deliver to a client specified results within a specified period of time, deadlines become a great motivator, both for you and for the people working for you.

It's possible, of course, to let deadlines mislead you into focusing too much on immediate results and thereby ignore overall planning—just as students will focus too much on preparing for a test in one course while neglecting others. In general, however, deadlines can help you keep your eye on the "big picture" while simultaneously paying attention to the details that will help you realize the big picture. Deadlines can help concentrate the mind, so that you make quick decisions rather than put them off. Deadlines help you ignore extraneous matters (such as cleaning up a messy desk) in favor of focusing on what's important—realizing the goals on time and on budget. Deadlines provide a mechanism for giving ourselves feedback. ●

PRACTICAL ACTION

How to Achieve Your Important Goals: Don't Keep Every Option Open

We've all been told that "It's important to keep your options open." But should we?

"You don't even know how a camera's burst-mode flash works, but you persuade yourself to pay for the extra feature just in case," writes a journalist about this phenomenon. "You no longer have anything in common with someone who keeps calling you, but you hate to just zap the relationship. Your child is exhausted from after-school soccer, ballet, and Chinese lessons, but you won't let her drop the piano lessons. They could come in handy."[68]

Where's the Money? The natural reluctance to close any door is pointed out by Dan Ariely, a behavioral economist at the Massachusetts Institute of Technology and author of *Predictably Irrational: The Hidden Forces That Shape Our Decisions.*[69] In that book, he describes experiments involving hundreds of MIT students who showed that they could not bear to let go of their options—even though it was bad strategy. The experiments involved playing a computer game in which students had 100 mouse clicks to look for money behind three doors on the screen and were paid real cash each time they found it. To earn the most money, a student would quickly find out that the best strategy was to check out the three doors and settle on the one with the highest rewards. But when students stayed out of a room, the door would start shrinking and eventually disappear. Researchers found that most students would waste clicks by rushing back to reopen doors, even though they lost money by doing so—and they continued to frantically keep all their doors open even when they were fined for switching.

Fear of Loss? Were the students just trying to "keep their options open"? Ariely doesn't think so. The real motivation, he suggests, is fear of loss. "Closing a door on an option is experienced as a loss, and people are willing to pay a price to avoid the emotion of loss," he says.

YOUR CALL

Obviously, this lesson has some practical payoffs for all of us who are overscheduled and overworked and need all the help we can get to stay focused on our important goals. Are you presently considering adding a class, switching majors, or pursuing another career? Are you wondering whether to continue a personal relationship that no longer benefits you? What would be the advantages of—just saying no?

5.5 The Planning/Control Cycle

MAJOR QUESTION

How does the planning/control cycle help keep a manager's plans headed in the right direction?

THE BIG PICTURE

The four-step planning/control cycle helps you keep in control, to make sure you're headed in the right direction.

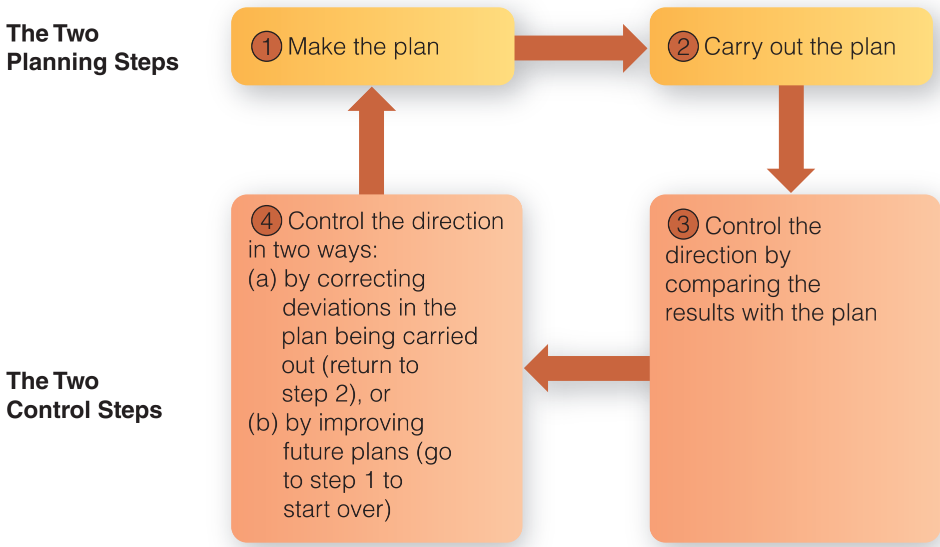
Once you've made plans, how do you stay in control to make sure you're headed in the right direction? Actually, there is a continuous feedback loop known as the planning/control cycle. (The "organizing" and "leading" steps within the Planning-Organizing-Leading-Controlling sequence are implied here.) **The planning/control cycle has two planning steps (1 and 2) and two control steps (3 and 4), as follows: (1) Make the plan. (2) Carry out the plan. (3) Control the direction by comparing results with the plan. (4) Control the direction by taking corrective action in two ways—namely (a) by correcting deviations in the plan being carried out or (b) by improving future plans.** *(See Figure 5.5.)*

FIGURE 5.5

The planning/control cycle

This describes a constant feedback loop designed to ensure plans stay headed in the right direction.

Source: From Robert Kreitner, Management, *8th edition, copyright © 2001 South-Western, a part of Cengage Learning, Inc. Reproduced with permission. www.cengage.com/permissions.*



The planning/control cycle loop exists for each level of planning—strategic, tactical, and operational. The corrective action in step 4 of the cycle (a) can get a project back on track before it's too late or (b) if it's too late, can provide data for improving future plans.

EXAMPLE

The Planning/Control Cycle: Apple Keeps Its Products Secret to Generate Buzz[70]

Secret product. The newest version of the iPhone, the iPhone6, was kept secret until its appearance in September 2014. Has Apple's strategy of great secrecy been successful at generating buzz?

Most electronics and computer makers talk about their products well in advance of releasing them in order to give big customers and users a chance to prepare for them. Not Apple Inc., maker of the iPhone, iPod, and iPad and *Fortune*'s No. 1 Most Admired Company seven years in a row, 2008–2014. In 2008, it was also ranked No. 1 among *Fortune* 500 companies for total return to shareholders over the preceding 10 years. Apple has also passed Coca-Cola as the most valuable brand, according to consulting company Interbrand.[71]

Secrecy is a big part of the company's marketing strategy. And the planning/control cycle figures closely in how well it is accomplished.

Step 1: The Plan. About 60% of all personal computers are bought by corporate customers and other big technology purchasers. Because of the hefty investment involved, these customers favor suppliers that let them see major product plans a year in advance. However, former Apple CEO Steve Jobs determined that he favored selling technology directly to consumers rather than to corporate buyers and chief technology officers.

By keeping a new product secret, Apple stimulates a great deal of public curiosity. "There's a great deal of mystery and speculation about what it will be," says one seasoned marketing executive. "That's created a marketing aura for them." Such was the plan, for example, when Apple and Hewlett-Packard made a deal to repackage Apple's iPod digital music player and sell it under the H-P label.

Step 2: Carrying Out the Plan. Following its plan to keep new products secret to generate marketing buzz, Apple often didn't tell H-P about new iPod models until the day before they were introduced to the public. It also insisted that H-P work on iPods under tight security, even though Apple's versions were already displayed on store shelves.

The same has been true with other Apple products, with employees being sworn to secrecy for years. When, for example, the company decided to open its own chain of retail stores, an exact replica of a 6,000-square-foot store was built entirely inside a sealed-off warehouse away from Apple's main Cupertino, California, headquarters. When Apple decided to switch to Intel microprocessors, engineers worked on the project for five years under hush-hush conditions to adapt the Macintosh operating system to Intel chips.

Step 3: Comparing Results. The use of mystery "helps Apple attract crowds at its retail stores and generally garner much more visibility than its relatively modest advertising budget would suggest," says a *Wall Street Journal* story. "While new wares from Dell Inc. or H-P rarely get front-page treatment, Mr. Jobs has repeatedly appeared on the covers of *Time, Newsweek,* and *Fortune* showing off a new iPod or Macintosh computer."

Secrecy was a particular boon to the growth of Apple's fast-growing iPod line, with consumers showing their willingness to abandon their old iPods in favor of newer ones that Apple unveiled with great publicity and fanfare. However, the company has followed the same strategy in announcing its other products, including various versions of the iPhone, first released in 2007, and the iPad, which debuted in 2010. In mid-2014, the rumor mill was rife with speculation about Apple revealing a smartwatch, a TV—even an iCar.[72] It announced the iPhone 6 and Apple Watch in September.

Step 4: Taking Corrective Action. Leaks have occurred, and Apple has learned that secrecy requires strong measures. Thus, Apple has fired and later sued employees who leaked news about unannounced products. It has even sued websites that have published gossip about Apple products. The company also assigns different departments dissimilar code names for the same product, so it can more easily track where leaks come from. Employees are outfitted with special electronic badges that grant them access only to specific areas within the fortresslike Apple corporate headquarters.

YOUR CALL

Can you think of a more effective way to generate consumer interest in a forthcoming product than just keeping it secret? What kind of planning/control cycle issues would it raise?

Key Terms Used in This Chapter

action plan 144
business model 136
business plan 136
cascading 150
goal 144
management by objectives (MBOs) 148
means-end chain 144
mission 140
mission statement 140
objective 144
operating plan 144
operational goals 144
operational planning 143
planning 136
planning/control cycle 152
policy 146
procedure 146
program 146
project 146
rule 146
single-use plan 146
SMART goal 147
standing plan 146
strategic goals 144
strategic management 137
strategic planning 142
strategy 137
tactical goals 144
tactical planning 143
vision 141
vision statement 141

Key Points

5.1 Planning & Strategy

- Planning is defined as setting goals and deciding how to achieve them. It is also defined as coping with uncertainty by formulating future courses of action to achieve specified results.
- One important type of plan is a business plan, a document that outlines a proposed firm's goals, the strategy for achieving them, and the standards for measuring success. The business plan describes the business model, which outlines the need the firm will fill, the operations of the business, its components and functions, as well as the expected revenues and expenses.
- A strategy is a large-scale action plan that sets the direction for an organization.
- Strategic management is a process that involves managers from all parts of the organization in the formulation and implementation of strategies and strategic goals.
- An organization should adopt planning and strategic management for three reasons: They can (1) provide direction and momentum, (2) encourage new ideas, and above all (3) develop a sustainable competitive advantage.

5.2 Fundamentals of Planning

- An organization's reason for being is expressed in a mission statement.
- A vision is a long-term goal describing "what" an organization wants to become. It is a clear sense of the future and the actions needed to get there.
- From these are derived strategic planning, then tactical planning, then operational planning. In strategic planning, managers determine what the organization's long-term goals should be for the next 1–5 years. In tactical planning, managers determine what contributions their work units can make during the next 6–24 months. In operational planning, they determine how to accomplish specific tasks within the next 1–52 weeks.

5.3 Goals & Plans

- Whatever its type, the purpose of planning is to set a goal, also known as an objective, a specific commitment to achieve a measurable result within a stated period of time.
- As with planning, goals are of the same three types—strategic, tactical, and operational—arranged in a hierarchy known as a means-end chain because in the chain of management the accomplishment of low-level goals is the means leading to the accomplishment of high-level goals or ends.
- Strategic goals are set by and for top management and focus on objectives for the organization as a whole. Tactical goals are set by and for middle managers and focus on the actions needed to achieve strategic goals. Operational goals are set by and for first-line managers and are concerned with short-term matters associated with realizing tactical goals.
- The goal should be followed by an action plan, which defines the course of action needed to achieve the stated goal. The operating plan, which is typically designed for a one-year period, defines how you will conduct your business based on the action plan; it identifies clear targets such as revenues, cash flow, and market share.
- Plans may be either standing plans, developed for activities that occur repeatedly

over a period of time, or single-use plans, developed for activities that are not likely to be repeated in the future.

- There are three types of standing plans: (1) A policy is a standing plan that outlines the general response to a designated problem or situation. (2) A procedure outlines the response to particular problems or circumstances. (3) A rule designates specific required action.
- There are two types of single-use plans: (1) A program encompasses a range of projects or activities. (2) A project is a single-use plan of less scope and complexity.

5.4 Promoting Goal Setting: SMART Goals & Management by Objectives

- The five characteristics of a good goal are represented by the acronym SMART. A SMART goal is one that is Specific, Measurable, Attainable, Results oriented, and has Target dates.
- Management by objectives (MBO) is a four-step process in which (1) managers and employees jointly set objectives for the employee, (2) managers develop action plans, (3) managers and employees periodically review the employee's performance, and (4) the manager makes a performance appraisal and rewards the employee according to results. The purpose of MBO is to motivate rather than to control subordinates.
- For MBO to be successful three things have to happen. (1) The commitment of top management is essential. (2) The program must be applied organizationwide. (3) Objectives must cascade—becoming more specific at lower levels of the organization.
- Deadlines are essential to planning because they become great motivators both for the manager and for subordinates.

5.5 The Planning/Control Cycle

- Once plans are made, managers must stay in control using the planning/control cycle, which has two planning steps (1 and 2) and two control steps (3 and 4), as follows: (1) Make the plan. (2) Carry out the plan. (3) Control the direction by comparing results with the plan. (4) Control the direction by taking corrective action in two ways—namely, (a) by correcting deviations in the plan being carried out or (b) by improving future plans.

Understanding the Chapter: What Do I Know?

1. What are planning, strategy, and strategic management?
2. Why are they important?
3. What is the difference between a mission and a vision, a mission statement and a vision statement?
4. What are three types of planning?
5. What are three types of goals?
6. What are different kinds of plans?
7. What are SMART goals?
8. What is Management by Objectives?
9. What three things have to happen for MBO to be successful?
10. Explain the planning/control cycle.

Management in Action

GE's Poor Planning Results in Delays & Increased Costs

General Electric Co. ran into a problem with how it had planned to move drilling equipment from the U.S. to Alberta, Canada. The equipment, called an evaporator, is used to extract crude oil from the ground, and it spans almost double the length of a Space Shuttle Orbiter.

The Wall Street Journal reported that "GE lost an attempt to overrule a federal injunction preventing it from using a stretch of scenic Idaho highway to haul the giant piece of equipment." As you would expect, the company appealed the injunction. For now, however, the equipment is "stuck near the Port of Wilma in Clarkson, Washington, without a way to get to its destination hundreds of miles away."

"Moving it takes tow trucks—one pulling and another pushing—with 20 axles along multiple trailers stretching the load out to 250 feet. Interstate highways aren't an option, because the load can't get under the overpasses," according to the newspaper report.

GE is very concerned about moving the equipment because failure to do so could cost the company about

$75 million in sales, according to *The Wall Street Journal*. One option is to follow the lead of Imperial Oil. Two years ago the company encountered a similar problem, leading it to disassemble the equipment and then transport it along various interstate highways.

Transportation of the equipment is being challenged by the Nez Perce Tribe and conservation group Idaho Rivers United. These groups "are concerned the giant convoys will change the national forest's character and infringe on tribal values," the *Journal* said.

The holdup is a key issue for GE because the company has a strategy to grow revenue by focusing on its oil business. For example, "the company has been building up its oil field services businesses for the past decade, and GE Chief Executive Jeff Immelt has invested to expand its offerings in unconventional fields like shale gas and the oil sands.

"GE's Resource Conservation Company International has delivered about 20 evaporators to oil sands projects since 2002 using different routes. This time it contracted a British Columbia firm to make the evaporator after getting the order from an undisclosed client in early 2012."

The company did not take the transportation of the equipment lightly. Continues the report: "It mapped out a transport route that follows 100 miles of U.S. Highway 12, which cuts through Idaho's National Forest along switchbacks up to the Bitterroot Range's Lolo Pass." The company also decided to travel only at night so that it would not disrupt travel on the highway. The plan was to drive 15 minutes and then pull over so that other vehicles could pass. The company also planned to have an ambulance follow the convoy so that it could take care of any emergencies that might occur along the highway.

Part of GE's planning included a trial run over the same route. There were no incidents and the company received permits from the state highway patrol. This experience led the company to conclude that there would not be any problems with transporting the equipment.

"The fact that GE had the full support of Idaho's transportation Department gave us a very high degree of confidence," said William Heins, RCCI's operating chief. But despite 15 months of detailed planning, GE failed to get approval from the Nez Perce Tribe, which lives on the land around the scenic highway, or from the Forest Service, which has authority over the 100-mile-long stretch of highway. The Nez Perce Tribe and Idaho Rivers United objected and in August went to court, winning an injunction to stop the mega-load shipments pending a review of how the traffic would impact the environment.

"GE tried to get the court to reconsider the injunction noting that the delay would be burdensome. Mr. Heins told the court the injunction could cost the company $3.6 million in damages from liquidated contracts, $5 million in increased transportation and equipment costs, and up to $75 million in potential lost revenue," reported *The Wall Street Journal*. "The judge was not swayed by these arguments. The judge concluded that the company made 'an informed gamble,' and then declined to override the injunction."

FOR DISCUSSION

1. Which of the fundamentals of planning did GE execute ineffectively? Explain your rationale.
2. Which of the three types of goals were ineffectively managed by GE? Explain.
3. State two SMART goals for GE based on the case. Given the political issues discussed in the case, how might GE ensure that these goals are attainable? Discuss.
4. Using Figure 5.5, describe what GE could have done to improve the process of transporting the evaporator. Provide specific recommendations.
5. What did you learn about planning based on this case? Explain.

Source: Excerpted from from K. Linebaugh, "Road Hog: GE's Rig Is Stuck in Idaho," The Wall Street Journal, *October 17, 2013, pp. B1,B2.*

Legal/Ethical Challenge

How Do You Think Companies Should Respond to Accusations Made by a Whistle-Blower?

We defined a whistle-blower in Chapter 3 as an employee who reports organizational misconduct to the public. Whistle-blowing is important to organizations for many reasons. One critical one is that the Sarbanes-Oxley law, which was discussed in Chapter 3, mandates that companies develop processes and procedures for handling whistle-blowing. The Dodd-Frank law further provides financial rewards for employees who implicate security fraud and other types of wrongdoing. Civilians have received millions for exposing wrongdoing in companies that do business with the U.S. government.

This challenge involves consideration of how organizations should plan to respond to claims of misconduct or illegal activity. Consider what happened at

Renault SA. An employee at Renault provided an anonymous accusation that a senior manager negotiated a bribe. "After a four-month investigation, Renault in January [2011] dismissed the executive and two other managers. The employees professed their innocence, but the company's chief executive, Carlos Ghosn, said publicly that the company had evidence against them. Over the past two months, however, Renault has uncovered no evidence against the trio." The company's chief operating officer, Patrick Pélata, told *The Wall Street Journal* that "the company may have been 'tricked' into bringing the allegations."

SOLVING THE CHALLENGE

What do you think management at Renault should have done about the anonymous accusation about a senior official negotiating a bribe?

1. A four-month investigation is enough time to investigate the claim of bribery. Renault obviously was "tricked" by the anonymous tipper. I thus would punish the person who made the false claim and hire back the three employees. These employees should also receive pay for the time they were dismissed.
2. Renault obviously did not conduct a thorough investigation prior to firing the three employees. The company needs to develop detailed guidelines for how such matters should be investigated. It also needs to hire back the employees and pay them for the time they were dismissed.
3. Renault should have hired an outside firm to investigate the claim, or they should have consulted with an outside law firm to review results from the investigation and render an opinion to senior executives. They also need to hire back the employees and pay them for the time they were dismissed.
4. Invent other options.

Source: Excerpted from Ashby Jones and Joann S. Lublin, "Firms Revisit Whistleblowing," The Wall Street Journal, *March 14, 2011, p. B5.*

6

Strategic Management

How Exceptional Managers Realize a Grand Design

Major Questions You Should Be Able to Answer

6.1 What Is Effective Strategy?
Major Question: What is strategic positioning, and what are the three principles that underlie it?

6.2 The Strategic-Management Process
Major Question: What's the five-step recipe for the strategic-management process?

6.3 Establishing the Mission & the Vision
Major Question: What are the characteristics of good mission and vision statements?

6.4 Assessing the Current Reality
Major Question: What tools can help me describe where the organization stands from a competitive point of view?

6.5 Formulating the Grand Strategy
Major Question: How can three techniques—Porter's four competitive strategies, diversification and synergy, and the BCG matrix—help me formulate strategy?

6.6 Implementing & Controlling Strategy: Execution
Major Question: How does effective execution help managers during the strategic-management process?

the manager's toolbox

Being a Successful Manager: Look beyond the Fads, Be Willing to Make Painful Decisions

"How can we build organizations that are as nimble as change itself—not only operationally, but strategically?" asks management professor Gary Hamel.[1]

Many people deal with uncertainty by succumbing to fads, or short-lived enthusiasms, suggests the author of a book on why smart people fall for fads.[2] A fad, he says, "is seen as the way of the future, a genuine innovation that will help solve a big problem. . . . A lot of the attraction of a fad is that if you embrace it early, then you feel that you're ahead of other people, that you're hipper and maybe smarter than they are."[3]

Fads are evident in the stream of business books touting the newest cure-all. Still, some ideas that started out as management fads survive. Why? Because they've been found to actually work. One of these is *strategic planning,* as we describe in this chapter.

Two lessons of successful managers:

Lesson 1—In an Era of Management Fads, Strategic Planning Is Still Tops

Business consultant Bain & Company annually conducts a survey on the most popular management tools. The 2013 survey found that the most widely used management tool in 2012 was used 12 or even 14 years earlier—namely, *strategic planning*, thought to be effective by about 80% of the senior managers surveyed. The use of *mission and vision statements* also continued to be popular, also favored by about 80%.[4] Strategic planning is concerned with developing a comprehensive program for long-term success. Mission statements describe the organization's purpose and vision statements describe its intended long-term goal. Successful managers know how to use all of them.

Lesson 2—Managers Must Be Willing to Make Painful Decisions to Suddenly Alter Strategy

Another lesson is that in a world of discontinuous change, managers must always be prepared to make large, painful decisions and radically alter their business design—"exiting businesses, firing people, admitting you were wrong (or at least not omniscient)," as writer Geoffrey Colvin puts it. "So the future will demand ever more people with the golden trait, the fortitude to accept and even seek psychic pain."[5]

For Discussion Earlier we described the importance of practicing *evidence-based management*, with managers "seeing the truth as a moving target, always facing the hard facts, avoiding falling prey to half-truths, and being willing to admit when they're wrong and change their ways."[6] Do you think you would have this mind-set when thinking about the overall direction of your organization or work unit?

forecast — What's Ahead in This Chapter

We begin by discussing strategic positioning and the five steps in the strategic-management process. We then describe competitive intelligence, SWOT analysis, forecasting, benchmarking, and Porter's model for industry analysis. We next consider Porter's four competitive strategies, single-product versus diversification strategies, and the BCG matrix. Finally, we discuss execution.

6.1 MAJOR QUESTION

What Is Effective Strategy?

What is strategic positioning, and what are the three principles underlying it?

THE BIG PICTURE

Strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company. It is based on the principles that strategy is the creation of a unique and valuable position, requires trade-offs in competing, and involves creating a "fit" among activities.

Strategy guru. Harvard Business School professor Michael Porter suggests that every company is subject to five forces: its current competitors, possible new competitors, the threat of substitutes for its products or services, the bargaining power of its suppliers, and the bargaining power of its customers. Operating within that five-forces framework, a company must choose the right strategy—or be beaten by competitors. Do you think there are other forces that are equally important in forming strategy?

Harvard Business School professor **Michael Porter** "is the single most important strategist working today, and maybe of all time," raved Kevin Coyne of consulting firm McKinsey & Co.[7] He is "the most famous and influential business professor who has ever lived," says *Fortune* writer Geoffrey Colvin. "He is widely and rightly regarded as the all-time greatest strategy guru."[8]

Is this high praise deserved? Certainly Porter's status as a leading authority on competitive strategy is unchallenged. The Strategic Management Society, for instance, voted Porter the most influential living strategist. We refer to him repeatedly in this chapter.

Strategic Positioning & Its Principles

According to Porter, **strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company.** "It means," he says, "performing *different* activities from rivals, or performing *similar* activities in different ways."[9]

Three key principles underlie strategic positioning:[10]

1. Strategy Is the Creation of a Unique & Valuable Position

Strategic position emerges from three sources:

- **Few needs, many customers.** Strategic position can be derived from serving the few needs of many customers. Example: Jiffy Lube provides only lubricants, but it provides them to all kinds of people with all kinds of motor vehicles.
- **Broad needs, few customers.** A strategic position may be based on serving the broad needs of just a few customers. Example: Wealth management and investment advisory firm Bessemer Trust focuses exclusively on high–net worth clients.
- **Broad needs, many customers.** Strategy may be oriented toward serving the broad needs of many customers. Example: National movie theater operator Carmike Cinemas operates only in cities with populations of fewer than 200,000 people.

2. Strategy Requires Trade-offs in Competing

As a glance at the preceding choices shows, some strategies are incompatible. Thus, a company has to choose not only what strategy to follow but what strategy *not* to follow. Example: Neutrogena soap, points out Porter, is positioned more as a medicinal product than as a cleansing agent. In achieving this narrow positioning, the company gives up sales based on deodorizing, gives up large volume, and accordingly gives up some manufacturing efficiencies.

3. Strategy Involves Creating a "Fit" among Activities "Fit" has to do with the ways a company's activities interact and reinforce one another. Example: A mutual fund such as Vanguard Group follows a low-cost strategy and aligns all its activities accordingly, distributing funds directly to consumers and minimizing portfolio turnover. However, when the short-lived (1993–1995) Continental Lite airline tried to match some but not all of Southwest Airlines' activities, it was not successful because it didn't apply Southwest's entire interlocking system.

Does Strategic Management Work for Small as Well as Large Firms?

You would expect that a large organization, with its thousands of employees and even larger realm of "stakeholders," would benefit from strategic management and planning. After all, how can a huge company such as Bank of America run without some sort of grand design?

But what about smaller companies (under 500 employees), which account for about half of private-sector employment and two-thirds of net new jobs in recent years?[11] One analysis of several studies found that strategic planning was appropriate not just for large firms—indeed, companies with fewer than 100 employees could benefit as well, although the improvement in financial performance was small. Nevertheless, the researchers concluded, "it may be that the small improvement in performance is not worth the effort involved in strategic planning unless a firm is in a very competitive industry where small differences in performance may affect the firm's survival potential."[12] ●

EXAMPLE

Comparing Strategies: Big-Company "Make the Consumer a Captive" versus Small-Firm "Offer Personal Connections"

Big companies—especially big-tech companies such as Amazon, Google, or Apple—"are no longer content simply to enhance part of your life," says one report. "The new strategy is to build a device, sell it to consumers, and then sell them the content to play on it. And maybe some ads too."[13]

Big-Company Ways. That is, the idea is to get consumers tied not just to a brand or device or platform but to make them captive of the company's *ecosystem*—and to get them connected "as tightly as possible so they and their content are locked into one system," says analyst Michael Gartenberg.[14] Thus, Amazon, for example, sells the Kindle e-book readers at a low price so that it can then sell e-books. "Amazon is in a race to embed itself into the fabric of world-wide commerce in a way that would make it indispensable to everyone's shopping habits," says one columnist, "and to do so before its rivals wise up."[15] Similarly, Apple enables users to easily create book content on its iBook Authors book-creation tool, but authors will only be able to sell the results through Apple. Google attempted to promote its Google Nexus smartphone as a platform for selling Google Wallet, a cell-phone payment system.

Small-Company Ways. "I don't feel they behave in a way that I want to support with my consumer dollars," says Chicago professor Harold Pollack about big Internet retailers like Amazon.[16] So instead, Pollack started buying from small online retailers. Their prices are often higher, but he says he now has a clear conscience.

Whereas the strategy of big e-commerce companies is to try to tightly connect consumers with discounted prices, free shipping, and easy-to-use apps, the strategy of small retailers—like Hello Hello Books in Maine—is to discourage price comparisons (as in creating "buy it where you try it" campaigns or refusing to carry popular items carried by big retailers), offer freebies, and attempt to establish a personal or emotional connection with customers. They also try to exploit the sympathies of shoppers to "support the little guy," as Pollack is doing.

YOUR CALL

Considering the proliferation of price comparison sites (Pricegrabber.com, Bizrate.com, FreePriceAlerts.com) that will usually direct consumers to big e-commerce retailers, do you think low prices will always win in the end? Is there any strategy a small retailer can take to maintain an advantage?[17]

6.2 The Strategic-Management Process

MAJOR QUESTION

What's the five-step recipe for the strategic-management process?

THE BIG PICTURE

The strategic-management process has five steps: Establish the mission and the vision. Assess the current reality. Formulate the grand strategy. Implement the strategy. Maintain strategic control. All the steps may be affected by feedback that enables the taking of constructive action.

When is a good time to begin the strategic-management process? Often it's touched off by some crisis.

Back before General Motors recalled 25.69 million vehicles (in the first six months of 2014 alone) with defective ignition switches, Toyota went through its own recall crisis. In 2009 and 2010 the Japanese automaker encountered severe quality problems involving what seemed to be uncontrollable acceleration in its automobiles. Toyota Motor's President Akio Toyoda concluded that these problems were partly due to the company's "excessive focus on market share and profits," requiring that the company reorient its strategy toward quality and innovation.[18] For Edward Lampert, who in 2005 merged Kmart and Sears into megaretailer Sears Holdings, the pressure was felt in years of underperforming returns despite cost cutting and store closures.[19]

EXAMPLE

Crisis Leading to the Strategic-Management Process: Starbucks Reclaims Its Soul

Among the many things that Starbucks has going for it is this: it survived a near-death experience.[20]

Today's CEO, Howard Schultz, joined the Seattle-based company as marketing director in 1982, when it was only a small chain selling coffee equipment. Over nearly two decades, he gained control and, inspired by the coffee houses of Europe, transformed the company into a comfortable "third place" between home and work, a place with a neighborhood feel selling fresh-brewed by-the-cup lattes and cappuccinos. By 2000, Starbucks (named for the first mate of the whaling ship in Herman Melville's *Moby Dick*) had become the world's largest specialty coffee retailer, with 3,501 stores, 78% of them in the United States.[21]

"Starbucks became, for many of us, what we talk about when we talk about coffee," wrote one reporter. "It changed how we drink it (on a sofa, with Wi-Fi, or on the subway), how we order it ('for here, grande, two-pump vanilla, skinny extra hot latte'), and what we are willing to pay for it," such as $4.99 for a Frappuccino."[22]

Schultz Steps Down. Schultz stepped down as CEO in 2000 (remaining as chairman), and for a while the business continued to thrive. Then two things happened that provoked a crisis. First, the company "lost a certain soul," says Schultz, as the management became more concerned with profits than store atmosphere and company values and extended existing product lines rather than creating new ones. Second, as the Great Recession took hold in 2007, tight-fisted consumers abandoned specialty coffees, causing the stock price to nosedive. In January 2008, after an eight-year absence, Schultz returned as CEO.

The Reinvention Begins. "I didn't come back to save the company—I hate that description," Schultz told an interviewer. "I came back to rekindle the emotion that built it."[23]

Among the risks he took to restore the company's luster, he closed 800 U.S. stores, laid off 4,000 employees, and let go most top executives. As a morale booster, he flew 10,000 store managers to New Orleans, recently destroyed by Hurricane Katrina. Along with attending strategy sessions, they bonded in community-service activities, contributing thousands of volunteer hours to helping to restore parts of the city. "We wanted to give back to that community post-Katrina," says Schultz, "and remind and rekindle the organization with the values and guiding principles of our company before we did a stitch of business." Later he closed all U.S. stores for half a day so baristas could be retrained in how to make espresso.

The Payoff. After a couple of years, the company turned around, the result of better operations, modernized technology, a reinvigorated staff, and innovations such as Via premium instant

Starbucks in China. This coffee cafe is located in Chengdu in Sichuan province.

coffee. (Since then it has acquired its own Costa Rican farm to develop proprietary coffee varieties; teamed with Oprah Winfrey to introduce Oprah Chai tea; acquired the La Boulange bakery chain; enabled customers to pay for coffee via a mobile-payment app; and even launched alcohol sales.)[24] In mid-2014, it was serving more than 70 million customers face to face, in 20,200 stores in 64 countries, and its stock price was nine times what it had been in 2008.[25]

Schultz feels strongly that "there's an opportunity for businesses to demonstrate a role in society that's beyond profitability," providing health insurance even for temps, creating tuition reimbursement, helping to raise loans for small businesses.

YOUR CALL

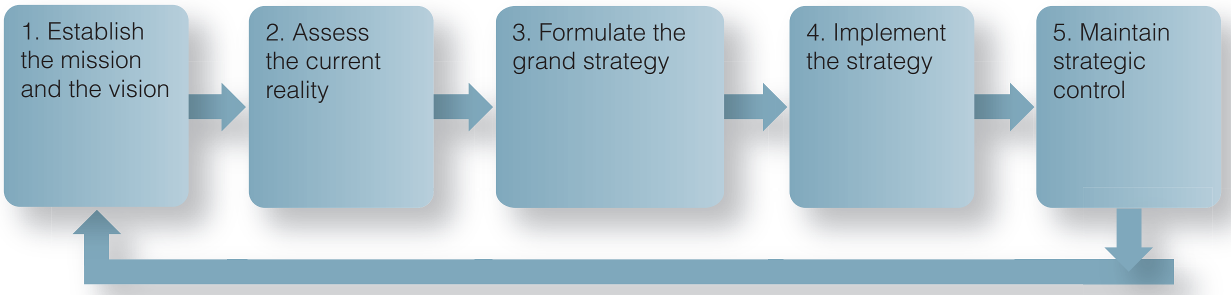
Some critics feel Starbucks is the symbol of "affordable luxury." If we can't afford a McMansion or a Lexus, says one observer, we may be "willing to make that $5 splurge at Starbucks simply because it makes us feel a bit better about ourselves."[26] Thus, despite the innovation in products, attempts to rekindle the cozy neighborhood café, and emphasis on positive social values, do you think another economic downturn could alter Starbucks's fortunes?

The Five Steps of the Strategic-Management Process

The strategic-management process has five steps, plus a feedback loop, as shown below. *(See Figure 6.1.)* Let's consider these five steps.

FIGURE 6.1 **The strategic-management process**

The process has five steps.



Feedback: Revise actions, if necessary, based on feedback

Step 1: Establish the Mission & the Vision We discussed mission and vision in Chapter 5 and explain them further in the next section. The *mission,* you'll recall, is the organization's purpose or reason for being, and it is expressed in a *mission statement.* An organization's *vision* is its long-term goal describing what it wants to become, and it is expressed in a *vision statement,* which describes its long-term direction and strategic intent.

Step 2: Assess the Current Reality The second step is to do a **current reality assessment,** or *organizational assessment*—to look at where the organization stands and see what is working and what could be different so as to maximize efficiency and effectiveness in achieving the organization's mission.[27] Among the tools for assessing the current reality are SWOT analysis, forecasting, benchmarking, and Porter's model for industry analysis, all of which we discuss in Section 6.4.

Step 3: Formulate the Grand Strategy The next step is to translate the broad mission and vision statements into a **grand strategy, which, after the assessment of the current reality, explains how the organization's mission is to be accomplished. Three common grand strategies are growth, stability, and defensive,** as we'll describe.

Strategy formulation is the process of choosing among different strategies and altering them to best fit the organization's needs. Formulating strategy is a time-consuming process both because it is important and because the strategy must be translated into more specific *strategic plans,* which determine what the organization's long-term goals should be for the next 1–5 years.

In Section 6.5, we consider the three common grand strategies (growth, stability, and defensive); Porter's four competitive strategies, single-product strategy versus diversification strategy, and the BCG matrix.

Step 4: Implement the Strategy **Putting strategic plans into effect is strategy implementation.** Strategic planning isn't effective, of course, unless it can be translated into lower-level plans. This means that top managers need to check on possible roadblocks within the organization's structure and culture and see if the right people and control systems are available to execute the plans.[28]

Step 5: Maintain Strategic Control: The Feedback Loop **Strategic control consists of monitoring the execution of strategy and making adjustments, if necessary.** To keep strategic plans on track, managers need control systems to monitor progress and take corrective action—early and rapidly—when things start to go awry. Corrective action constitutes a feedback loop in which a problem requires that managers return to an earlier step to rethink policies, redo budgets, or revise personnel arrangements.

We describe strategic implementation and strategic control in Section 6.6.

We discuss the details of the steps in the strategic-management process in the rest of this chapter.

A public library's new strategy. As Americans spend more time online, public libraries are having to find new strategies for remaining relevant. After the Skokie Public Library near Chicago put its reference collection online, it turned the newly freed-up space into a "fully functioning, Wi-Fi equipped office suite, capable of accommodating more than 50 people," according to one report. "Users who can't afford their own office space reserve it by the hour."[29] Can you think of other public or nonprofit institutions that need to reinvent themselves because information technology has altered their original purpose?

6.3 MAJOR QUESTION

Establishing the Mission & the Vision

What are the characteristics of good mission and vision statements?

THE BIG PICTURE

A mission statement should express the organization's purpose or reason for being. A vision statement should be positive and inspiring, and it should stretch the organization and its employees to achieve a desired future state that appears beyond its reach.

Why am I here? What am I trying to do? What do I want to become?

These are bedrock questions that you should ask about your education. They are also the kind that top managers should ask about their organizations, whether profit or not-for-profit, as expressed in the mission statement and vision statement.

If you were called on to write a mission statement and a vision statement, how would you go about it?

Characteristics of a Good Mission Statement

The *mission,* we said, is the organization's purpose or reason for being; it is expressed in a *mission statement.* For example, the mission statement of McGraw-Hill, publisher of this book, is as follows:

> To serve the worldwide need for knowledge at a fair profit by gathering, evaluating, producing, and distributing valuable information in a way that benefits our customers, employees, authors, investors, and our society.

Family business. Do small, family-owned businesses need a mission statement and a vision statement? If no, why not? How many small-business owners with firms of, say, five employees or fewer, would you guess have taken the time to compose such statements?

Characteristics of a Good Vision Statement

An organization's vision, its long-term goal of what it wants to become, is expressed in a *vision statement,* which describes its long-term direction and strategic intent. For example, Walt Disney's original vision for Disneyland went in part like this:

> Disneyland will be something of a fair, an exhibition, a playground, a community center, a museum of living facts, and a showplace of beauty and magic. It will be filled with the accomplishments, the joys and hopes of the world we live in. And it will remind us and show us how to make those wonders part of our own lives.[30]

Although a vision statement can be short, it should be positive and inspiring, and it should stretch the organization and its employees to achieve a desired future state that appears beyond its reach. Google's vision, for example, is "to organize the world's information and make it universally accessible and useful." Former Google CEO Eric Schmidt estimated that it might take 300 years to achieve the company's vision, which would require Google to have strategic patience and to develop a grand strategy that is broad in focus.[31]

Guidelines for constructing powerful mission statements and vision statements are shown below. *(See Table 6.1.)* "Visions that have these properties challenge and inspire people in the organization and help align their energies in a common direction," says Burt Nanus of the University of Southern California's School of Business Administration. "They prevent people from being overwhelmed by immediate problems because they help distinguish what is truly important from what is merely interesting."[32] ●

TABLE 6.1 **Mission Statements and Vision Statements**

MISSION STATEMENTS: DOES YOUR COMPANY'S MISSION STATEMENT ANSWER THESE QUESTIONS?

1. Who are our customers?
2. What are our major products or services?
3. In what geographical areas do we compete?
4. What is our basic technology?
5. What is our commitment to economic objectives?
6. What are our basic beliefs, values, aspirations, and philosophical priorities?
7. What are our major strengths and competitive advantages?
8. What are our public responsibilities, and what image do we wish to project?
9. What is our attitude toward our employees?

VISION STATEMENTS: DOES YOUR COMPANY'S VISION STATEMENT ANSWER "YES" TO THESE QUESTIONS?

1. Is it appropriate for the organization and for the times?
2. Does it set standards of excellence and reflect high ideals?
3. Does it clarify purpose and direction?
4. Does it inspire enthusiasm and encourage commitment?
5. Is it well articulated and easily understood?
6. Does it reflect the uniqueness of the organization, its distinctive competence, what it stands for, what it's able to achieve?
7. Is it ambitious?

Sources: F. R. David, "How Companies Define Their Mission," Long Range Planning, *February 1989, pp. 90–97; and B. Nanus,* Visionary Leadership: Creating a Compelling Sense of Direction for Your Organization *(San Francisco: Jossey-Bass, 1992), pp. 28–29.*

6.4 Assessing the Current Reality

MAJOR QUESTION

What tools can help me describe where the organization stands from a competitive point of view?

THE BIG PICTURE

To develop a grand strategy, you need to gather data and make projections, using the tools of competitive intelligence, SWOT analysis, forecasting, benchmarking, and Porter's five competitive forces.

The second step in the strategic-management process, *assess the current reality,* looks at where the organization stands internally and externally—to determine what's working and what's not, to see what can be changed so as to increase efficiency and effectiveness in achieving the organization's vision. An assessment helps to create an objective view of everything the organization does: its sources of revenue or funding, its work-flow processes, its organizational structure, client satisfaction, employee turnover, and other matters.[33]

Among the tools for assessing the current reality are *competitive intelligence, SWOT analysis, forecasting, benchmarking,* and *Porter's model for industry analysis.*

Competitive Intelligence

Practicing **competitive intelligence means gaining information about one's competitors' activities so that you can anticipate their moves and react appropriately.** If you are a manager, one of your worst nightmares is that a competitor will surprise you with a service or product—as boutique beers did major brewers and mountain bikes did major bicycle makers—that will revolutionize the market and force you to try to play catch-up. Successful companies make it a point to conduct competitive intelligence.

Competitive intelligence venue. Since 1967, the International Consumer Electronics Show (CES) in Las Vegas has traditionally been a place where blockbuster products were introduced. Recently, however, the hottest gadgets from Apple, Amazon, and Microsoft have been unveiled in other, more exclusive venues. Still, CES remains the world's largest consumer technology convention.

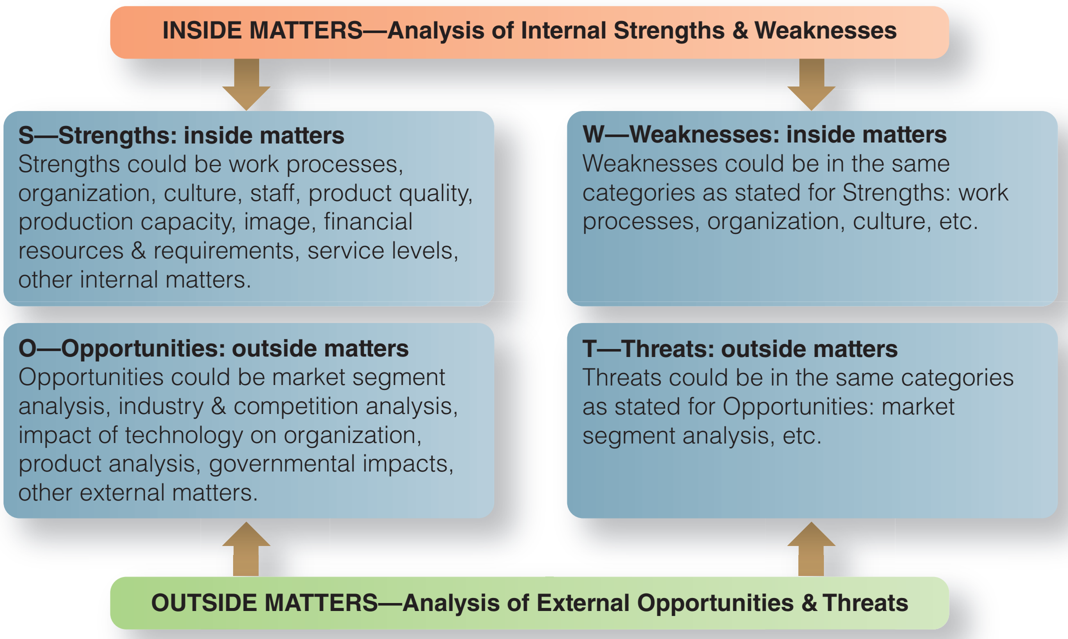
Gaining competitive intelligence isn't always easy, but there are several avenues—and, surprisingly, most of them are public sources—including the following:

- **The public prints and advertising.** A product may be worked on in secret for several years, but at some point it becomes subject to announcement—through a press release, advertising piece, news leak, or the like. Much of this is available free through the Internet or by subscription to certain specialized databases, such as Nexus, which contains hundreds of thousands of news stories.
- **Investor information.** Information about new products and services may also be available through the reports filed with the Securities and Exchange Commission and through corporate annual reports.
- **Informal sources.** People in the consumer electronics industry every year look forward to major trade shows, such as the International Consumer Electronics Show in Las Vegas, when companies roll out their new products.[34] At such times, people also engage in industry-gossip conversation to find out about future directions. Finally, salespeople and marketers, who are out calling on corporate clients, may return with tidbits of information about what competitors are doing.

SWOT Analysis

After competitive intelligence, the next point in establishing a grand strategy is **environmental scanning, careful monitoring of an organization's internal and external environments to detect early signs of opportunities and threats that may influence the firm's plans.** The process for doing such scanning is **SWOT analysis—also known as a situational analysis—which is a search for the Strengths, Weaknesses, Opportunities, and Threats affecting the organization.** A SWOT analysis should provide you with a realistic understanding of your organization in relation to its internal and external environments so you can better formulate strategy in pursuit of its mission. *(See Figure 6.2.)*

FIGURE 6.2 **Swot Analysis**
SWOT stands for Strengths, Weaknesses, Opportunities, Threats.



The SWOT analysis is divided into two parts: inside matters and outside matters—that is, an analysis of *internal strengths and weaknesses* and an analysis of *external opportunities and threats*. The following table gives examples of SWOT characteristics that might apply to a college. *(See Table. 6.2.)*

TABLE 6.2 **SWOT Characteristics That Might Apply to a College**

S—STRENGTHS (INTERNAL STRENGTHS)	W—WEAKNESSES (INTERNAL WEAKNESSES)
• Faculty teaching and research abilities • High-ability students • Loyal alumni • Strong interdisciplinary programs	• Limited programs in business • High teaching loads • Insufficient racial diversity • Lack of high-technology infrastructure
O—OPPORTUNITIES (EXTERNAL OPPORTUNITIES)	**T—THREATS (EXTERNAL THREATS)**
• Growth in many local skilled jobs • Many firms give equipment to college • Local minority population increasing • High school students take college classes	• Depressed state and national economy • High schools enrollments in decline • Increased competition from other colleges • Funding from all sources at risk

Inside Matters: Analysis of Internal Strengths & Weaknesses Does your organization have a skilled workforce? a superior reputation? strong financing? These are examples of **organizational strengths—the skills and capabilities that give the organization special competencies and competitive advantages in executing strategies in pursuit of its vision.**

Or does your organization have obsolete technology? outdated facilities? a shaky marketing operation? These are examples of **organizational weaknesses—the drawbacks that hinder an organization in executing strategies in pursuit of its vision.**

Outside Matters: Analysis of External Opportunities & Threats Is your organization fortunate to have weak rivals? emerging markets? a booming economy? These are instances of **organizational opportunities—environmental factors that the organization may exploit for competitive advantage.**

Alternatively, is your organization having to deal with new regulations? a shortage of resources? substitute products? These are some possible **organizational threats—environmental factors that hinder an organization's achieving a competitive advantage.**

EXAMPLE

SWOT Analysis: How Would You Analyze Toyota?

"I fear the pace at which we have grown may have been too quick," said Akio Toyoda, the grandson of Toyota Motor's founder, in 2010 testimony before a U.S. congressional committee looking into sudden acceleration problems. "Priorities became confused, and we were not able to stop, think, and make improvements as much as we were able to before."[35] Toyota's U.S. sales fell 9% that month because of safety-related recalls of millions of vehicles, and by late 2010 journalists were writing that the company had lost its edge.[36] By the end of 2011, Toyota Motor, formerly the world's largest automaker, had slipped to third place in production behind General Motors and Volkswagen.

Toyota's new young president, Akio Toyoda, whose motto is "be fast, be flexible," energetically took on the automaker's problems, traveling to the United States to fire up dealers, personally taking charge of the sagging Lexus brand, and redesigning the firm's reporting system and flattening the management hierarchy.[37] In late 2013, profits were up 70%, close to their previous record high, and the company had displaced General Motors as the world's largest automaker; by the following year, net profit was up more than fivefold.[38]

Still, the challenges have kept on coming. If you were a top Toyota manager, what would be the kinds of things you would identify in a SWOT analysis?

The Internal Strengths. Originally the "Toyota Way," as practiced from assembly line to boardroom, stressed the values of continuous improvement ("kaizen") and eliminating waste ("muda"). The Toyota Way, says one report, "mandates planning for the long term; highlighting problems instead of hiding them; encouraging teamwork with colleagues and suppliers; and, perhaps most important, instilling a self-critical culture that fosters continuous and unrelenting improvement."[39] Developed in the 1950s, these precepts later became the basis for such concepts as lean manufacturing and just-in-time inventory management (discussed in Chapter 2).

Toyota. How fast, how flexible?

"At their core," says one analysis, "was an attention to detail and a noble frugality that shunned waste of every kind."[40] Said its top engineer, "Basically, Toyota's growth has been underpinned by QDR [quality, dependability, reliability] that was very high compared with competitors'."[41] As of 2014, Toyota continues to lead most other car companies in quality rankings: All three of its 2011 brands appeared in the top 10 J.D. Power 2014 rankings for reliability, with 15 Toyota, Lexus, and Scion models winning or tied for first place in their vehicle categories.[42]

The Internal Weaknesses. In the 1990s, Toyota launched an effort to become the world's largest automaker, embarking on aggressive overseas expansion and doubling its plants in North America, Asia, and Europe. During this time, the focus on cost reduction intensified to the point that the virtue became a vice. Suppliers were continually pushed to design parts that were 10% cheaper and 10% lighter. Common parts were used in most Toyota models, acquired from outside companies instead of trusted traditional suppliers.[43] Toyota also began to treat its cars like "transportation appliances," causing it to fall behind in design leadership, making buyers feel less of an emotional connection with Toyota products. The company was said to have succumbed to "big-company disease," becoming ponderous and bureaucratic, with every decision tightly controlled in Japan, to the detriment of its managers in the United States.[44]

Then suddenly, from 2000 to 2010, driver complaints to the National Highway Traffic and Safety Administration about "vehicle speed control" issues soared, with 11.7% of faulty vehicle components identified as Toyota's.[45] Next came widely publicized problems with sticking accelerators, prompting two huge recalls of 10 million vehicles and suspension of the sales and production of eight models in the American market.[46] Later it developed that the "unintended acceleration" was probably caused by sticky pedals or floor mats rather than Toyota electronics (although some critics thought it traced to driver error).[47] By then, however, the damage to Toyota's vaunted reputation for quality was severe. "When your whole deal was quality, every mistake is a big deal," said a manufacturing expert.[48]

In 2014, Toyota agreed to a $1.2 billion penalty to end a U.S. criminal probe into the sudden-acceleration problems.[49] No sooner had it done so, however, than the company's reputation for reliability and assembly-line mastery took another massive hit, when Toyota was forced to recall 6.4 million vehicles for five potential hazards, including faulty power-window switches, possibly unstable steering column brackets, and potential hindrances to deployment of driver's-side airbags.[50]

The External Opportunities. Although slow to awaken to its quality problems in 2009–2010, the company went into full PR battle mode, moving to discredit critics who blamed accelerator problems on faulty electronics and stressing its commitment to its millions of U.S. customers.[51] Today, under the new president's direction, the 1950s-style traditional organization has been modernized, with layers of management removed and with Akio meeting weekly with five top advisors to make on-the-spot decisions. The company has also reorganized its vehicle-development system to speed decision making, cut costs, and generate more world-wide appeal.[52]

In addition, Toyota moved to give its cars more exciting designs, taking initiatives to "improve upon the emotion of cars" with better styling and high-quality interiors.[53] It joined forces with Ford to develop a gas-electric hybrid fuel system for trucks and sport utility vehicles and has continued to push green technology, as with the plug-in Prius and a new concept car powered by hydrogen fuel cells.[54] It launched the sporty $375,000 Lexus LFA, a carbon fiber supercar.

General Motors's fatal ignition switch mistakes, described by GM's own CEO, Mary Barra, as representing "a pattern of incompetence and neglect," and the recall of 2.6 million 2000–2011 small cars worldwide (for a total of 11.2 million vehicles in 2014) presents Toyota with an unprecedented opportunity to grab its rival's customers.[55] Will Toyota benefit from this development—especially in light of its own 2014 recall announcement?

The External Threats. Toyota was able to work past its accelerator-sticking troubles of 2009–2010, which presented its American and European rivals with a chance to cut into the Japanese automaker's market share.[56] Toyota also faced the worldwide Great Recession, which damaged auto spending. In addition, Toyota had to face setbacks brought about by the 2011 deadly earthquake and tsunami, which devastated plants in the north of Japan and disrupted the supply of over 500 parts; flooding in Thailand, which led to new supply difficulties; and currency problems of a strong yen against a weak U.S. dollar, which further reduced revenues.[57] Finally, Toyota competitors began to close the quality gap, with the Ford Fusion, Hyundai Sonata, Volkswagen Passat, and other midsize vehicles severely impacting sales of the Toyota Camry.[58]

By 2011, Toyota's market share in the United States had fallen all the way from 18.3% to 12.9%, recovering to 14.3% in 2013, putting it in third place behind General Motors at 17.9% and Ford at 15.9% (Chrysler had 11.5%).[59] According to one source, Toyota was predicted to achieve an American market share of 14.6% in 2015.[60]

YOUR CALL

"Comfortably preoccupied with rooting out internal weakness," said one writer in 2010, "the Toyota Way is lost when it comes to contending with outside threats. . . . If a flaw does get through, the company as a whole is loath to admit that the system broke down."[61] Do you agree? How well do you think Akio Toyoda is doing in dealing with Toyota's threats and opportunities, both internal and external?

Forecasting: Predicting the Future

Once they've analyzed their organization's Strengths, Weaknesses, Opportunities, and Threats, planners need to do forecasting for making long-term strategy. **A forecast is a vision or projection of the future.**

Lots of people make predictions, of course—and often they are wrong. In the 1950s, the head of IBM, Thomas J. Watson, estimated that the demand for computers would never exceed more than five for the entire world. In the late 1990s, many computer experts predicted power outages, water problems, transportation disruptions, bank shutdowns, and far worse because of computer glitches (the "Y2K bug") associated with the change from year 1999 to 2000.

Of course, the farther into the future one makes a prediction, the more difficult it is to be accurate, especially in matters of technology. Yet forecasting is a necessary part of planning.

Two types of forecasting are *trend analysis* and *contingency planning.*

Trend Analysis

A trend analysis is a hypothetical extension of a past series of events into the future. The basic assumption is that the picture of the present can be projected into the future. This is not a bad assumption, if you have enough historical data, but it is always subject to surprises. And if your data are unreliable, they will produce erroneous trend projections.

An example of trend analysis is a time-series forecast, which predicts future data based on patterns of historical data. Time-series forecasts are used to predict long-term trends, cyclic patterns (as in the up-and-down nature of the business cycle), and seasonal variations (as in Christmas sales versus summer sales).

Contingency Planning: Predicting Alternative Futures

Contingency planning—also known *as scenario planning* and **scenario analysis**—**is the creation of alternative hypothetical but equally likely future conditions.** For example, scenarios may be created with spreadsheet software such as Microsoft Excel to present alternative combinations of different factors—different economic pictures, different strategies by competitors, different budgets, and so on.

Climate change damage? With so much storm damage, such as that in 2012 when Hurricane Sandy hit the New Jersey coast, what kind of contingency planning should insurance companies do?

EXAMPLE

Contingency Planning for Climate Change: Drought, Rain, & Fire

Several U.S. government agencies have launched contingency planning to prepare for the effects of climate change—from the Navy studying the threat of rising seas to naval operations to the Department of Agriculture's planning for possible effects of drought and wildfire on agriculture and livestock to the Department of Transportation's exploration of risk of high temperatures on highways and bridges. Even some governments of coastal cities, such as those in Florida and Virginia, are trying to make plans to anticipate the effect of rising oceans on their infrastructures.[62]

But what kinds of contingency planning is being done in private industry for the impact of climate change? Many CEOs of energy, food, and food distribution companies, for example, are reportedly not unduly concerned about the effect of global warming on their businesses.[63] But shouldn't the top managers of insurance companies be?

The Evidence of the Present. "Climate change, once considered an issue for a distant future, has moved firmly into the present," says the 2014 National Climate Assessment.[64] "From Hurricane Sandy's devastating blow to the Northeast to the protracted drought that hit the Midwest Corn Belt," pointed out economic writer Eduardo Porter, "natural catastrophes pounded insurers [in 2012], generating $35 billion in privately insured property damage, $11 billion more than the average over the last decade."[65] The insurance industry, he reported, expected the situation to get worse, a view reinforced by a 2014 report by the Intergovernmental Panel on Climate Change, a United Nations group.[66]

Anticipating the Worst? Despite the mounting weather-related claims, which included damage by floods and wildfires, a report by Ceres, a Boston-based nonprofit promoting eco-minded business practices, said most U.S. insurance companies, large and small, did not have comprehensive strategies to cope with climate change.[67] "Of 184 companies surveyed," says one account, "only 23 had such strategies, and 13 of those were foreign-owned."[68]

However, research by a scientist at the federally funded Lawrence Berkeley National Laboratory, which studied large global insurers, said the industry was stepping up to the challenge, having made 1,148 efforts to adapt and mitigate climate change.[69]

Whatever the past behavior, the Geneva Association, an international think tank for strategically important insurance and risk management issues, called on insurers to start setting rates "based on climate-modeling scenarios rather than historic trends traditionally employed."[70]

YOUR CALL

Based on contingency planning for climate variability and volatility in every part of the globe, what is the responsibility of insurance companies? Just try to avoid catastrophic losses by raising premiums, adding exclusions, and refusing to cover high-risk communities? Or try to educate consumers about building more resilient structures in less risky areas?

Because the scenarios try to peer far into the future—perhaps five or more years—they are necessarily written in rather general terms. Nevertheless, the great value of contingency planning is that it not only equips an organization to prepare for emergencies and uncertainty, it also gets managers thinking strategically.

Benchmarking: Comparing with the Best

Benchmarking is a process by which a company compares its performance with that of high-performing organizations.[71] Professional sports teams do this all the time, but so do other kinds of organizations, including nonprofit ones. Example: Airlines use such benchmarks as average turnaround time, on-time arrivals, cost per seat per passenger mile, fuel cost, numbers of lost bags, and so on. At Xerox Corp., generally thought to be the first American company to use benchmarking, it is defined as, in one description, "the continuous process of measuring products, services, and practices against the toughest competitors or those companies recognized as industry leaders."[72]

Porter's Five Competitive Forces

What determines competitiveness within a particular industry? After studying several kinds of businesses, strategic-management expert Michael Porter suggested in his **Porter's model for industry analysis that business-level strategies originate in five primary competitive forces in the firm's environment: (1) threats of new entrants, (2) bargaining power of suppliers, (3) bargaining power of buyers, (4) threats of substitute products or services, and (5) rivalry among competitors.**[73]

1. Threats of New Entrants New competitors can affect an industry almost overnight, taking away customers from existing organizations. Example: Kraft Macaroni & Cheese is a venerable, well-known brand but is threatened from the low end by store brands, such as Walmart's brand, and from the high end by Annie's Organic & Natural Mac and Cheese.

Threat of new entrants. McDonald's is being threatened by new so-called fast-casual restaurants such as Chipotle and Five Guys, which attract customers in their 20s and 30s, who are seeking fresher, healthier food and customizable menu options. What's your opinion of these new chains compared to the older ones?

2. Bargaining Power of Suppliers Some companies are readily able to switch suppliers in order to get components or services, but others are not. Example: Clark Foam of Laguna Niguel, California, supplied nearly 90% of the foam cores used domestically to make custom surfboards. When it suddenly closed shop in late 2005, blaming government agencies for trying to shut it down, many independent board shapers and small retailers found they couldn't afford to get foam from outside the country. On the other hand, Surftech in Santa Cruz, California, was one of the few board manufacturers to use resin instead of foam, and so it saw a spike in sales.[74]

3. Bargaining Power of Buyers Customers who buy a lot of products or services from an organization have more bargaining power than those who don't. Customers who use the Internet to shop around are also better able to negotiate a better price. Example: Buying a car used to be pretty much a local activity, but now potential car buyers can use the Internet to scout a range of offerings within a 100-mile or larger radius, giving them the power to force down the asking price of any one particular seller.

4. Threats of Substitute Products or Services Again, particularly because of the Internet, an organization is in a better position to switch to other products or services when circumstances threaten their usual channels. Example: Oil companies worried when Brazil achieved energy self-sufficiency in 2006, able to meet its growing demand for vehicle fuel by substituting ethanol derived from sugar cane for petroleum—until 2007, when population and economic growth forced the country to start importing oil again.[75]

5. Rivalry among Competitors The preceding four forces influence the fifth force, rivalry among competitors. Think of the wild competition among makers and sellers of portable electronics, ranging from smartphones to tablets to videogame systems. Once again, the Internet has intensified rivalries among all kinds of organizations.

An organization should do a good SWOT analysis that examines these five competitive forces, Porter felt. Then it was in a position to formulate effective strategy, using what he identified as four competitive strategies, as we discuss in the next section.

To what extent do you think that a current or past employer was good at strategic thinking? Based on past research, firms that are better at strategic thinking should outperform those that are not. You can assess the strategic thinking of a current or past employer by taking Self-Assessment 6.1. ●

SELF-ASSESSMENT 6.1 connect

Assessing Strategic Thinking

This survey is designed to assess an organization's level of strategic thinking. Go to **connect.mheducation.com** and take Self-Assessment 6.1. When you're done, answer the following questions:

1. What is the level of strategic thinking? Are you surprised by the results?
2. If you were meeting with an executive from the company you evaluated, what advice would you provide based on the survey results and what you learned about assessing current reality?

6.5 Formulating the Grand Strategy

MAJOR QUESTION

How can three techniques—Porter's four competitive strategies, diversification and synergy, and the BCG matrix—help me formulate strategy?

THE BIG PICTURE

Strategies may be growth, stability, or defensive strategies. Strategy formulation makes use of several concepts, including Porter's four competitive strategies, diversification and synergy, and the BCG matrix.

After assessing the current reality (Step 2 in the strategic-management process), it's time to turn to strategy formulation—developing a grand strategy (Step 3). Examples of techniques that can be used to formulate strategy are *Porter's four competitive strategies, diversification and synergy,* and the *BCG matrix.*

The grand strategy must then be translated into more specific *strategic plans,* which determine what the organization's long-term goals should be for the next 1–5 years. These should communicate not only the organization's general goals about growth and profits but also information about how these goals will be achieved. Moreover, like all goals, they should be SMART—Specific, Measurable, Attainable, Results-oriented, and specifying Target dates (Chapter 5).

Three Common Grand Strategies

The three common grand strategies are *growth, stability,* and *defensive.*

1. The Growth Strategy A **growth strategy** is a grand strategy that involves expansion—as in sales revenues, market share, number of employees, or number of customers or (for nonprofits) clients served. Example: IBM under its previous CEO, Samuel J. Palmisano, decided to get out of low-profit businesses that were fading, such as the personal computer business, and shift to services and software, often delivered over the Internet from data centers connecting all kinds of devices—the growth business of *cloud computing.*[76] (Since then, however, the company has had a "rocky time," says present CEO Virginia Rometty, as IBM found itself lagging in cloud computing sales, having lost important business to Amazon, and is now attempting to refocus its business.)[77]

2. The Stability Strategy A **stability strategy** is a grand strategy that involves little or no significant change. Example: Without much changing their product, the makers of Timex watches decided to stress the theme of authenticity ("Wear it well") over durability (the old slogan was "It takes a licking and keeps on ticking"). In an age of smartphones and other gadgets, when people don't need a watch to tell the time, the new theme of authenticity makes sense, according to *The New York Times,* "as consumers watching what they spend seek out products with longevity whose ability to stand the test of time implies they are worth buying."[78]

3. The Defensive Strategy A **defensive strategy,** or a *retrenchment strategy,* is a grand strategy that involves reduction in the organization's efforts. Example: Redbox, which installed more than 40,000 DVD movie-rental kiosks in groceries, 7-Elevens, and Walmart stores during a seven-year growth period, in 2014 began uninstalling kiosks (more than 500 in the United States) and switching to a defensive strategy. Not only had the company run out of good locations in which to place its machines, it was also contending with challenges from online streaming and more original television programs.[79]

Variations of the three strategies are shown on the next page. *(See Table 6.3.)*

TABLE 6.3

How a Company Can Implement a Grand Strategy

GROWTH STRATEGY

- It can improve an existing product or service to attract more buyers.
- It can increase its promotion and marketing efforts to try to expand its market share.
- It can expand its operations, as in taking over distribution or manufacturing previously handled by someone else.
- It can expand into new products or services.
- It can acquire similar or complementary businesses.
- It can merge with another company to form a larger company.

STABILITY STRATEGY

- It can go for a no-change strategy (if, for example, it has found that too-fast growth leads to foul-ups with orders and customer complaints).
- It can go for a little-change strategy (if, for example, the company has been growing at breakneck speed and feels it needs a period of consolidation).

DEFENSIVE STRATEGY

- It can reduce costs, as by freezing hiring or tightening expenses.
- It can sell off (liquidate) assets—land, buildings, inventories, and the like.
- It can gradually phase out product lines or services.
- It can divest part of its business, as in selling off entire divisions or subsidiaries.
- It can declare bankruptcy.
- It can attempt a turnaround—do some retrenching, with a view toward restoring profitability.

FIGURE 6.3 **Porter's four competitive strategies**

	Type of market targeted	
Strategy	Wide	Narrow
1. Cost-leadership	✓	
2. Differentiation	✓	
3. Cost-focus		✓
4. Focused-differentiation		✓

Porter's Four Competitive Strategies

Porter's four competitive strategies (also called *four generic strategies*) are (1) cost-leadership, (2) differentiation, (3) cost-focus, and (4) focused-differentiation.[80] The first two strategies focus on *wide* markets, the last two on *narrow* markets. *(See Figure 6.3.)* Time Warner, which produces lots of media and publications, serves wide markets around the world. Your neighborhood video store (if one still exists) serves a narrow market of just local customers.

Let's look at these four strategies.

1. Cost-Leadership Strategy: Keeping Costs & Prices Low for a Wide Market

The cost-leadership strategy is to keep the costs, and hence prices, of a product or service below those of competitors and to target a wide market.

This puts the pressure on R&D managers to develop products or services that can be created cheaply, production managers to reduce production costs, and marketing managers to reach a wide variety of customers as inexpensively as possible.

Firms implementing the cost-leadership strategy include Timex, computer maker Acer, hardware retailer Home Depot, and pen maker Bic.

2. Differentiation Strategy: Offering Unique & Superior Value for a Wide Market

The differentiation strategy is to offer products or services that are of unique and superior value compared with those of competitors but to target a wide market.

Because products are expensive, managers may have to spend more on R&D, marketing, and customer service. This is the strategy followed by Ritz-Carlton hotels and the makers of Lexus automobiles.

The strategy is also pursued by companies trying to create *brands* to differentiate themselves from competitors. Although Coca-Cola may cost only cents more than a supermarket's own house brand of cola, Coke spends millions on ads.

3. Cost-Focus Strategy: Keeping Costs & Prices Low for a Narrow Market

The cost-focus strategy is to keep the costs, and hence prices, of a product or service below those of competitors and to target a narrow market.

This is a strategy you often see executed with low-end products sold in discount stores, such as low-cost beer or cigarettes, or with regional gas stations, such as the Terrible Herbst, Rotten Robbie, and Maverik chains in parts of the West.

Needless to say, the pressure on managers to keep costs down is even more intense than it is with those in cost-leadership companies.

Focused differentiation. The world's largest cruise ship, the 1,181-foot-long, 16-deck MS *Allure of the Seas,* features such amenities as four swimming pools, a skating rink, a small golf course, volleyball and basketball courts, a multi-deck dining room that can seat 3,000, and lavish lodging quarters. Clearly, there's something here for everyone—if you can afford it.

4. Focused-Differentiation Strategy: Offering Unique & Superior Value for a Narrow Market

The focused-differentiation strategy is to offer products or services that are of unique and superior value compared to those of competitors and to target a narrow market.

Some luxury cars are so expensive—Rolls-Royce, Ferrari, Lamborghini—that only a few car buyers can afford them. Other companies following the strategy are jeweler Cartier and shirtmaker Turnbull & Asser. Yet focused-differentiation products need not be expensive. The publisher Chelsea Green has found success with niche books, such as *The Straw Bale House.*

Single-Product Strategy versus Diversification Strategy

A company also needs to think about whether to have a *single-product strategy* or a *diversification strategy.* After all, if you have only one product to sell, what do you do if that product fails?

The Single-Product Strategy: Focused but Vulnerable **In a single-product strategy, a company makes and sells only one product within its market.** This is the kind of strategy you see all the time as you drive past the small retail businesses in a small town: There may be one shop that sells only flowers, one that sells only security systems, and so on.

The single-product strategy has both positives and negatives:

- **The benefit—focus.** Making just one product allows you to focus your manufacturing and marketing efforts just on that product. This means that your company can become savvy about repairing defects, upgrading production lines, scouting the competition, and doing highly focused advertising and sales.

  A small-business example: Green Toys of Mill Valley, California, makes all its toddler tea sets, toy trucks, and building blocks out of plastic recycled from milk jugs and, in a strategy called "reverse globalization," carries out all its operations in California, a push back against offshoring and outsourcing.[81] Another example: See's Candies, a chain of 200 stores throughout the West, specializes in making boxed chocolates—something it does so well that when See's was acquired by Berkshire Hathaway, its corporate owner chose not to tamper with success and runs it with a "hands-off" policy.

- **The risk—vulnerability.** The risk, of course, is that if you do *not* focus on all aspects of the business, if a rival gets the jump on you, or if an act of God intervenes (for a florist, roses suffer a blight right before Mother's Day), your entire business may go under.

  Example: Indian Motorcycle Company, once a worthy rival to Harley-Davidson, sold only motorcycles. It went bankrupt twice, the second time because of quality problems, notably an overheating engine. (Purchased by Polaris Industries in 2011, it is presently being manufactured in Spirit Lake, Iowa.)[82]

The Diversification Strategy: Operating Different Businesses to Spread the Risk The obvious answer to the risks of a single-product strategy is **diversification, operating several businesses in order to spread the risk.** You see this at the small retailer level when you drive past a store that sells gas *and* food *and* souvenirs *and* rents DVD movies.

There are two kinds of diversification—*unrelated* and *related.*

Unrelated Diversification: Independent Business Lines If you operate a small shop that sells flowers on one side and computers on the other, you are exercising a strategy of **unrelated diversification—operating several businesses under one ownership that are not related to one another.** This has been a common big-company strategy. General Electric, for instance, which began by making lighting products, diversified into such unrelated areas as plastics, broadcasting, and financial services. Disney, Time Warner, and Sony run different divisions specializing in television, music, publishing, and the like.

Related Diversification: Related Business Lines In some parts of the world you have to do all your grocery shopping in separate stores—the butcher, the baker, the greengrocer, and so on. In most U.S. grocery stores, all these businesses appear under the same roof, an example of the strategy of **related diversification, in which an organization under one ownership operates separate businesses that are related to one another.** A big-company example: The famous British raincoat maker Burberry started by making and marketing outerwear clothing but since then has expanded into related business lines, including accessories such as umbrellas, children's clothing, and even fragrances, which it sells in its own stores.

Related diversification has three advantages:

- **Reduced risk—because more than one product.** If one product is weak, others may take up the slack. Example: When rainwear sales are slow, Burberry's economic risk is reduced by sales of its other product lines, such as children's clothes.
- **Management efficiencies—administration spread over several businesses.** Whatever the business, it usually has certain obligatory administrative costs—accounting, legal, taxes, and so on. Example: Burberry need not have separate versions of these for each business line. Rather, it can actually save money by using the same administrative services for all its businesses.
- **Synergy—the sum is greater than the parts.** When a company has special strengths in one business, it can apply those to its other related businesses. Example: PepsiCo can apply its marketing muscle not only to Pepsi Cola but also to 7-Up and Mountain Dew, which it also owns. This is an example of **synergy—the economic value of separate, related businesses under one ownership and management is greater together than the businesses are worth separately.**

An example of a company that went from a single-product strategy to a diversification strategy is Skilled Manufacturing Inc. of Traverse City, Michigan, which used to supply power-train components to the auto industry, but shuttered one of its two Michigan plants in 2005 after one of its automotive clients moved the work to Mexico. Now it has reopened the factory because it has branched out to other sectors, such as aerospace, in addition to continuing to serve the auto industry.[83]

The BCG Matrix

Developed by the Boston Consulting Group, the **BCG matrix is a means of evaluating strategic business units on the basis of (1) their business growth rates and (2) their share of the market.** Business growth rate is concerned with how fast the entire industry is increasing. Market share is concerned with the business unit's share of the market in relation to competitors.

In general, the BCG matrix suggests that an organization will do better in fast-growing markets in which it has a high market share rather than in slow-growing markets in which it has a low market share. These concepts are illustrated below. *(See Figure 6.4.)*

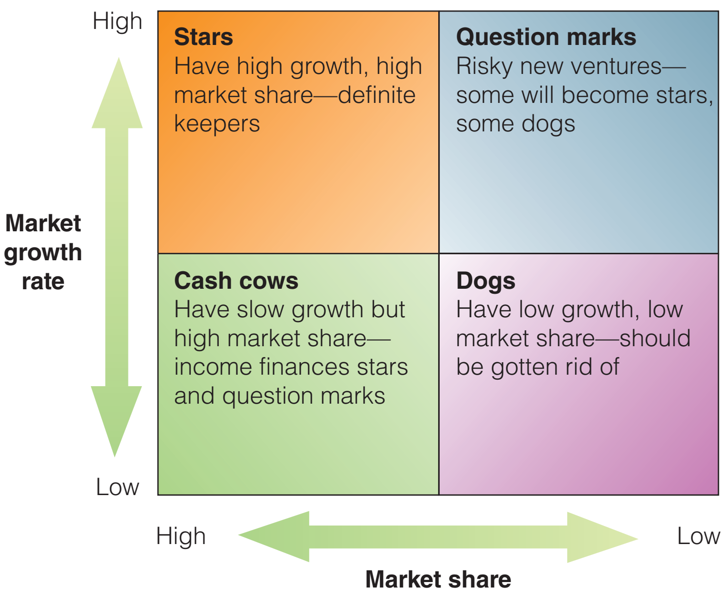


FIGURE 6.4

The BCG matrix

Market growth is divided into two categories, low and high. Market share is also divided into low and high. Thus, in this matrix, "Stars" are business units that are highly desirable (high growth, high market share), compared to "Dogs," which are not so desirable (low growth, low market share).

Now that you have learned about the tools companies use to create their grand strategies, what type of skills do you think managers need to use these tools? Do you think you possess those skills? If you are curious, then we encourage you to take Self-Assessment 6.2. ●

SELF-ASSESSMENT 6.2 connect

Core Skills Required for Strategic Planning

This survey is designed to assess the skills needed in strategic planning. Go to **connect.mheducation.com** and take Self-Assessment 6.2. When you're done, answer the following questions:

1. Do you have what it takes? Are you surprised by the results?
2. Based on the results, what are your top two strengths and deficiencies when it comes to strategic planning?
3. Assuming you wanted to do strategic planning at some point in your career, what can you do to improve your skills associated with strategic planning? Be specific.

6.6 Implementing & Controlling Strategy: Execution

MAJOR QUESTION

How does effective execution help managers during the strategic-management process?

THE BIG PICTURE

Strategic implementation is closely aligned with strategic control. Execution is a process that helps align these two phases of the strategic-management process.

Stage 1 of the strategic-management process was establishing the mission and the vision. Stage 2 was assessing the current reality. Stage 3 was formulating the grand strategy. Now we come to the last two stages—4, strategic implementation, and 5, strategic control.

Implementing the Strategy

Strategy implementation is putting strategic plans into effect. As we said, this means dealing with roadblocks within the organization's structure and culture and seeing if the right people and control systems are available to execute the plans.

Often implementation means overcoming resistance by people who feel the plans threaten their influence or livelihood. This is particularly the case when the plans must be implemented rapidly, since delay is the easiest kind of resistance there is (all kinds of excuses are usually available to justify delays). Thus, top managers can't just announce the plans; they have to actively sell them to middle and supervisory managers.

Maintaining Strategic Control

Strategic control consists of monitoring the execution of strategy and taking corrective action, if necessary. To keep a strategic plan on track, suggests Bryan Barry, you need to do the following:[84]

- **Engage people.** You need to actively engage people in clarifying what your group hopes to accomplish and how you will accomplish it.
- **Keep it simple.** Keep your planning simple, unless there's a good reason to make it more complex.
- **Stay focused.** Stay focused on the important things.
- **Keep moving.** Keep moving toward your vision of the future, adjusting your plans as you learn what works.

Execution. Occupying a sprawling campus in Cary, North Carolina, software maker SAS has always been ranked in the top three positions on *Fortune*'s lists of "100 Best Companies to Work For" (No. 1 in 2010 and 2011, No. 2 in 2013 and 2014, and No. 3 in 2012). Its ability to execute effectively has also made it highly profitable and the world's largest privately owned software company.

Execution: Getting Things Done

In implementing strategy and maintaining strategic control, what we are talking about is effective *execution.* **Larry Bossidy,** former CEO of AlliedSignal (later Honeywell), and **Ram Charan,** a business adviser to senior executives, are authors of *Execution: The Discipline of Getting Things Done.*[85] **Execution, they say, is not simply tactics, it is a central part of any company's strategy. It consists of using questioning, analysis, and follow-through to mesh strategy with reality, align people with goals, and achieve results promised.**

How important is execution to organizational success in today's global economy? A survey of 769 global CEOs from 40 countries revealed that "excellence in execution" was their most important concern—more important than "profit growth," "customer loyalty," "stimulating innovation," and "finding qualified employees."[86]

Bossidy and Charan outline how organizations and managers can improve the ability to execute. Effective execution requires managers to build a foundation for execution within three core processes found in any business: people, strategy, and operations.[87]

The Three Core Processes of Business: People, Strategy, & Operations

A company's overall ability to execute is a function of effectively executing according to three processes: *people, strategy,* and *operations.* Because all work ultimately entails some human interaction, effort, or involvement, Bossidy and Charan believe that the *people* process is the most important.

The First Core Process—People: "You Need to Consider Who Will Benefit You in the Future" "If you don't get the people process right," say Bossidy and Charan, "you will never fulfill the potential of your business." But today most organizations focus on evaluating the jobs people are doing at present, rather than considering which individuals can handle the jobs of the future. An effective leader tries to evaluate talent by linking people to particular strategic milestones, developing future leaders, dealing with nonperformers, and transforming the mission and operations of the human resource department.

The Second Core Process—Strategy: "You Need to Consider How Success Will Be Accomplished" In most organizations, the strategies developed fail to consider the "how" of execution. According to the authors, a good strategic plan addresses nine questions. *(See Table 6.4.)* In considering whether the organization can execute the strategy, a leader must take a realistic and critical view of its capabilities and competencies. If it does not have the talent in finance, sales, and manufacturing to accomplish the vision, the chances of success are drastically reduced.

The Third Core Process—Operations: "You Need to Consider What Path Will Be Followed" The strategy process defines where an organization wants to go, and the people process defines who's going to get it done. The third core process, operations, or the operating plan, provides the path for people to follow. The operating plan, as we described in Chapter 5, should address all the major activities in which the company will engage—marketing, production, sales, revenue, and so on—and then define short-term objectives for these activities, to provide targets for people to aim at. We also discuss operations management in Chapter 16.

TABLE 6.4 **Necessary Answers: What Questions Should a Strong Strategic Plan Address?**

1. What is the assessment of the external environment?
2. How well do you understand the existing customers and markets?
3. What is the best way to grow the business profitably, and what are the obstacles to growth?
4. Who is the competition?
5. Can the business execute the strategy?
6. Are the short term and long term balanced?
7. What are the important milestones for executing the plan?
8. What are the critical issues facing the business?
9. How will the business make money on a sustainable basis?

Source: From Execution *by Larry Bossidy and Ram Charan, Copyright © 2002 by Larry Bossidy and Ram Charan. Used by permission of Crown Business, a division of Random House, Inc.*

How Execution Helps Implement & Control Strategy

Many executives appear to have an aversion to execution, which they associate with boring tactics—with the tedium of doing, as opposed to the excitement of visioning—and which they hand off to subordinates. Further, there are many organizational obstacles to effective execution, and many of these are associated with organizational culture. Organizational culture is a system of shared beliefs and values within an organization that guides the behavior of its members. In this context, effective execution will not occur unless the culture supports an emphasis on getting quality work done in a timely manner. Chapter 8 presents 11 ways managers can attempt to create an execution-oriented culture.[88]

PRACTICAL ACTION

Building a Foundation of Execution

The foundation of execution is based on leadership (as we discuss in Chapter 14) and organizational culture (discussed in Chapter 8). Bossidy and Charan suggest that there are seven essential types of leader behaviors that are needed to fuel the engine of execution. Managers are advised to engage in seven kinds of behaviors, as follows:

Know Your People & Your Business: "Engage Intensely with Your Employees" In companies that don't execute, leaders are usually out of touch with the day-to-day realities. Bossidy and Charan insist leaders must engage intensely and personally with their organization's people and its businesses. They cannot rely on secondhand knowledge through other people's observations, assessments, and recommendations.

Insist on Realism: "Don't Let Others Avoid Reality" Many people want to avoid or shade reality, hiding mistakes or avoiding confrontations. Making realism a priority begins with the leaders being realistic themselves, and making sure realism is the goal of all dialogues in the organization.

Set Clear Priorities: "Focus on a Few Rather Than Many Goals" Leaders who execute focus on a very few clear priorities that everyone can grasp.

Follow Through: "Establish Accountability & Check on Results" Failing to follow through is a major cause of poor execution. "How many meetings have you attended where people left without firm conclusions about who would do what and when?" Bossidy and Charan ask. Accountability and follow-up are important.

Reward the Doers: "Show Top Performers That They Matter" If people are to produce specific results, they must be rewarded accordingly, making sure that top performers are rewarded far better than ordinary performers.

Expand People's Capabilities: "Develop the Talent" Coaching is an important part of the executive's job, providing useful and specific feedback that can improve performance.

Know Yourself: "Do the Hard Work of Understanding Who You Are" Leaders must develop "emotional fortitude" based on honest self-assessments. Four core qualities are authenticity, self-awareness, self-mastery, and humility.

Do you think your current or a past employer was good at execution? What obstacles may have impaired the company's ability to execute? You can answer these questions by taking Self-Assessment 6.3.

SELF-ASSESSMENT 6.3 connect

Assessing the Obstacles to Strategic Execution

This survey is designed to assess the obstacles to strategic execution that may be impacting an organization's ability to execute. Go to **connect.mheducation.com** and take Self-Assessment 6.3. When you're done, answer the following questions:

1. How does the company stand with respect to execution?
2. Based on the results, what are the company's strengths and weaknesses when it comes to execution?
3. What advice would you give to senior management about improving the company's ability to execute based on the results? Be specific.

In conclusion, by linking people, strategy, and operating plans, execution allows executives to direct and control the three core processes that will advance their strategic vision. ●

Key Terms Used in This Chapter

BCG matrix 179
benchmarking 173
competitive intelligence 167
contingency planning 171
cost-focus strategy 177
cost-leadership strategy 176
current reality assessment 163
defensive strategy 175
differentiation strategy 176
diversification 178
environmental scanning 168
execution 180
focused-differentiation strategy 177
forecast 171
grand strategy 164
growth strategy 175
organizational opportunities 169
organizational strengths 169
organizational threats 169
organizational weaknesses 169
Porter's four competitive strategies 176
Porter's model for industry analysis 173
related diversification 178
scenario analysis 171
single-product strategy 177
stability strategy 175
strategic control 164
strategic positioning 160
strategy formulation 164
strategy implementation 164
SWOT analysis 168
synergy 178
trend analysis 171
unrelated diversification 178

Key Points

6.1 What Is Effective Strategy?

- Strategic positioning attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company.
- Strategic positioning is based on the principles that strategy is the creation of a unique and valuable position, requires trade-offs in competing, and involves creating a "fit" among activities, so that they interact and reinforce each other.
- Strategic management works best for large firms, but can also be effective for small firms.
- Every organization needs to have a "big picture" about where it's going and how to get there, which involves strategy, strategic management, and strategic planning. A strategy is a large-scale action plan that sets the direction for an organization. Strategic management involves managers from all parts of the organization in the formulation and implementation of strategies and strategic goals. Strategic planning determines the organization's long-term goals and ways to achieve them.
- Three reasons why an organization should adopt strategic management and strategic planning: They can (1) provide direction and momentum, (2) encourage new ideas, and (3) develop a sustainable competitive advantage. Sustainable competitive advantage occurs when an organization is able to get and stay ahead in four areas: (1) in being responsive to customers, (2) in innovating, (3) in quality, and (4) in effectiveness.

6.2 The Strategic-Management Process

- The strategic-management process has five steps plus a feedback loop.
- Step 1 is to establish the mission statement and the vision statement. The mission statement expresses the organization's purpose. The vision statement describes the organization's long-term direction and strategic intent.
- Step 2 is to do a current reality assessment, to look at where the organization stands and see what is working and what could be different so as to maximize efficiency and effectiveness in achieving the organization's mission. Among the tools for assessing the current reality are SWOT analysis, forecasting, benchmarking, and Porter's model for industry analysis (described below).
- Step 3 is strategy formulation, to translate the broad mission and vision statements into a grand strategy that explains how the organization's mission is to be accomplished. Strategy formulation is the translation of the grand strategy into more specific strategic plans, choosing among different strategies and altering them to best fit the organization's needs.
- Step 4 is strategy implementation—putting strategic plans into effect.
- Step 5 is strategic control, monitoring the execution of strategy and making adjustments.
- Corrective action constitutes a feedback loop in which a problem requires that managers return to an earlier step to rethink policies, budgets, or personnel arrangements.

6.3 Establishing the Mission & the Vision

- A mission statement should express the organization's purpose or reason for being.

- A vision statement should be positive and inspiring, and it should stretch the organization and its employees to achieve a desired future state that appears beyond its reach.

6.4 Assessing the Current Reality

- Step 2 in the strategic-management process, assess the current reality, looks at where the organization stands internally and externally—to determine what's working and what's not, to see what can be changed so as to increase efficiency and effectiveness in achieving the organization's vision.
- An assessment helps to create an objective view of everything the organization does: its sources of revenue or funding, its work-flow processes, its organizational structure, client satisfaction, employee turnover, and other matters.
- Among the tools for assessing the current reality are *competitive intelligence, SWOT analysis, forecasting, benchmarking,* and *Porter's model for industry analysis.*
- Practicing competitive intelligence means gaining information about one's competitors' activities, through public news sources, investor information, and informal sources, so that you can anticipate their moves and react appropriately.
- The next point in establishing a grand strategy is environmental scanning, careful monitoring of an organization's internal and external environments to detect early signs of opportunities and threats that may influence the firm's plans. The process for doing such scanning is called SWOT analysis, a search for the Strengths, Weaknesses, Opportunities, and Threats affecting the organization.
- Organizational strengths are the skills and capabilities that give the organization special competencies and competitive advantages. Organizational weaknesses are the drawbacks that hinder an organization in executing strategies. Organizational opportunities are environmental factors that the organization may exploit for competitive advantage. Organizational threats are environmental factors that hinder an organization's achieving a competitive advantage.
- Another tool for developing a grand strategy is forecasting—creating a vision or projection of the future. Two types of forecasting are (1) trend analysis, a hypothetical extension of a past series of events into the future; and (2) contingency planning, the creation of alternative hypothetical but equally likely future conditions.
- Benchmarking is a process by which a company compares its performance with that of high-performing organizations.
- Porter's model for industry analysis suggests that business-level strategies originate in five primary competitive forces in the firm's environment: (1) threats of new entrants, (2) bargaining power of suppliers, (3) bargaining power of buyers, (4) threats of substitute products or services, and (5) rivalry among competitors.

6.5 Formulating the Grand Strategy

- Three common grand strategies are (1) a growth strategy, which involves expansion—as in sales revenues; (2) a stability strategy, which involves little or no significant change; and (3) a defensive strategy, which involves reduction in the organization's efforts.
- Strategy formulation (Step 3 in the strategic-management process) makes use of several concepts, including (1) Porter's four competitive strategies, (2) diversification and synergy, and (3) the BCG matrix.
- Porter's four competitive strategies are as follows: (1) The cost-leadership strategy is to keep the costs, and hence the prices, of a product or service below those of competitors and to target a wide market. (2) The differentiation strategy is to offer products or services that are of unique and superior value compared with those of competitors but to target a wide market. (3) The cost-focus strategy is to keep the costs and hence prices of a product or service below those of competitors and to target a narrow market. (4) The focused-differentiation strategy is to offer products or services that are of unique and superior value compared with those of competitors and to target a narrow market.
- Companies need to choose whether to have a single-product strategy, making and selling only one product within their market, or a diversification strategy, operating several businesses to spread the risk.
- There are two kinds of diversification: unrelated diversification consists of operating several businesses that are not related to each other; related diversification consists of operating separate businesses that are related to each other, which may reduce risk, produce management efficiencies, and produce synergy or the sum being greater than the parts.
- The BCG matrix is a means of evaluating strategic business units on the basis of (1) their business growth rates and (2) their share of the market. In general, organizations do better in fast-growing markets in which they have a high market share rather than slow-growing markets in which they have low market shares.

6.6 Implementing & Controlling Strategy: Execution

- The last two steps of the strategic-management process are strategy implementation and strategic control.

- *Strategy implementation* is putting strategic plans into effect, dealing with roadblocks within the organization's structure and culture, and seeing if the right people and control systems are available to execute the plans.
- *Strategic control* consists of monitoring the execution of strategy and taking corrective action, if necessary. To keep a strategic plan on track, you should engage people, keep your planning simple, stay focused, and keep moving.
- Implementing strategy and maintaining strategic control require effective execution. Execution is not simply tactics, it is a central part of any company's strategy; it consists of using questioning, analysis, and follow-through to mesh strategy with reality, align people with goals, and achieve results promised.
- Three core processes of execution are people, strategy, and operations. (1) You have to evaluate talent by linking people to particular strategic milestones, developing future leaders, dealing with nonperformers, and transforming the mission and operations of the human resource department. (2) In considering whether the organization can execute the strategy, a leader must take a realistic and critical view of its capabilities and competencies. (3) The third core process, operations, or the operating plan, provides the path for people to follow. The operating plan should address all the major activities in which the company will engage and then define short-term objectives for these activities, to provide targets for people to aim at. By linking people, strategy, and operating plans, execution allows executives to direct and control the three core processes that will advance their strategic vision.

Understanding the Chapter: What Do I Know?

1. What is strategic positioning, and what are the three principles that underlie it?
2. What are the five steps in the strategic management process?
3. Name some characteristics of good mission and vision statements.
4. What is competitive intelligence?
5. What are the tools that can help you assess the current reality?
6. Explain what SWOT is.
7. Describe three techniques that can help you formulate a grand strategy.
8. What are three common grand strategies?
9. Explain Porter's four competitive strategies.
10. In execution, what are the three core processes of business?

Management in Action

Putting AutoZone into Drive

Joseph "Pitt" Hyde III, 70, knew nothing about cars. But after turning his grandfather's company, Malone & Hyde, into the nation's third-largest wholesale food distributor, he figured there was money to be made under the hood. Touting low everyday prices (a strategy he learned from serving on the board of Walmart), he founded AutoZone, which is now the nation's largest retail auto parts chain. . . .

I was born in Memphis, and grew up here. My grandfather started Malone & Hyde, a wholesale food distributor, in 1907. He ran it, my father ran it, and I ran it. From the time I was 4 or 5, my grandfather would take me to visit the stores, and my father always discussed the big decisions being made with me. I was always told that I had the opportunity to run Malone & Hyde, and the obligation to do it better than my grandfather and father did. I never knew I had a choice. . . .

After I graduated from the University of North Carolina with an economics degree, my father grew ill. So in 1968, at 26, I had to take over. It was the ultimate baptism by fire. Most of the people reporting to me were twice my age. That year, we had $240 million in sales. Fortunately, I was able to continue to grow the company.

In the mid-1970s I had concerns about the long-term outlook, and looked for areas to diversify into. We had a successful drug chain [called Super D] and felt comfortable with specialty retailing. So when this small company, Checker Auto Parts in Phoenix, came up for sale, I checked it out. I saw how it was growing with auto parts geared to the do-it-yourself market. We passed, and Lucky Supermarkets bought it. We started looking at chains like Pep Boys.

I could see the auto parts business was growing rapidly and wasn't as price-sensitive as food. I didn't see anyone doing a superior job of customer service, and most were not well kept. I thought we could bring a lot to the table. We decided to start a company from scratch.

We opened our first store in Forrest City, Arkansas, on July 4, 1979, and called it Auto Shack. We changed the name after we were sued by RadioShack [for trademark infringement]. Auto Shack initially won the lawsuit, but RadioShack successfully appealed. Rather than fight it, we changed the name to AutoZone.

In 1988 we sold Malone & Hyde, which by then had $3.3 billion in sales. We had set up AutoZone in its own corporate structure, so when we sold the base business, I kept AutoZone. I'd never been a do-it-yourselfer and didn't know the auto parts business, but I knew there was an opportunity. We worked on small margins and were very tight operators, so that discipline helped us through as we learned the business.

We started with four stores and were the first auto parts store with electronic catalogues, so customers could instantly look up parts and warranty information. Our objective was to build a culture around superior customer service, and to have everyday low prices in good-looking stores.

In 1991 we went public, and the competition saw how well we were doing. They started copying our store layout and pricing. But none of them could copy our culture. Today we have 5,000 stores. . . .

When you're running a big business, you spend 80% of the time addressing small things and 20% on the big things that really make a difference. It took me 35 years to figure out if you spend 80% of the time on the big things, and 20% on the small things, life will be much more meaningful. Money is a small part of the equation for success. Sweat equity is what makes things work.

Source: Excerpted from an Interview by D. Eng, "Putting AutoZone into Drive," Fortune, *August 12, 2013, pp. 17–18.*

FOR DISCUSSION

1. Using no more than two sentences, describe AutoZone's strategy.
2. Based on Michael Porter's discussion of the characteristics of an effective strategy, does AutoZone have a good strategy for growth? Explain.
3. To what extent is AutoZone following the five steps of the strategic-management process?
4. Conduct an environmental scan or SWOT analysis of AutoZone's current reality and recommend whether the company's current strategy is poised to succeed.
4. Which of Michael Porter's four competitive strategies is AutoZone trying to follow? Discuss.
5. What is the greatest takeaway from this case in terms of strategic management?

Legal/Ethical Challenge

Should Companies Be Pressured to Recruit Females for Boards of Directors?

A company's board of directors plays a role in the strategic management process. Not only can a board provide input into the planning process, but it ultimately signs off on the intended strategies. Interestingly, a 2011 study by Catalyst, a nonprofit organization, compared financial performance of companies with zero female board members versus those with three or more female members. Results indicated that female representation was associated with (1) 84% higher return on sales, (2) 60% higher return on sales, and (3) 46% higher return on equity. This challenge pertains to whether it is appropriate for outside groups to pressure a company to include women on its board of directors.

Small percentages of female board members may be caused by many factors, such as a lack of specific experience (e.g., finance), limited social networks, and negative stereotypes. Regardless of the cause, external groups are sprouting up around the United States that are focused on putting pressure on companies to recruit female directors. One example is a group that calls itself "2020 Women on Boards." This nonprofit group has a goal of mobilizing stakeholders to encourage companies to increase female representation on boards of directors. The group plans to publish a list of the Fortune 1000 companies that have no female directors. Some believe that efforts like this will promote good corporate governance, while others see it as an intrusion into the internal functioning of an organization.

SOLVING THE CHALLENGE

Where do you stand on this issue?

1. It is a great idea to pressure companies to include more females on boards of directors. After all, the Catalyst study showed that female representation was associated with higher financial performance.
2. Companies should be allowed to select people for boards based on their experience, networks, and performance. Gender should not be considered as a relevant criterion for selecting board members. I am not in favor of this type of social pressure because it does not ensure that the most qualified people are placed on boards of directors.
3. I'm middle of the road on this issue. Part of me feels that organizations should be left alone to put whoever they want on a board. At the same time, sometimes organizational leaders need to be nudged to do the right thing, such as putting females on the board. I thus think that social pressure from groups like "2020 Women on Boards" is okay, but organizations should not feel forced to do anything they do not want to do.
4. Invent other options. Discuss.

Source: This case is based on Joann Lublin, "Female Directors: Why So Few?" The Wall Street Journal, *December 27, 2011, p. B5.*

7

Individual & Group Decision Making

How Managers Make Things Happen

Major Questions You Should Be Able to Answer

the manager's toolbox

How Exceptional Managers Check to See If Their Decisions Might Be Biased

The biggest part of a manager's job is making decisions—and quite often they are wrong. Some questions you might ask next time you're poised to make a decision:

"Am I Too Cocky?" The Overconfidence Bias

If you're making a decision in an area in which you have considerable experience or expertise, you're less likely to be overconfident. Interestingly, however, you're more apt to be overconfident when dealing with questions on subjects you're unfamiliar with or questions with moderate to extreme difficulty.[1]

Recommendation: When dealing with unfamiliar or difficult matters, think how your impending decision might go wrong. Afterward pay close attention to the consequences of your decision.

"Am I Considering the Actual Evidence, or Am I Wedded to My Prior Beliefs?" The Prior-Hypothesis Bias

Do you tend to have strong beliefs? When confronted with a choice, decision makers with strong prior beliefs tend to make their decision based on their beliefs—even if evidence shows those beliefs are wrong. This is known as the *prior-hypothesis bias.*[2]

Recommendation: Although it's more comforting to look for evidence to support your prior beliefs, you need to be tough-minded and weigh the evidence.

"Are Events Really Connected, or Are They Just Chance?" The Ignoring-Randomness Bias

Is a rise in sales in athletic shoes because of your company's advertising campaign or because it's the start of the school year? Many managers don't understand the laws of randomness.

Recommendation: Don't attribute trends or connections to a single, random event.

"Is There Enough Data on Which to Make a Decision?" The Unrepresentative Sample Bias

If all the secretaries in your office say they prefer dairy creamer to real cream in their coffee, is that enough data on which to launch an ad campaign trumpeting the superiority of dairy creamer? It might if you polled 3,000 secretaries, but 3 or even 30 is too small a sample.

Recommendation: You need to be attuned to the importance of sample size.

"Looking Back, Did I (or Others) Really Know Enough Then to Have Made a Better Decision?" The 20-20 Hindsight Bias

Once managers know what the consequences of a decision are, they may begin to think they could have predicted it. They may remember the facts as being a lot clearer than they actually were.[3]

Recommendation: Try to keep in mind that hindsight does not equal foresight.

For Discussion Facing the hard facts about what works and what doesn't, how able do you think you are to make the tough decisions that effective managers have to make? Can you describe an instance in which you were badly wrong about something or someone?

forecast What's Ahead in This Chapter

We begin by distinguishing between rational and nonrational decision making, and we describe two nonrational models. We next discuss ethical decision making. We then consider evidence-based decision making and the use of analytics. Next we describe general decision-making styles. We follow by considering how individuals respond to decision situations and nine common decision-making biases. We conclude with a discussion of group decision making, including group problem-solving techniques.

7.1 Two Kinds of Decision Making: Rational & Nonrational

MAJOR QUESTION

How do people know when they're being logical or illogical?

THE BIG PICTURE

Decision making, the process of identifying and choosing alternative courses of action, may be rational, but often it is nonrational. Four steps in making a rational decision are (1) identify the problem or opportunity, (2) think up alternative solutions, (3) evaluate alternatives and select a solution, and (4) implement and evaluate the solution chosen. Two examples of nonrational models of decision making are (1) satisficing and (2) intuition.

The subject of decisions and decision making is a fascinating subject that is at the heart of what managers do.

A decision is a choice made from among available alternatives. Decision making is the process of identifying and choosing alternative courses of action.

If your company's product is first place in its market and is making tons of money, is that a sign of great decision making?

EXAMPLE

How Can Being the Best Affect Your Decision Making?

Most Fortune 500 companies averaged profit margins of around 5% the past 60 years. Imagine a company whose profit margin was an awesome 80%—for years and years.

No, we're not talking about Apple, whose profit margin in 2013 was a spectacular 40%. We are referring to one of the biggest brands ever . . . Kodak.

The Curse of Being Out Front. Founded in 1888, the once-great film company filed for bankruptcy in early 2012, blindsided by the digital revolution and foreign competition.[4] Before then, however, it dominated the world of film and popular photography, with film in particular driving the company's expansion. "It is very hard," said Kodak's director of research in those heady days, "to find anything [with profit margins] like color photography that is legal."[5]

Some believe, however, that film's profitability contributed to Kodak's doom—that managers feared introducing technologies that would disrupt the company's film business. Indeed, Kodak had talented research-and-development engineers and scientists who churned out some of the world's leading innovations, which were never introduced. "The irony," said one innovator, "is that many—CCD arrays, digital X-rays, etc.—eventually did Kodak in."[6]

In fact, in 1975, says one account, "the company invented the digital camera—then stuck it in a safe lest it destroy its lucrative film business. By the time Kodak was ready to unleash its digital prowess, everyone from Canon to Sony was selling their own digital cameras."[7]

Tough Decisions about Innovation. Companies often have difficulty making decisions about how to manage innovation, says Wharton professor Christian Terwiesch. "Either they are focused on what they currently do and seek incremental innovation, or when they talk of research, they talk about what will happen in 10 years," he says. Innovations reaching for a middle ground, such as envisioning product lines two or five years away, are much more elusive and often don't have someone championing them within the organization.[8]

Afraid to cannibalize its existing business—selling film—Kodak continued to push forward with its present business model rather than look at what the market wanted. "Long-run strategies work better if you stand in the shoes of your customers and think how you are going to solve their problems," notes Wharton professor George S. Day. "Kodak never really embraced that."[9]

YOUR CALL

Is being in first place the most dangerous place for decision makers? Do you think some of today's hot companies—Apple, Google, FedEx, or Costco—on *Fortune*'s Most Admired list could experience what happened to Kodak?

Decision Making in the Real World

Sometimes we are able to make thoughtful decisions, making rational choices among well-defined alternatives. But that is not always the way it works in the real world.

Two Systems of Decision Making In *Thinking, Fast and Slow,* psychologist Daniel Kahneman, winner of the 2002 Nobel Prize in economics, describes two kinds of thinking, which he labels System 1 and System 2:[10]

- **System 1—intuitive and largely unconscious:** System 1 operates automatically and quickly; it is our fast, automatic, intuitive, and largely unconscious mode, as when we detect hostility in a voice or detect that one object is more distant than another.
- **System 2—analytical and conscious:** System 2 is our slow, deliberate, analytical, and consciously effortful mode of reasoning, which swings into action when we have to fill out a tax form or park a car in a narrow space.

"System 1 uses association and metaphor to produce a quick and dirty draft of reality," says one explanation, "which System 2 draws on to arrive at explicit beliefs and reasoned choices."[11]

Why don't we use the more deliberate and rational System 2 more often? Because it's lazy and tires easily, so instead of slowing things down and analyzing them, it is content to accept the easy but unreliable story that System 1 feeds it.

The "Curse of Knowledge" Why do some engineers design electronic products (such as DVD remote controls) with so many buttons, devices ultimately useful only to other engineers? Why are some professional investors and bankers prone to taking excess risks?[12] Why are some employees so reluctant to adopt new processes? The answer may be what's known as *the curse of knowledge.* As one writer put it about engineers, for example, "People who design products are experts cursed by their knowledge, and they can't imagine what it's like to be as ignorant as the rest of us."[13] In other words, as our knowledge and expertise grow, we may be less and less able to see things from an outsider's perspective—hence, we are often apt to make irrational decisions.

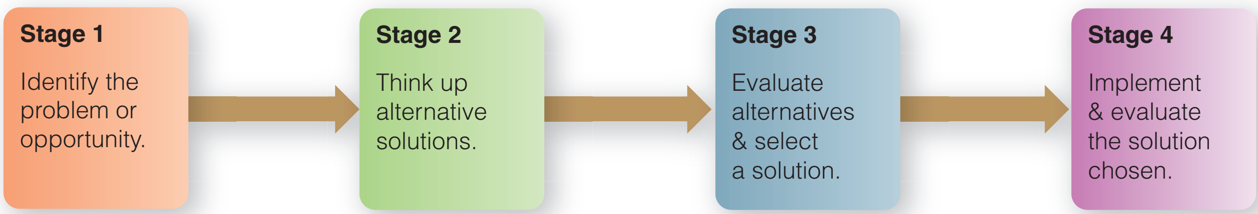
Let us look at the two approaches managers may take to making decisions: They may follow a *rational model* or various kinds of *nonrational models.*

Rational Decision Making: Managers Should Make Logical & Optimal Decisions

The rational model of decision making, also called the *classical model,* explains how managers *should* make decisions; it assumes managers will make logical decisions that will be the optimum in furthering the organization's best interests.

Typically there are four stages associated with rational decision making. *(See Figure 7.1.)*

FIGURE 7.1 **The four steps in rational decision making**



Stage 1: Identify the Problem or Opportunity—Determining the Actual versus the Desirable

As a manager, you'll probably find no shortage of **problems, or difficulties that inhibit the achievement of goals.** Customer complaints. Supplier breakdowns. Staff turnover. Sales shortfalls. Competitor innovations.

However, you'll also often find **opportunities—situations that present possibilities for exceeding existing goals.** It's the farsighted manager, however, who can look past the steady stream of daily problems and seize the moment to actually do *better* than the goals he or she is expected to achieve. When a competitor's top salesperson unexpectedly quits, that creates an opportunity for your company to hire that person away to promote your product more vigorously in that sales territory.

Whether you're confronted with a problem or an opportunity, the decision you're called on to make is how to make *improvements*—how to change conditions from the present to the desirable. This is a matter of **diagnosis—analyzing the underlying causes.**

EXAMPLE

Making a Correct Diagnosis: Who's Better at Financial Decisions, Men or Women?

When men and women are asked to self-assess their financial knowledge, according to a study of eight countries, men tend to give themselves high scores and women give themselves lower scores—even when that is not warranted by their actual knowledge.[14] "Women are aware of their lack of knowledge," says a study author, while "men are less willing to admit what they don't know."[15]

Men, it seems, are put under a lot pressure to understand—or pretend they understand—financial matters. The financial industry also uses a lot of male-speak ("dominating the field") that make women feel excluded. In general, women are less confident than men about making investment decisions.[16]

The Better Investors. So which sex is the better class of investors? A seven-year study of single (unmarried) investors found females outperformed males by 2.3%, female investment groups outperformed male groups by 4.6%, and women overall outperformed men by 1.4%.[17] The basic reason: "Women trade much less often than men, do a lot more research, and tend to base their investment decisions on considerations other than just numbers," according to one account.[18] Men, says another report, "tend to trade more, and the more you trade, typically the more you lose—not to mention running up transaction costs."[19]

The Buffet Approach. Warren Buffett is the renowned billionaire investor (the third richest person in the world, worth $65.9 billion in mid-2014) known as the "Oracle of Omaha" who heads the financial juggernaut Berkshire Hathaway.[20] His investment decisions are so successful that $1,000 invested with him in 1957 reportedly was worth upwards of $30 million in 2014.[21]

Buffett is said to "invest like a girl," taking the same cautious approach that many women do.[22] He uses basic arithmetic to analyze several file-cabinet drawers of annual reports and other readily available company financial documents and to look for a record of "high returns on equity capital, low debt, and a consistent, predictable business with sustainable advantages—like Coca-Cola's soft-drink franchise."[23] In other words, Buffett takes pains to make a correct diagnosis before making a decision.

YOUR CALL

When preparing to make important decisions—especially financial decisions—do you spend a lot of time trying to make a correct diagnosis, doing deep research (as women investors are said to do), or do you chase "hot" tips and make snap judgments (as men reportedly do)?

Stage 2: Think Up Alternative Solutions—Both the Obvious & the Creative

Employees burning with bright ideas are an employer's greatest competitive resource. "Creativity precedes innovation, which is its physical expression," says *Fortune* magazine writer Alan Farnham. "It's the source of all intellectual property."[24]

After you've identified the problem or opportunity and diagnosed its causes, you need to come up with alternative solutions.

Stage 3: Evaluate Alternatives & Select a Solution—Ethics, Feasibility, & Effectiveness

In this stage, you need to evaluate each alternative not only according to cost and quality but also according to the following questions: (1) Is it *ethical*? (If it isn't, don't give it a second look.) (2) Is it *feasible*? (If time is short, costs are high, technology unavailable, or customers resistant, for example, it is not.) (3) Is it ultimately *effective*? (If the decision is merely "good enough" but not optimal in the long run, you might reconsider.)

Stage 4: Implement & Evaluate the Solution Chosen

With some decisions, implementation is usually straightforward (though not necessarily easy—firing employees who steal may be an obvious decision, but it can still be emotionally draining). With other decisions, implementation can be quite difficult; when one company acquires another, for instance, it may take months to consolidate the departments, accounting systems, inventories, and so on.

Successful Implementation For implementation to be successful, you need to do two things:

- **Plan carefully.** Especially if reversing an action will be difficult, you need to make careful plans for implementation. Some decisions may require written plans.
- **Be sensitive to those affected.** You need to consider how the people affected may feel about the change—inconvenienced, insecure, even fearful, all of which can trigger resistance. This is why it helps to give employees and customers latitude during a changeover in business practices or working arrangements.

Now that you understand the four stages of the rational model, to what extent do you think you use them when making decisions? Would you like to improve your problem-solving skills? If yes, then you will find the following self-assessment valuable. It assesses your problem-solving skills.

SELF-ASSESSMENT 7.1 connect

Assessing Your Problem-Solving Potential

This survey is designed to assess your approach to problem solving. Go to **connect.mheducation.com** and take Self-Assessment 7.1. When you're done, answer the following questions:

1. What is the status of your problem-solving skills? Are you surprised by the results?
2. Based on identifying the four lowest scored items on the assessment, what can you do to improve your problem-solving skills? Explain.
3. Reflect on a recent decision you made that did not turn out to your satisfaction. Now, consider what you learned about the rational model and your problem-solving skills and think through the decision for a second time. What would you do differently based on these considerations?

EXAMPLE

Faulty Implementation: Customer Service Is Often "Just Talk"

"My claim to fame, the only thing I've ever been really good at, is returning people's phone calls every single day," says Mark Powers. No doubt it is that kind of customer service that is the reason why Excelsior Roofing of San Francisco, founded by Powers's grandfather over 100 years ago, is still in business.[25]

Just Talk. "Executives talk about the importance of responding to customers' needs with top-notch customer service," writes *Wall Street Journal* columnist Carol Hymowitz. "But often it's just talk."[26]

The problem with faulty customer service, however, is that sometimes the company may be the last to hear about it, but a great many other potential customers may hear of it by word of mouth. One study found that only 6% of shoppers who experienced a problem with a retailer contacted the company. However, 31% went on to tell friends, family, and colleagues what had happened. Indeed, if 100 people have a bad experience, a retailer stands to lose between 32 and 36 current or potential customers, according to the study.[27]

In the Shoes of Customers. Consultants working for one large telecommunications company encouraged customer service reps at one call center to share their problems and successes with each other and bring in customers to report their positive and negative experiences with the call center. To encourage customer reps to "step inside the shoes of customers," the consultants also presented a weekly award of a pair of baby shoes to the employee who solved the most customer problems.[28]

Customer support. "I really need some help here."

YOUR CALL

We're all accustomed to pumping our own gas and doing our own banking through ATMs and online. Now many retailers have moved toward self-service checkout lanes, as is done by some Home Depot stores, and the airlines with their self-check-in kiosks.[29]

What do you think the self-serve trend means for customer service?

Evaluation One "law" in economics is the Law of Unintended Consequences—things happen that weren't foreseen. For this reason, you need to follow up and evaluate the results of the decision.

What should you do if the action is not working? Some possibilities:

- **Give it more time.** You need to make sure employees, customers, and so on have had enough time to get used to the new action.
- **Change it slightly.** Maybe the action was correct, but it just needs "tweaking"—a small change of some sort.
- **Try another alternative.** If Plan A doesn't seem to be working, maybe you want to scrap it for another alternative.
- **Start over.** If no alternative seems workable, you need to go back to the drawing board—to Stage 1 of the decision-making process.

EXAMPLE

Evaluation: The Boeing 787 Dreamliner, a Bet-the-Company Decision

At a time when Boeing Co., the Chicago-headquartered aerospace giant, was losing business to its European rival Airbus and rising fuel costs were dramatically impacting the commercial airline industry, Boeing management made a bold decision: It would build a new medium-sized commercial jet, the 787 Dreamliner, its first new aircraft in 10 years, designed to fly faster than the competition and to consume 20% less fuel than similar-sized planes.

To achieve this, the 787 would feature more fuel-efficient engines and the fuselage would be built from plastic composite materials instead of aluminum. This would cut down on structural fatigue and corrosion, thereby reducing the number of inspections necessary and increasing the number of flights possible. "A light, strong plane is the big payoff for the huge technical risk Boeing is taking in crafting parts out of composites," said one aerospace reporter.[30]

A Bumpy Ride. First planned for a summer 2007 launch, the date was revised for 2008. Then, in mid-2006, the company began encountering the first of many stories of bad news. The fuselage section had failed in testing, and engineers had discovered worrisome bubbles in its skin. The carbon-fiber wing was too heavy, adding to the plane's overall weight. To hold costs down, Boeing had outsourced about 70% of the production to major suppliers acting as risk-sharing partners and playing a greater role in design and manufacturing. In return for investing more up front and taking on a share of the development costs, suppliers were given major sections of the airplane to build.[31]

By late 2007, however, it was apparent that suppliers were struggling to meet the exacting technological demands and deadlines, and their software programs were having trouble communicating with each other. In October, Boeing announced it would no longer meet its May 2008 target date and was postponing its first delivery to late fall of that year.[32]

Changing Dates. In early 2008, the company said the poor quality of outsourced work and the unprecedented amount of coordination among suppliers caused Boeing to shift much of the work back to its Everett, Washington, assembly plant, adding to delays. It said it was working to try to begin deliveries to customers not in late 2008 but in the first quarter of 2009, which then became the third quarter.[33] Then in 2009, stress testing revealed new flaws around bolts inside the wings.[34]

Finally, after six delays and nearly 10 years of anticipation, the Dreamliner had its first flight, on December 15, 2009.[35] Then, on October 28, 2011, after months of testing and three years behind schedule, the 787 was put into service for the first time, carrying 264 passengers for All Nippon Airways from Tokyo to Hong Kong.[36]

After More Problems, Finally Success. Then in January 2013, two Japanese-owned 787 Dreamliners experienced mysterious battery fires, resulting in the entire fleet of jetliners being grounded worldwide for 3½ months.[37] Japan Airlines, after 10 years of ordering aircraft from Boeing, switched to Airbus.[38] After addressing the battery problem, in March 2014 Boeing and a key supplier discovered hairline cracks while inspecting the wings of 42 yet-to-be-delivered Dreamliners, which forced changes to the manufacturing process.[39]

Through it all, as Boeing dealt with the additional setbacks, it continued to pick up orders as the airlines' financial health improved in the wake of the Great Recession and as high fuel prices continued to drive demand for more efficient aircraft like the Dreamliner.[40] Both Boeing and its rival Airbus ended 2013 with more than 10,000 jets of all kinds on order

Dream on. Boeing's 787 Dreamliner.

and have continued to boost aircraft production.[41] In 2014, the U.S. company expected to deliver up to 725 of the aircraft. The plane was also cleared to fly longer oceanic and polar routes for as much as 5½ hours.[42] Profits rose for Boeing's commercial division two years in a row, and jet deliveries also surpassed those of Airbus for two years running.[43] Still, the 787 was put into service three years late and cost twice the original estimate of $5 billion.[44]

The New "Dash Nine." Boeing also began testing a larger version of the Dreamliner, the 787-9 (the "Dash Nine"), which is 20 feet longer than its predecessor, the 787-8; can hold about 40 more passengers; and fly a few hundred miles further without additional fuel.[45] The company also learned from its earlier mishaps by bringing more of the Dash Nine's manufacturing process back in-house after outsourcing it, to avoid the design and production missteps that plagued the earlier Dreamliner. The Dash Nine, which was on schedule to start deliveries in 2014, is Boeing's "chance to make things right, and live up to the original promise of the program," said an aerospace consultant.[46]

YOUR CALL

How would you evaluate Boeing's decisions? Do you think despite all the effort on the 787-8 that the Dash Nine could cause Boeing to fail to break even on the 787-8, with airlines switching their orders to the newer aircraft? Was this a risky bet-the-company decision?

What's Wrong with the Rational Model?

The rational model is *prescriptive,* describing how managers ought to make decisions. It doesn't describe how managers *actually* make decisions. Indeed, the rational model makes some highly desirable assumptions—that managers have complete information, are able to make an unemotional analysis, and are able to make the best decision for the organization. *(See Table 7.1, next page.)* We all know that these assumptions are unrealistic.

TABLE 7.1
Assumptions of the Rational Model

- **Complete information, no uncertainty:** You should obtain complete, error-free information about all alternative courses of action and the consequences that would follow from each choice.
- **Logical, unemotional analysis:** Having no prejudices or emotional blind spots, you are able to logically evaluate the alternatives, ranking them from best to worst according to your personal preferences.
- **Best decision for the organization:** Confident of the best future course of action, you coolly choose the alternative that you believe will most benefit the organization.

Nonrational Decision Making: Managers Find It Difficult to Make Optimal Decisions

Nonrational models of decision making explain how managers make decisions; they assume that decision making is nearly always uncertain and risky, making it difficult for managers to make optimal decisions. The nonrational models are *descriptive* rather than prescriptive: They describe how managers *actually* make decisions rather than how they should. Two nonrational models are (1) *satisficing and* (2) *intuition.*

1. Bounded Rationality & the Satisficing Model: "Satisfactory Is Good Enough" During the 1950s, economist **Herbert Simon**—who later received the Nobel Prize—began to study how managers actually make decisions. From his research he proposed that managers could not act truly logically because their rationality was bounded by so many restrictions.[47] Called **bounded rationality, the concept suggests that the ability of decision makers to be rational is limited by numerous constraints,** such as complexity, time and money, and their cognitive capacity, values, skills, habits, and unconscious reflexes. *(See Figure 7.2.)*

FIGURE 7.2 **Some hindrances to perfectly rational decision making**

- **Complexity:** The problems that need solving are often exceedingly complex, beyond understanding.
- **Time and money constraints:** There is not enough time or money to gather all relevant information.
- **Different cognitive capacity, values, skills, habits, and unconscious reflexes:** Managers aren't all built the same way, of course, and all have personal limitations and biases that affect their judgment.
- **Imperfect information:** Managers have imperfect, fragmentary information about the alternatives and their consequences.
- **Information overload:** There is too much information for one person to process.
- **Different priorities:** Some data are considered more important, so certain facts are ignored.
- **Conflicting goals:** Other managers, including colleagues, have conflicting goals.

Because of such constraints, managers don't make an exhaustive search for the best alternative. Instead, they follow what Simon calls the **satisficing model—that is, managers seek alternatives until they find one that is satisfactory, not optimal.** While "satisficing" might seem to be a weakness, it may well outweigh any advantages gained from delaying making a decision until all information is in and all alternatives weighed.

Nonrational decision making? Many cigarette smokers are capable of quitting, so why do they continue doing it—especially since they know it's expensive and bad for their health? It's not that they are especially tolerant of risk. Perhaps, some scientists suggest, it's because they have poor self-control and "can't resist the short-term pleasure despite the prospect of long-term disaster."[48] How do you deal with this kind of nonrational decision?

However, making snap decisions can also backfire. In the 1990s, for instance, Campbell Soup Co. tried to penetrate China's soup market, where 20 billion servings are consumed a year (versus only 14 billion in the United States). But rather than research Chinese tastes and cooking customs, which would have revealed that most soups are made from scratch, the company simply exported its line of condensed soups—an example of satisficing. Wondering why they should pay for something that could be easily made from scratch and objecting to the can-like tastes of prepared soups, Chinese consumers rejected the Campbell product.[49]

2. The Intuition Model: "It Just Feels Right" Small entrepreneurs often can't afford in-depth marketing research and so they make decisions based on hunches—their subconscious, visceral feelings. For instance, Ben Hugh, 32, decided to buy I Can Has Cheezburger?, a blog devoted to silly cat pictures paired with viewer-submitted quirky captions, when it linked to his own pet blog and caused it to crash from a wave of new visitors. Putting up $10,000 of his own money and acquiring additional investor financing, he bought the site for $2 million from the Hawaiian bloggers who started it. "It was a white-knuckle decision," he said later. But he expanded the Cheezburger blog into an empire that now includes 53 sites.[50]

"Going with your gut," or **intuition, is making a choice without the use of conscious thought or logical inference.**[51] Intuition that stems from *expertise*—a person's explicit and tacit knowledge about a person, situation, object, or decision opportunity—is known as a *holistic hunch*. Intuition based on feelings—the involuntary emotional response to those same matters—is known as *automated experience*. It is important to try to develop your intuitive skills because they are as important as rational analysis in many decisions.[52] Some suggestions appear on the next page. *(See Table 7.2.)*

As a model for making decisions, intuition has at least two benefits. (1) It can speed up decision making, useful when deadlines are tight.[53] (2) It can be helpful to managers when resources are limited. A drawback, however, is that it can be difficult to convince others that your hunch makes sense. In addition, intuition is subject to the same biases as those that affect rational decision making, as we discuss in Section 7.5.[54] Finally, says one senior executive, intuition is fine for start-ups but

TABLE 7.2 **Guidelines for Developing Intuitive Awareness**

RECOMMENDATION	DESCRIPTION
1. Open up the closet.	To what extent do you experience intuition; trust your feelings; count on intuitive judgments; suppress hunches; covertly rely upon gut feel.
2. Don't mix up your I's.	Instinct, Insight, and Intuition are not synonymous; practice distinguishing between your instincts, your insights, and your intuitions.
3. Elicit good feedback.	Seek feedback on your intuitive judgments; build confidence in your gut feel; create a learning environment in which you can develop better intuitive awareness.
4. Get a feel for your batting average.	Benchmark your intuitions; get a sense of how reliable hunches are; ask yourself how your intuitive judgment might be improved.
5. Use imagery.	Use imagery rather than words; literally visualize potential future scenarios that take your gut feelings into account.
6. Play devil's advocate.	Test out intuitive judgments; raise objections to them; generate counterarguments; probe how robust gut feel is when challenged.
7. Capture and validate your intuitions.	Create the inner state to give your intuitive mind the freedom to roam; capture your creative intuitions; log them before they are censored by rational analysis.

Source: E. Sadler-Smith and E. Shefy, "The Intuitive Executive: Understanding and Applying Gut Feel in Decision Making," Academy of Management Executive, *November 2004, p. 88. Copyright © 2004 by Academy of Management. Reproduced with permission of Academy of Management via Copyright Clearance Center.*

"often deceives CEOs as their businesses become more complex."[55] Still, we believe that intuition and rationality are complementary and that managers should develop the courage to use intuition when making decisions.[56]

To what extent do you use intuition when making decisions? Are you curious about how you can improve your level of intuition? You can find out by taking Self-Assessment 7.2.

SELF-ASSESSMENT 7.2 connect

Assessing Your Level of Intuition

This survey is designed to assess the extent you use intuition in your current job. Go to **connect.mheducation.com** and take Self-Assessment 7.2. When you're done, answer the following questions:

1. Are you intuitive at work? Did the results surprise you?
2. What can you do to increase the amount of intuition you use at work? Describe.
3. What factors are inhibiting your use of intuition? What if anything can be done to eliminate these hindrances?

7.2 Making Ethical Decisions

MAJOR QUESTION

What guidelines can I follow to be sure that decisions I make are not just lawful but ethical?

THE BIG PICTURE

A graph known as a decision tree can help one make ethical decisions. In addition, one should be aware of "the magnificent seven" general moral principles for managers.

The ethical behavior of businesspeople has become of increasing concern in recent years, brought about by a number of events.

The Dismal Record of Business Ethics

First were the business scandals of the early 2000s, from Enron to WorldCom, producing photos of handcuffed executives. "The supposedly 'independent' auditors, directors, accountants, and stock market advisers and accountants were all tarnished," wrote Mortimer Zuckerman, editor-in-chief of *U.S. News & World Report.* "The engine of the people's involvement, the mutual fund industry, was shown to be permeated by rip-off artists rigging the system for the benefit of insiders and the rich."[57] Then, as the Iraq war wore on, reports came back of sweetheart deals and gross abuses by civilian contractors working in Iraq war zones.

In 2007, it became apparent that banks and others in the financial industry had forsaken sound business judgment—including ethical judgments—by making mortgage loans (subprime loans) to essentially unqualified buyers, which led to a wave of housing foreclosures and helped push the country into a recession. Since then, the media have presented us with a display of Ponzi schemes (Bernard Madoff, Allen Stanford), insider trading (Sam Waksal, Raj Rajaratnam), and corporate sleaziness (work-stressed suicides at Apple's China supplier Foxconn, a fatal accident at a Kentucky coal mine evading safety regulations), and similar matters.

Through it all, voices were being raised that American capitalism was not doing enough to help the poorer nations in the world. Companies in wealthier countries, Microsoft's Bill Gates has urged, should focus on "a twin mission: making profits and also improving lives for those who don't fully benefit from market forces."[58]

All these concerns have forced the subject of right-minded decision making to the top of the agenda in many organizations. Indeed, many companies now have an **ethics officer, someone trained about matters of ethics in the workplace, particularly about resolving ethical dilemmas.** More and more companies are also creating values statements to guide employees as to what constitutes desirable business behavior.[59] As a result of this raised consciousness, managers now must try to make sure their decisions are not just lawful but also ethical.[60]

Road Map to Ethical Decision Making: A Decision Tree

Undoubtedly the greatest pressure on top executives is to maximize shareholder value, to deliver the greatest return on investment to the owners of their company. But is a decision that is beneficial to shareholders yet harmful to employees—such as forcing them to contribute more to their health benefits, as IBM has done—unethical? Harvard Business School Professor Constance Bagley suggests that what is needed is a decision tree to help with ethical decisions.[61] A **decision tree is a graph of decisions and their possible consequences; it is used to create a plan to reach a goal.** Decision trees are used to aid in making decisions. Bagley's ethical decision tree is shown on the next page. *(See Figure 7.3.)*

The one-to-one model. Blake Mycoskie built his shoe empire, Toms, by selling one pair of inexpensive shoes and giving another pair away to a needy person. Later he extended this model to sell eyeglasses. More recently he unveiled Toms coffee, the sales of which will be used to provide clean water for cooking, drinking, and sanitation for people lacking these essentials. Are you more inclined to buy from companies like Toms (or eyewear seller Warby Parker or luxury department store Nieman Marcus) that tie sales of their products to helping impoverished people around the world?

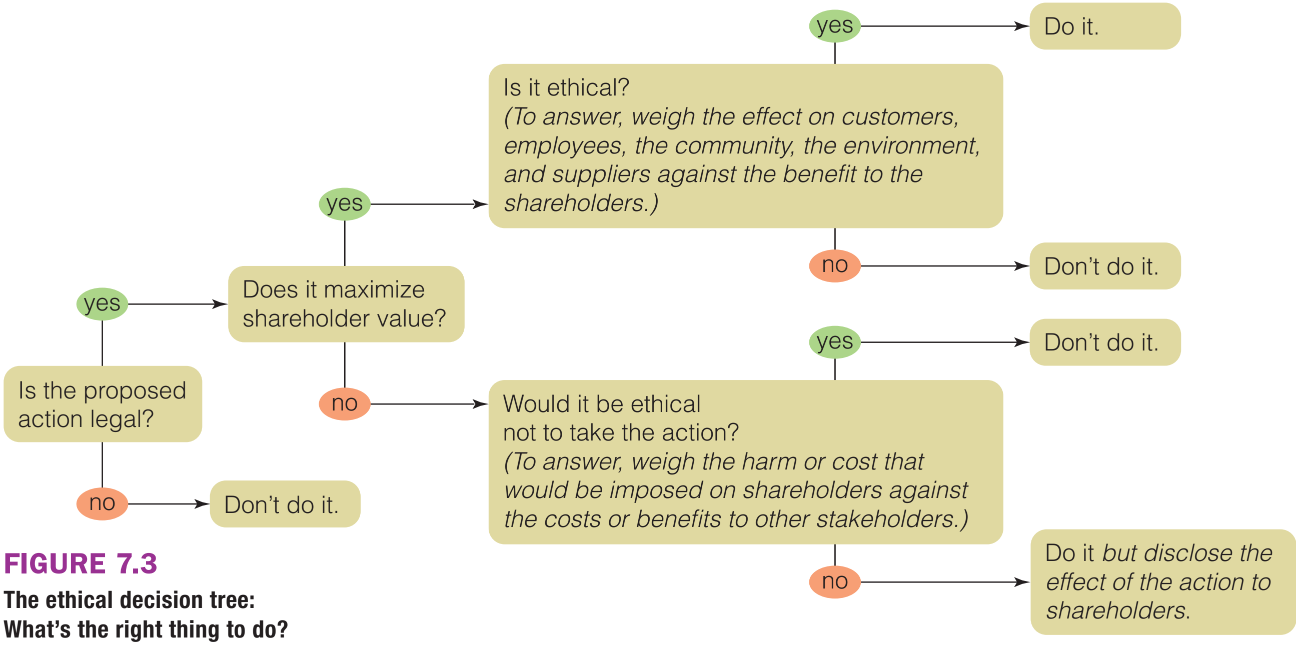


FIGURE 7.3

The ethical decision tree: What's the right thing to do?

Source: Reprinted by permission of Harvard Business Review. *Exhibit from "The Ethical Leader's Decision Tree," by C. E. Bagley, February 2003. Copyright © 2003 by the Harvard Business School Publishing Corporation; all rights reserved.*

When confronted with any proposed action for which a decision is required, a manager should ask the following questions:

1. Is the Proposed Action Legal? This may seem an obvious question. But, Bagley observes, "corporate shenanigans suggest that some managers need to be reminded: If the action isn't legal, don't do it."

2. If "Yes," Does the Proposed Action Maximize Shareholder Value? If the action is legal, one must next ask whether it will profit the shareholders. If the answer is "yes," should you do it? Not necessarily.

3. If "Yes," Is the Proposed Action Ethical? As Bagley, points out, though directors and top managers may believe they are bound by corporate law to always maximize shareholder value, the courts and many state legislatures have held they are not. Rather, their main obligation is to manage "for the best interests of the corporation," which includes the interests of the larger community.

Thus, says Bagley, building a profitable-but-polluting plant in a country overseas may benefit the shareholders but be bad for that country—and for the corporation's relations with that nation. Ethically, then, managers should add pollution-control equipment.

4. If "No," Would It Be Ethical *Not* to Take the Proposed Action? If the action would not directly benefit shareholders, might it still be ethical to go ahead with it?

Not building the overseas plant might be harmful to other stakeholders, such as employees or customers. Thus, the ethical conclusion might be to build the plant with pollution-control equipment but to disclose the effects of the decision to shareholders.

As a basic guideline to making good ethical decisions on behalf of a corporation, Bagley suggests that directors, managers, and employees need to follow their own individual ideas about right and wrong.[62] There is a lesson, she suggests, in the response of the pension fund manager who, when asked whether she would invest in a company doing business in a country that permits slavery, responded, "Do you mean me, personally, or as a fund manager?" When people feel entitled or compelled to compromise their own personal ethics to advance the interests of a business, "it is an invitation to mischief."[63]

To learn more about your own ethics, morality, and/or values (while also contributing to scientific research), go to *www.yourmorals.org*.[64] ●

7.3

Evidence-Based Decision Making & Analytics

MAJOR QUESTION

How can I improve my decision making using evidence-based management and business analytics?

THE BIG PICTURE

Evidence-based decision making, which depends on an "attitude of wisdom," rests on three truths. This section describes seven principles for implementing evidence-based management. We also describe why it is hard to bring this approach to bear on one's decision making. Finally, we describe analytics and its three key attributes.

It was the jet that Boeing *didn't* build that avoided what could have been possibly the worst disaster in the company's history and gave the aircraft builder the opportunity to go in a new direction.

In late 2002, Boeing was desperately trying to figure out what kind of passenger airliner to build that would allow the company to effectively compete with its European rival Airbus. In October, Boeing executives met with several global airline representatives in Seattle. A Boeing manager drew a graph on a whiteboard, with axes representing cruising range and passenger numbers. Then he asked airline representatives to locate their ideal position on the graph. "The distribution of the data," reports *Time,* "favored efficiency over speed—the exact opposite of what Boeing was thinking. Two months later, Boeing ditched plans for a high-speed, high-cost jetliner to embark on a new program"—what became the massive attempt to build the 787 Dreamliner.[65]

Evidence-Based Decision Making

"Too many companies and too many leaders are more interested in just copying others, doing what they've always done, and making decisions based on beliefs in what ought to work rather than what actually works," say Stanford professors **Jeffrey Pfeffer** and **Robert Sutton.** "They fail to face the hard facts and use the best evidence to help navigate the competitive environment."[66] This is what Boeing narrowly averted in that Seattle conference, when it was getting ready to spend billions of dollars trying to outcompete Airbus by building a faster aircraft. Companies that use *evidence-based management*—the translation of principles based on best evidence into organizational practice, bringing rationality to the decision-making process, as we defined it in Chapter 2—routinely trump the competition, Pfeffer and Sutton suggest.[67]

Seven Implementation Principles

Pfeffer and Sutton identify seven implementation principles to help companies that are committed to doing what it takes to profit from evidence-based management:[68]

- **Treat your organization as an unfinished prototype.** Leaders need to think and act as if their organization is an unfinished prototype that won't be ruined by dangerous new ideas or impossible to change because of employee or management resistance. Example: Some Internet start-ups that find their original plan not working have learned to master "the art of the pivot," to fail gracefully by cutting their losses and choosing a new direction—as did the founders of Fabulus, a review site and social network that attracted no users, and so they launched a high-end e-commerce site called Fab.com.[69]
- **No brag, just facts.** This slogan is an antidote for over-the-top assertions about forthcoming products, such as "the deafening levels of managed hype across much of Silicon Valley," as one reporter characterized it.[70] Other companies, such as DaVita, which operates dialysis centers, take pains to evaluate data before making decisions. Google has used data to find out what makes a better boss.[71]

Evidence-based decisions. Google used evidence-based analysis to find out what makes a better boss. They found that what employees value most are even-keeled bosses who take an interest in employees' lives and careers, who make time for one-on-one meetings, and who help people work through problems by asking questions instead of dictating answers. Would you expect a "just-the-facts" approach to be normal in high-tech businesses or unusual?

- **See yourself and your organization as outsiders do.** Most managers are afflicted with "rampant optimism," with inflated views of their own talents and prospects for success, which causes them to downplay risks and continue on a path despite evidence things are not working. "Having a blunt friend, mentor, or counselor," Pfeffer and Sutton suggest, "can help you see and act on better evidence."
- **Evidence-based management is not just for senior executives.** The best organizations are those in which everyone, not just the top managers, is guided by the responsibility to gather and act on quantitative and qualitative data and share results with others.
- **Like everything else, you still need to sell it.** "Unfortunately, new and exciting ideas grab attention even when they are vastly inferior to old ideas," the Stanford authors say. "Vivid, juicy stories and case studies sell better than detailed, rigorous, and admittedly dull data—no matter how wrong the stories or how right the data." To sell an evidence-based approach, you may have to identify a preferred practice based on solid if unexciting evidence, then use vivid stories to grab management attention.
- **If all else fails, slow the spread of bad practice.** Because many managers and employees face pressures to do things that are known to be ineffective, it may be necessary for you to practice "evidence-based misbehavior"—that is, ignore orders you know to be wrong or delay their implementation.
- **The best diagnostic question: What happens when people fail?** "Failure hurts, it is embarrassing, and we would rather live without it," the authors write. "Yet there is no learning without failure. . . . If you look at how the most effective systems in the world are managed, a hallmark is that when something goes wrong, people face the hard facts, learn what happened and why, and keep using those facts to make the system better." From the U.S. civil aviation system, which rigorously examines airplane accidents, near misses, and equipment problems, to Home Depot deciding to close 400 of its U.S. stores after declining sales, evidence-based management makes the point that failure is a great teacher.[72] This means, however, that the organization must "forgive and remember" people who make mistakes, not be trapped by preconceived notions, and confront the best evidence and hard facts.

What Makes It Hard to Be Evidence Based Despite your best intentions, it's hard to bring the best evidence to bear on your decisions. Among the reasons:[73] (1) There's too much evidence. (2) There's not enough *good* evidence. (3) The evidence doesn't quite apply. (4) People are trying to mislead you. (5) *You* are trying to mislead you. (6) The side effects outweigh the cure. (Example: Despite the belief that social promotion in school is a bad idea—that is, that schools shouldn't advance children to the next grade when they haven't mastered the material—the side effect is skyrocketing costs because it crowds schools with older students, and angrier students, demanding more resources.) (7) Stories are more persuasive, anyway.

EXAMPLE

Evidence-Based Decision Making: "If People Are Your Most Important Assets, Why Would You Get Rid of Them?"

It's an axiom of many managers that it's often necessary to cut back on workers during economic downturns—or even in good times—because it helps to increase profitability or drive the company's stock price higher. But Stanford professor Jeffrey Pfeffer, advocate for evidence-based management, takes issue with this assumption. "There is a growing body of academic research suggesting that firms incur big costs when they cut workers," he writes.[74]

What Are the Costs of Layoffs? While agreeing that there are circumstances in which layoffs are necessary for a firm to survive (as when an industry is shrinking or competitors are resorting to cheaper overseas labor), Pfeffer suggests companies incur big costs when they cut their labor forces. He cites the direct and indirect costs of layoffs listed by University of Colorado professor Wayne Cascio in his book *Responsible Restructuring:* "severance pay; paying out accrued vacation and sick pay; outplacement costs; higher unemployment-insurance taxes; the cost of rehiring employees when business improves; low morale and risk-averse survivors; potential lawsuits, sabotage, or even workplace violence from aggrieved employees or former employees; loss of institutional memory and knowledge; diminished trust in management; and reduced productivity."

Looking at the evidence, Pfeffer finds that firms that announce layoffs actually *do not* enjoy higher stock prices than their peers, either immediately or over time. Layoffs also don't increase individual company productivity and, in fact, don't even reliably cut costs (because companies often lose the best people first; there is lower morale among survivors, resulting in reduced customer service, innovation, and productivity; and remaining employees are spurred to look for other jobs once things improve).

The Most Successful Airline. Following the 9/11 tragedy in 2001, which coincided with the start of a recession, all U.S. airlines except one announced tens of thousands of layoffs. The exception was Southwest, which has never had an involuntary layoff in its 40-year history and which most Americans voted the most desirable brand in 2012.[75] "If people are your most important assets," Pfeffer quotes a former head of the airline's human resources department, "why would you get rid of them?"

YOUR CALL

Can you think of any instances of people being laid off unnecessarily? What is your evidence that it was not necessary?

In Praise of Analytics

Perhaps the purest application of evidence-based management is the use of **analytics, or *business analytics,* the term used for sophisticated forms of business data analysis.** One example of analytics is portfolio analysis, in which an investment adviser evaluates the risks of various stocks. Another example is the time-series forecast, which predicts future data based on patterns of historical data.

Some leaders and firms have become exceptional practitioners of analytics. Gary Loveman, CEO of the Harrah's gambling empire, wrote a famous paper, "Diamonds in the Data Mine," in which he explained how data-mining software was used to analyze vast amounts of casino customer data to target profitable patrons.[76] Marriott International, through its Total Hotel Optimization program, has used quantitative data to establish the optimal price for hotel rooms, evaluate use of conference facilities and catering, and develop systems to optimize offerings to frequent customers.[77] To aid in recruitment, Microsoft studies correlations between its successful workers and the schools and companies they arrived from.[78]

EXAMPLE

Analytics in Athletics: The Personal "Moneyball" Coach

Some pro basketball players have personal trainers and chefs, and now some even have their own personal statistician.

Justin Zormelo, 30, a graduate of Georgetown University and the founder of Best Ball Analytics, is described by *The New York Times* as "the go-to source for [basketball] players who want a private guide through the emerging world of advanced analytics."[79] He has worked with over 30 NBA clients, including Kevin Durant (Oklahoma Thunder), John Wall (Washington Wizards), and Rajon Rondo (Boston Celtics). Studying game films and poring over metrics, he provides data and advice such as whether players should take two dribbles instead of four or whether their shooting is off because they leave their feet too soon. Zormelo spends hours on his laptop computer, and his advice is as much informed by spreadsheets as by coaches' playbooks.

Better Indicators of Player Success. Zormelo is the logical result of the whole *Moneyball* phenomenon. The film of that name, which starred Brad Pitt and supporting actor Jonah Hill and which received six 2012 Academy Award nominations, was adapted from a book by Michael Lewis, *Moneyball: The Art of Winning an Unfair Game*. The book described how the Oakland Athletics, one of the poorest teams in Major League Baseball (2002 payroll $41 million, versus the New York Yankees' $126 million), managed to go to the playoffs five times in seven years against better-financed contenders. They accomplished this by avoiding the use of traditional baseball statistics and finding better indicators of player success in on-base percentage, slugging percentage, and the like. For a time, this creative use of analytics enabled managers of the California club to concentrate their limited payroll resources on draft picks who were primarily talented college players rather than veteran professionals.[80]

Analytics in the NBA & NFL. Since then the use of unusual analytics to find better ways to value players and strategies has found its way into other sports. In basketball, for instance, the Houston Rockets discovered they had allocated such a huge part of the payroll to superstars (Tracy McGrady, Yao Ming) that they couldn't afford more stars. "So we went looking for nonsuperstars that we thought were undervalued," says Daryl Morey, who was hired to rethink Rockets basketball.[81] Looking at midlevel NBA players, he finally settled on forward Shane Battier, who doesn't post many points, rebounds, assists, steals, or blocked shots but who applies a superior intelligence to an overview of the game that helps his teams produce winning records. (Battier was most recently with the Miami Heat.) Analytics has also spread to pro football, as successfully used by the San Francisco 49ers.[82] Now it's a tool adopted by individual players.

YOUR CALL

Executives and personnel people in other lines of work are often like the old sports traditionalists, relying on resume, degree, years of experience, and even looks in evaluating job applicants. What other, more quantifiable measures might be used instead when hiring new college graduates?

Thomas H. Davenport and others at Babson College's Working Knowledge Research Center studied 32 organizations that made a commitment to quantitative, fact-based analysis and found three key attributes among analytics competitors: *use of modeling, having multiple applications,* and *support from top management.*[83]

1. Use of Modeling: Going beyond Simple Descriptive Statistics Companies such as Capital One look well beyond basic statistics, using data mining and predictive modeling to identify potential and most profitable customers. **Predictive modeling is a data-mining technique used to predict future behavior and anticipate the consequences of change.** Thus, Capital One conducts more than 30,000 experiments a year, with different interest rates, incentives, direct-mail packaging, and other variables to evaluate which customers are most apt to sign up for credit cards and will pay back their debt.

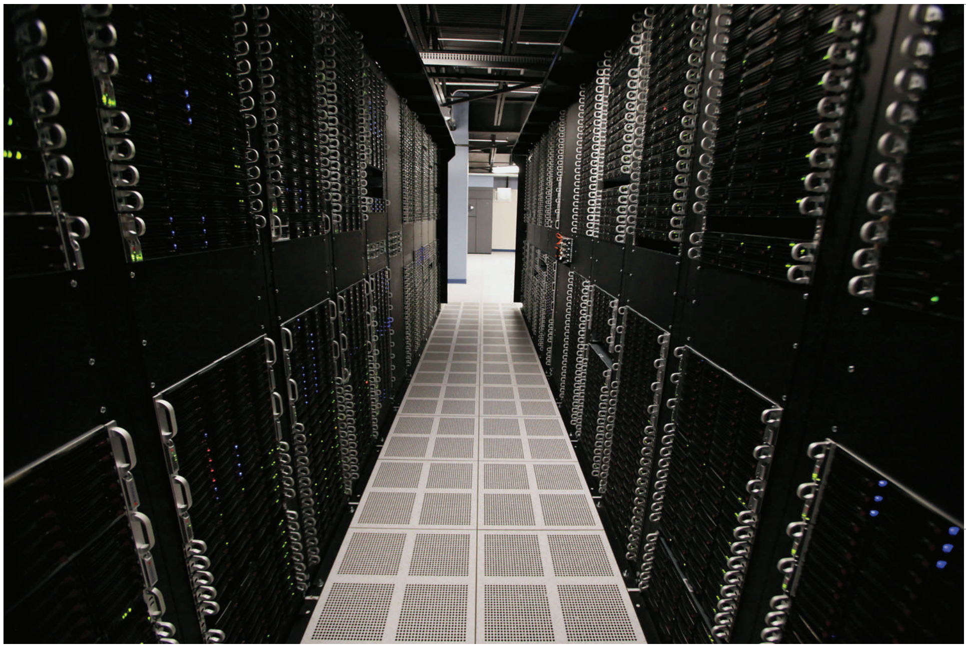
2. Having Multiple Applications, Not Just One UPS (formerly United Parcel Service) applies analytics not only to tracking the movement of packages but also to examining usage patterns to try to identify potential customer defections so that salespeople can make contact and solve problems. More recently, it began testing whether UPS could be in the business of delivering direct mail, to serve as an alternative to marketing mail delivered by the U.S. Post Service.[84] Analytics competitors "don't gain advantage from one killer app [application], but rather from multiple applications supporting many parts of the business," says Babson College's Davenport.

3. Support from the Top "A companywide embrace of analytics impels changes in culture, processes, behavior, and skills for many employees," says Davenport. "And so, like any major transition, it requires leadership from executives at the very top who have a passion for the quantitative approach."

The Uses of "Big Data"

A recent study suggests the world's information will reach 40 zettabytes by 2020, a 50% growth over 2010 and equal to 57 times the number of grains of sand on all the beaches of the world.[85] This has led to a concept known as *Big Data,* stores of data so vast that conventional database management systems cannot handle them and so very sophisticated analysis software and supercomputing-level hardware are required.[86] **Big Data includes not only data in corporate databases but also web-browsing data trails, social network communications, sensor data, and surveillance data.**[87]Attracting a lot of attention in science, business, medicine, and technology, the concept of Big Data has been dubbed "the next frontier for innovation, competition, and productivity."[88]

Big Data analytics is the process of examining large amounts of data of a variety of types to uncover hidden patterns, unknown correlations, and other useful information. While Big Data analytics can be used to tackle large-scale problems such as how to make electricity grids and traffic flow more effective, it also has specific, practical uses in business.[89] HP Labs researchers, for instance, used Twitter data to accurately predict box-office revenues of Hollywood movies.[90] Business is also interested in analyzing online behavior "to create ads, products, or experiences that are most appealing to consumers—and thus most lucrative to companies," says one technology journalist. "There's also great potential to more accurately predict market fluctuations or react faster to shifts in consumer sentiment or supply chain issues."[91]



Serving you. This server farm, or data center, contains thousands of computers storing terabytes of information on everyone and everything—"Big Data" that can be subjected to data analytics to work on large-scale projects. With data centers like this, you can see why everything you enter online, whether via e-mail, Facebook, texting, or twittering, no matter how innocuous, can be stored and used later to try to sell you things. Are you okay with this?

7.4 MAJOR QUESTION

Four General Decision-Making Styles

How do I decide to decide?

THE BIG PICTURE

Your decision-making style reflects how you perceive and respond to information. It could be directive, analytical, conceptual, or behavioral.

A decision-making style reflects the combination of how an individual perceives and responds to information. A team of researchers developed a model of decision-making styles based on the idea that styles vary along two different dimensions: value orientation and tolerance for ambiguity.[92]

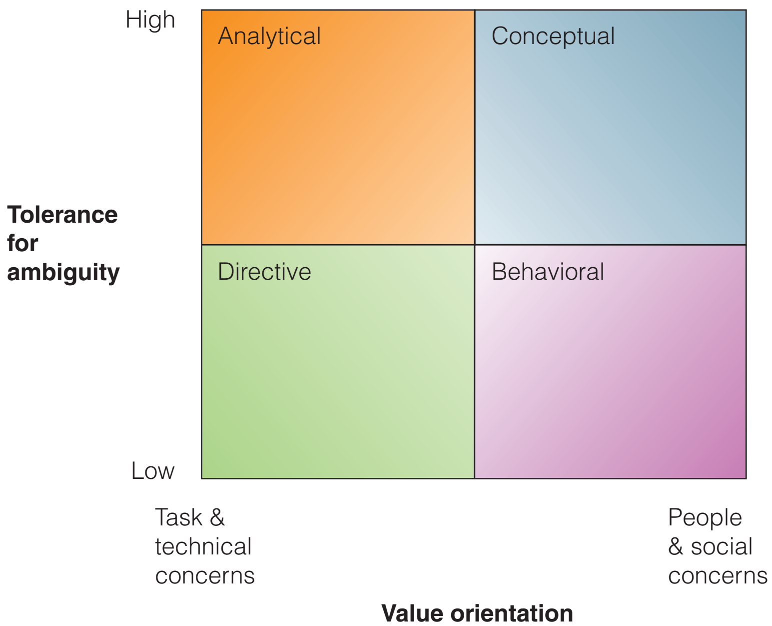
Value Orientation & Tolerance for Ambiguity

Value orientation reflects the extent to which a person focuses on either task and technical concerns or people and social concerns when making decisions. Some people, for instance, are very task focused at work and do not pay much attention to people issues, whereas others are just the opposite.

The second dimension pertains to a person's *tolerance for ambiguity.* This individual difference indicates the extent to which a person has a high need for structure or control in his or her life. Some people desire a lot of structure in their lives (a low tolerance for ambiguity) and find ambiguous situations stressful and psychologically uncomfortable. In contrast, others do not have a high need for structure and can thrive in uncertain situations (a high tolerance for ambiguity). Ambiguous situations can energize people with a high tolerance for ambiguity.

When the dimensions of value orientation and tolerance for ambiguity are combined, they form four styles of decision making: *directive, analytical, conceptual,* and *behavioral. (See Figure 7.4.)*

FIGURE 7.4 **Decision-making styles**



1. The Directive Style: Action-Oriented Decision Makers Who Focus on Facts

People with a directive style have a low tolerance for ambiguity and are oriented toward task and technical concerns in making decisions. They are efficient, logical, practical, and systematic in their approach to solving problems.

People with this style are action oriented and decisive and like to focus on facts. In their pursuit of speed and results, however, these individuals tend to be autocratic, to exercise power and control, and to focus on the short run.

Fortune 500 restaurant CEO. Don Thompson is CEO of McDonald's, a Fortune 500 company that has 32,000 restaurants worldwide and serves 68 million meals each day. A bright student, he holds a degree in electrical engineering from Purdue University. Because of racial stereotyping, African American leaders operate at a disadvantage, according to one study, with strong performance being misattributed to market factors outside their control or to humor or public speaking skills rather than to intellectual prowess.[93] What kind of decision-making style would you expect Thompson to have?

2. The Analytical Style: Careful Decision Makers Who Like Lots of Information & Alternative Choices

Managers with an analytical style have a much higher tolerance for ambiguity and are characterized by the tendency to overanalyze a situation. People with this style like to consider more information and alternatives than those following the directive style.

Analytic individuals are careful decision makers who take longer to make decisions but who also respond well to new or uncertain situations.

3. The Conceptual Style: Decision Makers Who Rely on Intuition & Have a Long-Term Perspective

People with a conceptual style have a high tolerance for ambiguity and tend to focus on the people or social aspects of a work situation. They take a broad perspective to problem solving and like to consider many options and future possibilities.

Conceptual types adopt a long-term perspective and rely on intuition and discussions with others to acquire information. They also are willing to take risks and are good at finding creative solutions to problems. However, a conceptual style can foster an indecisive approach to decision making.

4. The Behavioral Style: The Most People-Oriented Decision Makers

The behavioral style is the most people oriented of the four styles. People with this style work well with others and enjoy social interactions in which opinions are openly exchanged. Behavioral types are supportive, receptive to suggestions, show warmth, and prefer verbal to written information.

Although they like to hold meetings, people with this style have a tendency to avoid conflict and to be concerned about others. This can lead behavioral types to adopt a wishy-washy approach to decision making and to have a hard time saying no.

Which Style Do You Have?

Research shows that very few people have only one dominant decision-making style. Rather, most managers have characteristics that fall into two or three styles. Studies also show that decision-making styles vary across occupations, job level, and countries.[94] There is not a best decision-making style that applies to all situations.

You can use knowledge of decision-making styles in three ways:

Know Thyself Knowledge of styles helps you to understand yourself. Awareness of your style assists you in identifying your strengths and weaknesses as a decision maker and facilitates the potential for self-improvement.

Influence Others You can increase your ability to influence others by being aware of styles. For example, if you are dealing with an analytical person, you should provide as much information as possible to support your ideas.

Deal with Conflict Knowledge of styles gives you an awareness of how people can take the same information and yet arrive at different decisions by using a variety of decision-making strategies. Different decision-making styles represent one likely source of interpersonal conflict at work.

What style of decision making do you prefer? Would you like to learn how to use all of the styles more effectively? The following self-assessment can help. ●

SELF-ASSESSMENT 7.3 connect

What Is Your Decision-Making Style?

This survey is designed to assess your decision-making style. Go to **connect.mheducation.com** and take Self-Assessment 7.3. When you're done, answer the following questions:

1. What is your dominant decision-making style?
2. What are the pros and cons of your style?
3. Based on your results, what are some things you can do to incorporate aspects of your less dominant styles into your decision making? Explain.

Success. Russell Wilson, quarterback for the Seattle Seahawks, led his team to victory 48-3 over the Denver Broncos in the 2014 Super Bowl. As the leader of his team, a quarterback must make many decisions about what is the right way to success. If you were a quarterback, which of the four general decision-making styles do you think you would embody?

7.5 MAJOR QUESTION

How to Overcome Barriers to Decision Making

Trying to be rational isn't always easy. What are the barriers?

THE BIG PICTURE

Responses to a decision situation may take the form of four ineffective reactions or three effective reactions. Managers should be aware of nine common decision-making biases.

Do your moods influence your decisions? Do you, for instance, spend more when you're sad and self-absorbed? That's what one experiment found: When researchers exposed student participants to a sadness-inducing video clip about the death of a boy's mentor, the students were inclined to offer more money for a product (a sporty-looking water bottle) than were other subjects who had watched a neutral clip.[95]

Decision Making & Expectations about Happiness

Not just the moods themselves but your expectations about how happy or unhappy you think future outcomes will make you perhaps also can influence your decisions. It seems that people expect certain life events to have a much greater emotional effect than in fact they do, according to Harvard University psychologist Daniel Gilbert, who has studied individual emotional barometers in decision making. College professors, for example, expect to be quite happy if they are given tenure and quite unhappy if they aren't. However, Gilbert found those who received tenure were happy but not as happy as they themselves had predicted, whereas those denied tenure did not become very unhappy.

The expectation about the level of euphoria or disappointment was also found to be true of big-jackpot lottery winners and of people being tested for HIV infection. That is, people are often right when they describe what outcome will make them feel good or bad, but they are often wrong when asked to predict how strongly they will feel that way and how long the feeling will last. Even severe life events have a negative impact on people's sense of well-being and satisfaction for no more than three months, after which their feelings at least go back to normal.[96]

Perhaps knowing that you have this "immune system" of the mind, which blunts bad feelings and smoothes out euphoric ones, can help make it easier for you to make difficult decisions.

How Do Individuals Respond to a Decision Situation? Ineffective & Effective Responses

What is your typical response when you're suddenly confronted with a challenge in the form of a problem or an opportunity? There are perhaps four ineffective reactions and three effective ones.[97]

Four Ineffective Reactions There are four defective problem-recognition and problem-solving approaches that act as barriers when you must make an important decision in a situation of conflict:

1. Relaxed Avoidance—"There's No Point in Doing Anything; Nothing Bad's Going to Happen." In **relaxed avoidance,** **a manager decides to take no action in the belief that there will be no great negative consequences.** This condition, then, is a form of complacency: You either don't see or you disregard the signs of danger (or of opportunity).

Example: Relaxed avoidance was vividly demonstrated in the months before the subprime mortgage meltdown, when banks made cheap housing loans to a lot of unqualified buyers, precipitating a huge financial crisis and drying up of credit. During that time, a lot of smart people in denial said not to worry, that the mortgage mess would be "contained." They included many bank presidents and even Ben Bernanke, chairman of the Federal Reserve.[98] One nationwide online survey has also found that investors' forecasts of future returns go up after the stock market has risen and go down after it has fallen—complacency indeed.[99]

2. Relaxed Change—"Why Not Just Take the Easiest Way Out?" **In relaxed change, a manager realizes that complete inaction will have negative consequences but opts for the first available alternative that involves low risk.** This is, of course, a form of "satisficing"; the manager avoids exploring a variety of alternatives in order to make the best decision.

Example: Perhaps people really don't like a lot of choices. In one experiment, 40% of customers stopped by a large assortment of jam jars (24) and only 30% by a small assortment (6)—but only 3% made a purchase in the first case versus 30% in the second.[100]

3. Defensive Avoidance—"There's No Reason for Me to Explore Other Solution Alternatives." **In defensive avoidance, a manager can't find a good solution and follows by (a) procrastinating, (b) passing the buck, or (c) denying the risk of any negative consequences.** This is a posture of resignation and a denial of responsibility for taking action.

By procrastinating, you put off making a decision ("I'll get to this later").[101] In passing the buck, you let someone else take the consequences of making the decision ("Let George do it"). In denying the risk that there will be any negative consequences, you are engaging in rationalizing ("How bad could it be?"). As one article states, deliberating on the matter of why no one at Penn State did more to pursue allegations that an assistant football coach was abusing young boys, "companies overlook internal problems that at best impede performance and at worst could bring down the entire organization."[102]

Example: Defensive avoidance often occurs in firms with high turnover. Although some executives try to stop high performers from exiting by offering raises or promotions, others react defensively, telling themselves that the person leaving is not a big loss. "It's psychologically threatening to those who are staying to acknowledge there's a reason some people are leaving," says the CEO of a corporate-psychology consulting company, "so executives often dismiss them as untalented or even deny that an exodus is occurring."[103] He mentions one financial-services company whose executives insisted turnover was low when in fact 50% of hundreds of new employees quit within years.

4. Panic—"This Is So Stressful, I've Got to Do Something—Anything—to Get Rid of the Problem!" This reaction is especially apt to occur in crisis situations. **In panic, a manager is so frantic to get rid of the problem that he or she can't deal with the situation realistically.** This is the kind of situation in which the manager has completely forgotten the idea of behaving with "grace under pressure," of staying cool and calm. Troubled by anxiety, irritability, sleeplessness, and even physical illness, if you're experiencing this reaction, your judgment may be so clouded that you won't be able to accept help in dealing with the problem or to realistically evaluate the alternatives.

Example: Not only panic but frequent worry and anxiety, of the sort experienced by poor people, can adversely affect decision making. For instance, shoppers at a New Jersey mall were asked to make decisions about how they would spend money when facing emergency expenses. When the expenses were large, the cognitive performance of low-income shoppers fell by 13 IQ points (equivalent to a lost night's sleep), whereas the IQ levels of middle-income shoppers remained the same.[104] "When you don't have enough [money]," said one of the study authors, "it occupies your mind and takes away bandwidth [mental capacity] that you could use for other things."[105]

Three Effective Reactions: Deciding to Decide

In **deciding to decide,** **a manager agrees that he or she must decide what to do about a problem or opportunity and take effective decision-making steps.** Three ways to help you decide whether to decide are to evaluate the following:[106]

1. Importance—"How High Priority Is This Situation?" You need to determine how much priority to give the decision situation. If it's a threat, how extensive might prospective losses or damage be? If it's an opportunity, how beneficial might the possible gains be?

2. Credibility—"How Believable Is the Information about the Situation?" You need to evaluate how much is known about the possible threat or opportunity. Is the source of the information trustworthy? Is there credible evidence?

3. Urgency—"How Quickly Must I Act on the Information about the Situation?" Is the threat immediate? Will the window of opportunity stay open long? Can actions to address the situation be done gradually?

EXAMPLE

Deciding to Decide: How Should a Paper Maker Reinvent Itself?

"Failure isn't fatal, but failure to change might be," legendary UCLA basketball coach John Wooden once said.[107]

In 2000, the paper industry was at its height, with 94 million tons of paper and paper-based packaging being produced. Then the computer revolution and the vogue phrase "the paperless office" really began to be felt, and the demand for paper plummeted. Paper companies such as 83-year-old family-owned Mohawk Fine Papers, located in a Civil War–era ax handle factory in Cohoes, New York, saw failure looming as companies cut back on paper for brochures, reports, and marketing materials. President Thomas D. O'Connor Jr. faced the dilemma of rescuing the firm founded by his grandfather.

Is This High-Priority? The first decision about how to handle the response—*Should this be considered a high-priority matter?*—was certainly much in evidence, as revenues slipped and operations at Mohawk's 350,000-square-foot mill shrank from seven days a week to five and then to four. Clearly, this was a high-priority concern.

Is the Data Believable? The second decision—*How believable is the information?*—was reinforced in depressing numbers throughout the paper industry, with the decline in orders for newsprint and writing paper, which accounted for about 85% of the decrease in paper sales. The copy-machine paper business also shrank. Meanwhile, the U.S. government stepped up its campaign to "go paperless," creating more government websites and permitting taxpayers to file income tax returns online.

How Fast Do We Need to Act? The answer to the final decision—*How quickly should this information be acted on?*—was evident in the speed of the preceding events. "For the first time in hundreds of years," O'Connor said, "paper had to justify itself."[108] As the digital revolution appeared ready to wipe out Mohawk and every other paper company, in 2004, reports *The Wall Street Journal,* O'Connor made an extraordinary bet: His company decided to expand into the fine stationery business, borrowing millions of dollars to do so.[109] It decided to take advantage of paper's transformation from commodity to keepsake, supplying high-quality, highly profitable paper for personalized holiday cards, photo books, and announcements from Shutterfly, Minted.com, and others.

YOUR CALL

Today Mohawk's sales, which first began declining in 1996, are way up. "We couldn't just downsize and hope to survive," O'Connor said later. "We knew we had to change our product completely." With this knowledge in hindsight, how would you have handled O'Connor's initial decisions about finding a new direction for the company?

Nine Common Decision-Making Biases: Rules of Thumb, or "Heuristics"

If someone asked you to explain the basis on which you make decisions, could you even say? Perhaps, after some thought, you might come up with some "rules of thumb." Scholars call them **heuristics** **(pronounced "hyur-*ris*-tiks")—strategies that simplify the process of making decisions.**

Despite the fact that people use such rules of thumb all the time, that doesn't mean they're reliable. Indeed, some are real barriers to high-quality decision making (as we saw in the Manager's Toolbox at the start of this chapter). Among those that tend to bias how decision makers process information are (1) *availability,* (2) *representativeness,* (3) *confirmation,* (4) *sunk cost,* (5) *anchoring and adjustment,* (6) *overconfidence,* (7) *hindsight,* (8) *framing,* and (9) *escalation of commitment.*[110]

1. The Availability Bias: Using Only the Information Available If you had a perfect on-time work attendance record for 9 months but then were late for work 4 days during the last 2 months because of traffic, shouldn't your boss take into account your entire attendance history when considering you for a raise? Yet managers tend to give more weight to more recent behavior. This is because of the **availability bias—managers use information readily available from memory to make judgments.**

The bias, of course, is that readily available information may not present a complete picture of a situation. The availability bias may be stoked by the news media, which tends to favor news that is unusual or dramatic. Thus, for example, because of the efforts of interest groups or celebrities, more news coverage may be given to AIDS or to breast cancer than to heart disease, leading people to think the former are the bigger killers when in fact the latter is.

2. The Representativeness Bias: Faulty Generalizing from a Small Sample or a Single Event As a form of financial planning, playing state lotteries leaves something to be desired. When, for instance, in 2014 the Tennessee Powerball jackpot reached $259.8 million, the odds of winning it were put at 1 in 175,223,510.[111] (A person would have a far greater chance of being struck by lightning.) Nevertheless, millions of people buy lottery tickets because they read or hear about a handful of fellow citizens who have been the fortunate recipients of enormous winnings. This is an example of the **representativeness bias, the tendency to generalize from a small sample or a single event.**

The bias here is that just because something happens once, that doesn't mean it is representative—that it will happen again or will happen to you. For example, just because you hired an extraordinary sales representative from a particular university, that doesn't mean that same university will provide an equally qualified candidate next time. Yet managers make this kind of hiring decision all the time.

3. The Confirmation Bias: Seeking Information to Support One's Point of View **The confirmation bias is when people seek information to support their point of view and discount data that do not.** Though this bias would seem obvious, people practice it all the time.

4. The Sunk-Cost Bias: Money Already Spent Seems to Justify Continuing **The sunk-cost bias, or *sunk-cost fallacy,* is when managers add up all the money already spent on a project and conclude it is too costly to simply abandon it.**

Most people have an aversion to "wasting" money. Especially if large sums have already been spent, they may continue to push on with an iffy-looking project to justify the money already sunk into it. The sunk-cost bias is sometimes called the "Concorde" effect, referring to the fact that the French and British governments continued to invest in the Concorde supersonic jetliner even when it was evident there was no economic justification for the aircraft.

5. The Anchoring & Adjustment Bias: Being Influenced by an Initial Figure Managers will often give their employees a standard percentage raise in salary, basing the decision on whatever the workers made the preceding year. They may do this even though the raise may be completely out of alignment with what other companies are paying for the same skills. This is an instance of the **anchoring and adjustment bias, the tendency to make decisions based on an initial figure.**

The bias is that the initial figure may be irrelevant to market realities. This phenomenon is sometimes seen in real estate sales. Before the 2008 crash in real estate markets, many homeowners might have been inclined at first to list their houses at an extremely high (but perhaps randomly chosen) selling price. These sellers were then unwilling later to come down substantially to match the kind of buying offers that reflected what the marketplace thought the house was really worth.

6. The Overconfidence Bias: Blind to One's Own Blindness The **overconfidence bias is the bias in which people's subjective confidence in their decision making is greater than their objective accuracy.** "Overconfidence arises because people are often blind to their own blindness," says behavioral psychologist Daniel Kahneman. For instance, with experienced investment advisors whose financial outcomes simply depended on luck, he found "the illusion of skill is not only an individual aberration; it is deeply ingrained in the culture of the industry."[112] In general, he advises, we should not take assertive and confident people at their own evaluation unless we have independent reasons to believe they know what they're talking about.

7. The Hindsight Bias: The I-Knew-It-All-Along Effect The **hindsight bias is the tendency of people to view events as being more predictable than they really are,** as when at the end of watching a game we decide the outcome was obvious and predictable, even though in fact it was not. Sometimes called the "I knew it all along" effect, this occurs when we look back on a decision and try to reconstruct why we decided to do something.

8. The Framing Bias: Shaping How a Problem Is Presented The **framing bias is the tendency of decision makers to be influenced by the way a situation or problem is presented to them.** For instance, customers have been found to prefer meat that is framed as "85% lean meat" instead of "15% fat," although of course they are the same thing.[113] Framing is important because how a problem is presented to us (the same idea comes from Democrats? Or Republicans?) may influence us to consider a certain solution simply because of the way it was framed.

9. The Escalation of Commitment Bias: Feeling Overly Invested in a Decision
If you really hate to admit you're wrong, you need to be aware of the **escalation of commitment bias, whereby decision makers increase their commitment to a project despite negative information about it.** History is full of examples of heads of state (presidents Lyndon Johnson in Vietnam and George W. Bush in Iraq) who escalated their commitment to an original decision in the face of overwhelming evidence that it was producing detrimental consequences. A website called Swoopo.com capitalizes on this bias by offering a penny auction in which, say, a $1,500 laptop is offered for bidding starting at a penny and going up one cent at a time—but it costs bidders 60 cents to make a bid. "Once people are trapped into playing," suggests one account about this form of bias, "they have a hard time stopping."[114]

The bias is that what was originally made as perhaps a rational decision may continue to be supported for irrational reasons—pride, ego, the spending of enormous sums of money, and being "loss averse." Indeed, scholars have advanced what is known as the *prospect theory,* which suggests that decision makers find the notion of an actual loss more painful than giving up the possibility of a gain.[115] We see a variant of this in the tendency of investors to hold on to their losers but cash in their winners. ●

7.6 Group Decision Making: How to Work with Others

MAJOR QUESTION

How do I work with others to make things happen?

THE BIG PICTURE

Group decision making has five potential advantages and four potential disadvantages. There are a number of characteristics of groups that a manager should be aware of as group problem-solving techniques.

The movies celebrate the lone heroes who, like Bruce Willis or Mark Wahlberg, make their own moves, call their own shots. Most managers, however, work with groups and teams (as we discuss in Chapter 13). Although groups don't make as high-quality decisions as the best individual acting alone, research suggests that groups make better decisions than *most* individuals acting alone.[116] Thus, to be an effective manager, you need to learn about decision making in groups.

Advantages & Disadvantages of Group Decision Making

Because you may often have a choice as to whether to make a decision by yourself or to consult with others, you need to understand the advantages and disadvantages of group-aided decision making.

Advantages Using a group to make a decision offers five possible advantages.[117] For these benefits to happen, however, the group must be made up of diverse participants, not just people who all think the same way.

- **Greater pool of knowledge.** When several people are making the decision, there is a greater pool of information from which to draw. If one person doesn't have the pertinent knowledge and experience, someone else might.
- **Different perspectives.** Because different people have different perspectives—marketing, production, legal, and so on—they see the problem from different angles.
- **Intellectual stimulation.** A group of people can brainstorm or otherwise bring greater intellectual stimulation and creativity to the decision-making process than is usually possible with one person acting alone.
- **Better understanding of decision rationale.** If you participate in making a decision, you are more apt to understand the reasoning behind the decision, including the pros and cons leading up to the final step.
- **Deeper commitment to the decision.** If you've been part of the group that has bought into the final decision, you're more apt to be committed to seeing that the course of action is successfully implemented.

Disadvantages The disadvantages of group-aided decision making spring from problems in how members interact.[118]

- **A few people dominate or intimidate.** Sometimes a handful of people will talk the longest and the loudest, and the rest of the group will simply give in. Or one individual, such as a strong leader, will exert disproportional influence, sometimes by intimidation. This cuts down on the variety of ideas.
- **Groupthink.** **Groupthink** occurs when group members strive to agree for the sake of unanimity and thus avoid accurately assessing the decision situation. Here the positive team spirit of the group actually works against sound judgment.[119]

- **Satisficing.** Because most people would just as soon cut short a meeting, the tendency is to seek a decision that is "good enough" rather than to push on in pursuit of other possible solutions. Satisficing can occur because groups have limited time, lack the right kind of information, or are unable to handle large amounts of information.[120]
- **Goal displacement.** Although the primary task of the meeting may be to solve a particular problem, other considerations may rise to the fore, such as rivals trying to win an argument. **Goal displacement occurs when the primary goal is subsumed by a secondary goal.**

Different perspectives or groupthink? A diversified team can offer differing points of view, as well as a greater pool of knowledge and intellectual stimulation. Or it can offer groupthink and satisficing. What has been your experience as to the value of decision making in the groups you've been in?

What Managers Need to Know about Groups & Decision Making

If you're a manager deliberating whether to call a meeting for group input, there are four characteristics of groups to be aware of:

1. They Are Less Efficient

Groups take longer to make decisions. Thus, if time is of the essence, you may want to make the decision by yourself. Faced with time pressures or the serious effect of a decision, groups use less information and fewer communication channels, which increases the probability of a bad decision.[121]

2. Their Size Affects Decision Quality

The larger the group, the lower the quality of the decision.[122] Some research says that seven people is the optimal size.[123] Others suggest five is best.[124] (An odd number is also considered best, when the group uses majority rules.)

3. They May Be Too Confident

Groups are more confident about their judgments and choices than individuals are. This, of course, can be a liability because it can lead to groupthink.

4. Knowledge Counts

Decision-making accuracy is higher when group members know a good deal about the relevant issues. It is also higher when a group leader has the ability to weight members' opinions.[125] Depending on whether group members know or don't know one another, the kind of knowledge also counts. For example, people who are familiar with one another tend to make better decisions when members have a lot of unique information. However, people who aren't familiar with one another tend to make better decisions when the members have common knowledge.[126]

Remember that individual decisions are not *necessarily* better than group decisions. As we said, although groups don't make as high-quality decisions as the *best* individual acting alone, groups generally make better decisions than *most* individuals acting alone. Some guidelines to using groups are presented on the next page. *(See Table 7.3.)*

In general, group decision making is more effective when members feel that they can freely and safely disagree with each other. This belief is referred to as **minority dissent, dissent that occurs when a minority in a group publicly opposes the beliefs, attitudes, ideas, procedures, or policies assumed by the majority of the group.**[127] Minority dissent is associated with increased innovation within groups.[128] Do your teams at school or work allow minority dissent? If not, what can be done to increase its existence? Self-Assessment 7.4 (next page) can help answer these questions.

TABLE 7.3

When a Group Can Help in Decision Making: Three Practical Guidelines

These guidelines may help you as a manager decide whether to include people in a decision-making process and, if so, which people.

1. **When it can increase quality:** If additional information would increase the quality of the decision, managers should involve those people who can provide the needed information. Thus, if a type of decision occurs frequently, such as deciding on promotions or who qualifes for a loan, groups should be used because they tend to produce more consistent decisions than individuals do.
2. **When it can increase acceptance:** If acceptance within the organization is important, managers need to involve those individuals whose acceptance and commitment are important.
3. **When it can increase development:** If people can be developed through their participation, managers may want to involve those whose development is most important.

Source: Derived from George P. Huber, Managerial Decision Making *(Glenview, IL: Scott Foresman, 1980), p. 149.*

SELF-ASSESSMENT 7.4 connect

Assessing Participation in Group Decision Making

The following survey measures minority dissent, participation in group decision making, and satisfaction with a group. Go to **connect.mheducation.com** and take Self-Assessment 7.4. When you're done, answer the following questions:

1. What is the level of minority dissent in the group, and to what extent are you satisfied with being a member of this group?
2. Use the three lowest items that measure minority dissent to answer the following question: What can you do to increase the level of minority dissent in this group? Be specific.
3. Why do you think many groups muzzle the level of minority dissent?

Toward consensus. Working to achieve cooperation in a group can tell you a lot about yourself. How well do you handle the negotiation process? What do you do when you're disappointed in a result achieved by consensus?

Group Problem-Solving Techniques: Reaching for Consensus

Using groups to make decisions generally requires that they reach a **consensus, which occurs when members are able to express their opinions and reach agreement to support the final decision.** More specifically, consensus is reached "when all members can say they either agree with the decision or have had their 'day in court' and were unable to convince the others of their viewpoint," says one expert in decision making. "In the final analysis, everyone agrees to support the outcome."[129] This does not mean, however, that group members agree with the decision, only that they are willing to work toward its success.

One management expert offers the following dos and don'ts for achieving consensus.[130]

- **Dos:** Use active listening skills. Involve as many members as possible. Seek out the reasons behind arguments. Dig for the facts.
- **Don'ts:** Avoid log rolling and horse trading ("I'll support your pet project if you'll support mine"). Avoid making an agreement simply to keep relations amicable and not rock the boat. Finally, don't try to achieve consensus by putting questions to a vote; this will only split the group into winners and losers, perhaps creating bad feelings among the latter.

More Group Problem-Solving Techniques

Decision-making experts have developed several group problem-solving techniques to aid in problem solving. Three we will discuss here are (1) *brainstorming,* (2) the *Delphi technique,* and (3) *computer-aided decision making.*

1. Brainstorming: For Increasing Creativity **Brainstorming is a technique used to help groups generate multiple ideas and alternatives for solving problems.**[131] Developed by advertising executive A. F. Osborn, the technique consists in having members of a group meet and review a problem to be solved. Individual members are then asked to silently generate ideas or solutions, which are then collected (preferably without identifying their contributors) and written on a board or flip chart. A second session is then used to critique and evaluate the alternatives. (Incidentally, taking a brief stroll, even around the office, can significantly increase creativity.[132])

A modern-day variation is **electronic brainstorming, sometimes called *brainwriting,* in which members of a group come together over a computer network to generate ideas and alternatives.**[133] Technology has also turned the smartphone into a device that uses various apps to spur the thinking process and unblock creative juices.[134]

Some rules for brainstorming suggested by IDEO, a product design company, are shown below. *(See Table 7.4.)*

TABLE 7.4 **Seven Rules for Brainstorming**

1. **Defer judgment.** Don't criticize during the initial stage of idea generation. Phrases such as "we've never done it that way," "it won't work," "it's too expensive," and "our manager will never agree" should not be used.
2. **Build on the ideas of others.** Encourage participants to extend others' ideas by avoiding "buts" and using "ands."
3. **Encourage wild ideas.** Encourage out-of-the-box thinking. The wilder and more outrageous the ideas, the better.
4. **Go for quantity over quality.** Participants should try to generate and write down as many new ideas as possible. Focusing on quantity encourages people to think beyond their favorite ideas.
5. **Be visual.** Use different colored pens (for example, red, purple, blue) to write on big sheets of flip-chart paper, whiteboards, or poster boards that are put on the wall.
6. **Stay focused on the topic.** A facilitator should be used for keeping the discussion on target.
7. **One conversation at a time.** The ground rules are that no one interrupts another person, no dismissing of someone's ideas, no disrespect, and no rudeness.

Source: R. Kreitner and A. Kinicki, Organizational Behavior, *10th ed., 2012, p. 353. These recommendations and descriptions were derived from B. Nussbaum, "The Power of Design,"* BusinessWeek, *May 17, 2004, pp. 86–94. Reprinted with permission of The McGraw-Hill Companies.*

The benefit of brainstorming is that it is an effective technique for encouraging the expression of as many useful new ideas or alternatives as possible. That said, brainstorming also can waste time generating a lot of unproductive ideas, and it is not appropriate for evaluating alternatives or selecting solutions.[135]

2. The Delphi Technique: For Consensus of Experts The Delphi technique was originally designed for technological forecasting but now is used as a multipurpose planning tool. **The Delphi technique is a group process that uses physically dispersed experts who fill out questionnaires to anonymously generate ideas; the judgments are combined and in effect averaged to achieve a consensus of expert opinion.**

The Delphi technique is useful when face-to-face discussions are impractical. It's also practical when disagreement and conflicts are likely to impair communication, when certain individuals might try to dominate group discussions, and when there is a high risk of groupthink.[136]

3. Computer-Aided Decision Making As in nearly every other aspect of business life, computers have entered the area of decision making, where they are useful not only in collecting information more quickly but also in reducing roadblocks to group consensus.

Traditional group work. This photo shows the kind of traditional arrangement we expect of groups—colleagues are seated close together in clusters to better focus on their particular projects. Do you think you'd rather work in this type of arrangement than in one that is more individually based? Why or why not?

A **decision support system, for instance, is a computer-based information system that provides a flexible tool for analysis and helps managers focus on the future.** This kind of computer-based system aims to produce collected information known as *business intelligence,* gathering data from a wide range of sources in a way that can be interpreted by humans and used to support better business decision making. Example: American Airlines developed a decision support system called the yield management system that helps managers decide how much to overbook and how to set prices for each seat so that a plane is filled and profits are maximized.[137]

PRACTICAL ACTION

How Exceptional Managers Make Decisions

"Failure is a great teacher." That was one of the life lessons expressed by one CEO who has had to make thousands of decisions during his career.[138] Failure is always a possibility, but that possibility can't stop one from making decisions. And you can probably always learn from the result.

"When Should I Make a Decision & When Should I Delay?" Often you want to stay open-minded before making a decision. But sometimes that can just be a cover for procrastination. (After all, *not* making a decision is in itself a kind of decision.) How do you know when you're keeping an open mind or are procrastinating? Here are some questions to consider:[139]

Understanding: "Do I have a reasonable grasp of the problem?"

Comfort level about outcome: "Would I be satisfied if I chose one of the existing alternatives?"

Future possible alternatives: "Would it be unlikely that I could come up with a better alternative if I had more time?"

Seizing the opportunity: "Could the best alternatives disappear if I wait?"

If you can answer "yes" to those questions, you almost certainly should decide now, not wait.

"Are There Guidelines for Making Tough Choices?" "On a daily and weekly basis we can be faced with making hundreds of decisions," says management consultant Odette Pollar. "Most of them are small, but the larger ones where more is at stake can be truly painful." Here are some ways she suggests making decision making easier:[140]

Decide in a timely fashion: "Rarely does waiting significantly improve the quality of the decision," says Pollar. In fact, delay can result in greater unpleasantness in loss of money, time, and peace of mind.

Don't agonize over minor decisions: Postponing decisions about small problems can mean that they simply turn into large ones later.

Separate outcome from process: Does a bad outcome mean you made a bad decision? Not necessarily. The main thing is to go through a well-reasoned process of choosing among alternatives, which increases the chances of success. But even then you can't be sure there will always be a positive outcome.

Learn when to stop gathering facts: "Gather enough information to make a sound decision," suggests Pollar, "but not all the possible information." Taking extra time may mean you'll miss a window of opportunity.

When overwhelmed, narrow your choices: Sometimes there are many good alternatives, and you need to simplify decision making by eliminating some options.

YOUR CALL

Some experts suggest that to help make good decisions you should "Be visual," using more pictures and diagrams, and "Walk and point" to stimulate areas of the brain that control memory, emotion, and problem solving.[141] What have you found aids you in making decisions?

Key Terms Used in This Chapter

analytics 203
anchoring and adjustment bias 212
availability bias 212
Big Data 205
Big Data analytics 205
bounded rationality 196
brainstorming 217
confirmation bias 212
consensus 216
deciding to decide 211
decision 190
decision making 190
decision-making style 206
decision support system 218
decision tree 199
defensive avoidance 210
Delphi technique 217
diagnosis 192
electronic brainstorming 217
escalation of commitment bias 213
ethics officer 199
framing bias 213
goal displacement 215
groupthink 214
heuristics 211
hindsight bias 213
intuition 197
minority dissent 215
nonrational models of decision making 196
opportunities 192
overconfidence bias 213
panic 210
predictive modeling 204
problems 191
rational model of decision making 191
relaxed avoidance 209
relaxed change 210
representativeness bias 212
satisficing model 196
sunk-cost bias 212

Key Points

7.1 Two Kinds of Decision Making: Rational & Nonrational

- A decision is a choice made from among available alternatives. Decision making is the process of identifying and choosing alternative courses of action. Two models managers follow in making decisions are rational and nonrational.
- In the rational model, there are four steps in making a decision: Stage 1 is identifying the problem or opportunity. A problem is a difficulty that inhibits the achievement of goals. An opportunity is a situation that presents possibilities for exceeding existing goals. This is a matter of diagnosis—analyzing the underlying causes. Stage 2 is thinking up alternative solutions. Stage 3 is evaluating the alternatives and selecting a solution. Alternatives should be evaluated according to cost, quality, ethics, feasibility, and effectiveness. Stage 4 is implementing and evaluating the solution chosen. The rational model of decision making assumes managers will make logical decisions that will be the optimum in furthering the organization's best interests. The rational model is prescriptive, describing how managers ought to make decisions.
- Nonrational models of decision making assume that decision making is nearly always uncertain and risky, making it difficult for managers to make optimum decisions. Two nonrational models are satisficing and intuition. (1) Satisficing falls under the concept of bounded rationality—that is, that the ability of decision makers to be rational is limited by enormous constraints, such as time and money. These constraints force managers to make decisions according to the satisficing model—that is, managers seek alternatives until they find one that is satisfactory, not optimal. (2) Intuition is making choices without the use of conscious thought or logical inference. The sources of intuition are expertise and feelings.

7.2 Making Ethical Decisions

- Corporate corruption has made ethics in decision making once again important. Many companies have an ethics officer to resolve ethical dilemmas, and more companies are creating values statements to guide employees as to desirable business behavior.
- To help make ethical decisions, a decision tree—a graph of decisions and their possible consequences—may be helpful. Managers should ask whether a proposed action is legal and, if it is intended to maximize shareholder value, whether it is ethical—and whether it would be ethical *not* to take the proposed action.

7.3 Evidence-Based Decision Making & Analytics

- Evidence-based management means translating principles based on best evidence into organizational practice. It is intended to bring rationality to the decision-making process.
- Scholars Jeffrey Pfeffer and Robert Sutton identify seven implementation principles to help companies that are committed to doing what it takes to profit from evidence-based

management: (1) treat your organization as an unfinished prototype; (2) "no brag, just facts"; (3) see yourself and your organization as outsiders do; (4) have everyone, not just top executives, be guided by the responsibility to gather and act on quantitative and qualitative data; (5) you may need to use vivid stories to sell unexciting evidence to others in the company; (6) at the very least, you should slow the spread of bad practices; and (7) you should learn from failure by using the facts to make things better.

- Applying the best evidence to your decisions is difficult, for seven reasons: (1) There's too much evidence. (2) There's not enough *good* evidence. (3) The evidence doesn't quite apply. (4) People are trying to mislead you. (5) *You* are trying to mislead you. (6) The side effects outweigh the cure. (7) Stories are more persuasive, anyway.
- Perhaps the purest application of evidence-based management is the use of analytics, or business analytics, the term used for sophisticated forms of business data analysis. Analytics competitors have three key attributes: (1) They go beyond simple descriptive statistics and use data mining and predictive modeling to identify potential and most profitable customers. (2) They don't have just one principal application but rather use analytics in multiple applications. (3) The use of analytics is supported by top executives.
- A new concept is that of Big Data, which requires handling by very sophisticated analysis software and supercomputing-level hardware. Big Data includes not only data in corporate databases but also web-browsing data trails, social network communications, sensor data, and surveillance data.
- Big Data analytics is the process of examining large amounts of data of a variety of types to uncover hidden patterns, unknown correlations, and other useful information.

7.4 Four General Decision-Making Styles

- A decision-making style reflects the combination of how an individual perceives and responds to information.
- Decision-making styles may tend to have a value orientation, which reflects the extent to which a person focuses on either task or technical concerns versus people and social concerns when making decisions.
- Decision-making styles may also reflect a person's tolerance for ambiguity, the extent to which a person has a high or low need for structure or control in his or her life.
- When the dimensions of value orientation and tolerance for ambiguity are combined, they form four styles of decision making: directive (action-oriented decision makers who focus on facts), analytical (careful decision makers who like lots of information and alternative choices), conceptual (decision makers who rely on intuition and have a long-term perspective), and behavioral (the most people-oriented decision makers).

7.5 How to Overcome Barriers to Decision Making

- When confronted with a challenge in the form of a problem or an opportunity, individuals may respond in perhaps four ineffective ways and three effective ones.
- The ineffective reactions are as follows: (1) In relaxed avoidance, a manager decides to take no action in the belief that there will be no great negative consequences. (2) In relaxed change, a manager realizes that complete inaction will have negative consequences but opts for the first available alternative that involves low risk. (3) In defensive avoidance, a manager can't find a good solution and follows by procrastinating, passing the buck, or denying the risk of any negative consequences. (4) In panic, a manager is so frantic to get rid of the problem that he or she can't deal with the situation realistically.
- The effective reactions consist of deciding to decide—that is, a manager agrees that he or she must decide what to do about a problem or opportunity and take effective decision-making steps. Three ways to help a manager decide whether to decide are to evaluate (1) importance—how high priority the situation is; (2) credibility—how believable the information about the situation is; and (3) urgency—how quickly the manager must act on the information about the situation.
- Heuristics are rules of thumb or strategies that simplify the process of making decisions. Some heuristics or barriers that tend to bias how decision makers process information are availability, confirmation, representativeness, sunk-cost, anchoring and adjustment, and escalation of commitment.
- (1) The availability bias means that managers use information readily available from memory to make judgments. (2) The confirmation bias means people seek information to support their own point of view and discount data that do not. (3) The representativeness bias is the tendency to generalize from a small sample or a single event. (4) The sunk-cost bias is when managers add up all the money already spent on a project and conclude that it is too costly to simply abandon it. (5) The anchoring and adjustment bias is the tendency to make decisions based on an initial figure or number. (6) The escalation of commitment bias

describes when decision makers increase their commitment to a project despite negative information about it. An example is the prospect theory, which suggests that decision makers find the notion of an actual loss more painful than giving up the possibility of a gain.

7.6 Group Decision Making: How to Work with Others

- Groups make better decisions than most individuals acting alone, though not as good as the best individual acting alone.
- Using a group to make a decision offers five possible advantages: (1) a greater pool of knowledge; (2) different perspectives; (3) intellectual stimulation; (4) better understanding of the reasoning behind the decision; and (5) deeper commitment to the decision.
- It also has four disadvantages: (1) a few people may dominate or intimidate; (2) it will produce groupthink, when group members strive for agreement among themselves for the sake of unanimity and so avoid accurately assessing the decision situation; (3) satisficing; and (4) goal displacement, when the primary goal is subsumed to a secondary goal.
- Some characteristics of groups to be aware of are (1) groups are less efficient, (2) their size affects decision quality, (3) they may be too confident, and (4) knowledge counts—decision-making accuracy is higher when group members know a lot about the issues.
- Using groups to make decisions generally requires that they reach a consensus, which occurs when members are able to express their opinions and reach agreement to support the final decision.
- Three problem-solving techniques aid in problem solving. (1) Brainstorming is a technique used to help groups generate multiple ideas and alternatives for solving problems. A variant is electronic brainstorming, in which group members use a computer network to generate ideas. (2) The Delphi technique is a group process that uses physically dispersed experts who fill out questionnaires to anonymously generate ideas; the judgments are combined and in effect averaged to achieve a consensus of expert opinion. (3) In computer-aided decision making, decision support systems provide flexible tools for analysis and help managers focus on the future. This kind of computer-based system aims to produce collected information known as business intelligence, gathering data from a wide range of sources in a way that can be interpreted by humans and used to support better business decision making.

Understanding the Chapter: What Do I Know?

1. What are the steps in rational decision making?
2. What are two models of nonrational decision making?
3. What are four ethical questions a manager should ask when evaluating a proposed action to make a decision?
4. Competitors using analytics have what three key attributes?
5. What is Big Data?
6. Describe the four general decision-making styles.
7. Discuss the four ineffective and three effective ways that individuals can respond to a decision situation.
8. Can you name the nine common decision-making biases?
9. What are the advantages and disadvantages of group decision making.
10. What are three group problem-solving techniques?

Management in Action

Companies Use Tracking Devices to Help Make Decisions

Fan Zhang, the owner of Happy Child, a trendy Asian restaurant in downtown Toronto, knows that 170 of his customers went clubbing in November [2013]. He knows that 250 went to the gym that month, and that 216 came in from Yorkville, an upscale neighborhood. And he gleans this information without his customers' knowledge, or ever asking them a single question.

Mr. Zhang is a client of Turnstyle Solutions Inc., a year-old local company that has placed sensors in about 200 businesses within a 0.7 mile radius in downtown Toronto to track shoppers as they move in the city.

The sensors, each about the size of a deck of cards, follow signals emitted from Wi-Fi-enabled smartphones. That allows them to create portraits of roughly 2 million people's habits as they have gone about their daily lives, traveling from yoga studios to restaurants, to coffee shops, sports stadiums, hotels, and nightclubs.

"Instead of offering a general promotion that may or may not hit a nerve, we can promote specifically to the customer's taste," says Mr. Zhang. He recently emblazoned workout tank-tops with his restaurant's logo, based on the data about his customers' gym visits.

Turnstyle is at the forefront of a movement to track consumers who are continuously broadcasting their location from phones. Other start-ups, such as San Francisco–based Euclid Analytics Inc., use sensors to analyze foot-traffic patterns, largely within an individual retailer's properties, to glean insight about customer behavior.

But Turnstyle is among the few that have begun using the technology more broadly to follow people where they live, work and shop. The company's dense network of sensors can track any phone that has Wi-Fi turned on, enabling the company to build profiles of consumers' lifestyles.

Turnstyle's weekly reports to clients use aggregate numbers and don't include people's names. But the company does collect the names, ages, genders, and social media profiles of some people who log in with Facebook to a free Wi-Fi service that Turnstyle runs at local restaurants and coffee shops, including Happy Child. It uses that information, along with the wider foot traffic data, to come up with dozens of lifestyle categories, including yoga-goers, people who like theater, and hipsters.

A business that knows which sports team is most favored by its clients could offer special promotions on game days, says Turnstyle's 27-year-old founder Chris Gilpin. Czehoski, a local restaurant, hired an 80s-music DJ for Friday nights after learning from Turnstyle that more than 60% of the restaurant's Wi-Fi-enabled customers were over 30.

But as the industry grows in prominence, location trackers are bound to ignite privacy concerns. A company could, for example, track people's visits to specialist doctors or hospitals and sell that data to marketers.

"Locations have meanings," says Eloise Gratton, a privacy lawyer. Marketers can infer that a person has a certain disease from their Internet searches. A geolocation company can actually see the person visiting the doctor, "making the inference that the individual has this disease probably even more accurate," she says. In the U.S., companies don't have to get a consent before collecting and sharing most personal information, including people's locations. A bill proposed by Minnesota Senator Al Franken would require consent before collecting location data. The U.S. Federal Trade Commission settled its first location privacy case in December, against an app developer that misled consumers into believing their location data wouldn't be sold to marketers.

Even as they covet the data, stores and businesses recognize it is a touchy subject. "It would probably be better not to use this tracking system at all if we had to let people know about it," says Glenna Weddle, the owner of Rac Boutique, a women's clothing store that is a Turnstyle client. "It's not invasive. It might raise alarms for no reason."

Right now, the only way to opt-out of geolocation is to either switch off the Wi-Fi on a cellphone or make a request through a website of one the data companies (like Turnstyle) that has an opt-out option.

As these companies operate mostly behind the scenes, the nascent industry is keeping a close watch on Google Inc. and Apple. With their Android and iOS mobile operating systems, respectively, Google and Apple know the location of every customer's Wi-Fi-enabled phone—far more location data than any start-up could access. The Silicon Valley giants aren't allowing access to such data by outsiders. Both Google and Apple declined to comment.

Places where people didn't think they were being watched are now repositories for collecting information, says Ryan Calo, assistant professor at the University of Washington School of Law. "Companies are increasingly able to connect between our online and offline lives," he says.

FOR DISCUSSION

1. How do the tracking devices discussed in this case aid in making more rational and intuitive decisions? Explain.
2. Which of the seven evidence-based decision-making implementation principles is consistent with the use of tracking data for making decisions?
3. Use Figure 7.3 to assess the ethical orientation of what is being done by Turnstyle. Is the company behaving ethically?
4. Which of the common decision-making biases are likely to be reduced by using location data to make product promotion decisions?
5. What is your overall opinion about companies collecting and selling tracking data without your consent? Explain.

Source: Excerpted from Elizabeth Dwoskin, "What Secrets Your Phone Is Sharing about You," The Wall Street Journal, *January 14, 2014, pp. B1, B4.*

Would You Agree to Wear a Sensor So Your Employer Can Track Your Movements & Conversations?

The onset of Big Data and its application has prompted companies to ask employees to wear tracking sensors. For example, Bank of America Corp. decided to study whether face time among coworkers at call centers affected performance. Ninety employees were asked to wear sensors "for a few weeks that contained tiny sensors to record their movements and the tone of their conversations."

Results from the study showed that close-knit teams talked more together and had higher productivity. The bank then decided to schedule workers for group breaks rather than individual breaks in order to foster more social interactions.

"But there's a fine line between Big Data and Big Brother," says *The Wall Street Journal*, "at least in the eyes of some employees, who might shudder at the idea of the boss tracking their every move. Sensor proponents, however, argue that smartphones and corporate ID badges already can transmit their owner's location."

A survey of 50 large- and medium-sized firms that have asked employees to wear sensors reveals that 10% of employees refused to wear the tracking device. Because of the backlash this might create for people, firms selling these devices have created "dummy badges" for people to wear. They are identical to the actual technology but don't record or transmit data.

SOLVING THE CHALLENGE

What would you do if your employer asked you to wear a tracking device for a few weeks? Choose your best response and explain why. Or refer to option 5 if the first four options are not satisfactory.

1. No problem, I would wear it. After all, results from the study might be used to improve the work environment.
2. No way. This violates my privacy.
3. I would do it only if I was assured that the company would only be given group-based data. In this way, the company would not have information about specific individuals.
4. While I like the idea behind option 3, I don't trust that my employer would not request or force the provider of the technology to provide individual-level data. I wouldn't do it.
5. Propose and explain other options.

Source: Excerpted from R. E. Silverman, "Tracking Sensors Invade the Workplace," The Wall Street Journal, *March 7, 2013, http://online.wsj.com/news/articles/SB10001424127887324034804578344303429080678d (accessed June 14, 2014).*

8 Organizational Culture, Structure, & Design

Building Blocks of the Organization

Major Questions You Should Be Able to Answer

8.1 Aligning Strategy, Culture, & Structure

Major Question: Why is it important for managers to align a company's vision and strategies with its organizational culture and structure?

8.2 What Kind of Organizational Culture Will You Be Operating In?

Major Question: How do I find out about an organization's "social glue," its normal way of doing business?

8.3 The Process of Culture Change

Major Question: What can be done to an organization's culture to increase its economic performance?

8.4 Organizational Structure

Major Question: How are for-profit, nonprofit, and mutual-benefit organizations structured?

8.5 The Major Elements of an Organization

Major Question: When I join an organization, what seven elements should I look for?

8.6 Basic Types of Organizational Structures

Major Question: How would one describe the seven organizational structures?

8.7 Contingency Design: Factors in Creating the Best Structure

Major Question: What factors affect the design of an organization's structure?

the manager's toolbox

How to Stand Out in a New Job: Fitting into an Organization's Culture in the First 60 Days

"Once you are in the real world—and it doesn't make any difference if you are 22 or 62, starting your first job or your fifth," say former business columnists Jack and Suzy Welch, "the way to look great and get ahead is to overdeliver."[1]

Overdelivering means doing more than what is asked of you—not just doing the report your boss requests, for example, but doing the extra research to provide him or her with something truly impressive.

Among things you should do in the first 60 days:[2]

Be Aware of the Power of First Impressions

Within three minutes of meeting someone new, people form an opinion about where the future of the relationship is headed, according to one study.[3] "When meeting someone for the first time, concentrate on one thing: your energy level," advises one CEO, who thinks that seven seconds is all the time people need to start making up their minds about you. Amp it up, he advises. "If you don't demonstrate energetic attitude on your first day, you're already screwing up."[4] (However, don't be too upset if you feel you've blown it with someone on the first meeting. What's key is to make sure you have other chances to meet that person again so that you can show different sides of yourself.[5])

Come in 30 Minutes Early & Stay a Little Late to See How People Behave

"Many aspects of a company's culture can be subtle and easy to overlook," writes one expert. "Instead, observe everything." Thus, try coming in early and staying a little late just to observe how people operate—where they take their lunches, for example.

Get to Know Some People & Listen to What They Have to Say

"You've got to realize that networking inside a company is just as important as when you were networking on the outside trying to get in," says a business consultant.[6] During the first two weeks, get to know a few people and try to have lunch with them. Find out how the organization works, how people interact with the boss, what the corporate culture encourages and discourages. Walk the halls and get to know receptionists, mail room clerks, and office managers, who can help you learn the ropes. Your role here is to listen, rather than to slather on the charm. Realize that you have a lot to learn.[7]

Make It Easy for Others to Give You Feedback

Ask your boss, coworkers, and subordinates to give you feedback about how you're doing. Be prepared to take unpleasant news gracefully.[8] At the end of 30 days, have a "How am I doing?" meeting with your boss.

Overdeliver

Because performance reviews for new hires generally take place at 60 to 90 days, you need to have accomplished enough—and preferably something big—to show your boss your potential. In other words, do as the Welches suggest: overdeliver.

For Discussion How does the foregoing advice square with your past experiences in starting a new job? Are there things you wish you could have done differently?

forecast What's Ahead in This Chapter

We consider organizational cultures and organizational structures, and how they should be aligned to help coordinate employees in the pursuit of organization's strategic goals. We then consider the three types of organizations and seven basic characteristics of an organization. We next discuss seven types of organizational structures. Finally, we look at five factors that should be considered when one is designing the structure of an organization.

8.1 Aligning Strategy, Culture, & Structure

MAJOR QUESTION

Why is it important for managers to align a company's vision and strategies with its organizational culture and structure?

THE BIG PICTURE

The study of organizing, the second of the four functions in the management process, begins with the study of organizational culture and structure, which managers must determine so as to implement a particular strategy. Organizational culture consists of the set of shared, taken-for-granted implicit assumptions that a group holds in the workplace. Organizational structure describes who reports to whom and who does what.

"What's your favorite movie?" the job interviewer asks you. "Your favorite website?" "What's the last book you read for fun?" "What makes you uncomfortable?"

These are the four most frequently asked interview questions used by hiring managers, according to a survey involving 285,000 kinds of interview questions.[9] For you as a job applicant, these questions might not seem to have much to do with your performance in previous jobs. Rather, they are designed to see whether you will *fit in* with the company's culture, or *organizational culture,* as we'll explain.[10]

What Does It Mean to "Fit"? Anticipating a Job Interview

The kind of fit we are concerned with here is what is called **person-organization fit, which reflects the extent to which your personality and values match the climate and culture in an organization.**

A good fit of this kind is important because it is associated with more positive work attitudes and task performance, lower stress, and fewer expressions of intention to quit ("I'm gonna tell em, 'Take this job and . . .'").[11] How well an applicant will fit in with the institution's organizational culture is considered a high priority by many interviewers. Indeed, more than 50% of the evaluators in one study considered "fit" to be the most important criterion of the interview process.[12]

How can you determine how well you might fit in before you go into a job interview? You should write down your strengths, weaknesses, and values—and then do the same for the organization you're interviewing with, by researching it online and talking with current employees. You can then prepare questions to ask the interviewer about how well you might fit.

Example: If being recognized for hard work is important to you, ask the interviewer how the company rewards performance. If the answer doesn't show a strong link between performance and rewards ("Well, we don't really have a policy on that"), you'll probably have a low person-organization fit and won't be happy working there.

How an Organization's Culture & Structure Are Used to Implement Strategy

How employees fit into an organization's culture is important to the larger picture of that organization's strategy. *Strategy,* as we saw in Chapter 6, consists of the large-scale action plans that reflect the organization's vision and are used to set the direction for the organization. To implement a particular strategy, managers must determine the right kind of (1) *organizational culture* and (2) *organizational structure.* Let's consider these terms.

Organizational Culture: The Shared Assumptions That Affect How Work Gets Done

We described the concept of *culture* in Chapter 4 on global management as "the shared set of beliefs, values, knowledge, and patterns of behavior common to a group of people." Here we are talking about a specific kind of culture called an *organizational culture*.

According to scholar **Edgar Schein, organizational culture, sometimes called corporate culture, is defined as the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments.**[13] These are the beliefs and values shared among a group of people in the workplace that are passed on to new employees by way of socialization and mentoring, which significantly affect work outcomes at all levels.[14] This is the "social glue" that binds members of the organization together. Just as a human being has a personality—fun-loving, warm, uptight, competitive, or whatever—so an organization has a "personality," too, and that is its culture.

The culture helps employees understand why the organization does what it does and how it intends to accomplish its long-term goals. 3M sets expectations for innovation, for example, by having an internship and co-op program, which provides 30% of the company's new college hires.

Culture can vary considerably, with different organizations having differing emphases on risk taking, treatment of employees, teamwork, rules and regulations, conflict and criticism, and rewards. And the elements that drive an organization's culture also vary. They may represent the values of the founder, the industry and business environment, the national culture, the organization's vision and strategies, and the behavior of leaders. *(See Table 8.1.)*

We thoroughly discuss organizational culture in Sections 8.2 and 8.3.

TABLE 8.1

What Drives an Organizational Culture?

- Founder's values
- Industry & business environment
- National culture
- Organization's vision & strategies
- Behavior of leaders

Organizational Structure: Who Reports to Whom & Who Does What

Organizational structure is a formal system of task and reporting relationships that coordinates and motivates an organization's members so that they can work together to achieve the organization's goals. As we describe in Sections 8.4–8.6, organizational structure is concerned with who reports to whom and who specializes in what work.

Whether an organization is for-profit or nonprofit, the challenge for top managers is to align the organization's vision and strategies with its organizational culture and organizational structure, as shown in the two orange boxes in the drawing below. *(See Figure 8.1.)*

FIGURE 8.1 **Drivers and flow of organizational culture**

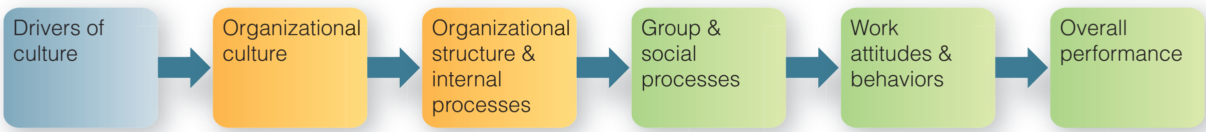


Figure 8.1 shows that the consistency among these elements in turn impacts (see the three green boxes) group and social processes (discussed in Chapters 13–15), individual work attitudes and behaviors (discussed in Chapters 11–12), and the organization's overall performance. As you can see from the diagram, consistency across strategy, culture, and structure leads to higher performance.

EXAMPLE

How Strategy Affects Culture & Culture Affects Structure: EndoStim, a Medical Device Start-up, Operates Virtually

Nowadays a firm can be completely international. An example is the medical device start-up EndoStim, nominally based in St. Louis but operating everywhere.

The company, reports *New York Times* columnist Thomas Friedman, came together as a result of some chance encounters:[15] Cuban immigrant Raul Perez, a physician, came to St. Louis, where he met Dan Burkhardt, a local investor, with whom he began making medical investments. Perez also suffered from acid reflux (abnormal heartburn caused by stomach acid rising in the esophagus) and went to Arizona for treatment by an Indian-American physician, V. K. Sharma. During the visit, Sharma proposed an idea for a pacemaker-like device to control the muscle that would choke off acid reflux.

The Strategy: Creating a New Medical Device. Perez, Burkhardt, and Sharma all agreed they wanted to build such an electrical-stimulation device. They joined forces with South Africa–born Bevil Hogg, a founder of Trek Bicycle Corporation, who became the CEO of the company they named EndoStim and who helped to raise initial development funds. This strategy then began to dictate who they had to work with, which in turn influenced the company's culture and structure.

The Culture: An International "Adhocracy." To advance their strategy of building the device, the four principals recruited two Israelis, a medical engineer and a gastroenterologist. The Israelis collaborated with a Seattle engineering team to develop the design. A company in Uruguay specializing in pacemakers was lined up to build the EndoStim prototype. It was arranged for the clinical trials to be conducted in India and Chile. How much more international can you get?

Thus, the culture of the company could be called an *adhocracy,* which (as we'll describe a little later in the chapter) is a risk-taking culture that values flexibility and creativity and that is focused on developing innovative products.

The Structure: A Virtual, Boundaryless Company. As a very lean start-up operating all over the world, with the principals rarely in the same office at the same time, EndoStim is clearly very different from, say, the usual top-down organization operating in one locality. To access the best expertise and high-quality materials and obtain low-cost manufacturing anywhere around the globe, EndoStim thus was forced to take advantage of all the technological tools—teleconferencing, e-mail, the Internet, and faxes—to maintain communications.

This EndoStim structure, then, is that of a *virtual, boundaryless* organization—*virtual,* because its members are operating geographically apart, connected by electronic means, and *boundaryless,* because the members (whether coworkers or suppliers) come together in fluid, flexible ways on an as-needed basis. We describe these structures further in another few pages.

YOUR CALL

Are you comfortable enough to work in a virtual, boundaryless organization? Many people like the social interaction that comes with working in a physical office with other people. Others, however, are turned off by the office game playing and time-wasting activities that seem to be a necessary concomitant. They welcome the opportunity to do task-oriented work in a makeshift home office, occasionally having to cope with loneliness and restlessness. Which would you favor?

Culture of risk. At Pfizer Inc., a Connecticut pharmaceutical company, drug discovery is a high-risk, costly endeavor in which hundreds of scientists screen thousands of chemicals against specific disease targets, but 96% of these compounds are ultimately found to be unworkable. The culture, then, is one of managing failure and disappointment, of helping drug researchers live for small victories.

8.2 What Kind of Organizational Culture Will You be Operating In?

MAJOR QUESTION

How do I find out about an organization's "social glue," its normal way of doing business?

THE BIG PICTURE

Organizational cultures can be classified into four types: clan, adhocracy, market, and hierarchy. Organizational culture appears as three layers: observable artifacts, espoused values, and basic assumptions. Culture is transmitted to employees in symbols, stories, heroes, and rites and rituals.

Want to get ahead in the workplace but hate the idea of "office politics"?

Probably you can't achieve the first without mastering the second. Although hard work and talent can take you a long way, "there is a point in everyone's career where politics becomes more important," says management professor Kathleen Kelley Reardon. You have to know the political climate of the company you work for, says Reardon, who is author of *The Secret Handshake* and *It's All Politics.*[16] "Don't be the last person to understand how people get promoted, how they get noticed, how certain projects come to attention. Don't be quick to trust. If you don't understand the political machinations, you're going to fail much more often."[17]

A great part of learning to negotiate the politics—that is, the different behavioral and psychological characteristics—of a particular office means learning to understand the organization's *culture.* The culture consists not only of the slightly quirky personalities you encounter but also all of an organization's normal way of doing business, as we'll explain.

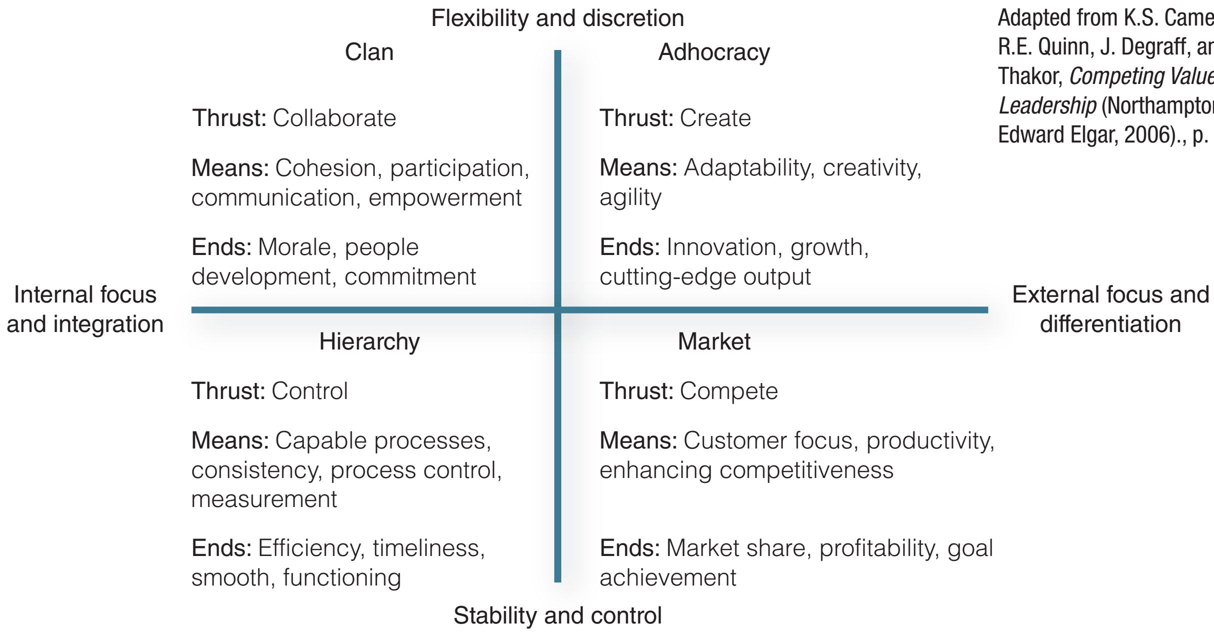
Four Types of Organizational Culture: Clan, Adhocracy, Market, & Hierarchy

According to one common methodology known as the *competing values framework,* organizational cultures can be classified into four types: (1) *clan,* (2) *adhocracy,* (3) *market,* and (4) *hierarchy.*[18] *(See Figure 8.2.)*

FIGURE 8.2

Competing values framework

Adapted from K.S. Cameron, R.E. Quinn, J. Degraff, and A.V. Thakor, *Competing Values Leadership* (Northampton, MA: Edward Elgar, 2006)., p. 32.



1. Clan Culture: An Employee-Focused Culture Valuing Flexibility, Not Stability

A clan culture has an internal focus and values flexibility rather than stability and control. Like a family-type organization, it encourages collaboration among employees, striving to encourage cohesion through consensus and job satisfaction and to increase commitment through employee involvement. Clan organizations devote considerable resources to hiring and developing their employees, and they view customers as partners.

Southwest Airlines is a good example of a company with a clan culture. So is online shoe seller Zappos, which encourages managers to spend 10%–20% of their off-work hours with employees.[19]

2. Adhocracy Culture: A Risk-Taking Culture Valuing Flexibility

An adhocracy culture has an external focus and values flexibility. As we saw with EndoStim in the Example box, this type of culture attempts to create innovative products by being adaptable, creative, and quick to respond to changes in the marketplace. Employees are encouraged to take risks and experiment with new ways of getting things done. Adhocracy cultures are well suited for start-up companies, those in industries undergoing constant change, and those in mature industries that are in need of innovation to enhance growth.

W. L. Gore, maker of Gore-Tex outerwear, is an example of a company with an adhocracy culture. So was Google once, but now it has grown and the enterprise is struggling to avoid losing its adhocracy "Googliness." In earlier times, all Google engineers were urged to spend 20% of their time on personal projects. As the company grew, however, senior managers concluded that letting thousands of employees work on whatever they wanted would lead to disarray, so now newly hired engineers are forced to wait a while before beginning their passion pursuits.[20]

3. Market Culture: A Competitive Culture Valuing Profits over Employee Satisfaction

A market culture has a strong external focus and values stability and control. Because market cultures are focused on the external environment and driven by competition and a strong desire to deliver results, customers, productivity, and profits take precedence over employee development and satisfaction. Employees are expected to work hard, react fast, and deliver quality work on time; those who deliver results are rewarded.

Kia Motors, which fires executives who don't meet their sales goals, is an example of a company with a very aggressive and competitive market culture.[21] Sometimes the culture can be stretched too far: For instance, some Wall Street firms, such as Citgroup Inc., are reported to have such a strong perform-or-die culture—in which executives are pushed to maximize profits and are quickly fired if they fail to deliver—that it is difficult to find talent to promote from within when chief executives leave.[22]

4. Hierarchy Culture: A Structured Culture Valuing Stability & Effectiveness

A hierarchy culture has an internal focus and values stability and control over flexibility. Companies with this kind of culture are apt to have a formalized, structured work environment aimed at achieving effectiveness through a variety of control mechanisms that measure efficiency, timeliness, and reliability in the creation and delivery of products.

Lots of big organizations, such as General Motors, UPS, and the U.S. Army, have a hierarchy culture. A drawback of such cultures is that they can lead to information "silos" or "stovepipes," in which different divisions don't share information—a key cause of GM's ignition switch scandal. *Time* magazine described this as "a kind of death from a thousand cuts in which multiple divisions had information that could have prevented the safety issues, which they didn't share, and for which no one person ultimately took responsibility."[23]

Based on the above descriptions, what type of culture provides the best fit for you? How might you assess the level of fit between your values and those of a potential employer? If you are interested in answering these questions, take the time to complete Self-Assessment 8.1.

SELF-ASSESSMENT 8.1 connect

Assessing Your Preferred Type of Organizational Culture

This survey is designed to assess your preferred type of organizational culture. Go to **connect.mheducation.com** and take Self-Assessment 8.1. When you're done, answer the following questions:

1. Do you have a preferred culture type, or is there a combination of types best suited for you? Are you surprised by the results?
2. What are three questions you can ask a recruiter to determine if a company possesses your preferred culture type?
3. Have you ever worked in a company that did not possess your preferred culture type? In what ways did you feel a lack of person-organization fit? Did lack of fit affect your job satisfaction or desire to continue working at the company? Explain.

EXAMPLE

The Corporate Cultures of Pfizer Pharmaceuticals: The Different "Personalities" within an Organization

"What makes culture so important is that it's unique; it's something that no one can copy," says Ian C. Read, chairman and CEO of Connecticut-based Pfizer Pharmaceuticals. "Culture can become your competitive advantage. Get it wrong and you'll pay dearly for it . . . for years to come."[24]

Read became head of Pfizer in December 2010, after mismanagement ("micro micro" management, indecisiveness) by the previous CEO failed to lift the company's fortunes.[25] Read has instituted a commitment to "our OWNIT! culture. I challenged Pfizer's leaders to recognize that they can only own the *future* if they own *change* and can make change work *for* us, not *against* us."

Pfizer employees, he asserts, "understand that our ownership culture can differentiate us within our industry. They also understand it requires a willingness to take prudent risks, be accountable for their decisions and results, and understand how their work contributes to the company's performance." The success of the culture especially depends on the efforts of first- and second-line managers, who create a climate of trust that is "essential to providing the space employees need to work, take considered risks, and own the results," he says.

Organizational cultures are nearly as varied as human personalities. What had Pfizer's culture been like under Read's predecessors? Actually, there was more than one culture within the company, as follows. Do you recognize the different types?

$2.3 Billion in Fines. In 2009, Pfizer was fined $2.3 billion for improperly marketing drugs to doctors. "The whole culture of Pfizer is driven by sales," said a former sales representative whose complaint helped the government's case, "and if you didn't sell drugs illegally, you were not seen as a team player."[26] Almost every major drug company has in recent years been accused of giving kickbacks to doctors or shortchanging federal programs.

Free Prescription Drugs to Unemployed. But also in that year, as unemployment hovered around 10% in the United States, Pfizer launched a program in which it offered to supply 70 of its name-brand drugs, such as Lipitor and Viagra, free of charge for up to a year to customers who had lost their jobs and lacked prescription coverage. "We did it because it was the right thing to do," said Pfizer's then CEO. "But it was motivational for our employees and got a great response from customers. In the long run, it will help our business."[27]

Ongoing Experimentation. At Pfizer, drug discovery is a high-risk, costly endeavor in which hundreds of scientists screen thousands of chemicals against specific disease targets, but 96% of these compounds are ultimately found to be unworkable. The culture, then, is one of managing failure and disappointment, of helping drug researchers live for the small victories. Thus, says one account, "when a researcher publishes a paper, or when a lab gets some positive results on a new therapy, it's trumpeted throughout the organization."[28] Another example of experimentation, aimed at helping remaining employees to be productive after heavy job cuts, is PfizerWorks, in which 4,000 employees pass off tedious and time-consuming parts of their jobs, such as creating PowerPoint slides and riffling through spreadsheets to outsiders in India.[29]

YOUR CALL

What cultural types are illustrated in these three examples? Does it make more sense that a company would have one dominant cultural type or an equal mixture of clan, adhocracy, market, and hierarchy? Explain your rationale.

The Three Levels of Organizational Culture

Organizational culture appears as three layers: (1) *observable artifacts,* (2) *espoused values,* and (3) *basic assumptions.*[30] Each level varies in terms of outward visibility and resistance to change, and each level influences another level.

Level 1: Observable Artifacts—Physical Manifestations of Culture At the most visible level, organizational culture is expressed in *observable artifacts*—physical manifestations such as manner of dress, awards, myths and stories about the company, rituals and ceremonies, and decorations, as well as visible behavior exhibited by managers and employees.

Example: In a conference room reserved for sensitive discussions, online travel company Kayak has a two-foot-high stuffed elephant named Annabelle—the "elephant in the room"—that is an artifact believed to bring forth more honest and constructive communications among employees.[31] (The expression "elephant in the room" is used in business and politics to mean an obvious truth that is either being ignored or going unaddressed.)

HP founders. David Packard (left) and William Hewlett created a close-knit organizational culture that gave a lot of responsibility to employees and fostered innovation within the company. What kind of culture is that?

Level 2: Espoused Values—Explicitly Stated Values & Norms **Espoused values are the explicitly stated values and norms preferred by an organization,** as may be put forth by the firm's founder or top managers.

Example: The founders of technology company Hewlett-Packard stressed the "HP Way," a collegial, egalitarian culture that gave as much authority and job security to employees as possible. Although managers may hope the values they espouse will directly influence employee behavior, employees don't always "walk the talk," frequently being more influenced by **enacted values, which represent the values and norms actually exhibited in the organization.**[32]

Thus, for example, an international corporation hung signs throughout the hallways of its headquarters proclaiming that "trust" was one of its driving principles (espoused value), yet had a policy of searching employees' belongings each time they entered or exited the building (enacted value).[33]

Level 3: Basic Assumptions—Core Values of the Organization *Basic assumptions,* which are not observable, represent the core values of an organization's culture—those that are taken for granted and, as a result, are difficult to change.

Example: At insurance giant AIG, people worked so hard that the joke around the offices was "Thank heavens it's Friday, because that means there are only two more working days until Monday."[34]

Another example: Many founders of start-ups hate rules and red tape. College Hunks Hauling Junk, for instance, was co-founded by Nick Friedman with no formal policies about dress code, vacation, sick days, and other things because he envisioned "a real-life Never Never Land where work is always fun, and the culture is always stress-free."[35] However, when the enterprise grew from a single cargo van to over 50 franchises, the freewheeling spirit made employees lose focus, and client-service ratings, employee morale, and profitability all declined. The firm had to come up with rules and procedures while at the same time trying to "maintain a healthy balance of fun company culture with an accountable organization and team," Friedman said.

How Employees Learn Culture: Symbols, Stories, Heroes, & Rites & Rituals

Culture is transmitted to employees in several ways, most often through such devices as (1) *symbols,* (2) *stories,* (3) *heroes,* and (4) *rites and rituals.*[36]

1. Symbols **A symbol is an object, act, quality, or event that conveys meaning to others.** In an organization, symbols convey its most important values.

Example: One of the most iconic products of IKEA, maker of inexpensive home furnishings, whose vision is "to create a better life for the many," is the LACK table, a 22-inch by 22-inch side table that sells for only $9.99.[37]

2. Stories **A story is a narrative based on true events, which is repeated—and sometimes embellished upon—to emphasize a particular value.** Stories are oral histories that are told and retold by members about incidents in the organization's history.

Example: Marc Benioff is founder of cloud computing business Salesforce.com, a San Francisco company known for its great sense of social responsibility and generosity (and rated No. 7 on *Fortune*'s 2014 "Best Companies to Work For" list).[38] Its spirit of philanthropy is embodied in a story called the 1-1-1 rule. "When we started the company," Benioff says, "we took 1% of our equity [stock value] and 1% of our profit and 1% of all our employees' time, and we put it into a . . . public charity. At the time, it was very easy because we had no profit, we had no time, we had no equity. But then, it turned out that our company is worth, you know, tens of billions of dollars."[39] Salesforce.com also runs 10,000 nonprofits for free, doesn't charge universities for its services, and, says Benioff, delivers "hundreds of thousands of hours of community service." In its latest philanthropic move, Salesforce.com's foundation plans to spend $6 million over three years nationally on job training for underemployed adults.[40]

3. Heroes **A hero is a person whose accomplishments embody the values of the organization.** IKEA employees are expected to work hard, inspired by an anecdote from their Swedish founder, Invar Kamprad, in his 1976 "A Furniture Dealer's Testament." In that essay he recounts how he was berated by his father for failing repeatedly to get out of bed to milk the cows on his family's farm. Then one day he got an alarm clock. "'Now by jiminy, I'm going to start a new life,' he determined, setting the alarm for twenty to six and removing the 'off button.'"[41]

4. Rites & Rituals **Rites and rituals are the activities and ceremonies, planned and unplanned, that celebrate important occasions and accomplishments in the organization's life.** Military units and sports teams have long known the value of ceremonies handing out decorations and awards, but many companies have rites and rituals as well.

Example: Employees of New Belgium Brewery in Fort Collins, Colorado, which makes Fat Tire Ale, are given a cruiser bicycle during their first year. After five years, they get a free brewery-hopping trip to Belgium. Ten years of employment is acknowledged with a tree planted in their name in the campus orchard. (The company boasts a 97% employment retention rate.[42])

The Importance of Culture

Culture can powerfully shape an organization's long-term success by enhancing its competitive advantage. For example, a recent study involving 1,100 companies summarized the relationship between three organizational cultures—clan, adhocracy, and market—and eight different measures of organizational effectiveness, such as job satisfaction, organizational commitment, and quality of products and services.[43] (Hierarchy was not included owing to a lack of research in this area.) The results are shown on the next page. *(See Figure 8.3.)*

FIGURE 8.3

What organizational benefits are associated with what organizational cultures?

**Only two bars are shown here because organizational commitment was associated with only clan and market structures, and not adhocracy.*

Source: Data from C. A. Hartnell, A. Y. Ou, and A. J. Kinicki, "Organizational Culture and Organizational Effectiveness: A Meta-Analytic Investigation of the Competing Values Framework's Theoretical Suppositions," Journal of Applied Psychology, *July 2011, pp. 677–694.*

Results reveal that the eight types of organizational outcomes had significant and positive relationships with clan, adhocracy, and market cultures. The majority of these relationships were of moderate strength, indicating that they are important to today's managers.

Five conclusions emerge from this research:

- **An organization's culture matters.** The type of organizational culture can be a source of competitive advantage.
- **Employees are happier with clan cultures.** Employees are more satisfied with and committed to organizations with clan cultures, which value flexibility over stability and control and which are more concerned with satisfying the needs of employees than those of shareholders or customers.
- **Elements of these cultures can be used to boost innovation and quality.** Managers can build into their organizations characteristics of some or all of these three cultures—clan, adhocracy, and market—to increase innovation and improve the quality of their products.
- **Changing the organizational culture won't necessarily boost financial performance (but it might).** There are no guarantees that making changes in a firm's organizational culture will lead to a jump in revenues and profits, although any changes that improve its competitive advantage *may* produce financial benefits.
- **Market cultures tend to produce better results.** As the chart shows, market cultures tend to lead to better outcomes in employee attitudes, performance, and organizational effectiveness, thereby leading to competitive advantage. Managers are encouraged, therefore, to consider how they might make their cultures more market oriented.

Sometimes culture can be strong enough to take the place of bureaucracy; that is, the expectations of the culture replace formal rules and regulations. In these cases, the sense of orderliness and predictability that employees look to for guidance are provided by the culture rather than by a rule book.

8.3 The Process of Culture Change

MAJOR QUESTION

What can be done to an organization's culture to increase its economic performance?

THE BIG PICTURE

There are 12 ways a culture becomes established in an organization.

A particular culture can become embedded in an organization in many ways, 12 of which are described here. *(See Table 8.2.)*

Changing organizational culture is essentially a teaching process—that is, a process in which members instruct each other about the organization's preferred values, beliefs, expectations, and behaviors. The process is accomplished by using one or more of the following 12 mechanisms:[44]

TABLE 8.2

A Dozen Ways to Change Organizational Culture

1. Formal statements
2. Slogans & sayings
3. Rites & rituals
4. Stories, legends, & myths
5. Leader reactions to crises
6. Role modeling, training, & coaching
7. Physical design
8. Rewards, titles, promotions, & bonuses
9. Organizational goals & performance criteria
10. Measurable & controllable activities
11. Organizational structure
12. Organizational systems & procedures

1. Formal Statements

The first way to embed preferred culture is through the use of formal statements of organizational philosophy, mission, vision, values, as well as materials used for recruiting, selecting, and socializing employees.

Example: At fashion website Polyvore, CEO Jess Lee wrote down three statements she thought represented the company's distinct culture: (1) "delight the user," (2) "do a few things well," and (3) "make an impact."[45] Walmart founder Sam Walton stated that three basic values represented the core of the retailer's culture: (1) respect for the individual, (2) service to customers, and (3) striving for excellence.[46]

2. Slogans & Sayings

The desirable corporate culture can be expressed in language, slogans, sayings, and acronyms.

Example: David Cote, chairman and CEO of global technology company Honeywell, has adopted the principle "Your job as a leader is to be right at the end of the meeting, not at the beginning of the meeting." That is, a leader's job is to flush out all the facts and opinions so at the end he or she can make a good decision.[47]

3. Rites & Rituals

As we mentioned earlier, rites and rituals represent the planned and unplanned activities and ceremonies that are used to celebrate important events or achievements.

Example: After a day's meetings with clients, employees at Boston advertising agency Arnold Worldwide like to meet at a beer-vending machine in the office (nicknamed "Arnie"), where they sip bottles of home-brewed beer, chitchat, and exchange ideas.[48] (Of course, employers need to be cautious about encouraging drinking alcohol at work, for both health and liability reasons.)

4. Stories, Legends, & Myths

A story is a narrative about an actual event that happened within the organization and that helps to symbolize its vision and values to employees.

Example: Until a decade ago, major drug companies treated countries in the developing world as not worth the trouble of marketing to. But Andrew Witty, who in 2008 at age 43 became the youngest CEO of GlaxoSmithKline, the world's second-largest pharmaceutical company, is making a name for himself by doing more for the poor people of the world than any other big drug company leader. While working in poor countries Witty found “just unbelievable energy to self-improve, to lift themselves up.” He has promised to keep prices of drugs sold in poor countries to no more than 25% of what is charged in rich ones and to donate one-fifth of all profits made in such countries toward building their health systems. Now Glaxo is ranked No. 1 on the Access to Medicine index, which rates pharmaceutical companies on their stances toward the poor.[49]

5. Leader Reactions to Crises

How top managers respond to critical incidents and organizational crises sends a clear cultural message.

Example: Cory Booker (now a U.S. senator from New Jersey) was the mayor of financially struggling Newark in 2010 when a serious snowstorm hit the city. “Throughout the storm,” reports *The Wall Street Journal,* “those in distress hit up Mr. Booker on Twitter, one of the mayor’s preferred methods of keeping in touch with residents. After they cried out for plows, ambulances, and diapers, he responded, electronically and sometimes by driving to the location, shovel in hand. . . . He ordered his driver to pull over several times to help shovel out or push cars.”[50] His on-the-ground efforts were an answer to critics who accused him of being out of touch.

6. Role Modeling, Training, & Coaching

Many companies provide structured training to provide an in-depth introduction to their organizational values.

Example: Triage Consulting Group, a health care financial consulting firm in California, places a high value on superior performance at achieving measurable goals. New employees are immediately prepared for this culture with a 4-day orientation in Triage’s culture and methods, followed by 15 training modules scheduled in 6-week intervals. After less than a year, the best performers are ready to begin managing their own projects, furthering their career development. Performance evaluations take place four times a year, further reinforcing the drive for results.[51]

7. Physical Design

There is constant experimenting going on as to the best office layout that will encourage employee productivity and send a strong message about the culture.

Example: After power producer Dynegy emerged from bankruptcy, the new CEO abandoned his private office and moved into a 64-square-foot cubicle—identical to the ones used by the 235 other employees—signaling his aim “to transform a business previously focused on day-to-day survival into an agile operator poised for growth,” according to one report.[52]

Another example: Pharmaceutical company GlaxoSmithKline has embraced an open-space philosophy that abandons individual desks in favor of “hoteling,” where everyone is assigned to “neighborhoods,” or areas of workers engaged in related tasks (you store your personal belongings in a small locker), on the theory that chance encounters among employees will spark conversations and collaboration.[53]

8. Rewards, Titles, Promotions, & Bonuses

Rewards and status symbols are one of the strongest ways to embed organizational culture.

Example: At Triage Consulting Group, employees at the same level of their career earn the same pay, but employees are eligible for merit bonuses, again reinforcing the culture of achievement. The awarding of merit bonuses is partly based on coworkers' votes for who contributed most to the company's success, and the employees who received the most votes are recognized each year at the company's "State of Triage" meeting.[54]

9. Organizational Goals & Performance Criteria

Many organizations establish organizational goals and criteria for recruiting, selecting, developing, promoting, dismissing, and retiring people, all of which reinforce the desired organizational culture.

Example: Las Vegas–based Zappos, the online shoe retailer (No. 38 on *Fortune*'s 2014 "Best Places to Work For" list), spends a great deal of time analyzing applicants to see if they will fit into its clan-based culture. "We spend seven to 10 hours [with potential recruits] over four occasions at happy hours, team building events, or other things outside the office," says the company's human resources director. "We can see them, and they can us."[55] The result of this careful selection process was a low turnover rate of only 20% in 2009, a remarkable statistic for call centers. Employees want to stay not only because Zappos pays full employee benefits but also because of the "wow factor"—part of which is encouraging them to have fun at work.

The wow culture. The "wow" factor that encourages Zappos's clan-based culture is partly created by encouraging employees to have fun at work, as in playing Nerf basketball. Is this a place you could stick with?

10. Measurable & Controllable Activities

An organization's leaders can pay attention to, measure, and control a number of activities, processes, or outcomes that can foster a certain culture.

Example: Adam Nash, the CEO of Wealthfront, an online financial management firm, believes that how you keep score on employee progress is important. "If you don't give people metrics [methods of measurement]," he says, "smart people will make up their own," and "you'll get incessant fighting and arguments."[56]

11. Organizational Structure

The hierarchical structure found in most traditional organizations is more likely to reinforce a culture oriented toward control and authority compared with the flatter organization that eliminates management layers in favor of giving employees more power.

Example: The hierarchical structure of a railroad provides a much different culture from that of the "spaghetti organization" formerly employed by Danish hearing-aid maker Oticon, in which employees worked at mobile desks on wheels and were always subject to reorganization.

12. Organizational Systems & Procedures

Companies are increasingly using electronic networks to increase collaboration among employees, to increase innovation, quality, and efficiency.

Example: Molson Coors CEO Peter Swinburn, in knitting together employees of several former companies, made sure they had better tools to interact with each other. One technology he introduced was Yammer, a website for short messages similar to Twitter, on which some 2,000 employees now provide updates and collaborate on projects.[57]

8.4 MAJOR QUESTION

Organizational Structure

How are for-profit, nonprofit, and mutual-benefit organizations structured?

THE BIG PICTURE

The organizational structure of the three types of organizations—for-profit, nonprofit, and mutual-benefit—may be expressed vertically or horizontally on an organization chart.

Once an organization's vision and strategy have been determined, as we stated at the beginning of this chapter, the challenge for top managers is, first, to create a culture that will motivate its members to work together and, second, a structure that will coordinate their actions to achieve the organization's strategic goals. Here let us begin to consider the second part—an organization's structure.

In Chapter 1, we defined an organization as a group of people who work together to achieve some specific purpose. According to **Chester I. Barnard's** classic definition, **an organization is a system of consciously coordinated activities or forces of two or more people.**[58] By this wording, a crew of two coordinating their activities to operate a commercial tuna fishing boat is just as much an organization as the entire StarKist Tuna Co.

The Organization: Three Types

As we stated in Chapter 1, there are three types of organizations classified according to the three different purposes for which they are formed:[59]

- **For-profit organizations.** These are formed to make money, or profits, by offering products or services.
- **Nonprofit organizations.** These are formed to offer services to some clients, not to make a profit (examples: hospitals, colleges).
- **Mutual-benefit organizations.** These are voluntary collectives whose purpose is to advance members' interests (examples: unions, trade associations).

Who sells the electricity? About 80% of U.S. drivers drive 40 miles or less a day—and 38 miles is what the hybrid Chevrolet Volt will drive on a single electric charge. (A small combustion engine cuts in to charge the battery, so the car is always running on the electric motor.) The Volt is made by General Motors, a for-profit organization. What kind of organizations might sell the electricity and the charging stations—for-profit, nonprofit, or mutual-benefit?

Clearly, you might have an occupation (such as auditor or police officer) that is equally employable in any one of these three sectors. As a manager, however, you would be principally required to focus on different goals—making profits, delivering public services, or satisfying member needs—depending on the type of organization.

The Organization Chart

Whatever the size or type of organization, it can be represented in an organization chart. **An organization chart is a box-and-lines illustration showing the formal lines of authority and the organization's official positions or work specializations.** This is the family-tree-like pattern of boxes and lines posted on workplace walls and given to new hires, such as the following for a hospital. *(See Figure 8.4.)*

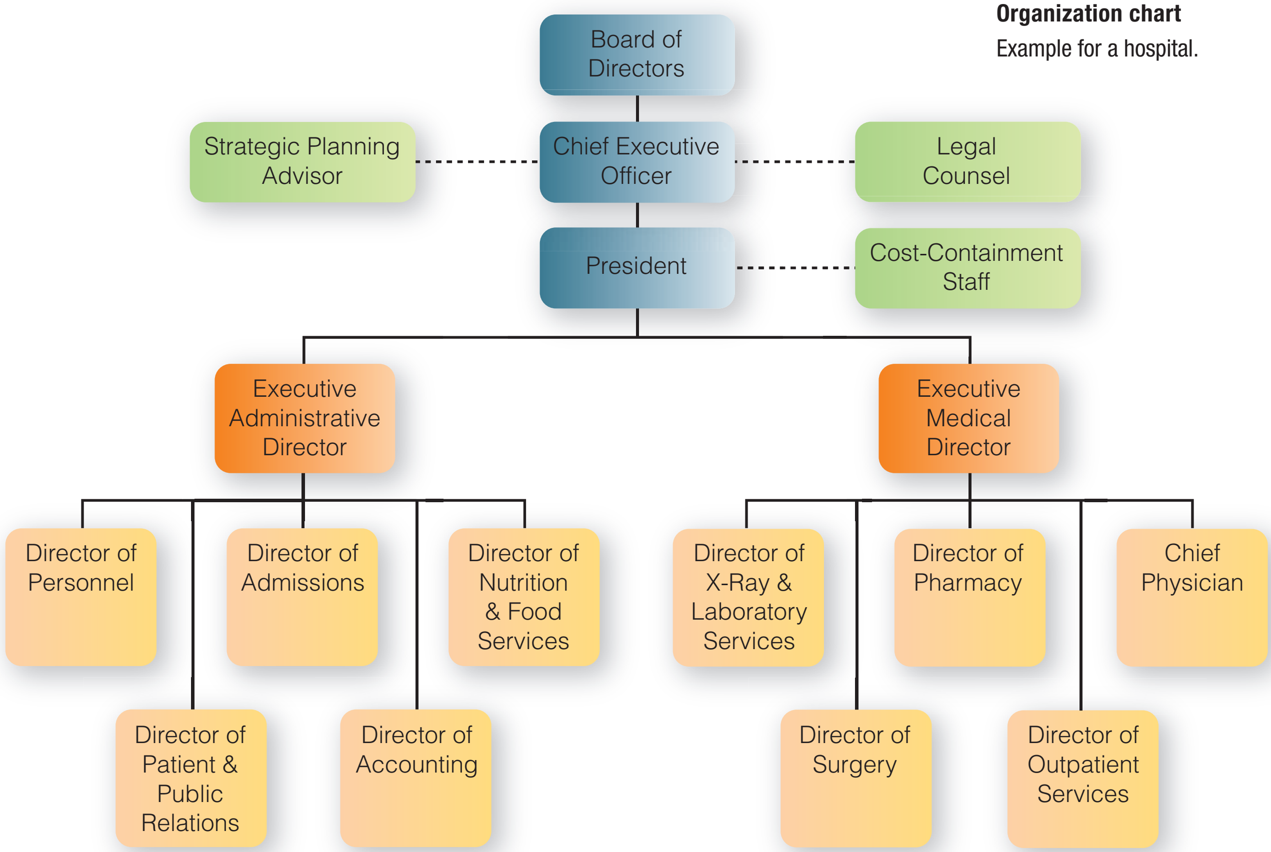


FIGURE 8.4
Organization chart
Example for a hospital.

Two kinds of information that organization charts reveal about organizational structure are (1) the *vertical hierarchy of authority*—who reports to whom, and (2) the *horizontal specialization*—who specializes in what work.

The Vertical Hierarchy of Authority: Who Reports to Whom A glance up and down an organization chart shows the *vertical hierarchy,* the chain of command. A formal vertical hierarchy also shows the official communication network—who talks to whom. In a simple two-person organization, the owner might communicate with just a secretary or an assistant. In a complex organization, the president talks principally to the vice presidents, who in turn talk to the assistant vice presidents, and so on.

The Horizontal Specialization: Who Specializes in What Work A glance to the left and right on the line of an organization chart shows the *horizontal specialization,* the different jobs or work specialization. The husband-and-wife partners in a two-person desktop-publishing firm might agree that one is the "outside person," handling sales, client relations, and finances, and the other is the "inside person," handling production and research. A large firm might have vice presidents for each task—marketing, finance, and so on. ●

PRACTICAL ACTION

Transition Problems on Your Way Up: How to Avoid the Pitfalls

Although corporations and managements may make noises about training and support, newly promoted managers may not see any of this and may simply be expected to know what to do. And, as managers move up the ladder, they may encounter other problems that they have not anticipated. How can you avoid some pitfalls as you make your ascent? Some suggestions:[60]

Have Realistic Expectations & Think about the Kind of Manager You Want to Be New managers often focus on the rights and privileges of their new jobs and underestimate the duties and obligations. Make a list of all your previous bosses and their good and bad attributes. This may produce a list of dos and don'ts that can serve you well.

Don't Forget to Manage Upward & Sideways as Well as Downward You not only need to manage your subordinates but also the perceptions of your peers and your own managers above you. In addition, you need to have good relationships with managers in other departments—and be perceptive about their needs and priorities—since they have resources you need to get your job done. Don't make the mistake of thinking your own department is the center of the universe.

Get Guidance from Other Managers You may not get advice on how to manage from your own manager, who may have promoted you to help reduce his or her workload, not add to it by expecting some coaching. If this is the case, don't be shy about consulting other managers as well as people in professional organizations.

Resist Isolation If you're promoted beyond supervisor of a small team and you have to manage hundreds rather than dozens, or thousands rather than hundreds, you may find the biggest surprise is isolation. The way to stay in touch is to talk daily with your senior managers, perhaps have "town meetings" with staffers several times a year, and employ "management by wandering around"—bringing teams together to talk.

YOUR CALL

How would you try to manage the perceptions not only of subordinates but of your peers?

Managing. Being a manager requires a lot of interaction with others—as in "town meetings" with staffers. Do you think you'll need to resist a tendency toward isolation?

8.5 The Major Elements of an Organization

MAJOR QUESTION

When I join an organization, what seven elements should I look for?

THE BIG PICTURE

Seven basic elements or features of an organization are described in this section.

Whether for-profit, nonprofit, or mutual-benefit, organizations have a number of elements in common. We discuss four proposed by an organizational psychologist, and then describe three others that most authorities agree on.

Common Elements of Organizations: Four Proposed by Edgar Schein

Organizational psychologist **Edgar Schein** proposed the four common elements of (1) *common purpose,* (2) *coordinated effort,* (3) *division of labor,* and (4) *hierarchy of authority.*[61] Let's consider these.

1. Common Purpose: The Means for Unifying Members An organization without purpose soon begins to drift and become disorganized. **The common purpose unifies employees or members and gives everyone an understanding of the organization's reason for being.**

2. Coordinated Effort: Working Together for Common Purpose The common purpose is realized through **coordinated effort, the coordination of individual efforts into a group or organizationwide effort.** Although it's true that individuals can make a difference, they cannot do everything by themselves.

3. Division of Labor: Work Specialization for Greater Efficiency **Division of labor, also known as *work specialization,* is the arrangement of having discrete parts of a task done by different people.** Even a two-person crew operating a fishing boat probably has some work specialization—one steers the boat, the other works the nets. With division of labor, an organization can parcel out the entire complex work effort to be performed by specialists, resulting in greater efficiency.

4. Hierarchy of Authority: The Chain of Command **The hierarchy of authority, or *chain of command,* is a control mechanism for making sure the right people do the right things at the right time.** If coordinated effort is to be achieved, some people—namely, managers—need to have more authority, or the right to direct the work of others. Even in member-owned organizations, some people have more authority than others, although their peers may have granted it to them.

In addition, authority is most effective when arranged in a hierarchy. Without tiers or ranks of authority, a lone manager would have to confer with everyone in his or her domain, making it difficult to get things done. Even in newer organizations that flatten the hierarchy, there still exists more than one level of management.[62] **A flat organization is defined as one with an organizational structure with few or no levels of middle management between top managers and those reporting to them.**

Finally, a principle stressed by early management scholars was that of **unity of command, in which an employee should report to no more than one manager** in order to avoid conflicting priorities and demands. Today, however, with advances in computer technology and networks, there are circumstances in which it makes sense for a person to communicate with more than one manager (as is true, for instance, with the organizational structure known as the matrix structure, as we'll describe).

Common Elements of Organizations: Three More That Most Authorities Agree On

To Schein's four common elements we may add three others that most authorities agree on: (5) *span of control,* (6) *authority, responsibility, and delegation,* and (7) *centralization versus decentralization of authority.*

5. Span of Control: Narrow (or Tall) versus Wide (or Flat)

The span of control, or *span of management,* refers to the number of people reporting directly to a given manager.[63] There are two kinds of spans of control, narrow (or tall) and wide (or flat).

Narrow Span of Control This means a manager has a limited number of people reporting—three vice presidents reporting to a president, for example, instead of nine vice presidents. An organization is said to be *tall* when there are many levels with narrow spans of control.

Wide Span of Control This means a manager has several people reporting—a first-line supervisor may have 40 or more subordinates, if little hands-on supervision is required, as is the case in some assembly-line workplaces. An organization is said to be *flat* when there are only a few levels with wide spans of control.

Historically, spans of about 7 to 10 subordinates were considered best, but there is no consensus as to what is ideal. In general, when managers must be closely involved with their subordinates, as when the management duties are complex, they are advised to have a narrow span of control. This is why presidents tend to have only a handful of vice presidents reporting to them. By contrast, first-line supervisors directing subordinates with similar work tasks may have a wide span of control.

Today's emphasis on lean management staffs and more efficiency means that spans of control need to be as wide as possible while still providing adequate supervision. Wider spans also fit in with the trend toward allowing workers greater autonomy in decision making. Research suggests that, when aided by technology to communicate and monitor, a manager can oversee 30 employees or more.[64]

6. Authority, Responsibility, & Delegation: Line versus Staff Positions

Male sea lions have to battle other males to attain authority over the herd. In human organizations, however, authority is related to the management authority in the organization; it has nothing to do with the manager's fighting ability or personal characteristics. With authority goes *accountability, responsibility,* and the ability to *delegate* one's authority.

Accountability **Authority refers to the rights inherent in a managerial position to make decisions, give orders, and utilize resources.** (Authority is distinguished from *power,* which, as we discuss in Chapter 14, is the extent to which a person is able to influence others so they respond to orders.) In the military, of course, orders are given with the expectation that they will be obeyed, disobedience making one liable to a dishonorable discharge or imprisonment. In civilian organizations, disobeying orders may lead to less dire consequences (demotion or firing), but subordinates are still expected to accept that a higher-level manager has a legitimate right to issue orders.

Authority means **accountability—managers must report and justify work results to the managers above them.** Being accountable means you have the responsibility for performing assigned tasks.

Responsibility With more authority comes more responsibility. **Responsibility is the obligation you have to perform the tasks assigned to you.** A car assembly-line worker has little authority but also little responsibility: just install those windshields over and over. A manager, however, has greater responsibilities.

It is a sign of faulty job design when managers are given too much authority and not enough responsibility, in which case they may become abusive to subordinates and capricious in exerting authority.[65] Conversely, managers may not be given enough authority, so the job becomes difficult.

Delegation **Delegation is the process of assigning managerial authority and responsibility to managers and employees lower in the hierarchy.** To be more efficient, most managers are expected to delegate as much of their work as possible. However, a business entrepreneur may fall into the common trap of perfection, believing, as one writer puts it, that "you are the only person who can handle a given situation, work with a special client, design a program."[66] But a surprising number of managers fail to realize that delegation is an important part of their job.

PRACTICAL ACTION

When Should You Delegate & When Not? How Managers Get More Done

All managers must learn how to delegate—to assign management authority and responsibilities to people lower in the company hierarchy. But failure to delegate can happen even with high-powered executives, including those you might least suspect—such as the president of Harvard University. Dr. Neil L. Rudenstine, who became president of Harvard in 1991, initially became so exhausted from overwork that he had to stay home for two weeks to recover. The incident sent a message that his future survival would depend on his ability to set priorities and delegate responsibility.[67]

"To do more in a day, you must do less—not do everything faster," says Oakland, California, productivity expert Odette Pollar.[68] If as a manager you find yourself often behind, always taking work home, doing your subordinates' work for them, and constantly having employees seeking your approval before they can act, you're clearly not delegating well. How do you decide when to delegate and when not to? Here are some guidelines:[69]

Delegate Routine & Technical Matters Always try to delegate routine tasks and routine paperwork. When there are technical matters, let the experts handle them.

Delegate Tasks That Help Your Subordinates Grow Let your employees solve their own problems whenever possible. Let them try new things so they will grow in their jobs.

Don't Delegate Confidential & Personnel Matters Any tasks that are confidential or that involve the evaluation, discipline, or counseling of subordinates should never be handed off to someone else.

Don't Delegate Emergencies By definition, an emergency is a crisis for which there is little time for solution, and you should handle this yourself.

Don't Delegate Special Tasks That Your Boss Asked You to Do—Unless You Have His or Her Permission If your supervisor entrusts you with a special assignment, such as attending a particular meeting, don't delegate it unless you have permission to do so.

Match the Tasks Delegated to Your Subordinates' Skills & Abilities While recognizing that delegation involves some risk, make your assignments appropriate to the training, talent, skills, and motivation of your employees.

YOUR CALL

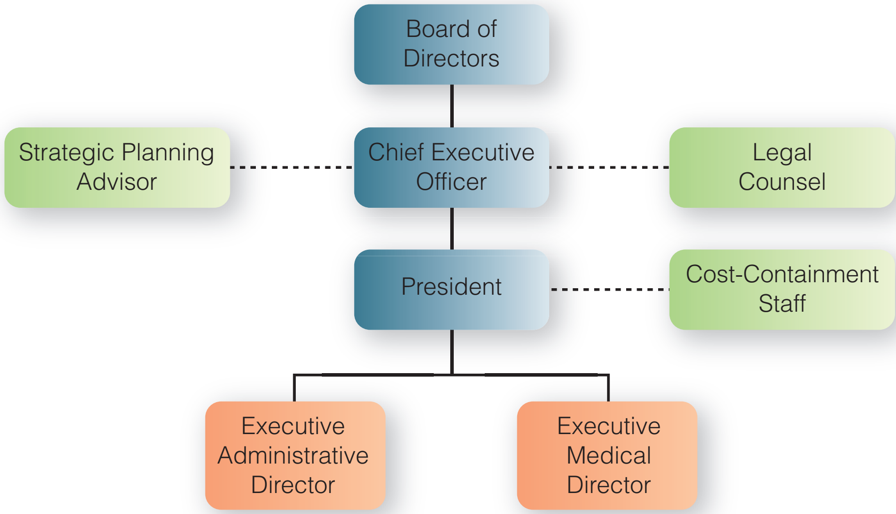
Managers fail to delegate for many reasons.[70] An excessive need for perfection. A belief that only they should handle "special," "difficult," or "unusual" problems or clients. A wish to keep the parts of a job that are fun. A fear that others will think them lazy. A reluctance to let employees lower down in the hierarchy take risks. A worry that subordinates won't deliver. A concern that the subordinates will do a better job and show them up. Are any of these reasons why you might not be very good at delegating? What are some others?

Regarding authority and responsibility, the organization chart distinguishes between two positions, *line* and *staff*. *(See Figure 8.5.)*

FIGURE 8.5

Line and staff

Line responsibilities are indicated by solid lines, staff responsibilities by dotted lines.



Line Position **Line managers have authority to make decisions and usually have people reporting to them.** Examples: the president, the vice presidents, the director of personnel, and the head of accounting. Line positions are indicated on the organization chart by a *solid line* (usually a vertical line).

Staff Position **Staff personnel have authority functions; they provide advice, recommendations, and research to line managers** (examples: specialists such as legal counsels and special advisers for mergers and acquisitions or strategic planning). Staff positions are indicated on the organization chart by a *dotted line* (usually a horizontal line).

7. Centralization versus Decentralization of Authority

Who makes the important decisions in an organization? That is what the question of centralization versus decentralization of authority is concerned with.

Centralized Authority **With centralized authority, important decisions are made by higher-level managers.** Very small companies tend to be the most centralized, although nearly all organizations have at least some authority concentrated at the top of the hierarchy. Kmart and McDonald's are examples of companies using this kind of authority.

An advantage in using centralized authority is that there is less duplication of work, because fewer employees perform the same task; rather, the task is often performed by a department of specialists. Another advantage of centralization is that procedures are uniform and thus easier to control; all purchasing, for example, may have to be put out to competitive bids.

Decentralized Authority **With decentralized authority, important decisions are made by middle-level and supervisory-level managers.** Here, obviously, power has been delegated throughout the organization. Among the companies using decentralized authority are General Motors and Harley-Davidson.

An advantage in having decentralized authority is that managers are encouraged to solve their own problems rather than to buck the decision to a higher level. In addition, decisions are made more quickly, which increases the organization's flexibility and efficiency. ●

8.6 Basic Types of Organizational Structures

MAJOR QUESTION

How would one describe the seven organizational structures?

THE BIG PICTURE

Seven types of organizational structures are simple, functional, divisional, matrix, team-based, network, and modular.

Small firm. What type of organizational structure is best suited to a local floral shop? Should the number of employees influence the decision?

Culture and structure, we've said, are quite often intertwined. When Google co-founder (with Sergey Brin) and CEO Larry Page was asked in 2011 about the biggest threat to his company, Page answered in a single word: "Google."

Now 17 years old, Google started out as a freewheeling company in which, as we mentioned, engineers were given time to experiment on their own projects, producing the famed Google's culture of innovation. The problem, however, was that the company grew so quickly (it's now 40,000 people) that decision making had become molasses-like. For instance, the two co-founders, who had been trained as engineers, had hired a professional manager, Eric Schmidt, to be CEO, but the three of them "had to agree before anything could be done," says one report. "The unwieldy management and glacial pace of decision making were particularly noticeable in [Silicon Valley], where start-ups overtake behemoths in months."[71] Since then, Schmidt was promoted to chairman and Page took over as CEO, streamlining the company's structure and decision-making processes.

Organizational design is concerned with designing the optimal structures of accountability and responsibility that an organization uses to execute its strategies. We may categorize organizational designs as three types: (1) traditional designs, (2) horizontal designs, and (3) designs that open boundaries between organizations.[72]

1. Traditional Designs: Simple, Functional, Divisional, & Matrix Structures

Traditional organizational designs tend to favor structures that rely on a vertical management hierarchy, with clear departmental boundaries and reporting arrangements, as follows.

The Simple Structure: For the Small Firm

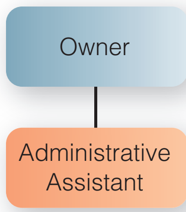
The first organizational form is the simple structure. This is the form often found in a firm's very early, entrepreneurial stages, when the organization is apt to reflect the desires and personality of the owner or founder. **An organization with a simple structure has authority centralized in a single person, a flat hierarchy, few rules, and low work specialization.** *(See Figure 8.6, right.)*

Hundreds of thousands of organizations are arranged according to a simple structure—for instance, small mom-and-pop firms running landscaping, construction, insurance sales, and similar businesses. Examples: Both Hewlett-Packard and Apple Computer began as two-man garage start-ups that later became large.

FIGURE 8.6

Simple structure: an example

There is only one hierarchical level of management beneath the owner.



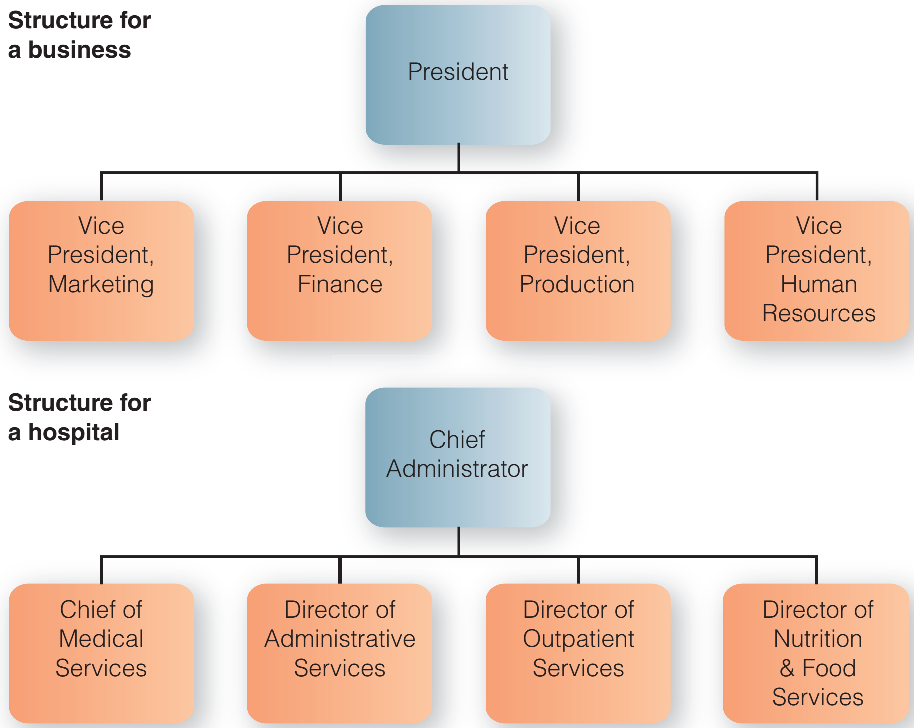
The Functional Structure: Grouping by Similar Work Specialties

The second organizational form is the functional structure. **In a functional structure, people with similar occupational specialties are put together in formal groups.** This is a quite commonplace structure, seen in all kinds of organizations, for-profit and nonprofit. *(See Figure 8.7.)*

FIGURE 8.7

Functional structure: two examples

This shows the functional structure for a business and for a hospital



Examples: A manufacturing firm will often group people with similar work skills in a Marketing Department, others in a Production Department, others in Finance, and so on. A nonprofit educational institution might group employees according to work specialty under Faculty, Admissions, Maintenance, and so forth.

The Divisional Structure: Grouping by Similarity of Purpose The third organizational form is the divisional structure. **In a divisional structure, people with diverse occupational specialties are put together in formal groups by similar products or services, customers or clients, or geographic regions.** *(See Figure 8.8, next page.)*

Product Divisions: Grouping by Similar Products or Services **Product divisions group activities around similar products or services.** Examples: The media giant Time Warner has different divisions for magazines, movies, recordings, cable television, and so on. The Warner Bros. part of the empire alone has divisions spanning movies and television, a broadcast network, retail stores, theaters, amusement parks, and music.

Customer Divisions: Grouping by Common Customers or Clients **Customer divisions tend to group activities around common customers or clients.** Examples: Ford Motor Co. has separate divisions for passenger-car dealers, for large trucking customers, and for farm products customers. A savings and loan might be structured with divisions for making consumer loans, mortgage loans, business loans, and agricultural loans.

Geographic Divisions: Grouping by Regional Location **Geographic divisions group activities around defined regional locations.** Example: This arrangement is frequently used by government agencies. The Federal Reserve Bank, for instance, has 12 separate districts around the United States. The Internal Revenue Service also has several districts.

The Matrix Structure: A Grid of Functional & Divisional for Two Chains of Command The fourth organizational form is the matrix structure. **In a matrix structure, an organization combines functional and divisional chains of command in a grid so that there are two command structures—vertical and horizontal.** The functional

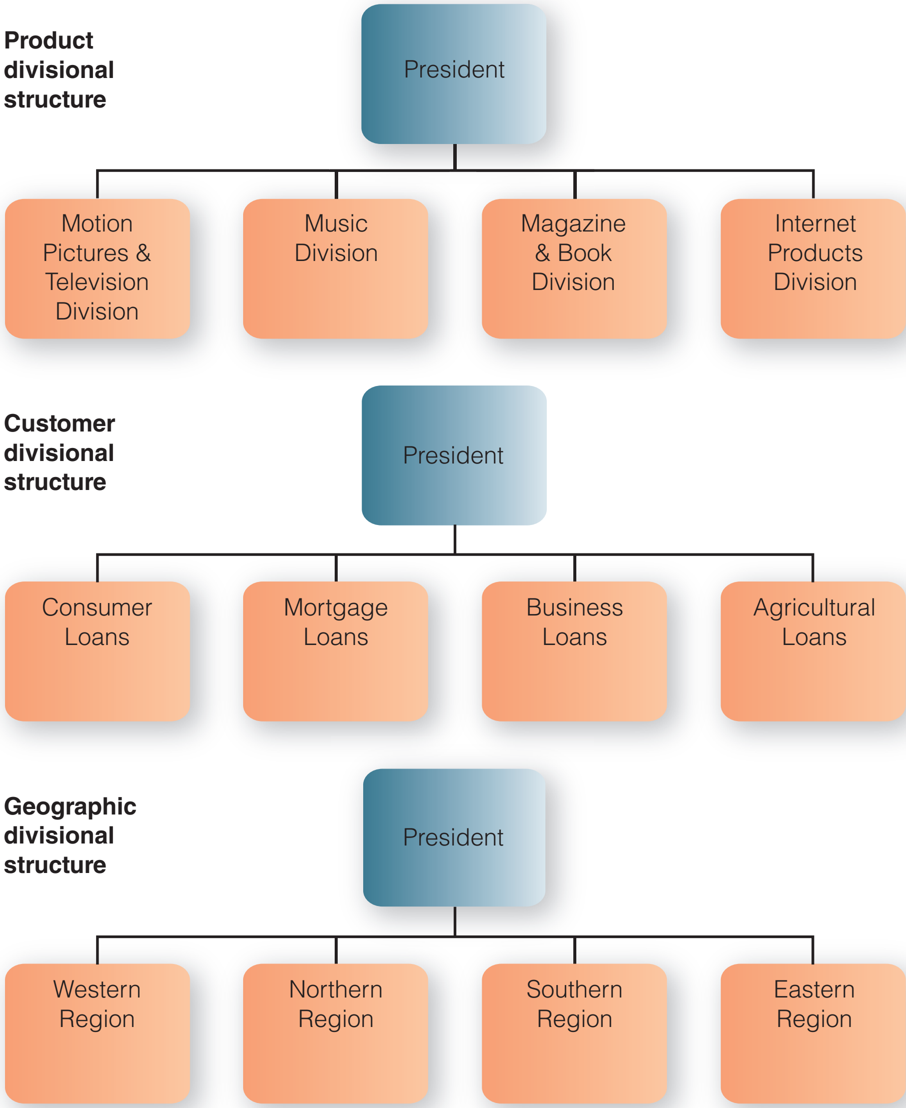


FIGURE 8.8

Divisional structure: three examples

This shows product, customer, and geographic divisions.

structure usually doesn't change—it is the organization's normal departments or divisions, such as Finance, Marketing, Production, and Research & Development. The divisional structure may vary—as by product, brand, customer, or geographic region. *(See Figure 8.9, next page.)*

A hypothetical example, using Ford Motor Co.: The functional structure might be the departments of Engineering, Finance, Production, and Marketing, each headed by a vice president. Thus, the reporting arrangement is vertical. The divisional structure might be by product (the new models of Taurus, Mustang, Explorer, and Expedition, for example), each headed by a project manager. This reporting arrangement is horizontal. Thus, a marketing person, say, would report to *both* the Vice President of Marketing *and* to the Project Manager for the Ford Mustang. Indeed, Ford Motor Co. used the matrix approach to create the Taurus and a newer version of the Mustang.

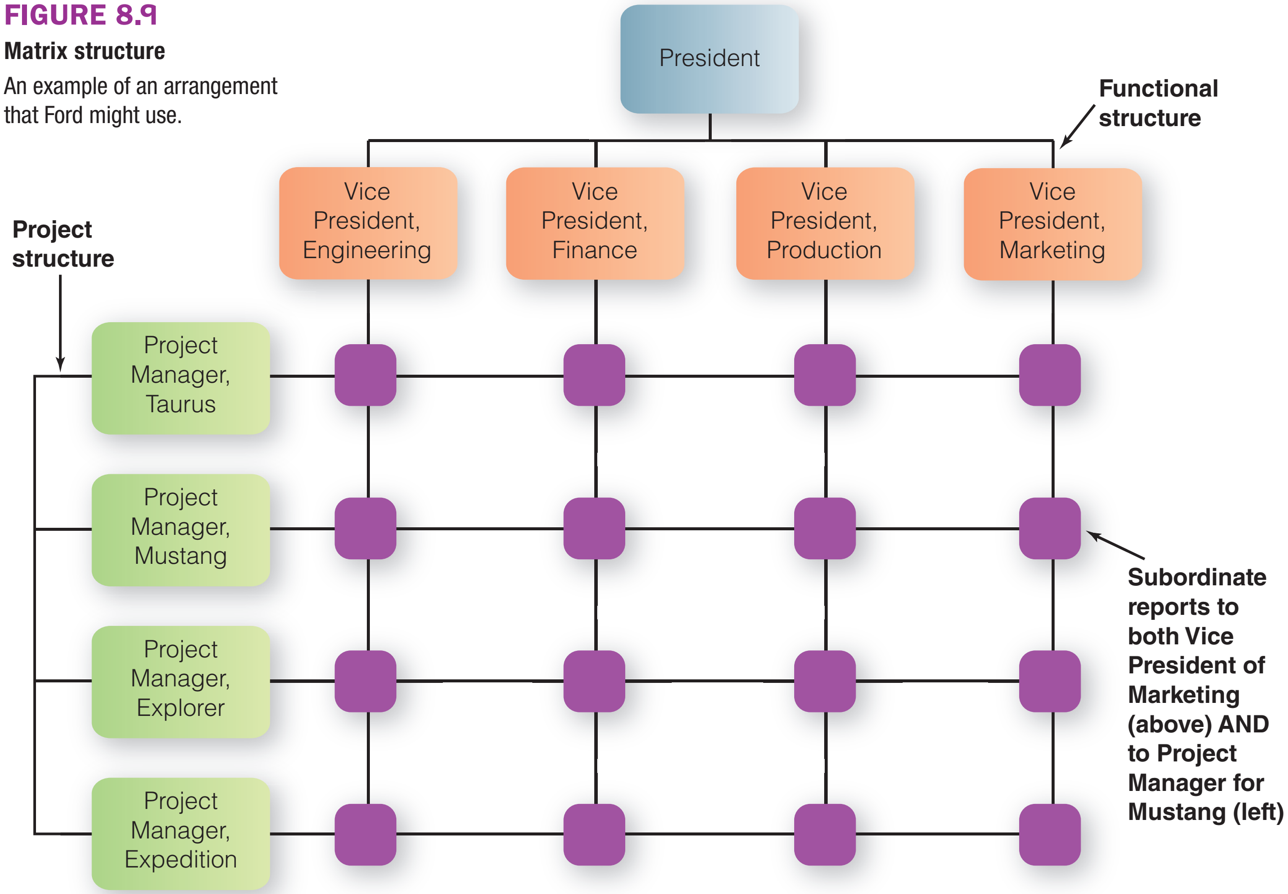
2. The Horizontal Design: Eliminating Functional Barriers to Solve Problems

The second organizational design is the horizontal design. In a **horizontal design,** also called a **team-based design,** teams or workgroups, either temporary or permanent, are

FIGURE 8.9

Matrix structure

An example of an arrangement that Ford might use.



used to improve collaboration and work on shared tasks by breaking down internal boundaries. For instance, when managers from different functional divisions are brought together in teams—known as cross-functional teams—to solve particular problems, the barriers between the divisions break down. The focus on narrow divisional interests yields to a common interest in solving the problems that brought them together. Yet team members still have their full-time functional work responsibilities and often still formally report to their own managers above them in the functional-division hierarchy. *(See Figure 8.10, opposite page.)*

EXAMPLE

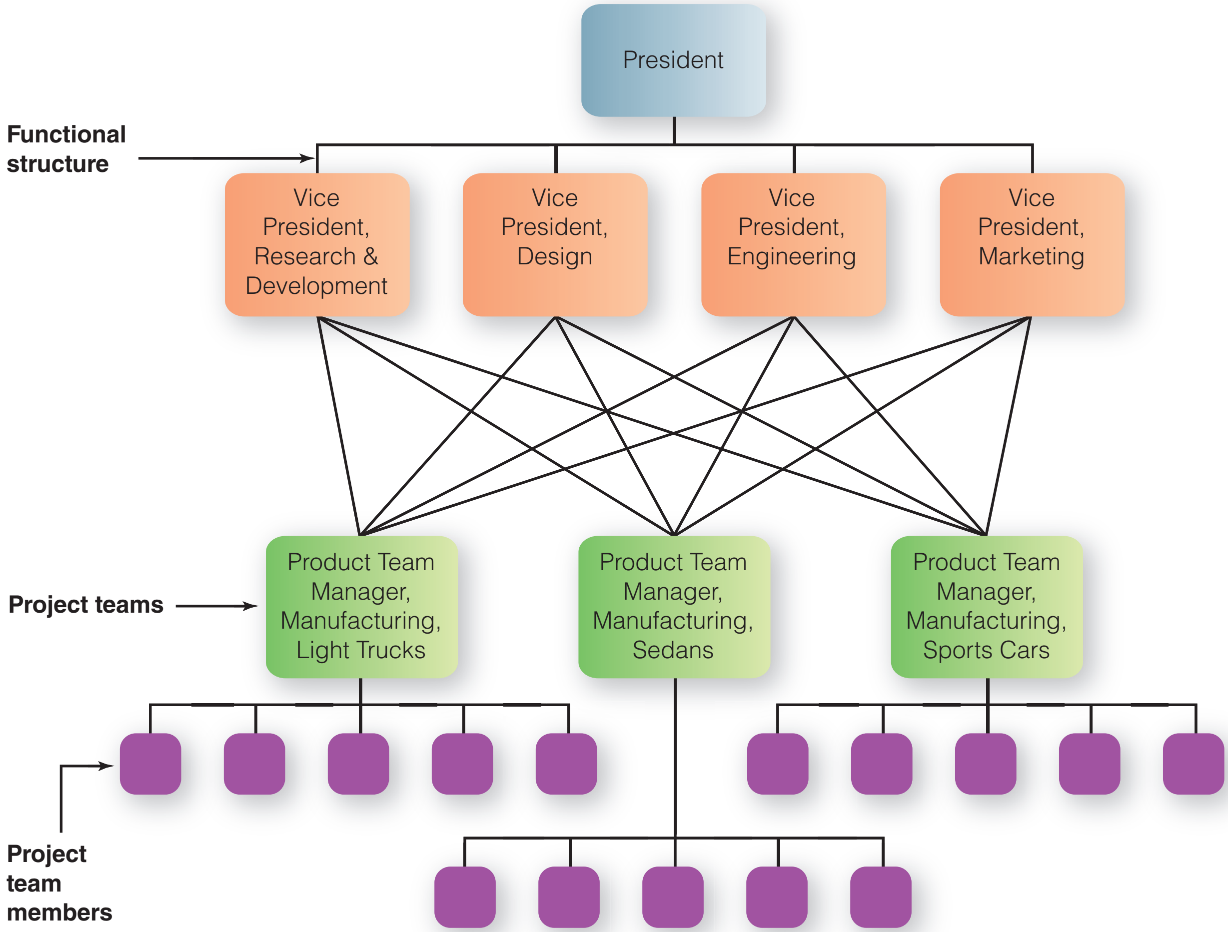
Use of a Horizontal Design: Whole Foods Market

Upscale natural and organic-food grocery Whole Foods Market started out in 1980 as one store in Austin, Texas, and today has revenues of $12.9 billion and 375 stores in North America and the United Kingdom.[73] It was rated No. 20 in 2014 on *Fortune* magazine's annual "World's Most Admired Companies" list.[74] It has also been chosen as one of *Fortune*'s "100 Best Companies to Work For" every year for 17 years (No. 44 in 2014).[75] But, as one writer observed, if its values are "soft-hearted," emphasizing Whole Food, Whole People, Whole Planet, "its competitive logic is hard-headed."[76] That's because its management strategy is based not on hierarchy but on autonomous profit centers of self-managed teams.

"Radical Decentralizing": Empowering Small Teams. One of Whole Foods's core operating principles is that all work is teamwork. Thus, each store is organized into roughly eight self-managed teams, each with a designated team leader. The leaders in each store also operate as a team, as do the store leaders in each region. Additionally, the directors of the company's 11 regions operate as a team.

FIGURE 8.10 **Horizontal design**

This shows a mix of functional (vertical) and project-team (horizontal) arrangements.



At most retail companies, employees are hired by supervisors (not fellow employees), decisions about what products to order are made by someone high up at central headquarters, and the amounts of people's paychecks are kept secret. Whole Foods, however, believes in "radical decentralizing," in the words of influential management professor Gary Hamel.[77]

At the individual-store level, compensation is tied to team rather than individual performance, and performance measurements and individual pay schedules are open to all. Each team has the mission of improving the food for which it is responsible; is given wide flexibility in how it manages its responsibilities, hires and fires its members, and stocks its shelves; and is given a lot of power in how it responds to the changing tastes of local consumers.

A Steady Diet of Growth. Whole Foods employees are given both the freedom to do the right thing for customers and the incentive to do the right thing for profits. The financial results of this business model are that Whole Foods is the most profitable food retailer in the United Sates, when measured by profit per square foot. Although its stock price was down somewhat in 2014, it still was up 12-fold since its 2008 recession-era low.[78]

YOUR CALL

In designing new products, such as cell phones, the horizontal design team approach, known as *concurrent engineering* or *integrated product development,* has been found to speed up design because all the specialists meet at once, instead of separately doing their own thing, then handing off the result to the next group of specialists. Why do you think a horizontal design would be better in a retail business such as groceries?

3. Designs That Open Boundaries between Organizations: Hollow, Modular, & Virtual Structures

The opposite of a bureaucracy, with its numerous barriers and divisions, a **boundaryless organization is a fluid, highly adaptive organization whose members, linked by information technology, come together to collaborate on common tasks. The collaborators may include not only coworkers but also suppliers, customers, and even competitors.** This means that the form of the business is ever-changing, and business relationships are informal.[79]

Three types of structures in this class of organizational design are *hollow, modular,* and *virtual* structures.

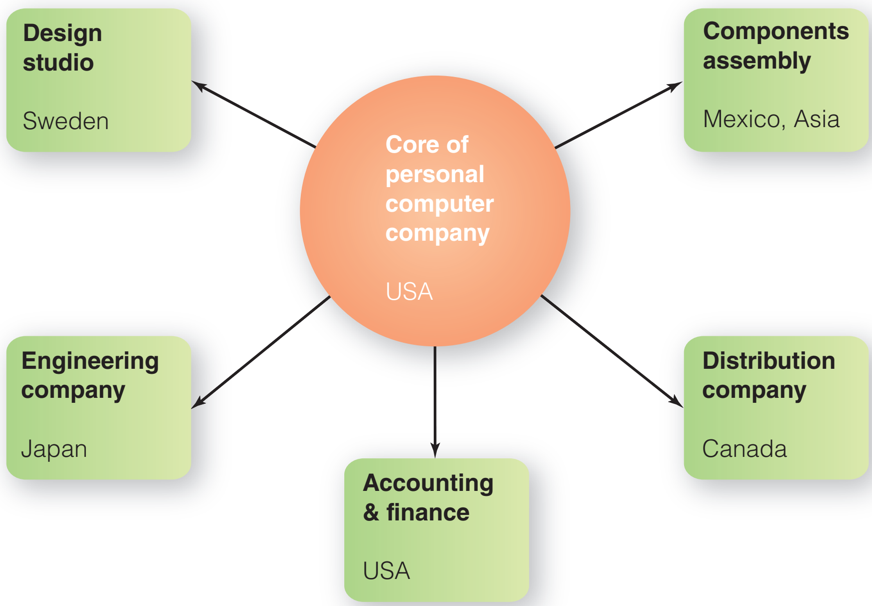
The Hollow Structure: Operating with a Central Core & Outsourcing Functions to Outside Vendors

In the **hollow structure,** often called the **network structure, the organization has a central core of key functions and outsources other functions to vendors who can do them cheaper or faster.** *(See Figure 8.11.)* A company with a hollow structure might retain such important core processes as design or marketing and outsource most other processes, such as human resources, warehousing, or distribution, thereby seeming to "hollow out" the organization.[80]

FIGURE 8.11

Hollow structure

This is an example of a personal computer company that outsources noncore processes to vendors.



A firm with a hollow structure might operate with extensive, even worldwide operations, yet its basic core could remain small, thus keeping payrolls and overhead down. The glue that holds everything together is information technology, along with strategic alliances and contractual arrangements with supplier companies. An example of a hollow structure is EndoStim, the medical device start-up we described earlier.

The Modular Structure: Outsourcing Pieces of a Product to Outside Firms

The modular structure differs from the hollow structure in that it is oriented around outsourcing certain *pieces of a product* rather than outsourcing certain *processes* (such as human resources or warehousing) of an organization. In a **modular structure, a firm assembles product chunks, or modules, provided by outside contractors.** One article compares this form of organization to "a collection of Lego bricks that can snap together."

Modular structure. The center section of Bombardier's eight-passenger Continental business jet is built in Ireland and is shipped to Wichita, Kansas, where it is assembled with 12 other major components in just four days.

For example, Bombardier (pronounced "bom-*bar*-dee-ay"), of Wichita, Kansas, makes an eight-passenger business jet, the Continental, that is designed in a dozen large modules that are built in various places around the world. The cockpit and forward fuselage are built by Bombardier Montreal. The center section is built in Belfast, the wing by Mitsubishi in Japan, the stabilizers and rear fuselage by Aerospace Industrial Development in Taiwan, the landing gear by Messier-Dowty in Canada, and the tailcone by Hawker de Havilland in Australia. The engines are provided by General Electric and the avionics gear by Rockwell Collins, both companies in the United States. The 12 modules are shipped to Wichita, where the parts are snapped together in just four days.[81]

The Virtual Structure: An Internet-Connected Partner for a Temporary Project "Strip away the highfalutin' talk," says one industry observer, "and at bottom the Internet is a tool that dramatically lowers the cost of communication. That means it can radically alter any industry or activity that depends heavily on the flow of information."[82] One consequence of this is the **virtual organization, an organization whose members are geographically apart, usually working with e-mail, collaborative computing, and other computer connections,** while often appearing to customers and others to be a single, unified organization with a real physical location.[83]

The virtual organization allows the form of boundaryless structure known as the **virtual structure, a company outside a company that is created "specifically to respond to an exceptional market opportunity that is often temporary,"** according to one definition.[84] The structure, in which members meet and communicate with each other by e-mail and videoconferencing instead of face to face, is valuable for organizations that want to grow through partnerships with other companies.[85] For instance, Finnish phone-maker Nokia, which had trouble gaining market share in the United States, changed its strategy to develop phones in partnership with U.S. carriers, as by assigning product developers to AT&T and Verizon.

8.7 Contingency Design: Factors in Creating the Best Structure

MAJOR QUESTION

What factors affect the design of an organization's structure?

THE BIG PICTURE

Three factors that should be considered when determining the best organizational culture involve whether an organization's environment is mechanistic or organic, whether its environment stresses differentiation or integration, and how its strategy can affect its structure.

What is the optimal size for an organization? How big is too big?

Medical records company gloStream, which sells software to doctors' offices, was founded in 2005 as a virtual organization, and for four years the approach worked well, with costs kept low and salespeople having no choice but to be out in the field. But in 2009, CEO Mike Sappington decided it was time to "take the company physical." "We've gotten too big to be a virtual company," he told *Inc.* magazine. By the following year, gloStream planned to have 100 employees in the United States and another 100 in India. "Setting up a conference call or arranging everyone's schedules for a meeting," he said, "started to take an enormous amount of time."[86]

Three Factors to Be Considered in Designing an Organization's Structure

When managers are considering what organizational arrangements to choose from, such factors as stage of development are among the factors, or *contingencies,* they must consider. Recall from Chapter 2 that the *contingency approach* to management emphasizes that a manager's approach should vary according to—that is, be contingent on—the individual and environmental situation. Thus, the manager following the contingency approach simply asks, "What method is the best to use under these particular circumstances?" **The process of fitting the organization to its environment is called contingency design.**

Managers taking a contingency approach must consider the following factors in designing the best kind of structure for their particular organization at that particular time:

1. *Environment—mechanistic versus organic*
2. *Environment—differentiation versus integration*
3. *Link between strategy, culture, and structure*

Could anyone do this? Hotel housekeepers, following the model of a mechanistic organization, are supposed to be able to make beds in no more than 3 minutes and ready an entire room within 24 minutes. The tasks are physically demanding, and the staff must be taught how to bend properly to make the work easier on the body. If you had this job, what would you do to vary the routine to avoid monotony—or would that sacrifice speed?

1. The Environment: Mechanistic versus Organic Organizations—the Burns & Stalker Model

Making beds—how hard could it be?

Actually, a hotel housecleaner may be expected to whip not just beds but entire rooms, 16–30 of them, into spick-and-span shape during an eight-hour shift. Here every job is broken down into the smallest of steps, with vacuuming, dusting, mopping, making beds, and so on, expected to take about 20–24 minutes per room, according to time-motion studies. Making a neatly tucked bed should take no more than 3 minutes.[87]

Much of this kind of mundane hotel work exemplifies what British behavioral scientists **Tom Burns** and **G. M. Stalker** call a *mechanistic organization,* as opposed to an *organic organization.*[88] *(See Table 8.3.)*

TABLE 8.3
Mechanistic versus Organic Organizations

MECHANISTIC ORGANIZATIONS	ORGANIC ORGANIZATIONS
Centralized hierarchy of authority	Decentralized hierarchy of authority
Many rules and procedures	Few rules and procedures
Specialized tasks	Shared tasks
Formalized communication	Informal communication
Few teams or task forces	Many teams or task forces
Narrow span of control, taller structures	Wider span of control, flatter structures

Mechanistic Organizations: When Rigidity & Uniformity Work Best

In a mechanistic organization, authority is centralized, tasks and rules are clearly specified, and employees are closely supervised. Mechanistic organizations, then, are bureaucratic, with rigid rules and top-down communication. This kind of structure is effective in certain aspects of hotel work because the market demands uniform product quality and cleanliness.

In general, mechanistic design works best when an organization is operating in a stable environment. Yet new companies that have gone through a rough-and-tumble start-up period may decide to change their structures so that they are more mechanistic, with clear lines of authority.

Organic Organizations: When Looseness & Flexibility Work Best

In an organic organization, authority is decentralized, there are fewer rules and procedures, and networks of employees are encouraged to cooperate and respond quickly to unexpected tasks. Tom Peters and Robert Waterman called this kind of organization a "loose" structure.[89]

Organic organizations are sometimes termed "adhocracies" because they operate on an ad hoc basis, improvising as they go along. As you might expect, information-technology companies favor the organic arrangement because they constantly have to adjust to technological change. New York–based Dark Arts Consulting, a technology consulting firm, has used the practice of co-working—sharing office space with other businesses—to expand into territories in New Jersey and Pennsylvania, enabling it to hire salespeople and engineers without having the added expense of an underutilized office.[90] Companies that need to respond to fast-changing consumer tastes also favor organic arrangements.

No doubt you would be more comfortable in some organizational structures than others. If you value autonomy and the chance to make decisions, you probably prefer a hollow or virtual structure as opposed to one that is more structured. What type of structure do you think would bring out the best in you? Find out by taking Self-Assessment 8.2.

SELF-ASSESSMENT 8.2 connect

Assessing Your Organizational Structure Preference

This survey is designed to assess your preferred type of organizational structure. Go to **connect.mheducation.com** and take Self-Assessment 8.2. When you're done, answer the following questions:

1. Do you prefer a more mechanistic or organic structure? What do you think is the cause for this preference?
2. If you were interviewing for a job, what questions might you ask to determine if the company is more mechanistic or organic?

2. The Environment: Differentiation versus Integration—the Lawrence & Lorsch Model

Burns and Stalker's ideas were extended in the United States by Harvard University researchers **Paul R. Lawrence** and **Jay W. Lorsch.**[91] Instead of a *mechanistic-organic dimension,* however, they proposed a *differentiation-integration* dimension—forces that impelled the parts of an organization to move apart or to come together. The stability of the environment confronting the parts of the organization, according to Lawrence and Lorsch, determines the degree of differentiation or integration that is appropriate.

Differentiation: When Forces Push the Organization Apart

Differentiation is the tendency of the parts of an organization to disperse and fragment. The more subunits into which an organization breaks down, the more highly differentiated it is.

This impulse toward dispersal arises because of technical specialization and division of labor. As a result, specialists behave in specific, delimited ways, without coordinating with other parts of the organization. For example, a company producing dental floss, deodorants, and other personal-care products might have different product divisions, each with its own production facility and sales staff—a quite differentiated organization.

Integration: When Forces Pull the Organization Together

Integration is the tendency of the parts of an organization to draw together to achieve a common purpose. In a highly integrated organization, the specialists work together to achieve a common goal. The means for achieving this are a formal chain of command, standardization of rules and procedures, and use of cross-functional teams and computer networks so that there is frequent communication and coordination of the parts.

3. Linking Strategy, Culture, & Structure

We began this chapter by discussing why it makes sense that a company's organizational culture and organizational structure should be aligned with its vision and strategies. Thus, if the managers of an organization change its strategy, as gloStream did when it decided to add lots more people and put them under one roof instead of in a virtual network, they need to change the organization's culture and structure to support that strategy. Indeed, companies often begin by offering a single product or product line that requires only a simple structure, but as they grow and their strategies become more ambitious and elaborate, so the culture and structure need to change to support those strategies.[92]

All the organizational cultures and structures described in this chapter are used today because all of them have advantages that make them appropriate for some cases and disadvantages that make them not useful for others. For example, the clear roles and strict hierarchy of an extremely mechanistic organization are clearly suitable in a system valuing careful routines and checks and balances, such as a nuclear power plant. A fast-moving start-up drawing on sources of expertise throughout the world may benefit from a more flexible culture and organic structure that lowers boundaries between functions and organizations.

Key Terms Used in This Chapter

accountability 243
adhocracy culture 230
authority 242
boundaryless organization 250
centralized authority 244
clan culture 230
common purpose 241
contingency design 252
coordinated effort 241
corporate culture 227
customer divisions 246
decentralized authority 244
delegation 243
differentiation 254
division of labor 241
divisional structure 246
enacted values 232
espoused values 232
flat organization 241
functional structure 245
geographic divisions 246
hero 233
hierarchy culture 230
hierarchy of authority 241
hollow structure 250
horizontal design 247
integration 254
line managers 244
market culture 230
matrix structure 246
mechanistic organization 253
modular structure 250
network structure 250
organic organization 253
organization 238
organization chart 239
organizational culture 227
organizational design 245
organizational structure 227
person-organization fit 226
product divisions 246
responsibility 243
rites and rituals 233
simple structure 245
span of control (management) 242
staff personnel 244
story 233
symbol 233
team-based design 247
unity of command 241
virtual organization 251
virtual structure 251

Key Points

8.1 Aligning Strategy, Culture, & Structure

- Person-organization fit reflects the extent to which your personality and values match the climate and culture in an organization. A good fit is associated with more positive work attitudes and task performance, lower stress, and fewer intentions to quit.
- The challenge for top managers is to align the organization's vision and strategies with its organizational culture and organizational structure.
- Organizational culture is defined as the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments. The culture helps employees understand why the organization does what it does and how it intends to accomplish its long-term goals.
- Organizational structure is a formal system of task and reporting relationships that coordinates and motivates an organization's members so that they can work together to achieve the organization's goals.

8.2 What Kind of Organizational Culture Will You Be Operating In?

- According to one common methodology known as the *competing values framework,* organizational cultures can be classified into four types: clan, which has an internal focus and values flexibility; (2) adhocracy, which has an external focus and values flexibility; (3) market, which has a strong external focus and values stability and control; and (4) hierarchy, which has an internal focus and values stability and control.
- Organizational culture appears as three layers. Level 1 is observable artifacts, the physical manifestations of culture. Level 2 is espoused values, explicitly stated values and norms preferred by an organization, although employees are frequently influenced by enacted values, which represent the values and norms actually exhibited in the organization. Level 3 consists of basic assumptions, the core values of the organization. Culture is transmitted to employees in symbols, stories, heroes, and rites and rituals. A symbol is an object, act, quality, or event that conveys meaning to others. A story is a narrative based on true events, which is repeated—and sometimes embellished on—to emphasize a particular value. A hero is a person whose accomplishments embody the values of the organization. Rites and rituals are the activities and ceremonies, planned and unplanned, that celebrate important occasions and accomplishments in the organization's life.

8.3 The Process of Culture Change

- Among the 12 mechanisms managers use to embed a culture in an organization are: (1) formal statements; (2) slogans and sayings; (3) rites and rituals; (4) stories, legends, and myths; (5) leader reactions to crises; (6) role modeling, training, and coaching; (7) physical design; (8) rewards, titles, promotions, and bonuses; (9) organizational goals and performance criteria; (10) measurable and controllable activities; (11) organizational structure; and (12) organizational systems and procedures.

8.4 Organizational Structure

- An organization is a system of consciously coordinated activities or forces of two or more people.
- There are three types of organizations classified according to the three different purposes for which they are formed: for-profit, nonprofit, and mutual-benefit.
- Whatever the size of organization, it can be represented in an organization chart, a boxes-and-lines illustration showing the formal lines of authority and the organization's official positions or division of labor.
- Two kinds of information that organizations reveal about organizational structure are (1) the vertical hierarchy of authority—who reports to whom, and (2) the horizontal specialization—who specializes in what work.

8.5 The Major Elements of an Organization

- Organizations have seven elements. Four proposed by Edgar Schein are (1) common purpose, which unifies employees or members and gives everyone an understanding of the organization's reason for being; (2) coordinated effort, the coordination of individual efforts into a group or organization-wide effort; (3) division of labor, having discrete parts of a task done by different people; and (4) hierarchy of authority, a control mechanism for making sure the right people do the right things at the right time.
- Other common elements are (5) span of control, which refers to the number of people reporting directly to a given manager; and (6) authority and accountability, responsibility, and delegation.
- Authority refers to the rights inherent in a managerial position to make decisions, give orders, and utilize resources. Accountability means that managers must report and justify work results to the managers above them. Responsibility is the obligation you have to perform the tasks assigned to you. Delegation is the process of assigning managerial authority and responsibility to managers and employees lower in the hierarchy.
- Regarding authority and responsibility, the organization chart distinguishes between two positions, line and staff. Line managers have authority to make decisions and usually have people reporting to them. Staff personnel have advisory functions; they provide advice, recommendations, and research to line managers.
- The final common element of organizations is (7) centralization versus decentralization of authority. With centralized authority, important decisions are made by higher-level managers. With decentralized authority, important decisions are made by middle-level and supervisory-level managers.

8.6 Basic Types of Organizational Structures

- Organizations may be arranged into seven types of structures. (1) In a simple structure, authority is centralized in a single person; this structure has a flat hierarchy, few rules, and low work specialization. (2) In a functional structure, people with similar occupational specialties are put together in formal groups. (3) In a divisional structure, people with diverse occupational specialties are put together in formal groups by similar products or services, customers or clients, or geographic regions. (4) In a matrix structure, an organization combines functional and divisional chains of command in grids so that there are two command structures—vertical and horizontal.
- (5) In a horizontal design or team-based design, teams or workgroups are used to improve horizontal relations and solve problems throughout the organization. (6) In a network structure, the organization has a central core that is linked to outside independent firms by computer connections, which are used to operate as if all were a single organization. (7) In a modular structure, a firm assembles product chunks, or modules, provided by outside contractors.

8.7 Contingency Design: Factors in Creating the Best Structure

- The process of fitting the organization to its environment is called contingency design. Managers taking a contingency approach must consider at least three factors in designing the best kind of structure for their organization at that particular time.
- The first is that an organization may be either mechanistic or organic. In a mechanistic organization, authority is centralized, tasks and rules are clearly specified, and employees

are closely supervised. In an organic organization, authority is decentralized, there are fewer rules and procedures, and networks of employees are encouraged to cooperate and respond quickly to unexpected tasks.

- The second is that an organization may also be characterized by differentiation or integration. Differentiation is the tendency of the parts of an organization to disperse and fragment. Integration is the tendency of the parts of an organization to draw together to achieve a common purpose.
- The third is the link between strategy, culture, and structure. If the managers of an organization change its strategy, they need to change the organization's culture and structure to support that strategy. Indeed, companies often begin by offering a single product or product line that requires only a simple structure, but as they grow and their strategies become more ambitious and elaborate, so the culture and structure need to change to support those strategies.

Understanding the Chapter: What Do I Know?

1. To implement an organization's strategy, what are the two kinds of important areas that managers must determine?
2. How would you describe the four kinds of organizational cultures, according to the competing values framework?
3. Describe and explain the three levels of organizational culture.
4. What are four ways in which culture is transmitted to employees?
5. Name 12 mechanisms by which an organization's members teach each other preferred values, beliefs, expectations, and behaviors.
6. What are seven common elements of organizations?
7. Describe the four types of traditional organizational designs.
8. Explain what is meant by horizontal organizational designs.
9. What are three designs that open boundaries between organizations?
10. What are three factors to consider in designing an organization's structure?

Management in Action

IDEO's Culture Reinforces Helping Behavior

IDEO is a company that has won many awards for its "human-centered, design-based approach to helping organizations" improve and grow. They have helped hundreds of companies in many industries to innovate and improve customer satisfaction and profitability. Tim Brown, president and CEO, describes design thinking as "a human-centered approach to innovation that draws from the designer's toolkit to integrate the needs of people, the possibilities of technology, and the requirements for business success."[93] IDEO's success is built on a culture that values, reinforces, and supports helping behavior.

Helping behavior must be actively nurtured because it is discretionary. At IDEO helping others and collaborating for the good of a client is the norm. This case is based on results from a study of IDEO's culture and design process. The investigators identified four keys to achieving helping behavior and collaboration.

Leadership Conviction

Not every large company's leader would, if asked about organizational priorities, bring up the topic of encouraging collaborative help in the ranks. But IDEO's leadership is explicitly focused on it. For Tim Brown, the CEO, that's not only because the problems IDEO is asked to solve require extreme creativity; it's also because they have become more complicated. Brown says, "I believe that the more complex the problem, the more help you need. And that's the kind of stuff we're getting asked to tackle, so we need to figure out how to have a culture where help is much, much more embedded." Essentially, this is a conviction that many minds make bright work.

Leaders at IDEO prove their conviction by giving and seeking help themselves. For example, we observed a particularly successful event (in terms of new ideas generated) when a C-suite-level [senior executives] helper joined a team for an hour-long brainstorming session. The team's project hadn't even formally kicked off yet, so it was not a situation in which help was desperately needed. Nor was this leader the only one qualified to provide it. His arrival in the room signaled strongly that helping is an expected behavior in the culture and that everyone is part of the helping network.

The Two Sides of the Helping Coin

Because most cultures have norms of reciprocity, getting help from others can put you in their debt. Even if you are unfazed by the prospect of a future request, you might worry about seeming weak or incompetent if you ask for assistance, especially from someone of higher status. IDEO makes a conscious effort to sweep that hesitation away. From the beginning of every project, designers are encouraged to assume that they'll need help. A project team with a demanding client learns that it would be irresponsible not to ask a colleague who had a lot of experience with that client to review its work. The team members might ask for that colleague's input throughout the project, in sessions lasting anywhere from 15 minutes to half a day. At IDEO there is no shame in asking for help, and this psychological safety shows up on many levels: For example, people cheerfully accept frequent all-office e-mail blasts along the lines of "Does anyone have experience with Spanish-language radio?" or "Who's tried the new quick-loss diet?"

Processes & Roles

How pervasive is helping at IDEO? Our network mapping revealed an extraordinary fact: In the office we studied, nearly every person was named as a helper by at least one other person. Even more amazing, an overwhelming majority of employees (about 89%) showed up on at least one other employee's list of top five helpers. Clearly, effective helping isn't a rare skill. Most people at IDEO learn to do it as they become steeped in the culture of the organization, participate in its regular activities, and develop networks within the firm. It would be hard, we think, to achieve this simply by communicating the desired culture. And indeed, IDEO goes much further, building the value of help into formal processes and explicit roles.

Help is embedded in the entire design process, from IDEO's famous brainstorming sessions, through formal design reviews, to the many forms of support and encouragement for project teams seeking feedback on ideas. In this way IDEO builds essential habits of mind. In fact, Brown told us, when help is not seen as an integral part of the process, "teams will rush through their project and get quite close to the end before they realize 'Wow, we completely missed something—which we wouldn't have missed if we had stopped and asked for help.'"

Most IDEO project teams have one or more senior designers assigned as helpers. These people have expertise in a given domain, deep experience with the team's client, or simply a reputation for being particularly good helpers. They are generally available to the team and check in with it periodically throughout the project.

Slack in the Organization

Remember that helping is a discretionary behavior. That's true even for a formally assigned helper at IDEO: The role is only a small part of anyone's overall job. A potential helper may or may not be able (or willing) to respond to any given request. Because IDEO wants helping to occur, it must avoid overloading people with tasks of their own. Notice the implication: Time that might be spent on billable client work is made available to facilitate ad hoc assistance. This strongly reinforces messages exhorting people to help their colleagues.

The Surprising Omissions

These keys to collaborative help at IDEO may seem uncontroversial. But note what isn't part of the equation: some of corporate leadership's favorite talent-management levers. The firm seems not to rely on fancy collaborative software tools or other technologies (although e-mail and videoconferencing are used frequently). Most pointedly, financial incentives don't play a prominent role in promoting the culture of help.

To be sure, executives have help in mind when evaluating job candidates. Brown wrote about this recently: "During job interviews, I listen for a couple things. When people repeatedly say 'I,' not 'we,' when recounting their accomplishments, I get suspicious. But if they're generous with giving credit and talk about how someone else was instrumental in their progress, I know that they give help as well as receive it." Helpfulness is considered in promotions as well. It is a value that everyone in a senior position at IDEO is expected to model. But on a daily basis, the incentive to help comes from the simple gratitude it produces and the recognition of its worth.

This apparent joy in collaborative helping speaks to a larger reality of IDEO's culture: It is not about cutthroat competition. Many organizations discourage helping, at least implicitly, because it is seen as incompatible with individual responsibility for productivity. Some have cultures that actually promote competition among peers, so aiding a colleague seems self-defeating. IDEO's message is that the thing to beat is the best work you could have done without help—and that when the firm produces the best work possible for clients, all its employees do better.

FOR DISCUSSION

1. Using the competing values framework as a point of reference, how would you describe the current organizational culture at IDEO? Provide examples to support your conclusions.
2. What type of culture is desired by Tim Brown to meet his goals? Does the company have this type of culture? Discuss.
3. Which of the 12 ways to embed organizational culture has IDEO used to create its current culture? Provide examples to support your conclusions.
4. Does Tim Brown want to create more of a mechanistic or organic organization? Explain the rationale for his preference.
5. What is the most important lesson from this case? Discuss.

Source: Excerpted from T. Amabile, C. M. Fisher, and J. Pillemer, "IDEO's Culture of Helping," Harvard Business Review, *January–February 2014, pp. 55–61.*

Legal/Ethical Challenge

Is Apple's Culture Going Too Far?

Stealing, better known as shortage (or shrinkage) in the retail industry, is a big problem for this economic sector. While people steal from their employers for many reasons, this challenge involves a practice that Apple has used to reduce theft.

Two former Apple retail store employees sued the company claiming that "they were owed up to $1,500 in annual overtime, waiting each workday to have a manager check their personal bags for pilfered store merchandise." Would you like to spend extra, nonpaid time at work having your bags checked? This is the crux of the suit. The former employees claim that the practice "was mandatory and performed after they had clocked out for meal breaks and at the end of their work day." The searches are conducted every time a sales rep leaves the store, including meal breaks. Seven additional people have agreed to join this lawsuit against Apple.

Apple denies all claims and allegations. The company argues that it did not willfully fail to pay any wages. Apple claims the searches are optional and they would not take place if employees would not bring bags to work or use iPhones or other Apple products. In other words, if an employee would not bring anything to work, then there is nothing to search. The company recently petitioned the court to toss the case, and a federal judge, William Alsup, rejected the request.

The judge concluded that avoiding searches is not so straightforward because employees "may need to bring a bag to work for reasons they cannot control, such as the need for medication, feminine hygiene products, or disability accommodations."

SOLVING THE CHALLENGE

What would you do if you were an executive at Apple?

1. Continue to fight the lawsuit because it is a class action suit that could cost a lot of money.
2. Fight this lawsuit, but change the policy in the future. I want the company to be more clannish and adhocracy, and this policy is contrary to these cultural types.
3. Settle the lawsuit. Yes, it will cost money, but the company is sitting on a stockpile of cash. This action will also show goodwill while reinforcing aspects of Apple's clan culture.
4. Invent other options.

Source: This case was based on material in G. Allen, "Apple's Attorneys Respond to Lawsuit over Bag Check Overtime," Forbes, *August 17, 2013, www.forbes.com/sites/garydallen/2013/08/17/apples-attorneys-respond-to-lawsuit-over-bag-check-overtime; and J. J. Roberts, "Apple Store Workers' Lawsuit over Bag and Gadget Searches Can Go to Trial, Judge Rules,"* Buy iMac, *June 2, 2014, www.buyimac.com/apple-store-workers%e2%80%99-lawsuit-over-bag-and-gadget-searches-can-go-to-trial-judge-rules.html (both accessed June 26, 2014).*

9

Human Resource Management

Getting the Right People for Managerial Success

Major Questions You Should Be Able to Answer

9.1 Strategic Human Resource Management

Major Question: How do effective managers view the role of people in their organization's success?

9.2 Recruitment & Selection: Putting the Right People into the Right Jobs

Major Question: How can I reduce mistakes in hiring and find great people who might work for me?

9.3 Managing an Effective Workforce: Compensation & Benefits

Major Question: What are the various forms of compensation?

9.4 Orientation, Training, & Development

Major Question: Once people are hired, what's the best way to see that they do what they're supposed to do?

9.5 Performance Appraisal

Major Question: How can I assess employees' performance more accurately and give more effective feedback?

9.6 Managing Promotions, Transfers, Disciplining, & Dismissals

Major Question: What are some guidelines for handling promotions, transfers, disciplining, and dismissals?

9.7 The Legal Requirements of Human Resource Management

Major Question: To avoid exposure to legal liabilities, what areas of the law do I need to be aware of?

9.8 Labor-Management Issues

Major Question: What are the principal processes and issues involved in organizing labor unions?

the manager's toolbox

Soft Skills & Social Graces: Boosting Your Advantage in the Hiring World

Didn't get hired? Maybe you're lacking in the right *soft skills:* appearance, manners, punctuality, ability to communicate well—in other words, *professional behavior*. It's what employers complain they can't find in many job applicants, especially among Millennials.[1]

Dress for Success

If you dress casually on campus, rethink your wardrobe before showing up for a job interview (or a career fair). No sandals or flip-flops, torn jeans, tank tops, short skirts, or revealing dresses. Wear simple earrings (men not at all), cover tattoos, and don't try to look sexy. Employers are "looking for people who can assume the role of a business professional," says one recruitment manager.[2] For men, this could mean wearing a suit and tie and leather shoes with dress socks. For women, it could be a blazer and a blouse with a skirt or slacks, along with low heels and hosiery. Do the same the first day at work on a new job.[3]

Going Forward with Fork & Knife

If you're asked to lunch, be aware that observing applicants' dining etiquette has become an informal part of the selection process. (To sharpen their competitive advantage, Chinese executives are now trained in Western table manners and social graces before trips abroad.)[4] Keep your fingers clean (don't order greasy sandwiches, pasta, or sushi), so you can deal with any paperwork and shake hands when you leave. Break bread or rolls into bite-size pieces, butter them, and eat them one at a time. Scoop the spoon away from (not toward) you when consuming soup. Don't chew the ice cubes from your drink. Put your napkin on your chair (not the table) if you have to leave the table in mid-meal. Above all, chew with your mouth closed. And don't talk until you've swallowed your food.[5]

Avoiding Bad Tech Habits

Sixty percent of U.S. smartphone users in one survey said they couldn't go an hour without looking at their devices.[6] In research involving human resource managers, 76% of respondents said breaches of tech etiquette hurt work life.[7] The most annoying smartphone behaviors at work: having loud private conversations (65%), not silencing the phone (59%), checking the phone during conversation (52%), and checking the phone in a meeting (38%).[8] We hope you're not one of those who doesn't participate in meal conversations (or meetings) because you're texting or gaming or Facebooking. Or who sets the ringtone at full volume. Or who talks or texts in public restrooms.[9]

Watching What You Do on Social Media—Today

Having good manners starts even before you meet any company recruiters. If you tweet obscenities, show a lack of spelling skills on Google+, post sexy photos of yourself on Instagram, or talk about alcohol, drugs, or guns on Facebook, you may already have blown a good job opportunity, since human resource departments regularly check applicants out on social media.[10]

For Discussion Which of the activities described above do you need to work on? How will you go about doing it?

forecast What's Ahead in This Chapter

This chapter considers human resource (HR) management—planning for, attracting, developing, and retaining an effective workforce. We consider how this subject fits in with the overall company strategy, how to evaluate current and future employee needs, and how to recruit and select qualified people. We describe orientation, training, and development and how to assess employee performance and give feedback. We discuss how to manage compensation and benefits, promotions and discipline, and workplace performance problems. We go over basic legal requirements. Finally, we consider the role of labor unions.

9.1 MAJOR QUESTION

Strategic Human Resource Management

How do effective managers view the role of people in their organization's success?

THE BIG PICTURE

Human resource management consists of the activities managers perform to plan for, attract, develop, and retain an effective workforce. Planning the human resources needed consists of understanding current employee needs and predicting future employee needs.

How do you get hired by one of the companies on *Fortune* magazine's annual "100 Best Companies to Work For" list—companies such as Google, SAS Institute, Boston Consulting Group, Edward Jones, and Quicken Loans, which are on the 2014 list?[11] You try to get to know someone in the company, you play up volunteer work on your resume, you get ready to interview and interview and interview, and you do extensive research on the company (as by talking to customers).[12]

And what kinds of things does an employee of a *Fortune* "Best" company get? At Google, the Mountain View, California, search engine company (ranked number 1 in 2007–2008 and 2012–2014 and number 4 in 2009–2011), you're entitled to eat in 1 of 11 free gourmet cafeterias, as well as to visit free snack rooms that contain various cereals, candy, nuts, fresh fruit, and other snacks. You can bring your dog to work, get haircuts on-site, work out at the gym, attend subsidized exercise classes, study Mandarin or other languages, have your laundry done free, or consult five on-site doctors for a checkup, free of charge. The company has also launched numerous compensation incentives, special bonuses, and founders' awards that can run into millions of dollars.[13]

The reason for this exceptional treatment? "Happy people are more productive," says former CEO Eric Schmidt.[14] That productivity has made Google an earnings powerhouse; in 2013, for example, it reported a 22% growth in revenue and 28% profits.[15] Google has discovered, in other words, that its biggest competitive advantage lies in its human resources—its *people.*

Human Resource Management: Managing an Organization's Most Important Resource

Human resource (HR) management consists of the activities managers perform to plan for, attract, develop, and retain an effective workforce. Whether it's McKenzie looking for entry-level business consultants, the U.S. Navy trying to fill its ranks, or churches trying to recruit priests and ministers, all organizations must deal with staffing.

The fact that the old personnel department is now called the human resources department is not just a cosmetic change. It is intended to suggest the importance of staffing to a company's success. Although talking about people as "resources" might seem to downgrade them to the same level as financial resources and material resources, in fact, people are an organization's most important resource. Indeed, companies ranked number 1 on *Fortune* magazine's Best Companies list in the past—which, besides Google, include software developer SAS (2011 and 2010), data storage company NetApp (2009), biotechnology firm Genentech (2006), supermarket chain Wegmans Food Markets (2005), jam maker J. M. Smucker (2004), stockbroker Edward Jones (2003 and 2002), and box retailer The Container Store (2001 and 2000)—have discovered that putting employees first has been the foundation for their success. "If you're not thinking all the time about making every person valuable, you don't have a chance," says former General Electric head Jack Welch. "What's the alternative? Wasted minds? Uninvolved people? A labor force that's angry or bored? That doesn't make sense!"[16]

How would you rate the quality of the human resource practices at your current or a past employer? You can find out by taking Self-Assessment 9.1.

SELF-ASSESSMENT 9.1 connect

Assessing the Quality of HR Practices

This survey is designed to assess the quality of HR practices at your current place of employment. If you are not currently working, consider a previous job when completing the survey. Go to **connect.mheducation.com** and take Self-Assessment 9.1. When you're done, answer the following questions:

1. How did you rate the quality of the company's HR practices?
2. Based on your responses, what advice would you give the senior HR leader about how to improve its HR practices? Be specific. What are the consequences of having poor-quality HR practices? Explain.

Human Resources as Part of Strategic Planning Some companies—those with flat management structures, for instance—have done away with HR departments entirely, letting the regular line managers handle these tasks. But most workers say they feel the absence of an in-house HR staff, especially when it comes to resolving pay problems and mediating employee disputes.[17] So what should organizations do in regard to investing in human resources? Based on research findings, we come down on the side that people are an organization's most important asset and it's important to invest in human resources. All told, studies show that companies have higher levels of employee satisfaction, financial performance, and service performance when the company has high-quality human resource practices and programs.[18] At many companies, human resources has become part of the strategic planning process. Thus, HR departments deal not only with employee paperwork and legal accountability—a very important area, as we describe in Section 9.7—but also with helping to support the organization's overall strategy.

Example: Is it important, as Wegmans's owners think, to have loyal, innovative, smart, passionate employees who will give their best to promote customer satisfaction (the grocery chain's mission)? Who, then, should be recruited? How should they be trained? What's the best way to evaluate and reward their performance? The answers to these questions should be consistent with the firm's strategic mission.

The purpose of the strategic human resource process, then—shown in the yellow-orange shaded boxes at right—is to get the optimal work performance that will help the company's mission and goals.[19] *(See Figure 9.1.)*

Three concepts important in this view of human resource management are *human capital, knowledge workers,* and *social capital.*

FIGURE 9.1

The strategic human resource management process

Establish the mission & the vision
↓
Establish the grand strategy
↓
Formulate the strategic plans
↓
Plan human resources needed
↓
Recruit & select people
↓
Orient, train, & develop
↓
Perform appraisals of people
↓
Purpose: Get optimal work performance to help realize company's mission & vision

Human Capital: Potential of Employee Knowledge & Actions "We are living in a time," says one team of human resource management authors, "when a new economic paradigm—characterized by speed, innovation, short cycle times, quality, and customer satisfaction—is highlighting the importance of intangible assets, such as brand recognition, knowledge, innovation, and particularly human capital."[20] **Human capital is the economic or productive potential of employee knowledge, experience, and actions.**[21]

Thinking about people as human capital has an obvious basis: "Attracting, retaining, and developing great people is sometimes the only way our organizations can keep up with the competition across the street or around the globe," says Susan Meisinger, president and CEO of the Society for Human Resource Management. "Research has shown that highly educated, knowledgeable workers—*the most in demand*—are the hardest to find and easiest to lose."[22]

Knowledge Workers: Potential of Brain Workers **A knowledge worker is someone whose occupation is principally concerned with generating or interpreting information, as opposed to manual labor.** Knowledge workers add value to the organization by using their brains rather than their muscle and sweat, and as such they are the most common type of worker in 21st-century organizations. Because of globalization and information technology, the United States no longer has an advantage in knowledge workers. Indeed, because of the advancement of China, India, Russia, and Brazil; the offshoring of sophisticated jobs; the decrease in math and science skills among today's younger Americans; and other factors, the United States may be in danger of slipping behind.[23]

Social Capital: Potential of Strong & Cooperative Relationships

Social capital is the economic or productive potential of strong, trusting, and cooperative relationships. Among aspects of social capital are goodwill, mutual respect, cooperation, trust, and teamwork. Relationships within a company are important: In one survey, 77% of the women and 63% of the men rated "good relationship with boss" extremely important, outranking such matters as good equipment, easy commute, and flexible hours.[24]

That relationships matter is shown by the brothers running family-owned J. M. Smucker, who follow a simple code of conduct set forth by their father: "Listen with your full attention, look for the good in others, have a sense of humor, and say thank you for a job well done."[25] (The company's voluntary employee turnover rate is a mere 5.5%.)

Planning the Human Resources Needed

When a building contractor, looking to hire someone for a few hours to dig ditches, drives by a group of idle day laborers standing on a street corner, is that a form of HR planning? Certainly it shows the contractor's awareness that a pool of laborers usually can be found in that spot. But what if the builder needs a lot of people with specialized training—to give him or her the competitive advantage that the strategic planning process demands?

Here we are concerned with something more than simply hiring people on an "as needed" basis. **Strategic human resource planning consists of developing a systematic, comprehensive strategy for (a) understanding current employee needs and (b) predicting future employee needs.** Let's consider these two parts.

Understanding Current Employee Needs

To plan for the future, you must understand the present—what today's staffing picture looks like. This requires that you (or a trained specialist) first do a *job analysis* and from that write a *job description* and a *job specification.*[26]

- **Job analysis.** The purpose of **job analysis is to determine, by observation and analysis, the basic elements of a job.** Specialists who do this interview job occupants about what they do, observe the flow of work, and learn how results are accomplished. For example, FedEx has specialists who ride with the couriers and time how long it takes to deliver a load of packages and note what problems are encountered (traffic jams, vicious dogs, recipients not home, and so on).
- **Job description and job specification.** Once the fundamentals of a job are understood, then you can write a **job description, which summarizes what the holder of the job does and how and why he or she does it.** Next you can write a **job specification, which describes the minimum qualifications a person must have to perform the job successfully.**

This process can produce some surprises. Jobs that might seem to require a college degree, for example, might not after all. Thus, the process of writing job analyses, descriptions, and specifications can help you avoid hiring people who are overqualified (and presumably more expensive) or underqualified (and thus not as productive) for a particular job.

In addition, by entering a job description and specification with their attendant characteristics into a database, an organization can do computer searching for candidates by matching keywords (nouns) on their resumes with the keywords describing the job. A position in desktop publishing, for instance, might be described by the kinds of software programs with which applicants should be familiar: Adobe PageMaker, Adobe InDesign, QuarkXPress, Adobe FrameMaker, and Corel Ventura.

What kind of job is this? A FedEx driver's problems of driving in a big city—traffic, double parking, addressees not at home—are different from those of driving in rural areas, where there may be long stretches of boredom. Specialists in job analysis can interview drivers about their problems in order to write job descriptions that allow for varying circumstances.

Predicting Future Employee Needs Job descriptions change, of course: Auto mechanics, for instance, now have to know how computer chips work in cars. (Current 7-Series BMWs and S-class Mercedes have about 100 processors apiece.) And new jobs are created: Who could have visualized the position of "e-commerce accountant" 10 years ago, for example?

As you might expect, predicting future employee needs means you have to become knowledgeable about the *staffing the organization might need* and the *likely sources for that staffing:*

- **The staffing the organization might need.** You could assume your organization won't change much. In that case, you can fairly easily predict that jobs will periodically become unoccupied (because of retirement, resignations, and so on) and that you'll need to pay the same salaries and meet the same criteria about minority hiring to fill them.

  Better, however, to assume the organization will change. Thus, you need to understand the organization's vision and strategic plan so that the proper people can be hired to meet the future strategies and work. We discussed strategic plans in Chapter 6.

- **The likely sources for staffing.** You can recruit employees from either inside or outside the organization. In looking at those inside, you need to consider which employees are motivated, trainable, and promotable and what kind of training your organization might have to do. A device for organizing this kind of information is a **human resource inventory, a report listing your organization's employees by name, education, training, languages, and other important information.**

  In looking outside, you need to consider the availability of talent in your industry's and geographical area's labor pool, the training of people graduating from various schools, and such factors as what kind of people are moving into your area. The U.S. Bureau of Labor Statistics and the U.S. Census Bureau issue reports on such matters. ●

One way to attract potential employees. One of the first places companies are apt to look for potential employees is online, such as the social networking sites Facebook, LinkedIn, and Glassdoor, as well as Twitter (although sometimes searches can lead to discrimination against some candidates). Creative users also post unusual digital resumes featuring eye-catching graphics, YouTube videos, and PowerPoint slides on Pinterest, the popular online pin board for photos. As for job seekers, they can find useful job-hunting apps on Monster.com. Are you up to speed on these job-hunting advantages?

9.2 Recruitment & Selection: Putting the Right People into the Right Jobs

MAJOR QUESTION

How can I reduce mistakes in hiring and find great people who might work for me?

THE BIG PICTURE

Qualified applicants for jobs may be recruited from inside or outside the organization. The task of choosing the best person is enhanced by such tools as reviewing candidates' application forms, resumes, and references; doing interviews, either structured or unstructured; and screening with ability, personality, performance, and other kinds of employment tests.

"Hiring great people is brutally hard," write Jack (former General Electric CEO) and Suzy Welch. "New managers are lucky to get it right half the time. And even executives with decades of experience will tell you that they make the right calls 75% of the time at best."[27]

However difficult it may be, it's important to try to get hiring right. "We're essentially in an innovation economy where good people come up with really good ideas," says one CEO. "Companies want to hit home runs with the next greatest product, and the imperative is making sure you have great people to do that."[28]

Recruitment: How to Attract Qualified Applicants

At some time nearly every organization has to think about how to find the right kind of people. **Recruiting is the process of locating and attracting qualified applicants for jobs open in the organization.** The word *qualified* is important: You want to find people whose skills, abilities, and characteristics are best suited to your organization. Recruiting is of two types: *internal* and *external.*

1. Internal Recruiting: Hiring from the Inside **Internal recruiting means making people already employed by the organization aware of job openings.** Indeed, most vacant positions in organizations are filled through internal recruitment, mainly through **job posting, placing information about job vacancies and qualifications on bulletin boards, in newsletters, and on the organization's intranet.** (Companies looking to make strategic changes do better hiring CEOs from within the ranks rather than from outside, according to a recent study.[29])

2. External Recruiting: Hiring from the Outside **External recruiting means attracting job applicants from outside the organization.** In years past, notices of job vacancies were placed through newspapers, employment agencies, executive recruiting firms, union hiring halls, college job-placement offices, and word of mouth. Today more and more companies are using social media to recruit.[30] For example, experts estimate that 89% of U.S. organizations use social networks to recruit. LinkedIn, a social network with more than 259 million members in over 200 countries, accounts for 94% of the people hired via social media, followed by Facebook and Twitter.[31] In one survey of 3,500 U.S. college students, 80% said they use smartphones for job hunting or see themselves doing so in the future.[32]

Both methods have advantages and disadvantages. *(See Table 9.1, next page.)*

Which External Recruiting Methods Work Best? In general, the most effective sources are employee referrals, say human resource professionals, because, to protect their own reputations, employees are fairly careful about whom they recommend, and they know the qualifications of both the job and the prospective employee.[33]

TABLE 9.1 **Internal & External Recruiting: Advantages & Disadvantages**

INTERNAL RECRUITING	
ADVANTAGES	**DISADVANTAGES**
1. Employees tend to be inspired to greater effort and loyalty. Morale is enhanced because they realize that working hard and staying put can result in more opportunities. 2. The whole process of advertising, interviewing, and so on is cheaper. 3. There are fewer risks. Internal candidates are already known and are familiar with the organization.	1. Internal recruitment restricts the competition for positions and limits the pool of fresh talent and fresh viewpoints. 2. It may encourage employees to assume that longevity and seniority will automatically result in promotion. 3. Whenever a job is filled, it creates a vacancy elsewhere in the organization.
EXTERNAL RECRUITING	
ADVANTAGES	**DISADVANTAGES**
1. Applicants may have specialized knowledge and experience. 2. Applicants may have fresh viewpoints.	1. The recruitment process is more expensive and takes longer. 2. The risks are higher because the persons hired are less well known.

Other effective ways of finding good job candidates are e-recruitment tools, such as "dot-jobs" websites; membership directories for associations and trade groups; social networking sites; and industry-specific blogs, forums, and newsgroups.[34] Netflix makes a point of "hiring, rewarding, and tolerating only fully formed adults"—people who will put the company's interests first.[35]

How do you feel about the job you are in now, if you have one, or the last job you had? Do you feel like you are a "good fit" for the job? That is, do you like the work and does the work match your skills? Research shows that we are happier and more productive when our needs and skills fit the job requirements. If you would like to see whether or not you fit with your current (or last) job, complete Self-Assessment 9.2. You may find the results very interesting.

SELF-ASSESSMENT 9.2 connect

Assessing Your Person-Job Fit

This survey is designed to assess your job fit. If you are not currently working, consider a previous job when completing the survey. Go to **connect.mheducation.com** and take Self-Assessment 9.2. When you're done, answer the following questions:

1. What is your level of fit?
2. Whether you have high or low fit, what are the main causes for your level of fit? Explain.
3. What questions might you ask a future recruiter to ensure a higher level of person-job fit? Be specific.

Realistic Job Previews **A realistic job preview** ***(RJP)*** **gives a candidate a picture of both positive and negative features of the job and the organization before he or she is hired.** This recruiting technique is very effective at reducing turnover within 30–90 days of employment. Many organizations, such as AT&T, Hilton, the Idaho State Police, and Assess Systems, reduced turnover and enhanced employee satisfaction by using RJPs.

Selection: How to Choose the Best Person for the Job

Whether the recruitment process turns up a handful of job applicants or thousands, now you turn to the **selection process, the screening of job applicants to hire the best candidate.** Essentially this becomes an exercise in *prediction:* How well will the candidate perform the job and how long will he or she stay?

Three types of selection tools are *background information, interviewing,* and *employment tests.*

1. Background Information: Application Forms, Resumes, & Reference Checks

Application forms and resumes provide basic background information about job applicants, such as citizenship, education, work history, and certifications.

Unfortunately, a lot of resume information consists of mild puffery and even outrageous fairy tales—as many as 35% of resumes, by one estimate.[36] InfoLink Screening Services, which does background checks, reported that 14% of the tens of thousands of applicants it had screened had lied about their education.[37] Vermont-based ResumeDoctor.com, a resume-writing service, surveyed 1,133 resumes that had been uploaded to its site and found that nearly 42.7% had at least one inaccuracy and 12.6% had two or more factual errors.[38] And Background Information Services, a preemployment screening company in Cleveland, found 56% of resumes contained falsehoods of some kind.[39] It is risky to lie about your background information because it can be used as a reason for terminating your employment.

PRACTICAL ACTION

Would You Lie Like This on Your Resume?

What kind of lies do people put on their resumes? Consider the following examples.

Lying about Education. Lying about education is the most prevalent distortion (such as pretending to hold a degree or an advanced degree). A few years ago, RadioShack CEO David Edmondson achieved some notoriety and had to resign after a newspaper discovered he had falsely claimed on his resume to hold degrees in psychology and theology.[40] In 2012, Yahoo CEO Scott Thompson was revealed to not have earned a college degree in computer science, as claimed on his resume and on the company's website.[41] Automatic Data Processing of Roseland, New Jersey, which has studied employee background verification, reported that 41% of education records showed a difference between the information provided by an applicant and that provided by the educational institution.[42]

Lying about Employment Histories, Ages, Salaries, & Job Titles. Another common fabrication includes creative attempts to cover gaps in employment history (although there are straightforward ways an applicant can deal with this, such as highlighting length of service instead of employment dates).[43] People also lie about their ages for fear of seeming to be too experienced (hence expensive) or too old.[44] As you might expect, people also embellish their salary histories, job titles, and achievements on projects.

Lying about Criminal Background or Immigration Status. In 2007, it came out that the foundation that runs online encyclopedia Wikipedia had neglected to do a basic background check before hiring Carolyn Doran as its chief operating officer; she had been convicted of drunken driving and fleeing the scene of a car accident.[45] Now, more and more job seekers are seeking to legally clear their criminal records—to have their arrests or convictions expunged, when possible.[46]

In addition, as the number of illegal (undocumented) workers has risen, it has become incumbent on human resource officers to verify U.S. citizenship.[47] Use of E-Verify, the federal program that allows employers to quickly check the legal status of potential employees, has taken a big jump.[48] Still, perhaps half of illegal workers slip by the system.[49]

YOUR CALL

What past events are you most worried potential employers will find out about you? What can you do to put them in a better light?

Many companies are finding conventional resumes not all that useful (because they don't quantify an applicant's accomplishments or are too full of fluff descriptors such as "outstanding" or "energetic") and are increasingly relying on social networks such as LinkedIn, video profiles, or online quizzes to assess candidates.[50] Other firms are so inundated with resumes that they now have to use resume-filtering software, causing applicants to learn to game the system by loading their resumes with keywords from the job description.[51] Some applicants try "stunt resumes," such as those delivered by a stuffed carrier pigeon.[52]

References are also a problem. Many employers don't give honest assessments of former employees, for two reasons: (1) They fear that if they say anything negative, they can be sued by the former employee. (2) They fear if they say anything positive, and the job candidate doesn't pan out, they can be sued by the new employer.[53] Despite liability worries, HR recruiters know that if they get a former supervisor on the phone, they can find out a lot—such as the way he or she answers the question, "Can you enthusiastically recommend this person?" or "What were this person's strengths and weaknesses?"[54]

Many employers also like to check applicants' credit references, although there is no evidence that people with weak credit scores are apt to be unqualified or dishonest employees.[55] (Note: Prospective employers need to get written consent to run credit checks on job applicants.[56])

PRACTICAL ACTION

Applying for a Job? Here Are Some Mistakes to Avoid

There are several mistakes that job candidates often make in initial interviews. Here are some tips.[57]

Be Prepared—Very Prepared. Can you pronounce the name of the company with whom you're interviewing? Of the person or people interviewing you? Do you understand the company and the position you're interviewing for? Do you know the company's competition? What new products or services are being offered? How about your own job strengths? Your weaknesses? What do you need to improve on to move ahead?

Go online and read the company's website. Search for any news articles written about the firm. Call the company and ask about pronunciation. Determine how your strengths fit directly into the context of what the prospective employer does. Also, when asked about your weaknesses, state how you recognized a weakness, overcame a dilemma, and were improved by it. Take time to practice questions and answers so you'll sound confident.[58]

Dress Right & Pay Attention to Your Attitude. Is the company dress code "business casual"? That doesn't mean you should dress that way (or the way you dress on campus) for the interview.

Dress professionally for the interview. Be aware of your attitude as soon as you enter the building. Be on time. (Time your commute by doing a test run a day or so before the interview, and make sure you know the exact location of the interview.) If unforeseeable circumstances arise and cause you to be late, call to inform your interviewer. Be polite to the receptionist, and greet everyone who greets you. Turn off your cell phone ringer.

Don't Get Too Personal with the Interviewer. Don't be overfriendly and share too much, especially in the initial interview. Although the interviewer will try to make you feel comfortable, you should focus on the position. Rehearse questions to ask the interviewer, such as the challenges for the position in the future. Don't make negative comments about your old company or boss. Rather, figure out the positives and convey what you learned and gained from your experience. If asked an inappropriate question (about age, marital status, whether you have children or plan to), politely state you don't believe the question is relevant to your qualifications. Be enthusiastic; enthusiasm is contagious. Incidentally, be sure to mention any organizational citizenship behavior, which scores well with interviewers.[59] After the interview, within 24 hours, send an e-mail thanking the interviewer. If you think you messed up part of the interview, use the e-mail to smooth over your mistakes.[60]

Be Aware That Your Background Will Be Checked—Including Your Social Networks. Because it seems to be getting harder to distinguish honest job applicants from dishonest ones, companies now routinely check resumes or hire companies that do so.[61] Ninety-six percent of employers conduct background checks, according to one study.[62] Some may even ask for your SAT scores.[63] Some have been known to scrutinize checking accounts.[64]

As mentioned earlier, if you are a Facebook, YouTube, or Twitter user, be aware that employers now frequently use search engines to do continuous and stealthy background checks on prospective employees to see if they've posted any racy content. "Many job hunters," says one report, "are . . . continuing to overlook the dangers of posting provocative photos and other dubious content on social-media sites."[65] Checking your Facebook page is also a way employers can make an end run around discrimination laws.[66] Indeed, you may be asked in the interview for your Facebook user name and password so the interviewer can access your private settings—a practice whose legality is questionable but nevertheless being done by more companies.[67] (More and more people are getting savvy about privacy and pruning their friend lists and removing unwanted comments on their social networks.[68])

YOUR CALL

What kind of advice do you see here that you wished you'd followed in the past?

2. Interviewing: Unstructured, Situational, & Behavioral-Description

The interview, which is the most commonly used employee-selection technique, may take place face to face, by videoconference, or—as is increasingly the case—via the Internet. (In-depth phone interviews of an hour or more may be on the rise, perhaps for cost reasons.[69] However, face-to-face interviews have been perceived as being more fair and leading to higher job acceptance intentions than videoconferencing and telephone interviews.[70]) To help eliminate bias, interviews can be designed, conducted, and evaluated by a committee of three or more people. The most commonly used employee-selection technique, interviewing, takes three forms: *unstructured interviews* and *two types of structured interviews.*[71]

Unstructured Interview Like an ordinary conversation, an **unstructured interview involves asking probing questions to find out what the applicant is like.** There is no fixed set of questions asked of all applicants and no systematic scoring procedure. As a result, the unstructured interview has been criticized as being overly subjective and apt to be influenced by the biases of the interviewer. Equally important, it is susceptible to legal attack because some questions may infringe on non-job-related matters such as privacy, diversity, or disability.[72] However, compared with the structured interview method, the unstructured interview has been found to provide a more accurate assessment of an applicant's job-related personality traits.[73]

Structured Interview Type 1: The Situational Interview **The structured interview involves asking each applicant the same questions and comparing their responses to a standardized set of answers.**

In one type of structured interview, the **situational interview, the interviewer focuses on hypothetical situations.** Example: "What would you do if you saw two of your people arguing loudly in the work area?" The idea here is to find out if the applicant can handle difficult situations that may arise on the job.

Structured Interview Type 2: The Behavioral-Description Interview In the second type of structured interview, the **behavioral-description interview, the interviewer explores what applicants have actually done in the past.** Example: "What was the best idea you ever sold to a supervisor, teacher, peer, or subordinate?" This question (asked by the U.S. Army of college students applying for its officer training program) is designed to assess the applicant's ability to influence others.

PRACTICAL ACTION

The Right Way to Conduct an Interview

Because hiring people who later have to be let go is such an expensive proposition, companies are now putting a great deal of emphasis on effective interviewing. Although this is a subject worth exploring further, following are some minimal suggestions for you as a manager.[74]

Before the Interview: Define Your Needs & Review Applicant's Resume

Write out what skills, traits, and qualities the job requires. "Looking to hire somebody is like going to the supermarket," says one HR manager. "You need to have a list and know what you need."[75]

Look at the applicant's resume or application form to determine relevant experience, gaps, and discrepancies.

Write Out Interview Questions

You should ask each candidate the same set of questions, so that you can compare their answers. (This helps keep you out of legal trouble, too.) In general, the questions should be designed to elicit the following types of information.

- **Does the applicant have the knowledge to do the job?** Examples: "Give an example where you came up with a creative solution." "How would you distinguish our product from competitors'?"
- **Can the applicant handle difficult situations?** Examples: "Tell me about a time when you dealt with an irate customer. How did you handle the situation and what was the outcome?"

- **Is the applicant willing to cope with the job's demands?** Examples: "How do you feel about making unpopular decisions?" "Are you willing to travel 30% of the time?"
- **Will the applicant fit in with the organization's culture?** Examples: "How would your last supervisor describe you?" "How much leeway did they give you in your previous job in charging travel expenses?"

Follow a Three-Scene Interview Scenario

The interview itself may follow a three-scene script.

- **Scene 1: The first three minutes—small talk and "compatibility" test.** The first scene is really a "compatibility test." It takes about three minutes and consists of exchanging small talk, giving you a chance to establish rapport and judge how well the candidate makes a first impression.

  Note: As many as four out of five hiring decisions are made within the first 10 minutes of an interview, according to some research. Thus, be aware that if you are immediately impressed with a candidate, you may spend more time talking than listening—perhaps trying to sell the candidate on the job rather than screen his or her qualifications.[76]
- **Scene 2: The next 15–60 minutes—asking questions and listening to the applicant's "story."** In the next scene, you ask the questions you wrote out (and answer those the candidate directs to you). Allow the interviewee to do 70%–80% of the talking.

  Take notes to remember important points. Don't ignore your "gut feelings." Intuition plays a role in hiring decisions. (But be careful you don't react to people as stereotypes.)
- **Scene 3: The final two minutes—closing the interview and setting up the next steps.** In the final minutes, you listen to see whether the candidate expresses interest in taking the job.

After the Interview

Write a short report making some sort of quantitative score of the candidate's qualifications. Indicate your reasons for your decision.

Check the applicant's references before inviting him or her to a second interview.

YOUR CALL

What additional questions would you like to ask a job applicant so as to get the best candidate?

3. Employment Tests: Ability, Personality, Performance, Integrity, & Others

It used to be that employment selection tests consisted of paper-and-pencil, performance, and physical-ability tests. Now, however, **employment tests are legally considered to consist of any procedure used in the employment selection decision process, even application forms, interviews, and educational requirements.**[77] Indeed, today applicants should expect just about anything, such as spending hours on simulated work tasks, performing role-playing exercises, or tackling a business case study.[78]

Probably the most common employment tests are the following.

Ability Tests *Ability tests* measure physical abilities, strength and stamina, mechanical ability, mental abilities, and clerical abilities. Telephone operators, for instance, need to be tested for hearing, and assembly-line workers for manual dexterity. Intelligence tests are also catching on as ways to predict future executive performance.[79] The military tests for physical qualifications, along with behavioral and educational abilities (71% of 17- to 24-year-olds don't qualify for military service, a surprisingly high figure).[80] Corporate-event company Windy City Fieldhouse uses a test that measures attention to detail, asking takers to do such things as "do a count of the letter 'l' in a three-sentence paragraph to measure how carefully a respondent works," according to one account.[81]

Performance Tests *Performance tests* or *skills tests* measure performance on actual job tasks—so-called job tryouts—as when computer programmers take a test on a particular programming language such as C++ or middle managers work on a small project.[82] Some companies have an **assessment center, in which management candidates participate in activities for a few days while being assessed by evaluators.**[83]

Personality Tests *Personality tests* measure such personality traits as adjustment, energy, sociability, independence, and need for achievement. Career-assessment tests that help workers identify suitable jobs tend to be of this type.[84] One of the most famous personality tests, in existence for 65-plus years, is the 93-question Myers-Briggs Type Indicator, with about 2.5 million tests given each year throughout the world. Myers-Briggs endures, observers say, "because it does a good job of pointing up differences between people, offers individuals a revealing glimpse of themselves, and is a valuable asset in team-building, improving communication, and resolving personality-conflict."[85] However, this and other personality tests need to be interpreted with caution because of the difficulty of measuring personality characteristics and of making a legal defense if the results are challenged.[86]

EXAMPLE

Personality Tests: How a Sporting-Goods Chain Screens Job Applicants Online

More than 80% of midsize and large companies use personality and ability assessments for entry and mid-level jobs these days, according to one executive at a global human resources consulting firm.[87]

Southwest Airlines, for instance, has found the Myers-Briggs test helps build trust in developing teams.[88] Hewlett-Packard uses a personality test to see if employees are temperamentally suited to working alone at home—that is, telecommuting—and can handle limited supervision.[89] At Children's Healthcare of Atlanta, personality tests are used to find employees who will be "nice people"—those with "the qualities of being nurturing, kind, and warm-hearted," in the words of a human resources vice president.[90]

Online Personality Tests. At Finish Line, a nationwide chain of sporting-goods stores, store managers use the results of web-based personality tests developed by Unicru, of Beaverton, Oregon, to screen applicants for jobs as retail sales clerks. Candidates may apply through Unicru's kiosks or computer phones, which are installed in the stores. One Finish Line store in Chicago screens as many as 70 applicants a week during the store's pre-holiday season.

Unicru's computer scores test takers according to how strongly they agree or disagree (on a four-point scale) with statements such as "You do not fake being polite" and "You love to listen to people talk about themselves." High scores on attributes such as sociability and initiative reward applicants with a "green" rating that allows them to move on to an interview with a human manager. Scores in the middle earn a "yellow," and a lesser chance of landing a job; low-scoring "reds" are not considered.

Measurable Results. "The kinds of people who do well," says Unicru psychologist David Scarborough, "obviously have to have good self-control. They have to be patient. They have to enjoy helping people. All those characteristics are quite measurable."[91] Finish Line says that Unicru's system has reduced turnover by 24%.

YOUR CALL

There are, by some estimates, around 2,500 cognitive and personality employment tests on the market, and it's important that employers match the right test for the right purpose.[92] Moreover, tests aren't supposed to have a disparate impact on a protected class of people, such as certain racial or ethnic groups.[93] What questions would you want to ask about a personality test before you submitted yourself to it? (*Note:* Don't try to psych the test. You might wind up being miserable in a job that doesn't suit you.)

Integrity Tests *Integrity tests* assess attitudes and experiences related to a person's honesty, dependability, trustworthiness, reliability, and prosocial behavior.[94] The tests are designed to identify people likely to engage in inappropriate, antisocial, or dishonest workplace behavior. Typically, integrity tests ask direct questions about past experiences related to ethics and integrity. You might be asked, for example, "What is the most you have ever stolen? (a) $0; (b) $1–$200; (c) $201–$500; (d) more than $500." Or interviewers may ask questions about preferences and interests from which inferences may be drawn about future behavior—so-called covert tests, where the answers give a sense of the person's conscientiousness, emotional maturity, and so on.[95]

Other Tests The list of employment testing techniques has grown to include—in appropriate cases—drug testing, polygraph (lie detectors), genetic screening, and even (a questionable technique) handwriting analysis.[96] Human resource professionals need to be aware, incidentally, that there are a variety of products available on the Internet to help employees beat many kinds of drug tests.[97] Recently, however, the hair test (of hair follicles) has begun to find favor, since it's said to be able to detect a pattern of repetitive drug use over a period of up to 90 days.[98]

Reliability & Validity: Are the Tests Worth It? With any kind of test, an important legal consideration is the test's **reliability—the degree to which a test measures the same thing consistently**—so that an individual's score remains about the same over time, assuming the characteristics being measured also remain the same.

Another legal consideration is the test's **validity—the test measures what it purports to measure and is free of bias.** If a test is supposed to predict performance, then the individual's actual performance should reflect his or her score on the test. Using an invalid test to hire people can lead to poor selection decisions. It can also create legal problems if the test is ever challenged in a court of law. ●

Lie detector? Defense contractors and other security-minded companies are apt to require polygraph testing for job applicants. Calling the machine a "lie detector" may make us think it can detect lies, but all it does is measure nervous excitement—which can happen to both liars and truth tellers. This is one reason polygraph tests are inadmissible in court. Would you object to taking such a test?

9.3 Managing an Effective Workforce: Compensation & Benefits

MAJOR QUESTION

What are the various forms of compensation?

THE BIG PICTURE

Managers must manage for compensation—which includes wages or salaries, incentives, and benefits.

Do we work only for a paycheck? Many people do, of course. But money is only one form of compensation.

Compensation has three parts: (1) wages or salaries, (2) incentives, and (3) benefits. In different organizations one part may take on more importance than another. For instance, in some nonprofit organizations (education, government), salaries may not be large, but health and retirement benefits may outweigh that fact. In a high-technology start-up, the salary and benefits may actually be somewhat humble, but the promise of a large payoff in incentives, such as stock options or bonuses, may be quite attractive. Let's consider these three parts briefly. (We expand on them in Chapter 12 when we discuss ways to motivate employees.)

Wages or Salaries

Base pay consists of the basic wage or salary paid employees in exchange for doing their jobs. The basic compensation is determined by all kinds of economic factors: the prevailing pay levels in a particular industry and location, what competitors are paying, whether the jobs are unionized, if the jobs are hazardous, what the individual's level is in the organization, and how much experience he or she has.

Incentives

To induce employees to be more productive or to attract and retain top performers, many organizations offer incentives, such as commissions, bonuses, profit-sharing plans, and stock options. We discuss these in detail in Chapter 12.

Stock options. Companies like to offer favored employees stock options rather than higher salaries as benefits. Not only do employees place a high value on options, but companies can issue as many as they want without hurting corporate profits because, under present accounting rules, they don't have to count the options' value as an expense. However, some critics believe that making stock options a big part of CEO compensation does not spur better performance. When the stock is up, the CEO benefits. When the stock is down, he or she doesn't really lose money but rather just makes less money.

PRACTICAL ACTION

Why Rewards May Fail to Motivate

There are many incentive compensation plans, ranging from cash awards and gifts to profit sharing and stock ownership, as we discuss in detail in Chapter 12. Why, despite the huge investments of time and money, do they often not achieve the results? Here are eight possible reasons:[99]

- **"I don't work just for the money."** Sometimes there is too much emphasis on monetary rewards.
- **"They don't care what I do."** There may be the absence of an "appreciation effect."
- **"It's no more than what I deserve."** The benefits may be extensive, but employees feel they are entitled to them just as part of the job.
- **"Let's see how little work we can get away with."** The rewards may have the unintended consequence of producing nonproductive, even counterproductive, work behavior. (Example: Albuquerque, New Mexico, city officials decided to pay trash truck crews for eight hours regardless of time spent, so as to encourage quick completion of the work and lower overtime costs. However, the policy only led crews to work fast and cut corners, missing pickups, speeding and causing accidents, and generating extra dump fees for overloading vehicles.[100])
- **"Why bother, it takes forever to get paid."** There is too long a delay between performance and rewards.
- **"Another $25 gift card? Who needs it?"** There are too many one-size-fits-all rewards.
- **"A half day off on Friday—so what."** Managers use one-shot rewards with a short-lived motivational impact.
- **"There they go again. . ."** Management continues to use demotivating practices such as layoffs, across-the-board pay cuts, and giving executives but not workers excessive compensation.

Five keys to a successful incentive-pay plan are the following:[101]

1. **Simplicity.** Does the plan pass the simplicity test? Can you explain it on an elevator ride?
2. **Clear goals.** Are the goals clear? Are the goals fully supported by management?
3. **Realistic goals.** Are the goals realistic—that is, neither too difficult nor too easy to achieve?
4. **Consistency with present goals.** Is the plan in line with the organization's present goals? Company goals change. Few organizations have the same business objective for more than five to seven years.
5. **Regular communication.** Do managers regularly communicate with employees about the plan? People want a scorecard.

Benefits

Benefits, or *fringe benefits*, **are additional nonmonetary forms of compensation** designed to enrich the lives of all employees in the organization, which are paid all or in part by the organization. We discuss benefits in more detail in Chapter 12, but examples are many: health insurance, dental insurance, life insurance, disability protection, retirement plans, holidays off, accumulated sick days and vacation days, recreation options, country club or health club memberships, family leave, discounts on company merchandise, counseling, credit unions, legal advice, and education reimbursement. For top executives, there may be "golden parachutes," generous severance pay for those who might be let go in the event the company is taken over by another company.

Benefits are no small part of an organization's costs. In March 2014, private industry spent an average of $31.93 per hour worked in employment compensation, of which wages and salaries accounted for 69.9% and benefits for the remaining 30.1%.[102] ●

Communication is everything. The questions human resource managers need to keep in mind are: What good does it do a company to have attractive incentive plans if employees don't understand them? Will an employee exert the extra effort in pursuit of rewards if he or she doesn't know what the rewards are?

9.4 MAJOR QUESTION

Orientation, Training, & Development

Once people are hired, what's the best way to see that they do what they're supposed to do?

THE BIG PICTURE

Three ways newcomers are helped to perform their jobs are through *orientation,* to fit them into the job and organization; *training,* to upgrade the skills of technical and operational employees; and *development,* to upgrade the skills of professionals and managers.

In muckraker Upton Sinclair's 1906 novel *The Jungle,* "employers barely paused when a worker swooned from overwork or fell into a rendering tank," writes columnist Sue Shellenbarger. "They just got another warm body to replace him."[103]

That's hardly the case anymore. Today when a hire is made, companies often resort to what is known as "onboarding," rolling out a welcome by assigning "buddies," providing detailed orientations, even sending goody baskets, so as to bring rookies up to speed quickly and give them a fast introduction to company culture.[104]

This is because, as we said, the emphasis is on "human capital." Only a third to half of most companies' stock-market value is accounted for by hard assets such as property, plant, and equipment, according to a Brookings Institution report. Most of a firm's value is in such attributes as patents, processes, and—important to this discussion—

Group training. In large companies, orientation and ongoing training are often conducted in group sessions led by a presenter while the employees follow along. Do you see any problems with this approach?

employee or customer satisfaction.[105] The means for helping employees perform their jobs are *orientation, training,* and *development.*

Orientation: Helping Newcomers Learn the Ropes

The finalist candidate is offered the job, has accepted it, and has started work. Now he or she must begin, in that old sailor's phrase, to "learn the ropes." This is the start of **orientation, helping the newcomer fit smoothly into the job and the organization.**

Helping New Employees Get Comfortable: The First Six Months "How well will I get along with other employees?" "What if I screw up on a project?" Coming into a new job can produce a lot of uncertainty and anxiety. In part this is because, depending on the job, a new hire can accomplish only 60% as much in the first three months as an experienced worker, according to MCI Communications.[106]

The first six months on a job can be critical to how one performs over the long haul, because that's when the psychological patterns are established. Thus, employers have discovered that it's far better to give newcomers a helping hand than to let them learn possibly inappropriate behavior that will be hard to undo later.[107]

The Desirable Characteristics of Orientation Like orientation week for new college students, the initial socialization period is designed to give new employees the information they need to be effective. In a large organization, orientation may be a formal, established process. In a small organization, it may be so informal that employees find themselves having to make most of the effort themselves.

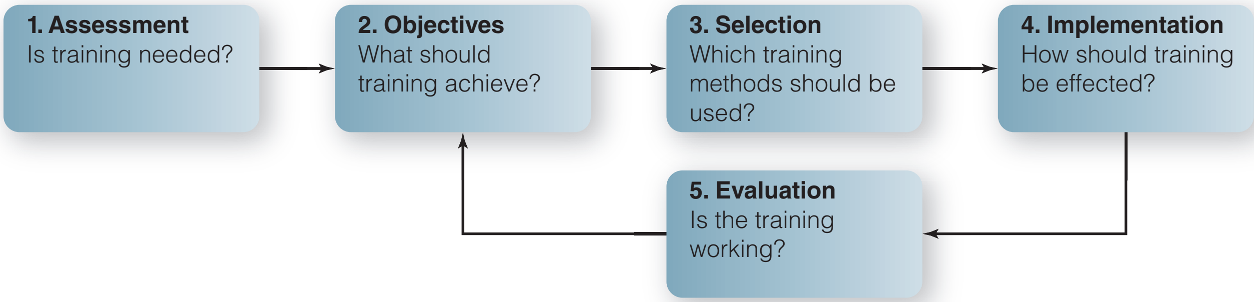
Following orientation, the employee should emerge with information about three matters (much of which he or she may have acquired during the job-application process):

- **The job routine.** At minimum, the new employee needs to have learned what is required in the job for which he or she was hired, how the work will be evaluated, and who the immediate coworkers and managers are. This is basic.
- **The organization's mission and operations.** Certainly all managers need to know what the organization is about—its purpose, products or services, operations, and history. And it's now understood that low-level employees perform better if they, too, have this knowledge.
- **The organization's work rules and employee benefits.** A public utility's HR department may have a brochure explaining formalized work rules, overtime requirements, grievance procedures, and elaborate employee benefits. A technology start-up may be so fluid that many of these matters will have not been established yet. Even so, there are matters of law (such as those pertaining to sexual harassment) affecting work operations that every employee should be made aware of.

Training & Development: Helping People Perform Better

How does employee engagement pay off financially? According to one global study, companies with low traditional engagement had an average operating margin (profit) of just under 10%, those with high traditional engagement just over 14%, and those with high sustainable engagement over 27%—three times higher. One important key to high engagement is workforce planning—ensuring there is a match between the required work and employees' skills and experience.[108] Of course, in hiring, you always try to get people whose qualifications match the requirements of the job. Quite often, however, there are gaps in what new employees need to know. These gaps are filled by training. The training process involves five steps, as shown below. *(See Figure 9.2.)*

FIGURE 9.2 **Five steps in the training process**



HR professionals distinguish between *training* and *development.*

- **Training—upgrading skills of technical and operational employees.** Electronics technicians, data processors, computer network administrators, and X-ray technicians, among many others, need to be schooled in new knowledge as the requirements of their fields change. **Training, then, refers to educating technical and operational employees in how to better do their current jobs.**
- **Development—upgrading skills of professionals and managers.** Accountants, nurses, lawyers, and managers of all levels need to be continually educated in how to do their jobs better not just today but also tomorrow. **Development refers to educating professionals and managers in the skills they need to do their jobs in the future.**

Typical areas for which employee training and development are given are customer service, safety, leadership, computer skills, quality initiatives, communications, human relations, ethics, diversity, and sexual harassment.[109]

The Different Types of Training or Development

There are all kinds of training and development methods, and their effectiveness depends on whether what is being taught are facts or skills. If people are to learn *facts*—such as work rules or legal matters—lectures, videotapes, and workbooks are effective. If people are to learn *skills*—such as improving interpersonal relations or using new tools—then techniques such as discussion, role-playing, and practice work better.

Another way to categorize training methods is to distinguish on-the-job from off-the-job methods.

- **On-the-job training.** This training takes place in the work setting while employees are performing job-related tasks. Four major training methods are coaching, training positions, job rotation, and planned work activities.
- **Off-the-job training.** This training consists of classroom programs, videotapes, workbooks, and the like. Lots of off-the-job training consists of **computer-assisted instruction (CAI), in which computers are used to provide additional help or to reduce instructional time.**

EXAMPLE

Off-the-Job Training: Getting Ahead through E-Learning

College students, of course, have already discovered e-learning (electronic learning). Several million other people are also taking short-term, practical courses related to their careers, mostly at business schools and continuing-education institutions around the country.

The Surge in Virtual Learning. Outside of education, in other U.S. organizations, e-learning has also become a well-established fact. Although instructor-led classrooms are still the dominant training method, at 44% of total student hours, online self-study e-learning and virtual classrooms make up about 29%.[110] The benefits of e-learning, of course, are that no transportation is needed and you can follow a flexible schedule and often work at your own pace.

However, there are some drawbacks. "The one thing e-learning boosters don't want to talk about is the simple fact that very few people ever actually finish an e-learning course when it involves a technically complex or lengthy subject such as software training or programming," says corporate trainer Roland Van Liew. "People perform the complex process of assimilating information best in socially interactive environments."[111]

Off-the-job training. How does receiving feedback from an instructor affect your retention of knowledge?

What about Student-Teacher Interaction? Because of the lack of classroom interaction between students and teachers in online education, both must assume more responsibility. "If students do not receive adequate teacher feedback and reinforcement," points out one writer, "they will not always know whether they possess an accurate knowledge of the subject matter."[112]

YOUR CALL

Neuroscientists are finding out that the human brain is a "social animal" that needs interaction with others.[113] How do you think this fact relates to e-learning? Do you think you learn better in a classroom rather than online?

What If No One Shows Up? Many employers offer employee training, whether internal or external, or funding to attend seminars. But research has shown that a surprisingly high percentage of employees simply don't know about it. For instance, while 92% of employers in one survey offered funding to attend seminars and trade shows, only 28% of employees were aware the funding existed.[114] Clearly, then, employers need to find out whether the training offered fits with the majority of employee development goals.

Are you suited for a career in human resources? You now have learned about the different HR programs and practices, such as recruiting, training, and compensation. Not everyone is suited for HR work, but does it interest you? The following self-assessment will help you decide. ●

SELF-ASSESSMENT 9.3 connect

Is a Career in HR Right for You?

This survey is designed to assess your skills and interests and determine if a career in human resources is right for you. Go to **connect.mheducation.com** and take Self-Assessment 9.3. When you're done, answer the following questions:

1. Are you suited for a career in human resources? Which specific aspect of human resources do you prefer?
2. Look at the top two areas of HR for which you tested as being best suited. Look over the descriptions of these fields and then identify what skills you need to have to be successful.
3. Even if you do not pursue a career in HR, which skills do you feel you should continue to develop? Explain.

9.5 MAJOR QUESTION

Performance Appraisal

How can I assess employees' performance more accurately and give more effective feedback?

THE BIG PICTURE

Performance appraisal, assessing employee performance and providing them feedback, may be objective or subjective. Appraisals may be by peers, subordinates, customers, or oneself. Feedback may be formal or informal.

If you're a member of the Millennial Generation, you tend to want "frequent and candid performance feedback," according to one survey, and having your managers provide "detailed guidance in daily work" is very important to you.[115] Feedback about how you're doing at work is part of performance management.

Performance Management in Human Resources

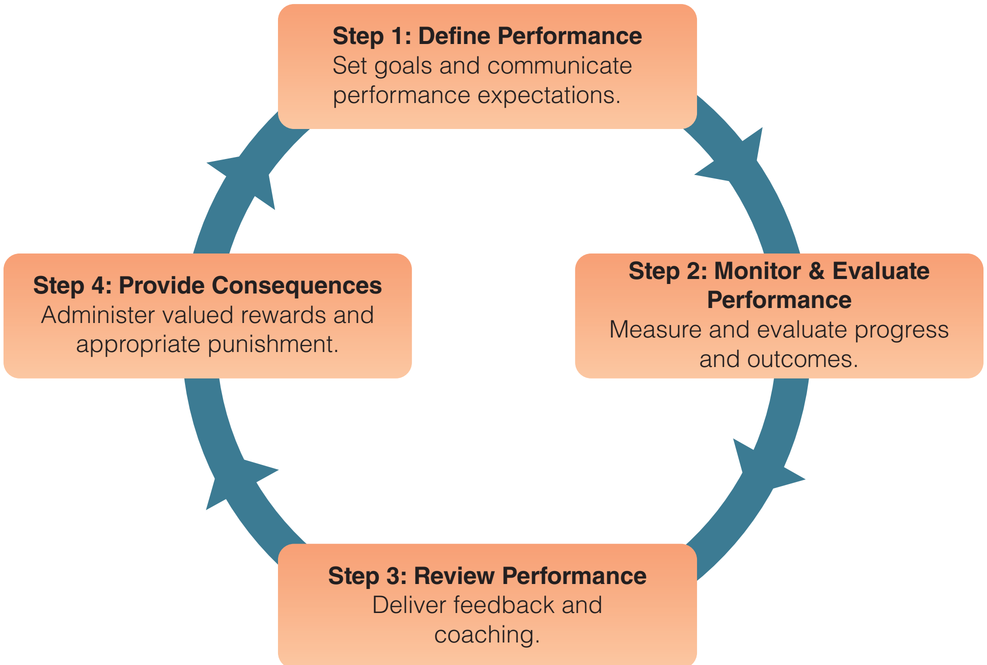
No doubt you've had the experience at some point of having a sit-down with a superior, a boss or a teacher, who told you how well or poorly you were doing—a *performance appraisal*. A performance appraisal is a single event, as we discuss later in this section. Performance management, by contrast, is a powerful ongoing activity that has produced such spectacular results as 40% higher employee commitment, 50% less turnover, 10%–30% higher customer satisfaction—and double a firm's net profits.[116]

Performance management is defined as a set of processes and managerial behaviors that involve defining, monitoring, measuring, evaluating, and providing consequences for performance expectations.[117] It consists of four steps: (1) define performance, (2) monitor and evaluate performance, (3) review performance, and (4) provide consequences. *(See Figure 9.3.)*

FIGURE 9.3

Performance management: four steps

Source: Adapted from A. J. Kinicki, K. J. L. Jacobson, S. J. Peterson, and G. E. Prussia, "Development and Validation of the Performance Management Behavior Questionnaire," Personnel Psychology, Vol. 66 (2013), pp. 1–45.



Performance management, which is often exerted through an organization's managers and human resources policies and practices, is a powerful means for improving individual, group, and organizational effectiveness.[118]

EXAMPLE

Performance Management: How Domino's Pizza Built a Billion-Dollar Business

The founder of Domino's Pizza, Tom Monaghan, grew the business, which he later sold for $1 billion, by using performance management, as follows:[119]

1. Define Performance. In order to meet Domino's promise of delivering customers a pizza within 30 minutes or no payment required, Monaghan made clear to his employees in his performance expectations the importance of speed, even showing employees how to run out the door.

2. Monitor & Evaluate Performance. Domino's employees filled out a form showing they understood what was expected of them, then every one of them met with their manager and listed goals for the month and action plans for achieving them. Employees also described what the manager was supposed to do for them to support their efforts.

3. Review Performance. Employees met with their managers every three months to review their performance, and managers met with their own superiors once a month to do the same.

4. Provide Consequences. Monaghan is a big believer in rewarding performance and retaining talent. Thus, Domino's store managers received not only salaries but also 30% of profits. To retain talent, Monaghan rewarded franchisees (individual store owners who had purchased the right to use the Domino's trademark and business model) by encouraging them to develop their managers into store owners themselves, for which the original franchisees were rewarded with a percentage of the earnings from the new store.

YOUR CALL

In your current job—being a student—how effective do you think Domino's approach to performance management could be in helping you excel at college? Who would you designate as your "manager," how often would you meet, and what kind of goals and action plans would you set?

Two Kinds of Performance Appraisal: Objective & Subjective

A performance appraisal, or *performance review*, consists of (1) assessing an employee's performance and (2) providing him or her with feedback. Unlike performance management, which is an ongoing, interactive process between managers and employees, a performance appraisal is often dictated by a date on the calendar rather than need and is a "one-sided, boss-dominated" assessment that comes down to whether your superior "likes" you, according to some critics.[120]

No wonder, then, that so many performance reviews are worthless, in the opinion of UCLA management professor Samuel Culbert, coauthor of *Get Rid of the Performance Review!*[121] A recent worldwide survey of 1,300 workers also revealed that 7 in 10 people believed that their managers did not remain calm and constructive when discussing performance. This is why 20% of the respondents dreaded having difficult conversations with their boss.[122] Management expert W. Edwards Deming (see Chapter 2) felt that such reviews were actually harmful because people remember only the negative parts.[123] "The best kind of performance review is no performance review," says psychologist Aubrey Daniels, who coined the term "performance management."[124] It thus is no surprise that some firms (about 1%) have scrapped the practice altogether.[125] Nevertheless, let us take a look at performance appraisals since they are still used frequently.

Two Kinds of Performance Appraisal: Objective & Subjective

There are two ways to evaluate an employee's performance—objectively and subjectively.

1. Objective Appraisals

Objective appraisals, also called *results appraisals*, are based on facts and are often numerical. In these kinds of appraisals, you would keep track of such matters as the numbers of products the employee sold in a month, customer complaints filed against an employee, miles of freight hauled, and the like.

There are two good reasons for having objective appraisals:

- **They measure results.** It doesn't matter if two appliance salespeople have completely different personal traits (one is formal, reserved, and patient; the other informal, gregarious, and impatient) if each sells the same number of washers and dryers. Human resource professionals point out that, just as in business we measure sales, profits, shareholder value, and other so-called metrics, it is likewise important to measure employee performance, benefit costs, and the like as an aid to strategy.[126]
- **They are harder to challenge legally.** Not being as subject to personal bias, objective appraisals are harder for employees to challenge on legal grounds, such as for age, gender, or racial discrimination.

We discussed an objective approach in Chapter 5 under *management by objectives,* which can encourage employees to feel empowered to adopt behavior that will produce specific results. MBO, you'll recall, is a four-step process in which (1) managers and employees jointly set objectives for the employee, (2) managers develop action plans, (3) managers and employees periodically review the employee's performance, and (4) the manager makes a performance appraisal and rewards the employee according to results. For example, an objective for a copier service technician might be to increase the number of service calls 15% during the next three months.

"Here's the deal . . ." One of the most important tasks of being a manager is giving employees accurate information about their work performance. Which would you be more comfortable giving—objective appraisals or subjective appraisals?

2. Subjective Appraisals Few employees can be adequately measured just by objective appraisals—hence the need for **subjective appraisals, which are based on a manager's perceptions of an employee's (1) traits or (2) behaviors.**

- **Trait appraisals.** *Trait appraisals* are ratings of such subjective attributes as "attitude," "initiative," and "leadership." Trait evaluations may be easy to create and use, but their validity is questionable because the evaluator's personal bias can affect the ratings.
- **Behavioral appraisals.** Behavioral appraisals measure specific, observable aspects of performance—being on time for work, for instance—although making the evaluation is still somewhat subjective. An example is the **behaviorally anchored rating scale (BARS), which rates employee gradations in performance according to scales of specific behaviors.** For example, a five-point BARS rating scale about attendance might go from "Always early for work and has equipment ready to fully assume duties" to "Frequently late and often does not have equipment ready for going to work," with gradations in between.

Who Should Make Performance Appraisals?

If one of your employees was putting on a good show of solving problems that, it turned out, she had actually *created* herself so that she could be an "office hero" and look good, how would you know about it? (This phenomenon has been dubbed "Munchausen—pronounced *mun-chow-zen*—at work" because it resembles the rare psychological disorder in which sufferers seek attention by making up an illness.[127]) Most performance appraisals are done by managers; however, to add different perspectives, sometimes appraisal information is provided by other people knowledgeable about particular employees.

Peers, Subordinates, Customers, & Self Among additional sources of information are coworkers and subordinates, customers and clients, and the employees themselves.

- **Peers and subordinates.** Coworkers, colleagues, and subordinates may well see different aspects of your performance. Such information can be useful for development, although it probably shouldn't be used for evaluation. (Many managers will resist soliciting such information about themselves, of course, fearing negative appraisals.)
- **Customers and clients.** Some organizations, such as restaurants and hotels, ask customers and clients for their appraisals of employees. Publishers ask authors to judge how well they are doing in handling the editing, production, and marketing of their books. Automobile dealerships may send follow-up questionnaires to car buyers.
- **Self-appraisals.** How would you rate your own performance in a job, knowing that it would go into your personnel file? Probably the bias would be toward the favorable. Nevertheless, *self-appraisals* help employees become involved in the whole evaluation process and may make them more receptive to feedback about areas needing improvement.

360-Degree Assessment: Appraisal by Everybody We said that performance appraisals may be done by peers, subordinates, customers, and oneself. Sometimes all these may be used in a technique called 360-degree assessment.

In a "theater in the round," the actors in a dramatic play are watched by an audience on all sides of them—360 degrees. Similarly, as a worker, you have many people watching you from all sides. Thus has arisen the idea of the **360-degree assessment, or *360-degree feedback appraisal*, in which employees are appraised not only by their managerial superiors but also by peers, subordinates, and sometimes clients,** thus providing several perspectives.

Typically, an employee chooses between 6 and 12 other people to make evaluations, who then fill out anonymous forms, the results of which are tabulated by computer. Or, using a Facebook-style program such as Performance Multiplier or Twitter-like software called Rypple, employees can solicit evaluations through social networking–style systems.[128] The employee then goes over the results with his or her manager and together they put into place a long-term plan for performance goals.

Incorporating 360-degree feedback into the performance appraisal process has advantages and disadvantages. Recent research found that "improvement is most likely to occur when feedback indicates that change is necessary, recipients have a positive feedback orientation, perceive a need to change their behavior, react positively to feedback, believe change is feasible, set appropriate goals to regulate their behavior, and take actions that lead to skill and performance improvement."[129] At the heart of the process is the matter of *trust.* "Trust determines how much an individual is willing to contribute for an employer," says one expert. "Using 360 confidentially, for developmental purposes, builds trust; using it to trigger pay and personnel decisions puts trust at risk."[130]

Forced Ranking: Grading on a Curve To increase performance, an estimated 60% of Fortune 500 companies (such as General Electric, Ford, Cisco, and Intel) have some variant of performance review systems known as forced ranking (or "rank and yank") systems.[131] **In forced ranking performance review systems, all employees within a business unit are ranked against one another and grades are distributed along some sort of bell curve**—just like students being graded in a college course. Top performers (such as the top 20%) are rewarded with bonuses and promotions, the worst performers (such as the bottom 20%) are rehabilitated or dismissed. For instance, every year 10% of GE's managers are assigned the bottom grade, and if they don't improve, they are asked to leave the company.

TABLE 9.2

How to Give Performance Feedback to Employees

Think of yourself as a coach, as though you were managing a team of athletes.

- *Take a problem-solving approach, avoid criticism, and treat employees with respect.* Recall the worst boss for whom you ever worked. How did you react to his or her method of giving feedback? Avoid criticism that might be taken personally.
  Example: Don't say, "You're picking up that bag of cement wrong" (which criticizes by using the word *wrong*). Say, "Instead of bending at the waist, a good way to pick up something heavy is to bend your knees. That'll help save your back."
- *Be specific in describing the employee's present performance and in the improvement you desire.* Describe your subordinate's current performance in specific terms and concentrate on outcomes that are within his or her ability to improve.
  Example: Don't say, "You're always late turning in your sales reports." Say, "Instead of making calls on Thursday afternoon, why don't you take some of the time to do your sales reports so they'll be ready on Friday along with those of the other sales reps."
- *Get the employee's input.* In determining causes for a problem, listen to the employee and get his or her help in crafting a solution.
  Example: Don't say, "You've got to learn to get here by 9:00 a.m. every day." Say, "What changes do you think could be made so that your station is covered when people start calling at 9:00?"

Proponents of forced ranking say it encourages managers to identify and remove poor performers and also structures a predetermined compensation curve, which enables them to reward top performers. If, however, the system is imposed on an organization overnight without preparation, by pitting employees against one another, it can produce shocks to morale, productivity, and loyalty. There may also be legal ramifications, as when employees file class-action lawsuits alleging that the forced ranking methods had a disparate effect on particular groups of employees.[132]

One recent study found that only 14% of all companies surveyed used a forced ranking system, down from 42% in 2009.[133] Microsoft recently ended a forced-ranking system because employees complained it discouraged teamwork.[134] (However, former GE CEO Jack Welch takes issue with this criticism, saying that if a company wants teamwork, it should identify it as a value, then evaluate and reward it accordingly.[135])

Effective Performance Feedback

The whole point of performance appraisal, of course, is to stimulate better job performance. But, says Lawrence Bossidy, former CEO of AlliedSignal, the typical appraisal is often three pages long and filled with vague, uncommunicative language and is useless to ensure that improvement happens.[136] Bossidy recommends an appraisal take up half a page and cover just three topics: what the boss likes about your performance, what you can improve, and how you and your boss are going to make sure that improvement happens.

To help increase employee performance, a manager can use two kinds of appraisals—formal and informal.

1. Formal Appraisals

Formal appraisals are conducted at specific times throughout the year and are based on performance measures that have been established in advance. An emergency medical technician might be evaluated twice a year by his or her manager, using objective performance measures such as work attendance time sheets and more subjective measures such as a behaviorally anchored rating scales (BARS) to indicate the employee's willingness to follow emergency procedures and doctors' and nurses' orders.

As part of the appraisal, the manager should give the employee feedback, describing how he or she is performing well and not so well and giving examples. Managers are sometimes advised to keep diaries about specific incidents so they won't have to rely on their memories (and so that their evaluations will be more lawsuit-resistant). Facts should always be used rather than impressions.

2. Informal Appraisals

Formal appraisals are the equivalent of a student receiving a grade on a midterm test and a grade on a final test—weeks may go by during which you are unaware of how well you're doing in the course. Informal appraisals are the equivalent of occasional unscheduled pop quizzes and short papers or drop-in visits to the professor's office to talk about your work—you have more frequent feedback about your performance. **Informal appraisals are conducted on an unscheduled basis and consist of less rigorous indications of employee performance.**

As a manager, you may not feel comfortable about critiquing your employees' performance, especially when you have to convey criticism rather than praise. Nevertheless, giving performance feedback is one of the most important parts of the manager's job. Some suggestions for improvement appear in the table at left. *(See Table 9.2.)*

9.6 Managing Promotions, Transfers, Disciplining, & Dismissals

MAJOR QUESTION

What are some guidelines for handling promotions, transfers, disciplining, and dismissals?

THE BIG PICTURE

As a manager, you'll have to manage employee replacement actions, as by promoting, transferring, demoting, laying off, or firing.

"The unemployment rate is an abstraction, an aggregation of bodiless data," writes journalist/novelist Walter Kirn, "but losing a job is a lived experience, written on the nerves. . . . Some blame themselves and some blame everybody. Still others, not knowing whom to blame, explode."[137]

Among the major—and most difficult—decisions you will make as a manager are those about employee movement within an organization: Whom should you let go? promote? transfer? discipline? All these matters go under the heading of *employee replacement*. And, incidentally, any time you need to deal with replacing an employee in a job, that's a time to reconsider the job description to see how it might be made more effective for the next person to occupy it.

You'll have to deal with replacement whenever an employee quits, retires, becomes seriously ill, or dies. Or you may initiate the replacement action by promoting, transferring, demoting, laying off, or firing.[138]

Promotion: Moving Upward

Promotion—moving an employee to a higher-level position—is the most obvious way to recognize that person's superior performance (apart from giving raises and bonuses). Three concerns are these:

Fairness It's important that promotion be *fair*. The step upward must be deserved. It shouldn't be for reasons of nepotism, cronyism, or other kind of favoritism.

Nondiscrimination The promotion cannot discriminate on the basis of race, ethnicity, gender, age, or physical ability.

Others' Resentments If someone is promoted, someone else may be resentful about being passed over. As a manager, you may need to counsel the people left behind about their performance and their opportunities in the future. In fact, if you are passed over yourself, it is important not to let your anger build. Instead, you should gather your thoughts, then go in and talk to your boss and find out what qualities were lacking, suggests one report. You should also create a career action plan and look for ways to improve your knowledge, skills, and abilities.[139]

Transfer: Moving Sideways

Transfer is movement of an employee to a different job with *similar responsibility*. It may or may not mean a change in geographical location (which might be part of a promotion as well).

Employees might be transferred for four principal reasons: (1) to solve organizational problems by using their skills at another location; (2) to broaden their experience in being assigned to a different position; (3) to retain their interest and motivation by being presented with a new challenge; or (4) to solve some employee problems, such as personal differences with their bosses.

Disciplining & Demotion: The Threat of Moving Downward

Poorly performing employees may be given a warning or a reprimand and then disciplined. That is, they may be temporarily removed from their jobs, as when a police officer is placed on suspension or administrative leave—removed from his or her regular job in the field and perhaps given a paperwork job or told to stay away from work.

Alternatively, an employee may be demoted—that is, have his or her current responsibilities, pay, and perquisites taken away, as when a middle manager is demoted to a first-line manager. (Sometimes this may occur when a company is downsized, resulting in fewer higher level management positions.)

Dismissal: Moving Out of the Organization

Dismissals are of three sorts:

Layoffs The phrase being *laid off* tends to suggest that a person has been dismissed *temporarily*—as when a carmaker doesn't have enough orders to justify keeping its production employees—and may be recalled later when economic conditions improve.

Downsizings A *downsizing* is a *permanent* dismissal; there is no rehiring later. An automaker discontinuing a line of cars or on the path to bankruptcy might permanently let go of its production employees.

Firings The phrase being *fired,* with all its euphemisms and synonyms—being "terminated," "separated," "let go," "canned"—tends to mean that a person was dismissed *permanently "for cause"*: absenteeism, sloppy work habits, failure to perform satisfactorily, breaking the law, and the like.

It used to be that managers could use their discretion about dismissals. Today, however, because of the changing legal climate, steps must be taken to avoid employees suing for "wrongful termination." That is, an employer has to carefully *document* the reasons for dismissals. You also need to take into account the fact that survivors in the company can suffer just as much as, if not more than, their colleagues who were let go.[140]

Incidentally, in terms of your own career, be aware that dismissals rarely come as a surprise. Most bosses are conflict-averse, and you may see the handwriting on the wall when your own manager begins to interact with you less.[141]

The Practical Action box on the next page offers some suggestions for handling dismissals. ●

Fired. Being fired can be one of the most stressful events of one's life—more than the death of a close friend, separation from one's spouse over marital problems, or an injury requiring hospitalization. Some people who have been let go from their jobs suffer major health consequences. If you as a manager ever had to fire someone, what would you do to try to soften the blow?

PRACTICAL ACTION

The Right Way to Handle a Dismissal

"Employment at will" is the governing principle of employment in the great majority of states, which means that anyone can be dismissed at any time for any reason at all—or for no reason. Exceptions are whistle-blowers and people with employment contracts. Civil-rights laws also prohibit organizations' dismissing people for their gender, skin color, or physical or mental disability.[142]

Four suggestions for handling a dismissal follow.

Give the Employee a Chance First

If you're dealing with someone who has a problem with absenteeism, alcohol/drug dependency, or the like, articulate to that employee what's wrong with his or her performance, then set up a plan for improvement (which might include counseling). Or if you're dealing with an employee who has a bad cultural or personality fit with the company—a buttoned-down, by-the-book style, say, that's at odds with your flexible, fast-moving organization—have a conversation and give the employee time to find a job elsewhere.[143]

Don't Delay the Dismissal, & Make Sure It's Completely Defensible

If improvements aren't forthcoming, don't carry the employee along because you feel sorry for him or her. Your first duty is to the performance of the organization. Make sure, however, that you've *documented* all the steps taken in advance of the dismissal. Also be sure that the steps taken follow the law and all important organizational policies.[144]

Be Aware How Devastating a Dismissal Can Be—Both to the Individual & to Those Remaining

To the person being let go, the event can be as much of a blow as a divorce or a death in the family. Dismissals can also adversely affect those remaining with the company. This is what psychiatrist Manfred Kets de Vries calls *layoff survivor sickness,* which is characterized by anger, depression, fear, guilt, risk aversion, distrust, vulnerability, powerlessness, and loss of motivation. Indeed, a five-year study by Cigna and the American Management Association found an enormous increase in medical claims, particularly for stress-related illnesses, not only among those dismissed but among continuing employees as well.[145]

Offer Assistance in Finding Another Job

Dismissing a long-standing employee with only a few weeks of severance pay hurts not only the person let go but also the organization itself, as word gets back to the employees who remain, as well as to outsiders who might be prospective employees. Knowledgeable employers offer assistance in finding another job.

"The best demonstration that a company's values are real," says management scholar Rosabeth Moss Kanter, "is to act on them today even for people who will not be around tomorrow. A company, like a society, can be judged by how it treats its most vulnerable. . . . Bad treatment of departing employees can destroy the commitment of those who stay."[146]

9.7

The Legal Requirements of Human Resource Management

MAJOR QUESTION

To avoid exposure to legal liabilities, what areas of the law do I need to be aware of?

THE BIG PICTURE

Four areas of human resource law any manager needs to be aware of are labor relations, compensation and benefits, health and safety, and equal employment opportunity.

Whatever your organization's human resource strategy, in the United States (and in U.S. divisions overseas) it has to operate within the environment of American law. Four areas you need to be aware of are as follows. Some important laws are summarized in the table opposite. *(See Table 9.3.)*

1. Labor Relations

The earliest laws affecting employee welfare had to do with unions, and they can still have important effects. Legislation passed in 1935 (the Wagner Act) resulted in the **National Labor Relations Board, which enforces procedures whereby employees may vote to have a union and for collective bargaining. Collective bargaining consists of negotiations between management and employees about disputes over compensation, benefits, working conditions, and job security.**

A 1947 law (the Taft-Hartley Act) allows the president of the United States to prevent or end a strike that threatens national security. (We discuss labor-management issues further in Section 9.8.)

2. Compensation & Benefits

The Social Security Act in 1935 established the U.S. retirement system. The passage of the **Fair Labor Standards Act of 1938 established minimum living standards for workers engaged in interstate commerce, including provision of a federal minimum wage** (currently $7.25 an hour; several states have higher minimums) and a maximum workweek (now 40 hours, after which overtime must be paid), along with banning products from child labor.[147] Salaried executive, administrative, and professional employees are exempt from overtime rules.

3. Health & Safety

From miners risking tunnel cave-ins to cotton mill workers breathing lint, industry has always had dirty, dangerous jobs. Beginning with the Occupational Safety and Health Act (OSHA) of 1970, a body of law has grown that requires organizations to provide employees with nonhazardous working conditions. Later laws extended health coverage, including 2010 health care reform legislation, which requires companies with more than 50 employees to provide health insurance.[148]

4. Equal Employment Opportunity

The effort to reduce discrimination in employment based on racial, ethnic, and religious bigotry and gender stereotypes began with Title VII of the Civil Rights Act of 1964. This established the **Equal Employment Opportunity (EEO) Commission, whose job it is to enforce antidiscrimination and other employment-related laws.** Title VII applies to all organizations or their agents engaged in an industry affecting interstate

TABLE 9.3 **Some Important Recent U.S. Federal Laws & Regulations Protecting Employees**

YEAR	LAW OR REGULATION	PROVISIONS
Labor relations		
1974	Privacy Act	Gives employees legal right to examine letters of reference concerning them
1986	Immigration Reform & Control Act	Requires employers to verify the eligibility for employment of all their new hires (including U.S. citizens)
2003	Sarbanes-Oxley Act	Prohibits employers from demoting or firing employees who raise accusations of fraud to a federal agency
Compensation and benefits		
1974	Employee Retirement Income Security Act (ERISA)	Sets rules for managing pension plans; provides federal insurance to cover bankrupt plans
1993	Family & Medical Leave Act	Requires employers to provide 12 weeks of unpaid leave for medical and family reasons, including for childbirth, adoption, or family emergency
1996	Health Insurance Portability & Accountability Act (HIPPA)	Allows employees to switch health insurance plans when changing jobs and receive new coverage regardless of preexisting health conditions; prohibits group plans from dropping ill employees
2007	Fair Minimum Wage Act	Increased federal minimum wage to $7.25 per hour on July 24, 2009
Health and safety		
1970	Occupational Safety & Health Act (OSHA)	Establishes minimum health and safety standards in organizations
1985	Consolidated Omnibus Budget Reconciliation Act (COBRA)	Requires an extension of health insurance benefits after termination
2010	Patient Protection & Affordable Care Act	Employers with more than 50 employees must provide health insurance
Equal employment opportunity		
1963	Equal Pay Act	Requires men and women be paid equally for performing equal work
1964, amended 1972	Civil Rights Act, Title VII	Prohibits discrimination on basis of race, color, religion, national origin, or sex
1967, amended 1978 and 1986	Age Discrimination in Employment Act (ADEA)	Prohibits discrimination in employees over 40 years old; restricts mandatory retirement
1990	Americans with Disabilities Act (ADA)	Prohibits discrimination against essentially qualified employees with physical or mental disabilities or chronic illness; requires "reasonable accommodation" be provided so they can perform duties
1991	Civil Rights Act	Amends and clarifies Title VII, ADA, and other laws; permits suits against employers for punitive damages in cases of intentional discrimination

commerce that employs 15 or more employees. Contractors who wish to do business with the U.S. government (such as most colleges and universities, which receive federal funds) must be in compliance with various executive orders issued by the president covering antidiscrimination. Later laws prevented discrimination against older workers and people with physical and mental disabilities.[149]

Workplace Discrimination, Affirmative Action, Sexual Harassment, & Bullying

Three important concepts covered by EEO laws are *workplace discrimination, affirmative action,* and *sexual harassment,* which we discuss below. We also consider *bullying,* which is *not* covered by EEO laws but, as one report says, "could well become the next major battleground in employment law as a growing number of states consider legislation that would let workers sue for harassment that causes physical or emotional harm."[150]

Workplace Discrimination

A large gap exists in perceptions between the sexes as to whether men or women have more opportunities for advancement. In a survey of 1,834 business professionals worldwide, 66% of men said opportunities to move to top management were gender neutral, compared with 30% of women who stated that.[151] (In actuality, only 4.9% of CEOs are women at the 1,000 biggest U.S. companies, and of the 200 highest-paid chief executives in the United States, only 11—just 5.5%—are women.[152])

Workplace discrimination occurs when people are hired or promoted—or denied hiring or promotion—for reasons not relevant to the job, such as skin color or eye shape, gender, religion, national origin, and the like. Two fine points to be made here are that (1) although the law prohibits discrimination in all aspects of employment, it does not require an employer to extend *preferential treatment* because of race, color, religion, and so on; and (2) employment decisions must be made on the basis of job-related criteria.

There are two types of workplace discrimination:

- *Adverse impact:* **Adverse impact occurs when an organization uses an employment practice or procedure that results in unfavorable outcomes to a protected class (such as Hispanics) over another group of people (such as non-Hispanic whites).** For example, requiring workers to have a college degree can inadvertently create adverse impact against Hispanics because fewer Hispanics graduate from college than whites. This example would not be a problem, however, if a college degree was required to perform the job.
- *Disparate treatment:* **Disparate treatment results when employees from protected groups (such as disabled individuals) are intentionally treated differently.** An example would be making a decision to give all international assignments to people with no disabilities because of the assumption that they won't need any special accommodations related to travel.

When an organization is found to have been practicing discrimination, the people discriminated against may sue for back pay and punitive damages. In 2013, such complaints to the Equal Employment Opportunity Commission (EEOC) declined by 5.7% over the previous year. The most frequently cited basis for charges of discrimination was retaliation (41%), followed by race discrimination (35%); sex discrimination, including sexual harassment and pregnancy discrimination (29%); and discrimination based on disability (27%).[153]

In recent years, pay discrepancies between women and men improved slightly, but as of 2012 women overall still earned only 77 cents to every $1 for a man, according to the U.S. Census Bureau. For men and women who have a 40-hour workweek, the gap narrows to 88 cents for women. (In some occupations, such as financial specialists, women earn as little as 66 cents to a man's dollar, but among dental hygienists, HR specialists, and advertising sales agents, the pay is equal between men and women. In other words, the gap widens in higher-paying occupations such as business, medicine, and law.[154])

Sexual harassment. If this woman is unaware of the men ogling her legs, does that make their behavior acceptable? Or does it still contribute to an offensive work environment?

Affirmative Action

Affirmative action focuses on achieving equality of opportunity within an organization. It tries to make up for past discrimination in employment by actively finding, hiring, and developing the talents of people from groups traditionally discriminated against. Steps include active recruitment, elimination of prejudicial questions in interviews, and establishment of minority hiring goals. It's important to note that EEO laws *do not* allow use of hiring quotas.[155]

Affirmative action has created tremendous opportunities for women and minorities, but it has been resisted more by some white males who see it as working against their interests.[156] Affirmative action plans are more successful when employees view them as being fair and equitable and when whites are not prejudiced against people of color.[157] In addition, research shows that women and minorities hired on the basis of affirmative action felt stigmatized as unqualified and incompetent and experienced lower job satisfaction and more stress than employees supposedly selected on the basis of merit.[158]

Sexual Harassment

Sexual harassment consists of unwanted sexual attention that creates an adverse work environment. This means obscene gestures, sex-stereotyped jokes, sexually oriented posters and graffiti, suggestive remarks, unwanted dating pressure, physical nonsexual contact, unwanted touching, sexual propositions, threatening punishment unless sexual favors are given, obscene phone calls, and similar verbal or physical actions of a sexual nature.[159] The harassment may be by a member of the opposite sex or a member of the same sex, by a manager, by a coworker, or by an outsider.[160] If the harasser is a manager or an agent of the organization, the organization itself can be sued, even if it had no knowledge of the situation.[161]

Two Types of Sexual Harassment There are two types of sexual harassment, both of which violate Title VII of the 1964 Civil Rights Act. In the *quid pro quo harassment* type, the person to whom the unwanted sexual attention is directed is put in the position of jeopardizing being hired for a job or obtaining job benefits or opportunities unless he or she implicitly or explicitly acquiesces. More typical is the *hostile environment* type, in which the person being sexually harassed doesn't risk economic harm but experiences an offensive or intimidating work environment. According to one survey, 38% of women said they heard sexual innuendo, wisecracks, or taunts at the office.[162]

EXAMPLE

Silicon Valley, Sexual Harassment, & the "Brogrammer" Culture

Women start 1,288 companies every day, and women-owned businesses have risen 68% since 1997, compared to 47% for all companies.[163] Moreover, venture capital firms that invested in women-led companies during the decade 2000–2010 outperformed those that didn't.[164] Despite such achievements, women are significantly underrepresented among the tech companies of Silicon Valley, long a male stronghold. (Google's global staff is only 30% female, Facebook's 31%, and Yahoo's 37%.[165])

Frat-Boy Behavior. Lack of gender diversity doesn't *necessarily* result in a culture of sexism and sexual harassment. But sometimes it is exceedingly so. Sexist attitudes start in computer science classes, women say, and are reinforced by the tech industry's "brogrammer" ("bro" + "programmer") fraternity-house attitudes and behavior of some male software engineers and executives.[166] ("Bro culture" also is said to lock many minorities out.[167]) In the case of Los Angeles-based Tinder, which produces a popular mobile dating app, former marketing vice president Whitney Wolfe alleges in a lawsuit that such attitudes led to her being sexually harassed and discriminated against before being forced out.

A Joke? Wolfe's suit says that she briefly dated Justin Mateen, Tinder's chief marketing officer, but after they broke up he called her a "desperate loser," a "joke," a "gold digger," a "disease," and worse. He also allegedly stripped her of her "co-founder" title (because she was a "young female"), even though Mateen himself was hired after Wolfe's marketing trips had begun to make Tinder take off.[168] Tinder's CEO, Sean Rad, who hired Mateen, denies that Wolfe was discriminated against and adds "We take gender equality very seriously."[169]

YOUR CALL

Do you see sexist and demeaning behavior in the culture of your campus that you worry you might encounter later in a future workplace?

TABLE 9.4

Preventing Sexual Harassment

- Don't suggest sexual favors for rewards related to work or promotion.
- Don't do uninvited touching, patting, or hugging of others' bodies—especially if they wince, frown, or pull away.
- Don't make sexually suggestive jokes, demeaning remarks, slurs, or obscene gestures or sounds.
- Don't display sexual pictures in your workplace or write notes of a sexual nature.
- Don't laugh at others' sexually harassing words or behaviors.

The table at left presents some guidelines for preventing sexual harassment. *(See Table 9.4.)*

What Managers Can Do To help prevent harassment from occurring, managers can make sure their companies have an effective sexual harassment policy in place. The policy should be shown to all current and new employees, who should be made to understand that sexual harassment will not be tolerated under any circumstances. A formal complaint procedure should be established, which should explain how charges will be investigated and resolved. Supervisors should be trained in Title VII requirements and the proper procedures to follow when charges occur. If charges occur, they should be investigated promptly and objectively, and if substantiated, the offender should be disciplined at once—no matter what his or her rank in the company.[170]

Bullying

If college professors can be bullied, can't anyone?

For years, mathematics professor Bill Lepowsky experienced abusive behavior at the San Francisco Bay Area community college where he taught. It began with a group of managers spreading rumors and false accusations that threatened his job—for instance, saying he was holding class in the wrong classroom and not attending meetings he wasn't supposed to attend. It was emotionally draining—like "being a soldier in a foxhole with shells exploding," he said—and took time and focus away from his job. It didn't end until his tormentors left the college.[171]

The Meaning of Mean **Bullying is repeated mistreatment of one or more persons by one or more perpetrators; it is abusive physical, psychological, verbal, or nonverbal behavior that is threatening, humiliating, or intimidating.** "People have only thought about bullying related to children," says one expert, "but the fact is that right now adult bullying is rampant."[172] Indeed, bullying on the job is experienced by 37% of employees, according to one survey, and 51%, according to another.[173]

Bullies can be male or female, although the majority (about 60%) are men and most are bosses. Women tend to be bullied more than men. Bullying can occur between colleagues, managers, and employees. Bullying on the job may be physically aggressive, such as pushing, pinching, or cornering someone. However, it is more apt to be verbal, including shouting, swearing, and name calling. Or it may be relational, including malicious gossip, rumors, and lies that may cause someone to feel isolated or cut off. Bullying through technology (cyberbullying), such as Facebook, twitter, or e-mail, accounts for about one in five incidents.[174]

The Effects of Bullying Unfortunately, many workplace bullies are quite charming and manipulative and so receive positive evaluations from their supervisors and achieve high levels of career success, according to one dispiriting study.[175] "If people are politically skilled, they can do bad things really well," says one of the study authors.[176] Of course, that doesn't make this behavior right. Indeed, bullying can devastate a workplace.[177]

Bullying. A surprisingly common activity, bullying is apt to be verbal, involving shouting and name calling, or relational, including spreading malicious rumors and lies. In some cases, however, it can be physically aggressive, involving pinching or pushing. Perhaps as many as half of all employees have experienced some sort of bullying on the job. Have you? What did you do about it?

Bullying, says Gary Namie, director of the Workplace Bullying Institute, can be especially damaging in work sites where the bullied may be trapped in close proximity to their bully.[178] Bullied employees are less satisfied at work, more likely to spend time gossiping and not putting in their full effort, and more likely to quit.[179] Victims also tend to experience stress-related health problems, such as anxiety, panic attacks, depression—even suicide.[180]

The table below presents some guidelines for combating bullying. *(See Table 9.5.)*

TABLE 9.5

Beating Back the Bully

- **Recognize the mistreatment as bullying:** Don't blame yourself.
- **Get others on your side:** Don't become socially isolated.
- **Don't strike back:** It might get you fired. Ask to be treated with fairness and respect.
- **Stay calm and confident:** Don't feed the bully's sense of power by showing fear.
- **Avoid being alone with the bully:** Make sure someone can hear your interactions. Or record them on your smartphone.
- **Document the events—and be truthful:** When reporting bullying to supervisors, give them the FACTS, not just the emotional effects. Save examples of online bullying, notes, and other physical evidence. Remember, the bully will probably deny your accusations.

Sources: A. Brujzzese, "Workplace Becomes New Schoolyard for Bullies," USA Today, *August 24, 2011, http://usatoday30.usatoday.com/money/jobcent/workplace/bruzzese/story/2011/08/workplace-becomes-new—choolyard-for-bulliets/50081460/1 (accessed July 3, 2014); K. V. Brown, "Far Beyond School Playground, Bullying Common in Workplace,"* San Francisco Chronicle, *November 6, 2011, pp. A1, A10; and R. Sherwood, "Solutions for Bullying in the Workplace,"* Yahoo-Voices, *May 17, 2012, http://voices.yahoo.com/solutions-bullying-workplace-11361976.html (accessed July 3, 2014).*

9.8 MAJOR QUESTION

Labor-Management Issues

What are the principal processes and issues involved in organizing labor unions?

THE BIG PICTURE

We describe the process by which workers get a labor union to represent them and how unions and management negotiate a contract. This section also discusses the types of union and nonunion workplaces and right-to-work laws. It covers issues unions and management negotiate, such as compensation, cost-of-living adjustments, two-tier wage systems, and givebacks. It concludes by describing mediation and arbitration.

TABLE 9.6

Snapshot of Today's U.S. Union Movement

Who's in a union (2013)?
• 11.3% of full-time U.S. workers—down from 35.5% in 1945.
• 6.7% of private-sector workers (7.3 million).
• 35.3% of public-sector workers (7.2 million).
• Most members: National Education Association; Service Employees International; State, County, & Municipal Employees; American Federation of Teachers; Food & Commercial Workers; Teamsters; Electrical Workers; Machinists & Aerospace Workers.

Source: Bureau of Labor Statistics, "Union Members Summary," Economic News Release, *January 24, 2014; www.bls.gov/news.release/union2.nr0.htm (accessed July 5, 2014).*

Starting in 1943, James Smith worked his way up from washing dishes in the galley of a passenger train's dining car to waiter, earning tips on top of his wages of 36 cents an hour. The union job with the Brotherhood of Sleeping Car Porters, the first African American union, enabled him to go to college, and when he left the railroad he was hired as a civil engineer for the city of Los Angeles. "His story," says one report, "is emblematic of the role the railroads and a railroad union played in building a foundation for America's black middle class."[181] Unions also helped to grow the American (and European) middle classes in general, bringing benefits to all, organized or not.

Labor unions are organizations of employees formed to protect and advance their members' interests by bargaining with management over job-related issues. The union movement is far less the powerhouse that it was in the 1950s—indeed, its present membership is the lowest since 1916—but it is still a force in many sectors of the economy.[182] *(See Table 9.6, left.)*

How Workers Organize

When workers in a particular organization decide to form a union, they first must get each worker to sign an *authorization card,* which designates a certain union as the workers' bargaining agent. When at least 30% of workers have signed cards, the union may ask the employer for official recognition. Usually the employer refuses, at which point the union can petition the National Labor Relations Board (NLRB) to decide which union should become the *bargaining unit* that represents the workers, such as the Teamsters Union, United Auto Workers, the American Federation of Teachers, or the Service Employees International Union, as appropriate. (Some workers, however, are represented by unions you would never guess: Zookeepers, for instance, are represented by the Teamsters, which mainly organizes transportation workers. University of California, Berkeley, graduate student instructors are represented by the United Auto Workers.) An election is then held by the NLRB, and if 50% or more of the votes cast agree to unionization, the NLRB *certifies* the union as the workers' exclusive representative. One of the newest and most unusual unions to be certified is the College Athletes Players Association, which represents scholarship football players at Northwestern University.[183]

How Unions & Management Negotiate a Contract

Once a union is recognized as an official bargaining unit, its representatives can then meet with management's representatives to do collective bargaining—to negotiate pay and benefits and other work terms.

When agreement is reached with management, the union representatives take the collective bargaining results back to the members for *ratification*—they vote to accept or reject the contract negotiated by their leaders. If they vote yes, the union and management representatives sign a *negotiated labor-management contract,* which sets the general tone and terms under which labor and management agree to work together during the contract period.

The Issues Unions & Management Negotiate About

The key issues that labor and management negotiate are compensation, employee benefits, job security, work rules, hours, and safety matters. However, the first issue is usually union security and management rights.

Union Security & Types of Workplaces A key issue is: Who controls hiring policies and work assignments—labor or management? This involves the following matters:

- **The union security clause.** The basic underpinning of union security is the **union security clause, the part of the labor-management agreement that states that employees who receive union benefits must join the union, or at least pay dues to it.** In times past, a union would try to solidify the union security clause by getting management to agree to a *closed shop agreement*—which is illegal today—in which a company agreed it would hire only current union members for a given job.
- **Types of unionized and nonunionized workplaces.** The four basic kinds of workplaces are: *closed shop, union shop, agency shop,* and *open shop. (See Table 9.7.)*

TABLE 9.7 **Four Kinds of Workplace Labor Agreements**

WORKPLACE	DEFINITION	STATUS
Closed shop	Employer may hire only workers for a job who are already in the union	Illegal
Union shop	Workers aren't required to be union members when hired for a job but must join the union within a specified time	Not allowed in 22 states (right-to-work states)
Agency shop	Workers must pay equivalent of union dues, but aren't required to join the union	Applies to public-sector teachers in some states, prohibited in others
Open shop	Workers may choose to join or not join a union	Applies in 22 states (right-to-work states)

- **Right-to-work laws.** Individual states are allowed (under the 1947 Taft-Hartley Act) to pass legislation outlawing union and agency shops. As a result, 22 states have passed **right-to-work laws, statutes that prohibit employees from being required to join a union as a condition of employment.**

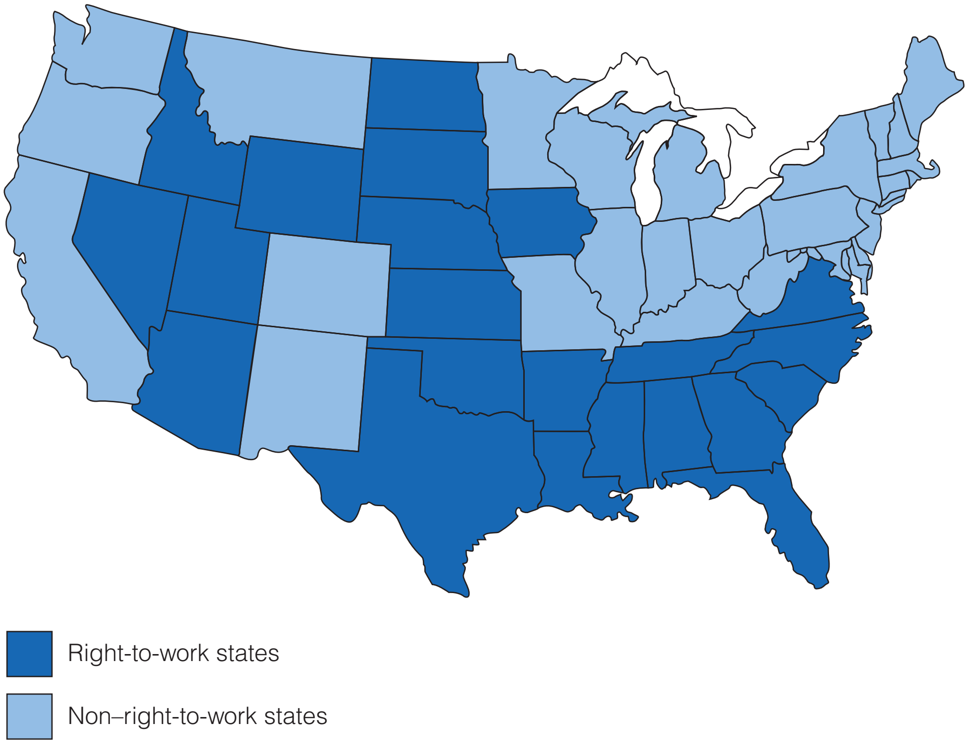
Business interests supporting such laws argue that forcing workers to join a union violates their rights and makes a state less attractive to businesses considering moving there. Union supporters say that states with such laws have overall lower wages and that all workers benefit from union gains, so everyone should be compelled to join.

The 22 work-to-right states are shown in the map on the next page. *(See Figure 9.4.)*

FIGURE 9.4

States with right-to-work laws

What kind of state do you live in? (Alaska and Hawaii are non–right-to-work states.)



Compensation: Wage Rates, COLA Clauses, & Givebacks Unions strive to negotiate the highest wage rates possible, or to trade off higher wages for something else, such as better fringe benefits. Some issues involved with compensation are as follows:

- **Wage rates—same pay or different rates?** Wage rates subject to negotiation include overtime pay, different wages for different shifts, and bonuses. In the past, unions tried to negotiate similar wage rates for unionized employees working in similar jobs for similar companies or similar industries. However, the pressure of competition abroad and deregulation at home has forced many unions to negotiate **two-tier wage contracts, in which new employees are paid less or receive lesser benefits than veteran employees have.**

  Example: In 2011, when automakers began to create new jobs, new union hires were offered about half the pay ($14 an hour) that autoworkers were getting before ($28). Such two-tier wage systems can be attractive to employers, who are able to hire new workers at reduced wages, but it also benefits veteran union members, who experience no wage reduction. However, some companies have been trying to make this wage concession permanent—a big setback for labor.[184]
- **Cost-of-living adjustment.** Because the cost of living is always going up (at least so far), unions often try to negotiate a **cost-of-living adjustment (COLA) clause, which during the period of the contract ties future wage increases to increases in the cost of living,** as measured by the U.S. Bureau of Labor Statistics' consumer price index (CPI). (An alternative is the *wage reopener clause,* which allows wage rates to be renegotiated at certain stated times during the life of the contract. Thus, a 10-year contract might be subject to renegotiation every two years.)
- **Givebacks.** During tough economic times, when a company (or, in the case of public employee unions, a municipality) is fighting for its very survival, management and labor may negotiate **givebacks, in which the union agrees to give up previous wage or benefit gains in return for something else.** Usually the union seeks job security, as in a no-layoff policy.

Settling Labor-Management Disputes

Even when a collective-bargaining agreement and contract has been accepted by both sides, there may likely be ongoing differences that must be resolved. Sometimes differences lead to walkouts and strikes, or management may lock out employees. However, conflicts can be resolved through *grievance procedures* and *mediation* or *arbitration.*

Grievance Procedures

A grievance is a complaint by an employee that management has violated the terms of the labor-management agreement. Example: An employee may feel he or she is being asked to work too much overtime, is not getting his or her fair share of overtime, or is being unfairly passed over for promotion.

Grievance procedures are often handled initially by the union's *shop steward,* an official elected by the union membership who works at the company and represents the interests of unionized employees on a daily basis to the employees' immediate supervisors. If this process is not successful, the grievance may be carried to the union's chief shop steward and then to the union's grievance committee, who deal with their counterparts higher up in management.

If the grievance procedure is not successful, the two sides may decide to try to resolve their differences by one of two ways—*mediation* or *arbitration.*

Mediation

Mediation is the process in which a neutral third party, a *mediator,* listens to both sides in a dispute, makes suggestions, and encourages them to agree on a solution. Mediators may be lawyers or retired judges or specialists in various fields, such as conflict resolution or labor matters.

Arbitration

Arbitration is the process in which a neutral third party, an *arbitrator*, listens to both parties in a dispute and makes a decision that the parties have agreed will be binding on them. Arbitrators are often retired judges.

Leo Kanne, head of Local 440 for the United Food & Commercial Workers International Union in Denison, Iowa, home of a Smithfield meat processing plant, says plant workers earn enough to take their children to Pizza Ranch or maybe Dairy Queen every week and go on vacation once a year. "That's all these people want," he says. "Nobody is getting rich working in these plants." Word that a Chinese company had acquired Smithfield has everyone worried. Will they cut costs and not honor past labor agreements?[185] Considering these kinds of concerns, what is your feeling about labor unions? Self-Assessment 9.4 enables you to answer this question by assessing your general attitudes toward unions. ●

SELF-ASSESSMENT 9.4 connect

Assessing Your Attitudes toward Unions[186]

This survey is designed to assess your attitude toward unions. Go to **connect.mheducation.com** and take Self-Assessment 9.4. When you're done, answer the following questions:

1. Where do you stand on your attitude toward unions? Positive, neutral, or negative?
2. What experiences or events in your life have led to your attitude toward unions? Describe. What do you think lies in the future for labor unions?
3. Why has there been growing dislike for unions in the U.S.?

Key Terms Used in This Chapter

360-degree assessment 283
adverse impact 290
affirmative action 291
arbitration 297
assessment center 271
base pay 274
behavioral-description interview 270
behaviorally anchored rating scale (BARS) 282
benefits 275
bullying 292
collective bargaining 288
compensation 274
computer-assisted instruction (CAI) 278
cost-of-living adjustment (COLA) clause 296
development 278
disparate treatment 290
employment tests 271
Equal Employment Opportunity (EEO) Commission 288
external recruiting 266
Fair Labor Standards Act 288
forced ranking performance review systems 283
formal appraisals 284
givebacks 296
grievance 297
human capital 263
human resource inventory 265
human resource (HR) management 262
informal appraisals 284
internal recruiting 266
job analysis 264
job description 264
job posting 266
job specification 264
knowledge worker 263
labor unions 294
mediation 297
National Labor Relations Board 288
objective appraisals 281
orientation 277
performance appraisal 281
performance management 280
realistic job preview 267
recruiting 266
reliability 273
right-to-work laws 295
selection process 268
sexual harassment 291
situational interview 270
social capital 264
strategic human resource planning 264
structured interview 270
subjective appraisals 282
training 278
two-tier wage contracts 296
union security clause 295
unstructured interview 270
validity 273
workplace discrimination 290

Key Points

9.1 Strategic Human Resource Management

- Human resource (HR) management consists of the activities managers perform to plan for, attract, develop, and retain an effective workforce. The purpose of the strategic human resource management process is to get the optimal work performance that will help realize the company's mission and vision.
- Three concepts important to human resource management are (1) human capital, the economic or productive potential of employee knowledge; (2) knowledge workers, people whose occupations are principally concerned with generating or interpreting information, as opposed to manual labor; and (3) social capital, the economic or productive potential of strong, trusting, and cooperative relationships.
- Strategic human resource planning consists of developing a systematic, comprehensive strategy for (a) understanding current employee needs and (b) predicting future employee needs.
- Understanding current employee needs requires first doing a job analysis to determine, by observation and analysis, the basic elements of a job. Then a job description can be written, which summarizes what the holder of the job does and how and why he or she does it. Next comes the job specification, which describes the minimum qualifications a person must have to perform the job successfully.
- Predicting employee needs means a manager needs to become knowledgeable about the staffing an organization might need and the likely sources of staffing, perhaps using a human resource inventory to organize this information.

9.2 Recruitment & Selection: Putting the Right People into the Right Jobs

- Recruiting is the process of locating and attracting qualified applicants for jobs open in the organization. Recruiting is of two types: internal and external.
- Internal recruiting means making people already employed by the organization aware of job openings, as through job postings.

- External recruiting means attracting job applicants from outside the organization. A useful approach is the realistic job preview, which gives a candidate a picture of both positive and negative features of the job and organization before he or she is hired.
- The selection process is the screening of job applicants to hire the best candidates. Three types of selection tools are background information, interviewing, and employment tests.
- Background information is ascertained through application forms, resumes, and reference checks.
- Interviewing takes three forms. (a) The unstructured interview involves asking probing questions to find out what the applicant is like. (b) The structured interview involves asking each applicant the same questions and comparing his or her responses to a standardized set of answers. The first type of structured interview is the situational interview, in which the interview focuses on hypothetical situations. (c) The second type of structured interview is the behavioral-description interview, in which the interviewer explores what applicants have actually done in the past.
- Employment tests are legally considered to consist of any procedure used in the employment selection decision process, but the most common tests are ability tests, personality tests, performance tests, and integrity tests. Some companies have assessment centers, in which management candidates participate in activities for a few days while being assessed in performance tests by evaluators.
- Other tests include drug testing, polygraphs, and genetic screening. With any kind of test, an important legal consideration is the test's reliability, the degree to which a test measures the same thing consistently, and validity, whether the test measures what it purports to measure and is free of bias.

9.3 Managing an Effective Workforce: Compensation & Benefits

- Compensation has three parts: wages or salaries, incentives, and benefits.
- In the category of wages or salaries, the concept of base pay consists of the basic wage or salary paid employees in exchange for doing their jobs.
- Incentives include commissions, bonuses, profit-sharing plans, and stock options.
- Benefits are additional nonmonetary forms of compensation, such as health insurance, retirement plans, and family leave.

9.4 Orientation, Training, & Development

- Three ways in which newcomers are helped to perform their jobs are through orientation, training, and development.
- Orientation consists of helping the newcomer fit smoothly into the job and organization. Following orientation, the employee should emerge with information about the job routine, the organization's mission and operations, and the organization's work rules and employee benefits.
- Training must be distinguished from development. Training refers to educating technical and operational employees in how to do their current jobs better.
- Development is the term describing educating professionals and managers in the skills they need to do their jobs in the future. Both training and development may be effected through on-the-job training methods and off-the-job training methods.

9.5 Performance Appraisal

- Performance management is defined as a set of processes and managerial behaviors that involve defining, monitoring, measuring, evaluating, and providing consequences for performance expectations.186 It consists of four steps: (1) define performance, (2) monitor and evaluate performance, (3) review performance, and (4) provide consequences.
- Performance appraisal consists of assessing an employee's performance and providing him or her with feedback. Appraisals are of two general types—objective and subjective.
- Two good reasons for having objective appraisals are that they measure results and they are harder to challenge legally. Objective appraisals are based on facts and are often numerical. An example is management by objectives.
- Subjective appraisals are based on a manager's perceptions of an employee's traits or behaviors. Trait appraisals are ratings of subjective attributes such as attitude and leadership. Behavioral appraisals measure specific, observable aspects of performance. Most performance appraisals are made by managers, but they may also be made by coworkers and subordinates, customers and clients, and employees themselves (self-appraisals). Sometimes all of these may be used, in a technique called the 360-degree assessment, in which employees are appraised not only by their managerial superiors but also by their peers, subordinates, and sometimes clients.
- In another evaluation technique, forced ranking performance review systems, all

employees within a business unit are ranked against one another, and grades are distributed along some sort of bell curve.

- Performance feedback can be effected in two ways: (1) Formal appraisals are conducted at specific times throughout the year and are based on performance measures that have been established in advance. (2) Informal appraisals are conducted on an unscheduled basis and consist of less rigorous indications of employee performance.

9.6 Managing Promotions, Transfers, Disciplining, & Dismissals

- Managers must manage promotions, transfers, disciplining, and dismissals.
- In considering promotions, managers must be concerned about fairness, nondiscrimination, and other employees' resentment.
- Transfers, or moving employees to a different job with similar responsibility, may take place in order to solve organizational problems, broaden managers' experience, retain managers' interest and motivation, and solve some employee problems.
- Poor-performing employees may need to be disciplined or demoted.
- Dismissals may consist of layoffs, downsizings, or firings.

9.7 The Legal Requirements of Human Resource Management

- Four areas of human resource law that any manager needs to be aware of are labor relations, compensation and benefits, health and safety, and equal employment opportunity.
- Labor relations are dictated in part by the National Labor Relations Board, which enforces procedures whereby employees may vote to have a union and for collective bargaining. Collective bargaining consists of negotiations between management and employees about disputes over compensation, benefits, working conditions, and job security.
- Compensation and benefits are covered by the Social Security Act of 1935 and the Fair Labor Standards Act, which established minimum wage and overtime pay regulations.
- Health and safety are covered by the Occupational Safety and Health Act of 1970, among other laws.
- Equal employment opportunity is covered by the Equal Employment Opportunity (EEO) Commission, whose job it is to enforce antidiscrimination and other employment-related laws.
- Three important concepts covered by EEO are (a) discrimination, which occurs when people are hired or promoted—or denied hiring or promotion—for reasons not relevant to the job, such as skin color or national origin; (b) affirmative action, which focuses on achieving equality of opportunity within an organization; and (c) sexual harassment, which consists of unwanted sexual attention that creates an adverse work environment and which may be of two types—the quid pro quo type, which may cause direct economic injury, and the hostile environment type, in which the person being harassed experiences an offensive work environment.
- Another area of concern, though not covered by EEO laws, is bullying, repeated mistreatment by one or more perpetrators. Bullying is abusive physical, psychological, verbal, or nonverbal behavior that is threatening, humiliating, or intimidating.

9.8 Labor-Management Issues

- Labor unions are organizations of employees formed to protect and advance their members' interests by bargaining with management over job-related issues.
- Workers organize by signing authorization cards designating a certain union as their bargaining agent, and if enough cards are signed, the National Labor Relations Board will recognize the union as the bargaining unit. If 50% of workers agree, the NLRB certifies the union as the workers' exclusive representative. In negotiating a contract in collective bargaining, workers in the union must ratify the contract, after which union and management sign a negotiated labor-management contract.
- Among the issues unions negotiate are the union security clause, which states that workers must join the union or at least pay benefits to it.
- The four types of workplaces are closed shop (now illegal), union shop, agency shop, and open shop. Twenty-two states have right-to-work laws that prohibit employees from being required to join a union as a condition of employment.
- Unions also negotiate wage rates, including two-tier wage contracts, with newer employees being paid less, and cost-of-living (COLA) adjustments giving wages that increase with the cost of living. Sometimes unions must negotiate givebacks, in which employees give up previous wage or benefit gains in return for something else.
- To avoid strikes, labor-management disputes may be resolved through grievance procedures or through mediation or arbitration.

Understanding the Chapter: What Do I Know?

1. What is human resource management and its purpose, and what are the three concepts important to it?
2. What is performance management, and what are the four steps in it?
3. Explain the two steps in strategic human resource planning.
4. What are the two types of recruiting and how do the three types of selection tools work?
5. Differentiate among the three types of compensation.
6. Describe orientation, training, and development.
7. Explain the difference between objective and subjective performance appraisals and describe 360-degree assessment, forced ranking, and formal versus informal performance feedback.
8. What are the four areas of human resource law a manager needs to be aware of?
9. Explain the concepts of discrimination, affirmative action, sexual harassment, and bullying.
10. What are the principal labor-management issues?

Management in Action

More Companies Rely on Proactive Human Resource Practices to Reduce Employee Turnover

U.S. Security Associates, Inc., which has a turnover rate of 22.84%, begins its effort to build a long-term workforce even before employees are hired. "A strong hiring process is a pivotal strategy in reducing key turnover liabilities. For our branch and district manager force, we implemented a variety of pre-employment measures and tools to minimize our risk and loss considerably while also adding strong performers to our organization," says Manager of Organizational Development Jonathan Jones. "We use a combination of screening measurements and assessments as part of the hiring process and map those results to our organization's specific performance measures. In this way, we are obtaining useful information as far as general performance indicators are concerned, as well as more specific performance indicators that are linked to the competencies that drive our business."

Once they are hired, U.S. Security Associates works to keep employees motivated to keep up the good work—and stay on its payroll. "In tandem with our rigorous hiring strategies, we tie strong incentives to performance. Our compensation is a 'pay-for-performance' model in which actual performance dictates the majority of the total compensation," says Jones. "This methodology internally 'top-grades,' or replaces low-performing managers with individuals more capable of achieving greater results, and assists in decreasing our turnover rate as we hire well and maintain our performers. The turnover we do have in this group is often favorable as it works to increase the caliber of our employees through this system."

Special Attention Needed Immediately After Hiring

It is important to work to retain employees throughout their career, but never more so than in the first months after they are hired. These new employees you worked so hard to recruit have not yet committed to your company in those first days of employment. Aegis Media knows this and takes care to hold onto its newest employees in their earliest days with the organization. "We have a program that engages new hires for the first 90 days to ensure they are navigating the organization efficiently and to ensure they have an experienced member of the team they can reach out to who is not their direct manager, but rather a peer," says Executive Vice President and Chief Talent Officer Rose Zory. "This has proven to drive much better engagement early on with the organization, and those who participate have a longer tenure with the company."

The initial high level of attention Aegis Media gives its new employees is followed up with ongoing check-ins to make sure employees are getting what they need. "Understand engagement with employees at all levels. We have been committed to surveying all employees annually to ensure we are listening to what is working and what needs attention," says Zory. "We do a post-hiring survey after 90 days and an exit survey with all voluntary leavers, as well. Understanding the reasons for people leaving the organization is key to managing your turnover proactively."

Compete to Keep Star Employees

Vi, which owns, operates, and manages upscale senior living facilities across the United States, knows top talent in the nursing profession is in high demand. Nevertheless, the company has managed to sustain a turnover rate that continues to improve. "In 2012, Vi's turnover was 21.8%, down from 24% in 2011. The average turnover in our industry ranges from 33% to as high as 65 to 70%," says Vice President of Human Resources and Learning Judy Whitcomb. "Vi is proud that our average employee tenure is 5.5 years."

Whitcomb says Vi has a strategic retention plan that includes a variety of employee development plans that contribute to Vi's high retention rate. "The nursing field in general is very competitive. Vi has put several programs in place to attract, retain, and engage the very best in nursing," Whitcomb explains. "Besides a custom online university portal called E-Campus, designed with specific courses, resources, and tools for nurses, Vi offers more than 500 free continuing education courses. In addition, Vi has created a comprehensive one-year nurse leadership development program for new and emerging nurse leaders. For employees early in their career, Vi offers an annual Management Development Program."

Balance Long- & Short-Term Retention Efforts

Jiffy Lube International also takes long-term development seriously. The company offers certifications that prepare employees for a long career. The company has an online learning portal that is available to employees as early as their first day on the job. It offers a development path for the next few years of employment should the worker decide to stick with the company. "The 10 certifications in Jiffy Lube University have been reviewed by the American Council on Education (ACE) and determined to be worth seven hours of college credits," says Manager of Learning and Development Ken Barber.

FOR DISCUSSION

1. What specific human resource practices are U.S. Security Associates, Aegis Media, Vi, and Jiffy Lube using to recruit and retain high-quality employees?
2. Why do you think the practices and programs used at these companies are helping to reduce turnover? Explain your logic.
3. To what extent does the size of a company influence the ability to implement the type of practices being used by these five companies? Explain.
4. Based on what you learned in this chapter, can you think of any additional HR practices that might be used to reduce turnover? Discuss.
5. What is your key takeaway from this case?

Source: Excerpted from Margery Weinstein, "No More Revolving Door," Training, *July/August 2013, pp. 50–53.*

Legal/Ethical Challenge

How Would You Accommodate a Pregnant Employee?

This challenge is based on an actual case involving Anycia Grady, a social worker in the area of Cleveland, Ohio. After becoming pregnant, she worried that the stress of her 12-hours-a-day job might negatively impact her baby. She decided to consult her doctor.

Her doctor advised her to cut her workload to eight hours a day: The doctor wrote a note to her employer to confirm this conclusion. The doctor was concerned because research shows that "maternal stress in the early months of pregnancy can affect fetal brain development and can lead to low birth weight and preterm labor," according to a research report.

Anycia told her manager, "I am so overwhelmed and have so much anxiety over the health of my baby." He told her that it would be very difficult for her to cover her case load in eight hours. Anycia concluded "I had two choices: keep my current pay and put my baby at risk, or do what I need to do to protect my baby and take the pay cut."

The situation got worse after the first ultrasound. Her baby was not growing according to expectations, and was not moving. Ms. Grady was forced into a choice of losing income or doing what was best for her baby. She decided to see her manager and take control of the situation. She told her boss, "I am cutting my hours, and you can tell me later if it affects my pay."

SOLVING THE CHALLENGE

What would you do if you were Anycia Grady's manager?

1. I would allow her to work eight hours a day, and I would not cut her salary. I then would reallocate some of her cases to other social workers.
2. I would allow her to work eight hours a day, but I would cut her salary accordingly. She should only get paid for the hours she works.
3. I would try to find another less stressful job that she could perform. If none were available, then I would give her two choices: (1) cut your hours and pay to whatever you desire or (2) take a leave of absence.
4. Invent other options. Explain.

Source: This case is based on A. Fox, "Great Expectations," HR Magazine, *February 2014, pp. 23–28.*

10

Organizational Change & Innovation

Lifelong Challenges for the Exceptional Manager

Major Questions You Should Be Able to Answer

the manager's toolbox

Managing for Innovation & Change Takes a Careful Hand

We live in what Tom Peters calls Discontinuous Times, or "a brawl with no rules," where dealing with change is an ongoing challenge for every manager.[1] "The one constant factor in business today is we live in a perpetual hurricane season," says Mellon Bank Corp. vice chairman Martin McGuinn. "A leader's job is less about getting through the current storm and more about enabling people to navigate the ongoing series of storms."[2]

For instance, speed is emerging as the ultimate competitive weapon. "Some of the world's most successful companies," says one writer, "are proving to be expert at spotting new opportunities, marshaling their forces, and bringing to market new products or services in a flash."[3] Speed is being driven by a new innovation imperative. "Competition is more intense than ever," he continues, "because of the rise of the Asian powerhouses and the spread of disruptive new Internet technologies and business models."

Managing for innovation and change takes a careful hand. "Even when their jobs depend on adopting and inventing new maneuvers," says columnist Carol Hymowitz, "most workers hold fast to old ones."[4]

Four ways to deal with change and innovation:[5]

Allow Room for Failure

"If somebody has an idea, don't stomp on it," says a psychologist and developer of ideas at Intuit, the software company famous for TurboTax and QuickBooks. "It's more important to get the stupidest idea out there and build on it than not to have it in the first place."[6]

Give One Consistent Explanation for the Change

When a company is undergoing change, myriad rumors will fly, so you and your managers need to give one consistent explanation. In McGuinn's case, the explanation for overhauling Mellon Bank's retail division was "We want to be the best retailer in financial services."

Look for Opportunities in Unconventional Ways

Most "new" products and services are really knockoffs or marginal variations of the things already on the market and hence are doomed to failure, says Robert Cooper, professor of marketing at Ontario's McMaster University.

This doesn't mean, of course, that there isn't room for leveraging existing products with utterly unoriginal ideas. But most people are blinded by the limits of conventional wisdom and their own experience and fail to see huge potential markets in unconventional concepts.

Try this advice from a Yale entrepreneurship instructor: Write down every hassle you encounter during the day. "At the end of the month, you will have 20 business ideas," he says, "and some of them will work."[7]

Have the Courage to Follow Your Ideas

This may be the hardest job of all—trying to convince others that your ideas for change are feasible, especially if the ideas are radical. This may mean working to gain allies within the organization, standing up to intimidating competitors inside and out, and perhaps being prepared to follow a lonely course for a long time.[8]

For Discussion If you were going to instill a culture of innovation in a company you worked for, what kinds of things would you do?

forecast What's Ahead in This Chapter

In this chapter, we consider the nature of change in organizations, including the two types of change—reactive and proactive—and the forces for change originating outside and inside the organization. Next we explore types and models of change. We then discuss organizational development, a set of techniques for implementing planned change. We describe how to promote innovation within an organization. Finally, we discuss how you can manage employee fear and resistance.

10.1 The Nature of Change in Organizations

MAJOR QUESTION

Since change is always with us, what should I understand about it?

THE BIG PICTURE

Two types of change are reactive and proactive. Forces for change may consist of forces outside the organization—demographic characteristics; technological advancements; shareholder, customer and market changes; and social and political pressures. Or they may be forces inside the organization—human resources concerns and managers' behavior.

People are generally uncomfortable about change, even change in apparently minor matters. Philosopher Eric Hoffer told how as a younger man he spent a good part of one year as an agricultural worker picking peas, starting in Southern California in January and working his way northward. He picked the last of the peas in June, then moved to another area where, for the first time, he was required to pick string beans.

"I still remember," he wrote, "how hesitant I was that first morning as I was about to address myself to the string bean vines. Would I be able to pick string beans? Even the change from peas to string beans had in it elements of fear."[9]

If small changes can cause uneasiness, large changes can cause considerable stress—but they are often necessary for a company's survival.

Fundamental Change: What Will You Be Called on to Deal With?

"It is hard to predict, especially the future," physicist Niels Bohr is supposed to have quipped.

But it is possible to identify and prepare for *the future that has already happened,* in the words of management theorist Peter Drucker, by looking at some of the fundamental changes that are happening now.[10]

Declining population in developed countries. More diversity in the workforce. China becoming the second-largest economic power. The ascent of knowledge work. Increased globalization. Awareness of climate change and need for sustainability. The rise of business-to-business (B2B) technology. Cloud storage, Big Data, and data analytics. New collaborative technologies. On-demand media. Capturing of customer-specific information. Customization of mass goods. Instant-gratification shopping. Sales in the form of auctions instead of fixed prices.[11]

Beyond these overarching trends there are also some supertrends shaping the future of business: (1) the marketplace is becoming more segmented; (2) competitors offering specialized solutions require we get our products to market faster; (3) some companies are unable to survive disruptive innovation; (4) offshore suppliers are changing the way we work; and (5) knowledge, not information, is becoming the new competitive advantage.

1. The Marketplace Is Becoming More Segmented & Moving toward More Niche Products In the recent past, managers could think in terms of mass markets—mass communication, mass behavior, and mass values. Now we have "de-massification," with customer groups becoming segmented into smaller and more specialized groups responding to more narrowly targeted commercial messages.

"Our culture and economy are increasingly shifting away from a focus on a relatively small number of hits (mainstream products and markets) . . . and moving toward a huge number of niches," says Chris Anderson in *The Long Tail.* "In an era without the constraints of physical shelf space and other bottlenecks of distribution, narrowly targeted goods and services can be as economically attractive as mainstream fare."[12] Or, as the book's subtitle states, "the future of business is selling less of more."

Example: In the Internet Age, retailers like Amazon and Apple are not constrained by physical shelf space and can offer consumers a much wider variety of products, yet small sales, one or two rather than millions of items at a time, can produce big profits.

Virgin train. A brainchild of British multiple entrepreneur Richard Branson, Virgin Trains was launched in 1997 to provide long-distance passenger services in the United Kingdom. Among Branson's many companies, 400 derivatives in all: Virgin Records, Virgin Mobile, Virgin Cola, Virgin Vodka, and Virgin Galactic (for space tourism). Branson's entrepreneurial approach: "Think, what's the most amazing way to do it?" What's your motto?

2. More Competitors Are Offering Targeted Products, Requiring Faster Speed-to-Market Companies offering a broad range of products or services are now experiencing intense pressure from competitors offering specialized solutions—and beating them to the punch by devising novel speed-to-market strategies.

Example: Virgin Group Ltd., headed by Sir Richard Branson, is known mainly for its music and airline businesses, but it has entered several new businesses one after the other—mobile phones, credit cards, hotels, games, trains, even space travel—and very quickly. Virgin Comics, aimed at India's multibillion-dollar comics market, went from idea to public announcement in less than 11 months.

3. Some Traditional Companies May Not Survive Radical Change In *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail,* **Clayton M. Christensen,** a Harvard Business School professor, argues that when successful companies are confronted with a giant technological leap that transforms their markets, all choices are bad ones.

Indeed, he thinks, it's very difficult for an existing successful company to take full advantage of a technological breakthrough such as digitalization—what he calls **disruptive innovation, a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors.**[13]

Lower-level managers are rarely rewarded for telling powerful senior executives that a competitive advantage is fading away, adds Columbia Business School professor Rita Gunther McGrath. "Better to shore up an existing advantage for as long as possible, until the pain becomes so obvious there is no choice. That's what happened at . . . Nokia, Kodak, and a host of other firms that got themselves into terrible trouble."[14]

EXAMPLE

Radical Change: The Fall of the BlackBerry

In 2009, Finnish phone maker Nokia's BlackBerry held first place in world market share for cell phones—so popular it was nicknamed the CrackBerry. Four years later, it had gone from dominance to also-ran, falling far behind Apple and Samsung.[15] "BlackBerry had a huge installed base," says one knowledgeable observer, "and they were afraid to walk away from it."[16]

Nokia Refocuses. In 2014 the company sold its phone handset business to Microsoft and announced it was focusing on three areas: (1) its core mobile telecommunications infrastructure business, which accounts for 90% of Nokia's revenue; (2) its digital mapping business, with which it hopes to map the world digitally; and (3) its research and intellectual property teams.[17]

YOUR CALL

Nokia's mobile telecom business faces competition from large carriers that are upgrading to high-speed cell-phone equipment and its mapping business will be competing with similar efforts from Apple and Google; it is unclear how the research and intellectual unit will use its expertise in the future. Do you think the new strategy will work?

4. China, India, & Other Offshore Suppliers Are Changing the Way We Work As we said in Chapter 2, globalization and outsourcing are transforming whole industries and changing the way we work. China, India, Mexico, the Philippines, and other countries offer workers and even professionals willing to work twice as hard for half the pay, giving American businesses substantial labor savings. While unquestionably some American jobs are lost, others become more productive, with some engineers and salespeople, for example, being liberated from routine tasks so that they can spend more time innovating and dealing with customers.

Example: Querétaro is not a place students would probably go for spring break, but it has become known for something not normally associated with Mexico: aircraft construction. American aircraft makers from Bombardier to Cessna Aircraft to Hawker Beechcraft have various kinds of subassembly work here, where wages are lower but skill levels are not.[18]

But if some manufacturing jobs have moved cross-border, dozens of foreign manufacturers in aerospace, chemicals, and other industries are bringing jobs *to* the United States. British-based Rolls-Royce, for instance, makes engine parts in Virginia. Siemens, a German company, makes power-plant turbines in North Carolina.[19]

Overseas firms also now look to the United States for talented workers in technology, finance, and research.[20]

5. Knowledge, Not Information, Is Becoming the New Competitive Advantage "Information is rapidly becoming a profitless commodity, and knowledge is becoming the new competitive advantage," says San Diego management consultant Karl Albrecht.[21]

That is, as information technology does more of the work formerly done by humans, even in high-tech areas (such as sorting data for relevance), many low-level employees previously thought of as knowledge workers are now being recognized as "data workers," who contribute very little added value to the processing of information. Unlike routine information handling, knowledge work is analytic and involves problem solving and abstract reasoning—exactly the kind of thing required of skillful managers, professionals, salespeople, and financial analysts. As futurists Alvin and Heidi Toffler suggest, knowledge work drives the future and creates wealth.[22]

Example: Many back-office systems and functions—those the customer does not see, such as inventory management and accounts payable—are rapidly being outsourced. Indeed, even some tasks of software engineers and other technical experts are also being sent overseas.

Two Types of Change: Reactive versus Proactive

Most CEOs, general managers, and senior public-sector leaders agree that incremental changes are no longer sufficient in a world that is operating in fundamentally different ways. Life in general, they say, is becoming more complex and the firms that are able to manage that complexity are the ones that will survive in the long term.[23] Clearly, we are all in for an interesting ride.

As a manager, you will typically have to deal with two types of change: *reactive* and *proactive.*

1. Reactive Change: Responding to Unanticipated Problems & Opportunities

When managers talk about "putting out fires," they are talking about **reactive change,** **making changes in response to problems or opportunities as they arise.**

A good example is how grocers and government officials responded in 2012 to social media's depiction of "pink slime," a beef additive. Although the product had been safely used for years as a way to make ground beef leaner, social media frenzy caused people to fear its use in our food. This in turn led some grocers to stop using the product and a loss of jobs for people producing it. The U.S. Department of Agriculture and governors from five states responded by starting a public relations campaign to discredit the erroneous information being promoted to the public.[24]

EXAMPLE

Reactive Change: The BP Gulf of Mexico Blowout

Crises can happen quickly and without warning, and many companies have shown they don't deal with them well, as happened with Toyota's and GM's slow reactions in recalling defective vehicles. But for oil giant BP (formerly British Petroleum), the crisis was catastrophic—both for itself and most certainly for the United States.[25]

Crisis in the Gulf of Mexico. In April 2010, an explosion on the BP drilling platform Deepwater Horizon in the Gulf of Mexico led to sinking of the rig, loss of 11 lives, and the largest oil spill ever to happen in U.S. waters. Oil wells have emergency shutoff valves called blowout preventers, which can be triggered from the rig. The Deepwater Horizon, which floated 5,000 feet above the ocean floor, was equipped with this device, which nearly always works when wells surge out of control. However, it failed to operate on the day of the Gulf accident.

And what the rig did not have was a *backup* shutoff switch, a remote-control device that carries an acoustic signal through the water that can be activated as a last resort. Such acoustic backup triggers, which cost about $500,000, are not mandated by U.S. regulators, but they also haven't been tested under real-world conditions, because major offshore oil-well blowouts are so rare. (Even so, Norway and Brazil require them, and some major oil companies, such as Royal Dutch Shell, carry them even when not mandated.)

BP Reacts. As 2.5 million gallons of oil a day leaked from the open wellhead, the question was asked: Why wasn't BP prepared for such an accident? Eventually they capped the leak, but in the aftermath BP pled guilty to federal felony charges and environmental-law violations and was forced to sell almost $40 billion in assets to meet its liabilities, a move that cut its number of wells and platforms in half.[26] Four years later, it was still trying to settle with thousands of gulf victims, from shrimpers to hotel owners—and deal with many dubious claims of businesses hundreds of miles from the Gulf, including a Florida escort service.[27]

YOUR CALL

The BP blowout happened 21 years after the tanker *Exxon Valdez*'s catastrophic 1989 oil spill in the Gulf of Alaska, the effects of which are still being felt. Wasn't that enough time for oil companies to plan for major accidents? What should BP have done?

2. Proactive Change: Managing Anticipated Problems & Opportunities

In contrast to reactive change, **proactive change, or planned change, involves making carefully thought-out changes in anticipation of possible or expected problems or opportunities.**[28]

EXAMPLE

Proactive Change: Disney World Gets Out Front with Its MagicBand

Even big companies in the constantly changing landscape of California's Silicon Valley are nervous. "Everyone is trying to position themselves for the new style of information technology," says Hewlett-Packard CEO Meg Whitman. "The fittest will survive."[29]

The Game Changer. Across the country in Orlando, Florida, however, the Walt Disney Company is taking a giant proactive stride: investing $1 billion into a wearable technology that it hopes will revolutionize the way visitors spend money at Walt Disney World. It begins with the MyMagic+ vacation-planning system, which features a website ("My Disney Experience") and data-collecting wristbands ("MagicBands") that interact with scanners throughout the 40-square-mile theme park.

"Because it is a reservation system, it is a game changer," says a professor who teaches theme-park management. "Now you can plan your vacation and your ride sequence well ahead of your trip."[30] For instance, you can "prebook front-of-the-line access to three rides, parades, or [Disney cartoon] character meet-and-greets," says writer Brooks Barnes. To buy food and merchandise, you just stand at the register and swipe your wristband. The MagicBand also functions as a hotel room key, parking claim, and VIP access (so that Disney employees will greet you by name). Says Barnes, "Disney thinks people will spend more money and time at the [park] if they find it easier to navigate."[31]

Creeped Out? During testing of the system, Disney found it could accommodate 3,000 additional daily guests and that use of the FastPass reservation system had increased 40%, freeing people from standing in line and increasing their number of experiences. Of course, data security will be paramount to the system's success. "The MagicBands run the risk of alienating guests by creeping them out," says one writer. "Some people have likened the MyMagic+ program to spying."[32]

YOUR CALL

Disney hopes that the technology will give people the flexibility to visit multiple Disney parks in a single day and keep them from going to competing Central Florida parks, such as Universal Orlando Resort.

Do you think Disney is on to something? Could the technology be applied to zoos, Las Vegas resorts, and other venues, as the company hopes? How?

As we've stated, change can be hard, and the tools for survival are flexibility and adaptability. We also know that organizations like to hire people who are flexible and willing to accept change. How well do you think you fare in this regard? You can find out by taking Self-Assessment 10.1.

SELF-ASSESSMENT 10.1 connect

Assessing Your Attitudes toward Change at Work

The following survey was designed to assess your attitudes toward change at work. Go to **connect.mheducation.com** and take Self-Assessment 10.1. When you're done, answer the following questions:

1. Where do you stand when it comes to your attitude toward change? Are you surprised by the results?
2. Based on your three lowest scoring survey items, how might you foster a more positive attitude toward change? Be specific.
3. What type of questions might a recruiter ask you during an interview to assess your attitude toward change? What would be your response to these questions?

The Forces for Change: Outside & Inside the Organization

How do managers know when their organizations need to change? The answers aren't clear-cut, but you can get clues by monitoring the forces for change—both outside and inside the organization. *(See Figure 10.1, opposite page.)*

Forces Originating Outside the Organization

External forces consist of four types, as follows.

1. Demographic Characteristics Earlier we discussed the demographic changes occurring among U.S. workers, with the labor force becoming more diverse. Example: So-called Millennials (those born after 1980) are vastly different from their parents in their views on everything from technology to politics to marriage to tattoos.[33]

2. Technological Advancements **Technology is not just computer technology; it is any machine or process that enables an organization to gain a competitive advantage in changing materials used to produce a finished product.** Technology may be one of the greatest forces for productivity in our lifetime, as when social media (LinkedIn, Facebook), used by 98% of recruiters, makes finding employees more efficient.[34]

But technology can also create real headaches, as when illegal copycats overseas use it to make pirated versions of American products, such as U.S. movies still in theaters.[35] Another example: Plastic corks and screw tops for wine bottles are severely affecting Portugal, which produces some 52% of the world's natural cork.[36]

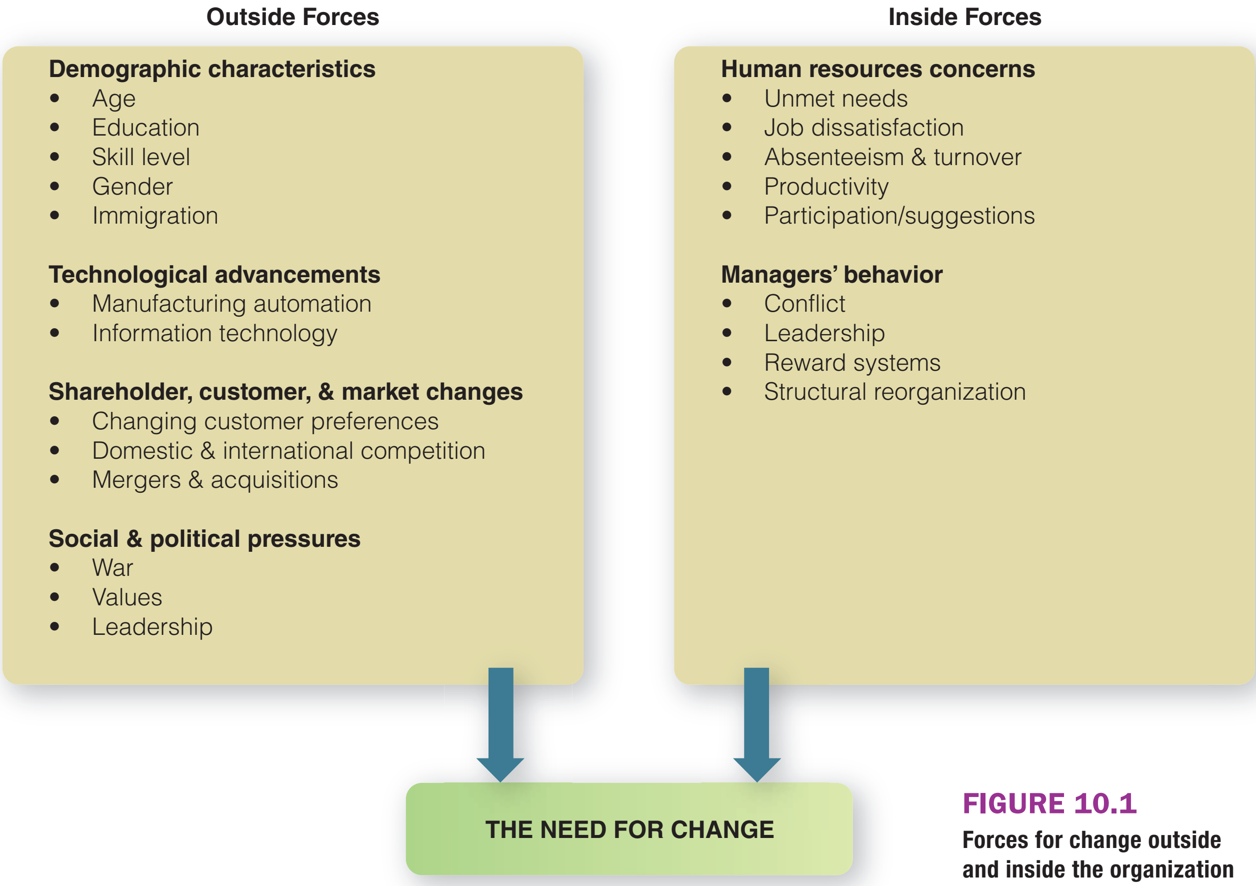


FIGURE 10.1
Forces for change outside and inside the organization

EXAMPLE

Technology Creates the Sharing Economy: Airbnb, Uber, & . . . DogVacay?

The *sharing economy,* also known as collaborative or peer-to-peer marketplaces, is a technological variation on past behavior in which people who knew each other, such as kin and neighbors within communities, offered goods and services to one another. What is different about today's sharing economy is that ordinary people can now share, with the help of the Internet and wide use of credit cards, their residences (which Airbnb effectively turns into hotel rooms), their personal cars (which Uber turns into taxis), or their skills (such as pet care, through DogVacay, with strangers boarding pets for a fee).[37]

Home Hotels. In San Francisco in 2007, jobless industrial designers Brian Chesky and Joe Gebbia, wondering how to make the rent, realized that a major design conference was about to be held in the city and that hotel rooms would be scarce. Gebbia had three air mattresses and suggested turning their apartment into an "air bed and breakfast." Within three days they had a quicky website up and had booked three guests, each paying about $70 for several nights.[38]

Thus was born Airbnb, which today is valued at $10 billion—more than Hyatt Hotels or Wyndham Worldwide—and earns 12% fees on 60,000 bookings a night around the globe. Accommodations range from an $18 shared downtown living room to castles in Europe.[39]

Sharing Closets, Food, & More. In New York City, where closets are scarce, Jennifer Lee founded ClosetDash for swapping clothes. DogVacay in Los Angeles matches pet owners with pet sitters. HiGear is a luxury car-sharing venture that offers users a chance to drive around in a Mercedes or Alfa Romeo. Mealku is an online cooperative of homemade food, founded by Ted D'Cruz-Young, in which members paying $10 a month share food they prepare.[40]

YOUR CALL

The heart of the sharing economy is trust and quality control—made possible mainly by online reviews or reputation systems, mechanisms that establish ratings and feedback to help potential buyers choose reputable providers. "We're removing bad actors from industry after industry," says D'Cruz-Young.

What do you think will be the effect of these collaborative marketplaces on established industries?

3. Shareholder, Customer, & Market Changes Shareholders have begun to be more active in pressing for organizational change. Insurance company Aflac, for example, became the first U.S. company to allow shareholders to have a say on executive pay.[41]

Customers are also becoming more demanding, being more inclined to take their business elsewhere if they do not get what they want from a given company, so that now firms such as General Motors and McDonald's actively collect information about customer preferences and try to address them in their new products.

The global economy has forced U.S. companies to change the way they do business, with Walmart, for example, stepping up its expansion into overseas markets.[42] The Great Recession also drastically affected many organizations.

Example: Second-hand shops suffered from a recession-induced decline in thrift store donations, even as consumer demand for used goods went through the roof.[43]

4. Social & Political Pressures Social events can create great pressures.

Example: Poor lifestyle choices have led to nearly 70% of U.S. adults being overweight or obese, which in turn has produced an increase in several types of cancer that are weight related. These health-related problems and their associated costs have prompted organizations to find ways of helping employees adopt more healthy lifestyles.

Forces Originating Inside the Organization Internal forces affecting organizations may be subtle, such as low job satisfaction, or more dramatic, such as constant labor-management conflict. Internal forces may be of the two following types: *human resources concerns and managers' behavior.*

1. Human Resources Concerns Is there a gap between the employees' needs and desires and the organization's needs and desires? Job dissatisfaction—as expressed through high absenteeism and turnover—can be a major signal of the need for change. Organizations may respond by addressing job design, reducing employees' role conflicts, and dealing with work overload, to mention a few matters.

Example: As the recent deep recession lingered on, employees in many organizations became stressed out from months of dealing with layoff concerns, wage cuts, or scaled-back hours, requiring managers to hold meetings and change hiring practices to alleviate their worries.[44]

2. Managers' Behavior Excessive conflict between managers and employees is another indicator that change is needed. Perhaps there is a personality conflict, so that an employee transfer may be needed. Or perhaps some interpersonal training is required. There may also be conflict between managers and their superiors, as between a CEO and his or her board of directors.

Example: "New managers tend to struggle when dealing with regular, day-to-day issues, like people on the team who don't meet deadlines," says Vicki Foley, a director of a career consulting firm.[45] One solution is to become a "servant leader" (discussed in Chapter 14), seeing yourself as someone who helps others do their jobs, fixing problems and giving employees the tools they need. ●

A world changer? Before it was rolled out in 2001, tech world pundits predicted that the Segway, the battery-powered two-wheeled scooter, would revolutionize society. Although it has not lived up to such high expectations, it has found success in law enforcement, private security, helping disabled vets—and transporting tourists, such as Lina Nilson, shown here in Cannes, France. Can you think of other forms of technology that did not realize the high hopes predicted for them?

10.2 Types & Models of Change

MAJOR QUESTION

What are three types of change, and how are Lewin's and Kotter's approaches designed to handle change?

THE BIG PICTURE

This section discusses the three types of change, from least threatening to most threatening: adaptive, innovative, and radically innovative. It also describes Lewin's three-stage change model: unfreezing, changing, and refreezing. Finally, it describes Kotter's eight steps for leading organizational change, which can be linked to Lewin's three stages.

As we mentioned in Section 10.1, change may be forced upon an organization—reactive change, requiring you to make adjustments in response to problems or opportunities as they arise. Or an organization may try to get out in front of changes—proactive change, or planned change, which involves making carefully thought-out changes in anticipation of possible problems or opportunities.

As a manager, particularly one working for an American organization, you may be pressured to provide short-term, quick-fix solutions. But when applied to organizational problems, this approach usually doesn't work: Quick-fix solutions have little staying power.

What, then, do we need to understand in order to effectively manage organizational change? In this section, we discuss the following:

- Three kinds of change.
- Lewin's change model.
- Kotter's eight steps for leading organizational change.

Three Kinds of Change: From Least Threatening to Most Threatening

Whether organizational change is administrative or technological, it can be *adaptive, innovative,* or *radically innovative,* depending on (1) the degree of complexity, cost, and uncertainty and (2) its potential for generating employee resistance.[46]

Least Threatening: Adaptive Change—"We've Seen Stuff Like This Before"

Adaptive change is reintroduction of a familiar practice—the implementation of a kind of change that has already been experienced within the same organization. This form of change is lowest in complexity, cost, and uncertainty. Because it is familiar, it is the least threatening to employees and thus will create the least resistance.

For example, during annual inventory week, a department store may ask its employees to work 12 hours a day instead of the usual 8. During tax-preparation time, the store's accounting department may imitate this same change in work hours. Although accounting employees are in a different department from stockroom and sales employees, it's expected they wouldn't be terribly upset by the temporary change in hours since they've seen it in effect elsewhere in the store.

Somewhat Threatening: Innovative Change—"This Is Something New for This Company"

Innovative change is the introduction of a practice that is new to the organization. This form of change involves moderate complexity, cost, and uncertainty. It is therefore apt to trigger some fear and resistance among employees.

For example, should a department store decide to adopt a new practice of competitors by staying open 24 hours a day, requiring employees to work flexible schedules, it may be felt as moderately threatening.

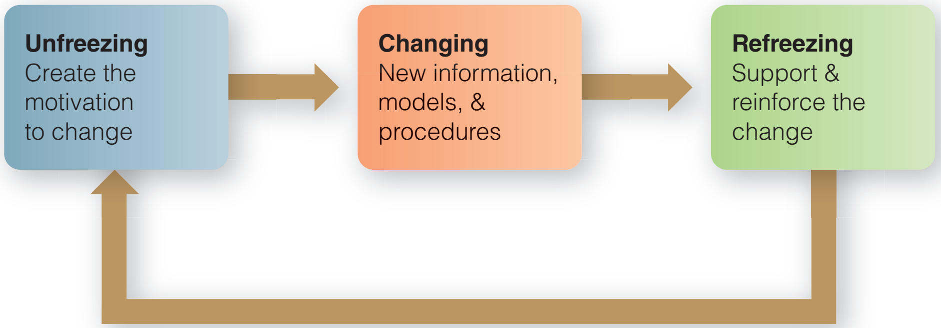
Very Threatening: Radically Innovative Change—"This Is a Brand-New Thing in Our Industry" **Radically innovative change involves introducing a practice that is new to the industry.** Because it is the most complex, costly, and uncertain, it will be felt as extremely threatening to managers' confidence and employees' job security and may well tear at the fabric of the organization.[47]

For example, a department store closing some of its brick-and-mortar operations and converting them to e-commerce—selling its goods on the Internet—may encounter great anxiety among its staff, especially those fearing being left behind.

Lewin's Change Model: Unfreezing, Changing, & Refreezing

Most theories of organizational change originated with the landmark work of social psychologist **Kurt Lewin.** Lewin developed a model with three stages—*unfreezing, changing,* and *refreezing*—to explain how to initiate, manage, and stabilize planned change.[48] *(See Figure 10.2.)*

FIGURE 10.2
Lewin's model of change



1. "Unfreezing": Creating the Motivation to Change In the *unfreezing stage,* managers try to instill in employees the motivation to change, encouraging them to let go of attitudes and behaviors that are resistant to innovation. For this "unfreezing" to take place, employees need to become dissatisfied with the old way of doing things. Managers also need to reduce the barriers to change during this stage.

Example: Wireless handheld computers—personal digital assistants (PDAs)—are becoming established tools for health professionals, who use them to access patient records in hospital information systems. How well have they been accepted? Studies exploring nurses' perceptions about using PDAs in their daily patient practice found initial resistance, with some nurses concerned about the cost and short technological life cycle of these devices—the *unfreezing* stage.[49]

2. "Changing": Learning New Ways of Doing Things In the *changing stage,* employees need to be given the tools for change: new information, new perspectives, new models of behavior. Managers can help here by providing benchmarking results, role models, mentors, experts, and training. It's advisable, experts say, to convey the idea that change is a continuous learning process, not just a one-time event.[50]

Example: In the *changing* stage, nurses learning PDAs were allowed to continue their manual patient-charting systems while learning the PDA-accessible versions, but only for a limited time to avoid adding to their already heavy workloads. They were assisted with educational programs to help them learn and implement the new technology, programs that also stressed the need to protect confidential patient records.

3. "Refreezing": Making the New Ways Normal In the *refreezing stage,* employees need to be helped to integrate the changed attitudes and behavior into their normal ways of doing things. Managers can assist by encouraging employees to exhibit the new change and then, through additional coaching and modeling, by reinforcing the employees in the desired change, as we'll discuss in Section 10.5.

Example: In the *refreezing* stage, as hospitals eliminated barriers that precluded the use of wireless networks, nurses learned to appreciate the usefulness of having a widely pervasive and portable technology, with its easier access to drug and diagnostic/laboratory reference applications and improved communications.

Kotter's Eight Steps for Leading Organizational Change

An expert in leadership and change management, **John Kotter** believes that, to be successful, organizational change needs to follow eight steps to avoid the eight common errors senior management usually commits.[51] These steps, shown below, correspond with Lewin's unfreezing-changing-refreezing steps. *(See Table 10.1.)*

TABLE 10.1 **Steps to Leading Organizational Change**

STEP	DESCRIPTION
1. Establish a sense of urgency.	Unfreeze the organization by creating a compelling reason for why change is needed.
2. Create the guiding coalition.	Create a cross-functional, cross-level group of people with enough power to lead the change.
3. Develop a vision and a strategy.	Create a vision and a strategic plan to guide the change process.
4. Communicate the change vision.	Create and implement a communication strategy that consistently communicates the new vision and strategic plan.
5. Empower broad-based action.	Eliminate barriers to change, and use target elements of change to transform the organization. Encourage risk taking and creative problem solving.
6. Generate short-term wins.	Plan for and create short-term "wins" or improvements. Recognize and reward people who contribute to the wins.
7. Consolidate gains and produce more change.	The guiding coalition uses credibility from short-term wins to create more change. Additional people are brought into the change process as change cascades throughout the organization. Attempts are made to reinvigorate the change process.
8. Anchor new approaches in the culture.	Reinforce the changes by highlighting connections between new behaviors and processes and organizational success. Develop methods to ensure leadership development and succession.

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Steps 1–4 represent unfreezing: establish a sense of urgency, create the guiding coalition, develop a vision and strategy, and communicate the change vision.

Steps 5–7 represent the changing stage: empower broad-based action, generate short-term wins, and consolidate gains and produce more change.

Step 8, corresponding to refreezing, is to anchor new approaches in the organization's culture.

The value of Kotter's steps is that they provide specific recommendations about behaviors that managers need to exhibit to successfully lead organizational change. It is important to remember that Kotter's research reveals that it is ineffective to skip steps and that successful organizational change is 70%–90% leadership and only 10%–30% management. Senior managers are thus advised to focus on leading rather than on managing change.[52]

EXAMPLE

Kotter's Steps in Organizational Change: Implementing an Electronic Health Record System

What if a health care manager is interested not in just getting nurses accustomed to using a PDA (personal digital assistant, a small electronic device for storing and organizing information) but getting an entire hospital staff converted to a changeover to an electronic health record (EHR) system? Robert James Campbell of East Carolina University proposes the following model, following Kotter's eight-step approach.[53]

1. Establish a Sense of Urgency. How do you energize your medical colleagues to realize there's a problem? One way, suggests Campbell, "is to create a video presentation showing an angry parent whose daughter has died at the hospital because of a medical error that could have been prevented if the patient's information was stored electronically rather than on paper."

2. Create the Guiding Coalition. Individuals who would guide the change management project would be selected from physicians and other hospital staff members with relevant knowledge about health care industry challenges (including EHR implementation), credibility with peers, knowledge of their department's operations, and the ability to communicate a vision and motivate others to achieve it (leadership).

3. Develop a Vision & a Strategy. The health care manager and team next need to frame a good vision statement with six or seven visions of the future, such as "What does it mean to be a paperless health care organization?" The vision and strategy should focus on how the change would improve service to patients and families and raise the urgency among staff members to motivate them to make the proposed changes a reality.

4. Communicate the Change Vision. A way to communicate the vision, says Campbell, is to create a "short, inexpensive video presentation showing an interview done with a patient injured by a medical error" to show how an EHR would reduce errors. Webcasts could also be used to demonstrate to staff members how the EHR would improve patient care.

5. Empower Broad-Based Action. Using Kotter's "see-feel-change" method of altering organizational behavior, the change team can show reluctant staffers how an EHR chart can beat a paper chart in providing a patient's history. Bonuses, raises, and promotions can also be given to individuals who embrace the change effort.

6. Generate Short-Term Wins. Empowered individuals need to clearly show that the change management project is succeeding by showing "short-term wins," as in showing how quickly an order is fulfilled.

7. Consolidate Gains & Produce More Change. Once the new system "goes live" (is fully implemented), it's up to the guiding coalition to resolve difficulties that arise among users through the creation of a special team called "red coats," who are immediately dispatched to solve problems (as when a belligerent physician claims that the system is too difficult to use or is "malfunctioning again").

8. Anchor New Approaches in the Culture. To make changes stick and embed the new technology within the organizational culture, the change team created a practice called "Focused Rounds," in which an expert was sent on hospital rounds with a physician "to help physicians make more efficient use of the system."

YOUR CALL

Kotter's eight steps don't seem mysterious; however, depending on the size of the project or organization, they may require considerable effort. Could you apply them to something on your campus? For instance, in recent times, reducing concussions among athletes (such as football players) has been much in the news.[54] If you were to start a campaign to reduce them in a particular sport on your campus, how would you apply Kotter's methodology?

10.3 Organizational Development: What It Is, What It Can Do

MAJOR QUESTION

What are the uses of OD, and how effective is it?

THE BIG PICTURE

Organizational development (OD) is a set of techniques for implementing change, such as managing conflict, revitalizing organizations, and adapting to mergers. OD has three steps: diagnosis, intervention, and evaluation. Four factors have been found to make OD programs effective.

Organizational development (OD) is a set of techniques for implementing planned change to make people and organizations more effective. Note the inclusion of people in this definition. OD focuses specifically on people in the change process. Often OD is put into practice by a person known as a **change agent, a consultant with a background in behavioral sciences who can be a catalyst in helping organizations deal with old problems in new ways.**

What Can OD Be Used For?

OD can be used to address the following three matters:

1. Managing Conflict Conflict is inherent in most organizations. Sometimes an OD expert in the guise of an executive coach will be brought in to help advise an executive on how to improve relationships with others in the organization.

Example: The two co-founders of Network Appliance, a data-storage firm in Sunnyvale, California, were feuding with each other because one founder couldn't stick to his decisions, which drove the other founder crazy. An organizational behavior specialist began working with the warring executives in separate sessions to solve the problem.

2. Revitalizing Organizations Information technology is wreaking such change that nearly all organizations these days are placed in the position of having to adopt new behaviors in order to resist decline. OD can help by opening communication, fostering innovation, and dealing with stress.

Example: Family doctors (primary care physicians) are paid relatively modestly compared with other physicians and also do a lot of work outside office visits—making phone calls, writing prescriptions, reading lab reports—for which they are not compensated. They will be affected even more heavily by the preventive-medicine orientation of the Affordable Care Act. By getting expert help in adopting electronic records and trying out pilot projects that compensate them for preventive and disease-management work (not just office visits), such physicians can reduce their costs and increase their revenue significantly.[55]

3. Adapting to Mergers Mergers and acquisitions are associated with increased anxiety, stress, absenteeism, turnover, and decreased productivity.[56] What is the organizational fit between two disparate organizations, such as American Airlines and US Airways, which merged in 2014? OD experts can help integrate two firms with varying cultures, products, and procedures.

How OD Works

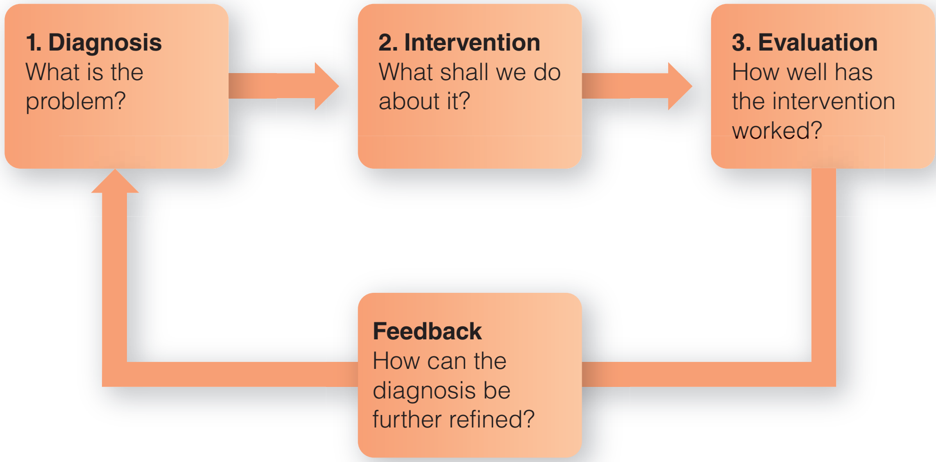
Like physicians, OD managers and consultants follow a medical-like model. (Or, to use our more current formulation, they follow the rules of evidence-based management.)

They approach the organization as if it were a sick patient, using *diagnosis, intervention,* and *evaluation*—"diagnosing" its ills, "prescribing" treatment or intervention, and "monitoring" or evaluating progress. If the evaluation shows that the procedure is not working effectively, the conclusions drawn are then applied (see feedback loop) to refining the diagnosis, and the process starts again. *(See Figure 10.3.)*

FIGURE 10.3

The OD process

Sources: Adapted from W.L. French and C.H. Bell Jr., Organization Development: Behavioral Interventions for Organizational Improvement *(Englewood Cliffs, NJ: Prentice Hall. 1978); and E. G Huse and T. G. Cummings,* Organizational Development and Change, *3rd ed. (St. Paul: West, 1985).*



1. Diagnosis: What Is the Problem? To carry out the diagnosis, OD consultants or managers use some combination of questionnaires, surveys, interviews, meetings, records, and direct observation to ascertain people's attitudes and to identify problem areas.

2. Intervention: What Shall We Do about It? "Treatment" or **intervention is the attempt to correct the diagnosed problems.** Often this is done using the services of an OD consultant who works in conjunction with management teams. Some OD activities for implementing planned change are communicating survey results to employees to engage them in constructive problem solving, observing employee communication patterns and teaching them skills to improve them, helping group members learn to function as a team, stimulating better cohesiveness among several work groups, and improving work technology or organizational design.

3. Evaluation: How Well Has the Intervention Worked? An OD program needs objective evaluation to see if it has done any good. Answers may lie in hard data about absenteeism, turnover, grievances, and profitability, which should be compared with earlier statistics. The change agent can use questionnaires, surveys, interviews, and the like to assess changes in employee attitudes.

EXAMPLE

Organizational Development: Using OD to Make Money in the Restaurant Business

"Restaurants are so focused on the day-to-day business," says Eli Chait, "that they don't have time to grow the business."[57]

If you own or manage a restaurant, how can you improve your chances? You could hire a change agent such as Chait, now 26, who co-founded San Francisco–based Copilot Labs, a restaurant marketing analytics company, not long after graduating from the University of California, Berkeley.

Diagnosis: "What Is the Problem?" Organizational development is often focused on "big wins" (such as merging two companies), but it can also be used in a small business like a restaurant where small or incremental wins are important. Thus, an owner might want to know: "Which is more effective—promoting our happy hours or promoting our daily deals?" (A "happy hour" is a period, such as 5 to 7 p.m., when drinks are served at reduced prices or with free snacks. "Daily deals" are meals served at discounted prices, such as two meals for the price of one for a particular menu item; such deals are frequently promoted by Groupon and similar marketing services.)

Intervention: "What Shall We Do about It?" Analyzing sales data over 19 months for one restaurant, Copilot found that, in Chait's words, "happy hour contributes specifically to the hours of the day that are otherwise the slowest, driving critical off-peak [customer] traffic that is so important to restaurants. The deal traffic, however, is distributed across several periods of time, many of which are already busy," making it less effective.[58]

Evaluation: "How Well Has the Intervention Worked?" The outcome would seem to be foreshadowed by Copilot's research, but it would be up to the change agent to evaluate an activity's success when put into practice. There are all kinds of factors, after all, that can affect restaurant traffic. For instance, more data doesn't always translate into better customer service.[59] Some days are busier than others (Valentine's Day—busy; Super Bowl Sunday—not busy; Mother's Day—depends on the restaurant), when a promotion wouldn't be effective.[60]

YOUR CALL

One of the latest trends in business is "hyperlocal marketing"—building a large, dedicated, loyal base of local customers.[61] Do you think an organizational development approach can be helpful to this effort?

The Effectiveness of OD

Among organizations that have practiced organizational development are American Airlines, B.F. Goodrich, General Electric, Honeywell, ITT, Procter & Gamble, Prudential, Texas Instruments, and Westinghouse Canada—companies covering a variety of industries.

Research has found that OD is most apt to be successful under the following circumstances.

1. Multiple Interventions OD success stories tend to use multiple interventions. Goal setting, feedback, recognition and rewards, training, participation, and challenging job design have had good results in improving performance and satisfaction.[62] Combined interventions have been found to work better than single interventions.[63]

2. Management Support OD is more likely to succeed when top managers give the OD program their support and are truly committed to the change process and the desired goals of the change program.[64] Also, the expectations for change were not unrealistic.[65]

3. Goals Geared to Both Short- & Long-Term Results Change programs are more successful when they are oriented toward achieving both short-term and long-term results. Managers should not engage in organizational change for the sake of change. Change efforts should produce positive results.[66]

4. OD Is Affected by Culture OD effectiveness is affected by cross-cultural considerations. Thus, an OD intervention that worked in one country should not be blindly applied to a similar situation in another country.[67]

Team building. One technique for implementing change is team building. Teams are often diverse in gender, age, ethnicity, and educational background and experience. Would you prefer to work with a highly diverse team of people?

10.4 Promoting Innovation within the Organization

MAJOR QUESTION

What do I need to know to encourage innovation?

THE BIG PICTURE

Innovation may be a product innovation or a process innovation, a core (incremental) innovation or a transformational (radical) innovation. Two myths about innovation are that it happens in a "Eureka!" moment and that it can be systematized. Ways to encourage innovation are by providing the organizational culture, the people, the resources, and the reward system. To make innovation happen, you need to recognize problems and opportunities, gain allies, overcome employee resistance, and execute well.

If **invention is creating or making up something new** and **creativity is the act of developing new and imaginative ideas into reality,** innovation is something else. *Innovation,* as we've said earlier in the book, is the activity of creating new ideas and converting them into *useful applications*—specifically new goods and services.

"You need creativity and invention," says Procter & Gamble CEO A. G. Lafley, "but until you can connect the creativity to the customer in the form of a product or service that meaningfully changes their lives, I would argue you don't have innovation."[68] The spirit of innovation is essential to keeping an organization vital and in maintaining a competitive advantage. Otherwise, the innovation will come from your competitors, forcing you to scramble to catch up—if you can.

Innovation is more likely to occur when organizations have the proper culture, resources, and reward systems to support it. We now take a closer look into innovation and how it can be encouraged within organizations.

TABLE 10.2

Factors That Reduce an Organization's Ability to Learn from Failure

EMPLOYEES . . .
1. Play the "blame game," blaming an individual when failures are due to internal or external matters
2. Suffer "self-serving bias"
3. Don't recognize failures are not created equal; some may be preventable, some uncontrollable
4. Are afraid to discuss failures and take risks; the company isn't a learning organization
5. Are reluctant to experiment

Source: Adapted from A. C. Edmondson, "Strategies for Learning from Failure," Harvard Business Review, *April 2011, pp. 151–176.*

How Does Failure Impede Innovation?

"You learn more from failure than you do from success," says Lafley, "but the key is to fail early, fail cheaply, and don't make the same mistake twice."[69] Lafley, who doubled sales and quadrupled profits for P&G, admits to having had "my fair share of failure. But you have to get past the disappointment and blame and really understand what happened and why it happened."[70]

Lafley is comfortable with the idea of learning from failure, but many people are not. They're reluctant to experiment, they blame others, they refuse to recognize that not all failures are of equal seriousness. All of these can detract from an organization's ability to learn from its mistakes, as the table at left indicates. *(See Table 10.2.)*

Two Myths about Innovation

Two myths about innovation that need to be dispelled are the following:

Myth No. 1: Innovation Happens in a "Eureka!" Moment Many people think that innovation often happens like a bolt from the blue. In this view, innovation happens as a "Eureka!" or "Aha!" moment of discovery, like the instant revelation about the law of gravity supposedly experienced by Sir Isaac Newton under a tree when an apple fell on his head. Most of the time, however, innovation is the product of hard work and dedication, "forged by a mixed bag of coworkers from up, down, and across an organization, sitting and wrangling it out in the trenches," in the words of Jack and Suzy Welch.[71]

Myth No. 2: Innovation Can Be Systematized Lots of people also believe that innovation can be systematized—made a codified and standardized process that can be designed to always yield fruitful results. Obviously, if this could be done, many companies would be doing it. The problem with innovation, however, is that there are too many challenges associated with it, which makes success unpredictable, although it's possible to establish cultural and other conditions (as discussed next) that increase the likelihood of a payoff.

The Seeds of Innovation: Starting Point for Experimentation & Inventiveness

Former Microsoft employee Scott Berkun, author of *The Myths of Innovation,* has identified six **seeds of innovation, the starting point for organizational innovation.** They are as follows:[72]

1. ***Hard work in a specific direction.*** Most innovations come from dedicated people diligently working to solve a well-defined problem, hard work that can span many years.
2. ***Hard work with direction change.*** Innovations frequently occur when people change their approach to solving a problem. In other words, hard work closes some doors and opens others.
3. ***Curiosity.*** Innovations can begin when people are curious about something of interest to them, which leads to experimentation and inventiveness.
4. ***Wealth and money.*** Innovations frequently occur because an organization or an individual simply wants to make money. Being near bankruptcy, for instance, drove Fiat, the Italian auto company, to look for innovative ways to cut costs and grow its market share in the United States. This is why Fiat took a stake in Chrysler in return for imparting its knowledge of small-car technology.[73]
5. ***Necessity.*** Many innovations grow from the desire to achieve something or to complete a task that is needed to accomplish a broader goal. For example, Xerox Corporation hired a pair of researchers as "innovation managers" to hunt for inventions and products from start-ups in India that Xerox might adapt for uses in North America.[74]
6. ***Combination of seeds.*** Many innovations occur as a result of multiple factors.

Types of Innovation: Product or Process, Core or Transformational

Innovations may be of the following two types.

Product versus Process Innovations As a manager, you may need to improve your organization's product or service itself; this is generally a technological innovation. Or you may need to improve the process by which the product or service is created, manufactured, or distributed; this is generally a managerial innovation.

More formally, a **product innovation is a change in the appearance or the performance of a product or a service or the creation of a new one.** A **process innovation is a change in the way a product or service is conceived, manufactured, or disseminated.**

Today, says an article about the world's most innovative companies, "innovation is about much more than new products. It is about reinventing business processes and building entirely new markets that meet untapped customer needs."[75]

Core versus Transformational Innovations An innovation may be small or large, incremental or radical. The difference is in modifying versus replacing existing products or services. That is, you might have **core innovations—the optimizing of products or services for existing customers,** as when Procter & Gamble modified a liquid detergent to make it available as a concentrated powder in a pouch. Or you might have **transformational innovations—the invention of breakthrough products or services that don't exist yet and that are aimed at creating brand new markets and customers,** as when Keurig created a new category of coffee/tea preparation by offering cup-at-a-time pod-style brewing. Transformational innovations produce faster growth and higher valuations than do core innovations, according to some research.[76]

PRACTICAL ACTION

What Makes a Successful Start-up?

According to the Ewing Marion Kauffman Foundation, which works to further understanding of entrepreneurship, the vast majority of entrepreneurs (called *replicative entrepreneurs*) are those with small businesses that replicate or duplicate products and services already in existence, such as restaurants and dry cleaners. Less common are those entrepreneurs (*innovative entrepreneurs*) who pioneer never-seen-before products and services or production methods, such as eBay.[77]

Entrepreneurship: Exploiting Niche Opportunities. Some replicative entrepreneurs, however, simply do things better and faster. Economist Amar V. Bhidé (pronounced "*Beh*-dee"), author of *The Origin and Evolution of New Businesses,* suggests that many successful entrepreneurs start out not by having radical ideas but by making "a small modification in what somebody else is doing."[78] Examples would be a doctor offering a drive-through component for flu shots or a lawyer offering the same for legal services (a feature already available for banks and fast food, of course).

That is, they see a small niche opportunity—one in which the company they are currently working for is already involved, or a supplier or customer is involved. "And the person jumps in [to a new business] with very little preparation and analysis," says Bhidé, "but with direct firsthand knowledge of the profitability of that opportunity—and pretty much does what somebody else is already doing, but does it better and faster."

And "better and faster" seems to be the main difference. Usually, such entrepreneurs don't have anything in the way of technology or concept that differentiates them from other businesses. "They just work harder, hustle for customers, and know that the opportunity may not last for more than six or eight months," says Bhidé. "But they expect to make a reasonable return on those six to eight months. And along the way they'll figure out something else that will keep the business going."

Tolerance for Ambiguity. Another quality of entrepreneurs is "a tolerance for ambiguity," Bhidé says. They are willing to jump into things when it's hard to even imagine what the possible outcomes will be, going ahead in the absence of information, very much capital—or even a very novel idea.

An example of a start-up that fit these criteria was Build-a-Bear Workshop, which offers mall customers a make-your-own stuffed animal experience, choosing from models of teddy bears, bunnies, dogs, and the like, then adding "a unique personality" from hundreds of teddy bear–sized outfits and accessories.

The idea came to Maxine Clark, a former department store executive, in 1997, when she was shopping with a friend who collected Ty Beanie Babies. When they couldn't find anything new, the friend said "we could make one." Says Clark, "Her words gave me the idea to create a company that would allow people to create their own customized stuffed animals. . . . Build-a-Bear Workshop would be like a theme park factory in a mall."

There were no formal focus groups, but from the beginning she relied on children for advice. "Kids have insights and offer inspiration by looking at the world differently," says Clark.[79]

The Illusions of Entrepreneurship. Think you'd like to create a start-up yourself and make yourself rich? Case Western professor Scott Shane says that the average new venture will fail within 5 years and that even successful founders earn less than they would as employees—35% less over 10 years.[80] The biggest myth, he says, is that entrepreneurs believe "the growth and performance of their start-ups depends more on their entrepreneurial talent than on the businesses they choose."

Over a 20-year period, he found, about 4% of all the start-ups in the computer and office equipment industry made *Inc.* magazine's Inc. 500 list of America's fastest-growing companies. But only about 0.005% of start-ups in the hotel and motel industries made that list, and 0.007% of start-ups in eating and drinking establishments. "So that means the odds that you make the *Inc.* 500," Shane says, "are 840 times higher if you start a computer company than if you start a hotel or motel."[81]

YOUR CALL

Suppose you want to be your own boss. What "better and faster" niche opportunity do you see? Assuming it's not a computer company that you're starting, what do you think your chances are of being successful?

Celebrating Failure: Cultural & Other Factors Encouraging Innovation

Innovation doesn't happen as a matter of course. Organizations have to develop ways to make it happen—over and over. Four ways to do so are by providing (1) the right organizational *culture,* (2) the right people, or *human capital;* (3) the appropriate *resources,* and (4) the correct *reward system.*

1. Culture: Is Innovation Viewed as a Benefit or a Boondoggle? Unlike most Europeans, who abhor "precariousness," or the absence of security, Americans as a whole seem to be more comfortable with taking risks. As one writer puts it, "Risk, movement, and personal ambition are fundamental. . . . The United States is about the endless possibility of self-invention through hard work. It is inseparable from change."[82]

An organizational culture, as we said in Chapter 8, is defined as the set of shared, taken-for-granted implicit assumptions that a group holds and that determines how it perceives, thinks about, and reacts to its various environments. An organizational culture that doesn't just allow but *celebrates* failure is vital toward fostering innovation. Most new ideas will fail. Only a few will be successful. But if an organization doesn't encourage this kind of risk taking—if people tend to view experimentation as a boondoggle—that organization won't become a superstar in innovation. The top 15 superstars for 2014 designated by *Fast Company* magazine are shown in the table at right.[83] *(See Table 10.3.)*

2. Human Capital: Are the Right Kind of People Available? What is the economic or productive potential of a company's employees' knowledge, experience, and actions, the definition of human capital (Chapter 9)? Characteristics that can help organizations innovate are creativity, self-efficacy for innovation, and quality of the relationship between managers and employees.

3. Resources: Do Managers Put Money Where Their Mouths Are? An organization's managers may say they encourage innovation, but if they balk at the expense, they aren't putting their money where their mouths are. Innovation doesn't come cheap. Its costs can be measured in all kinds of ways: dollars, time, energy, and focus. For instance, an organization's research and development (R&D) department may need to hire top scientists, whose salaries may be high.

Of course, because there is always competition within an organization for resources, innovation may simply be given short shrift because other concerns seem so urgent—even within a company with a culture encouraging experimentation. But the risk of downgrading innovation in favor of more immediate concerns is that a company may "miss the next wave"—the next big trend, whatever that is.

4. Rewards: Is Experimentation Reinforced in Ways That Matter? Top-performing salespeople are often rewarded with all kinds of incentives, such as commissions, bonuses, and perks. Are R&D people rewarded the same way? For instance, every year agrochemical and agricultural biotechnology multinational Monsanto Corp. presents a $50,000 award to the scientist or scientists who developed the largest commercial breakthrough.

The converse is also important: People should not be punished when their attempts to innovate don't work out, or else they won't attempt new things in the future. By the nature of experimentation, the end result can't be foreseen. Top managers at 3M, for instance, recognize that three-fifths of the new ideas suggested each year fail in the marketplace. Only when people attempting an innovation are acting halfheartedly, sloppily, or otherwise incompetently should sanctions such as the withholding of raises and promotions be used.

TABLE 10.3

Top Companies in 2014 Whose Cultures Strongly Encourage Innovation

Google
Bloomberg Philanthropies
Xiaomi (electronics, China)
Dropbox
Netflix
Airbnb
Nike
ZipDial (marketing, India)
DonorsChoose.org (crowdfunding)
Yelp
Dodge
SXSW (conferences)
Twitter
Apple
Michael Kors (fashion)

Source: Data from "The World's Most Innovative Companies 2014," Fast Company, *February 20, 2014.*

EXAMPLE

Achieving Success by Celebrating Failure: 3M's On-Again Off-Again On-Again Culture of Innovation

Who are the greatest innovators? For three years, it was Apple, Google, and 3M atop Booz & Co.'s 1,000 global "Most Innovative Companies" list. Then in 2013, 3M dropped from third to fifth place, and Samsung and Amazon rose to claim the new third and fourth spots.[84] Does this mean that information technology companies are pushing new ways of doing things—that industrial companies like 3M are faltering? Actually, the computing and electronics sectors *are* the biggest spenders on R&D, and software and Internet companies had the biggest spending increase. But 3M is no slouch, spending $1.6 billion on R&D in 2013. The following year it received its 100,000th patent.[85]

No Failure, No Success. The year 2014 marked the 34th anniversary of the Post-it Note, invented by 3M employee Art Fry when he found an experimental adhesive helped him hold bits of paper as bookmarks in his church Sunday services hymnbook.[86] 3M is famous for having a culture of innovation that celebrates taking chances—which means achieving success by celebrating failure.

Only with 20-20 hindsight can people see that a policy of celebrating failure can lead to success. No one can know, when setting out on a new course, whether the effort will yield positive results, and usually, in fact, most such experiments *are* failures. But the *attempts* must be encouraged, or innovation will never happen.

Building the Right Culture. For many years, 3M built innovation into its culture. Mistakes were allowed, destructive criticism was forbidden, experimentation was encouraged, and divisions and individuals were allowed to operate with a good deal of autonomy. 3M set goals decreeing that 25%–30% of annual sales must come from products that were only 5 years old or less. Investment in research and development was almost double the rate of that of the average American company.

In addition, 3M employees were permitted to spend 15% of their time pursuing personal research interests that were not related to current company projects, knowing that if their ideas weren't successful, they would be encouraged to pursue other paths. The result was a culture that produced a string of hit products: masking tape, Scotchgard, optical films for coating liquid-crystal display screens.[87]

The Culture Change. That culture changed when a former General Electric executive, James McNerney, took over in 2001 as 3M's CEO and instituted a system known as Six Sigma (discussed in Chapter 16). "Efficiency programs such as Six Sigma are designed to identify problems in work processes—and then use rigorous measurement to reduce variation and eliminate defects," says one account. "When these types of initiatives become ingrained in a company's culture, as they did at 3M, creativity can easily get squelched. After all, a breakthrough innovation is something that challenges existing procedures and norms."[88]

Back to Innovating. By 2007, McNerney was gone, and his successor, George Buckley, was struggling to balance efficiency with innovation, which had declined. During the recent Great Recession, Buckley asked employees to improve products with "tweaks and snips" rather than with a few grandiose inventions.[89] By 2010–2014, 3M was back on top (positions 17, 15, 18, 21, and 23, respectively, for those years) on *Fortune*'s "Most Admired Companies" list.

YOUR CALL

Stanford University organizational behavior scholar Jerker Denrell believes that there is too much study of successes and not enough of failures, although it's very likely that firms pursuing risky strategies tend to achieve either a very high or very low performance whereas firms pursuing conservative strategies always achieve an average performance.[90]

But while risk taking can lead to either spectacular success or disastrous failure, looking only at successes will show a positive correlation between success and risk taking. Do you think this is true?

How You Can Foster Innovation: Four Steps

If you're going to not just survive but *prevail* as a manager, you need to know how to make innovation happen within an organization. Here we offer four steps for doing so. *(See Figure 10.4, page opposite.)*

1. Recognize Problems & Opportunities & Devise Solutions

Change may be needed because you recognize a *problem* or recognize an *opportunity*.

- **Recognizing a problem—find a "better way."** Problems, whether competitive threat, employee turnover, or whatever, tend to seize our attention—and sometimes these problems suggest solutions, such as new business ideas.

FIGURE 10.4 Four steps for fostering innovation

1. Recognize problems & opportunities & devise solutions. → **2.** Gain allies by communicating your vision. → **3.** Overcome employee resistance, & empower & reward them to achieve progress. → **4.** Execute well by effectively managing people, groups, & organizational processes & systems in the pursuit of innovation.

Source: Adapted from eight steps in K. M. Bartol and D. C. Martin, Management, *3rd ed., McGraw-Hill/Irwin, 1998, pp. 360–363. Reprinted with permission of The McGraw-Hill Companies.*

Example: In 2008, Chris Barrett's package of salami and deodorant to his brother in a New York prison was rejected because the items were made with alcohol, which is forbidden in prison. From this incident, Barrett got the idea for Sendapackage.com, a sort of prisoners' version of Amazon.com. The company helps outsiders effectively ship to incarcerated loved ones packages that meet the 20 pages of rules drawn up by the state's department of corrections: no food with poppy seeds, emery boards that are "nonmetallic," boxer shorts and briefs that are solid color only, and so on.[91]

- **Recognizing an opportunity.** Recognition of opportunities may come from long-term employees who regularly expose themselves to new ideas ("technological gate-keepers" in one phrase). Ideas originating at the grassroots level of an organization may be a particularly fruitful source of innovation.

2. Gain Allies by Communicating Your Vision Once you've decided how you're going to handle the problem or opportunity, you need to start developing and communicating your vision. You need to create a picture of the future and paint in broad strokes how your innovation will be of benefit. That is, you need to start persuading others inside—and perhaps outside—the organization to support you. Having hard data helps. Others will be more persuaded, for example, if you can demonstrate that a similar idea has been successful in another industry. Or if you can take current trends (such as sales or demographics) and project them into the future.

Innovation. Sendapackage.com was inspired by Chris Barrett's failed attempts to send a package to his brother in a New York prison. Have you ever encountered a problem in your life for which you thought you had a better solution? This is how innovation happens.

TABLE 10.4

Six Methods for Managing Employee Resistance to Change

1. Education and communication
2. Participation and involvement
3. Facilitation and support
4. Negotiation and rewards
5. Manipulation and cooptation
6. Explicit and implicit coercion

Source: Adapted from J. P. Kotter and L. A. Schlesinger, "Choosing Strategies for Change," Harvard Business Review, *March–April 1979, pp. 106–114.*

Among the details you'll need to communicate to gain support are the following:

- **Showing how the product or service will be made.** You must figure out how to profitably make the new product or deliver the new service.
- **Showing how potential customers will be reached.** Innovations may fail because a company can't figure out how to get its new product or service into customers' hands. Thus, you might consider breaking down the task of what the customer wants into discrete steps (a task called *job mapping*), to determine the points at which customers might need help.[92]
- **Demonstrating how you'll beat your competitors.** Other companies may be pursuing the same breakthroughs. Thus, it's better to focus on a smaller number of innovations.
- **Explaining when the innovation will take place.** Timing is important. You'll need to think about when employees will be prepared to make the product and customers primed to buy it.

3. Overcome Employee Resistance, & Empower & Reward Them to Achieve Progress

Once you've persuaded and gotten the blessing of your managerial superiors, then you need to do the same with the people reporting to you. It's possible, of course, that the idea for innovation came from them and that you already have their support.

Alternatively, you may have to overcome their resistance (a topic we discuss further in Section 10.5). Then you'll need to remove obstacles that limit them in executing the vision, such as having to get management to sign off on all aspects of a project. Finally, you'll need to hand out periodic rewards—recognition, celebrations, bonuses—for tasks accomplished. And the rewards should not be withheld until the end of the project, which may be many months away, but given out for the successful accomplishment of short-term phases in order to provide constant encouragement. *(See Table 10.4, left.)*

4. Execute Well

What finally will make or break an organization's attempts at bringing new products and services to market is *execution*—the process, as we stated back in Chapter 6 (Section 6.6), of discussing hows and whats, of using questioning, analysis, and follow-through to achieve the results promised and ensure accountability.[93] Execution requires organizations to effectively manage people, groups, and organizational processes and systems in the pursuit of innovation.

In the end, then, the innovation process must be *managed.* This is precisely what is done at Apple, Google, and other top innovative companies.

Research tells us that companies are unlikely to innovate unless the culture and climate support it. How would you know if a potential employer had an innovative culture? You can find out by completing Self-Assessment 10.2. ●

SELF-ASSESSMENT 10.2 connect

How Innovative Is the Organizational Climate?

The following survey was designed to assess the innovation climate of your organization. Go to **connect.mheducation.com** and take Self-Assessment 10.2. When you're done, answer the following questions:

1. To what extent does the company have an innovative climate?
2. Based on your survey scores, what advice would you give to management if they wanted to increase innovation? Be specific.

10.5 The Threat of Change: Managing Employee Fear & Resistance

MAJOR QUESTION How are employees threatened by change, and how can I help them adjust?

THE BIG PICTURE

This section discusses the causes of resistance to change and the reasons employees fear change.

As we mentioned in Section 10.1, change may be forced upon an organization—*reactive* change, requiring you to make changes in response to problems or opportunities as they arise. Or an organization may try to get out in front of changes—*proactive* change, or planned change, which involves making carefully thought-out changes in anticipation of possible problems or opportunities.

What happens to an organization that fails to deal with change when it's needed—or before it's needed? Jim Collins, researcher of enduring great companies, says the results can be dire.

EXAMPLE

Recognizing the Need for Change: Collins's Five Stages of Decline

Collins has found that there are five stages of institutional decline.[94] The stages, which are largely self-inflicted, are as follows:

Stage 1: Hubris Born of Success. This stage begins when a company develops arrogance (hubris) and its employees begin attributing the company's success to their own superior qualities, forgetting about the underlying factors that created that success.

Stage 2: Undisciplined Pursuit of More. Growing out of the hubris of Stage 1, Stage 2 is the pursuit of more—more of whatever is defined as success, such as more growth—and companies begin overreaching, making undisciplined leaps into areas where they cannot be great, leading them to ignore their core business.

Stage 3: Denial of Risk & Peril. In this stage, internal warning signs begin to increase, but managers explain them away, discounting negative data, amplifying positive data, and putting a positive spin on ambiguous data.

Stage 4: Grasping for Salvation. At this stage, the difficulties of the previous stage reach the point of throwing the company into sharp decline, at which point managers begin making desperate leaps (Grasping for Salvation): trying bold but untested strategies, looking for a blockbuster product, trying to put together a game-changing acquisition, and similar attempts at silver-bullet solutions.

Stage 5: Capitulation to Irrelevance or Death. The longer an organization stays in Stage 4, the more apt it is to slip downward into Stage 5—at which point the company may be sold, allowed to go bankrupt, or left to shrivel into insignificance.

YOUR CALL

Have you ever experienced any one or more of these stages in a company? What was it? What would you have done to try to change it?

As a manager, particularly one working for an American organization, you may be pressured to provide short-term, quick-fix solutions. But when applied to organizational problems, this approach usually doesn't work. Quick-fix solutions have little staying power.

What, then, are effective ways to manage organizational change and employees' fear and resistance to it? In this section, we discuss the following:

- The causes of resistance to change.
- Why employees resist change.

The Causes of Resistance to Change[95]

Resistance to change is an emotional/behavioral response to real or imagined threats to an established work routine. Resistance can be as subtle as passive resignation and as overt as deliberate sabotage.

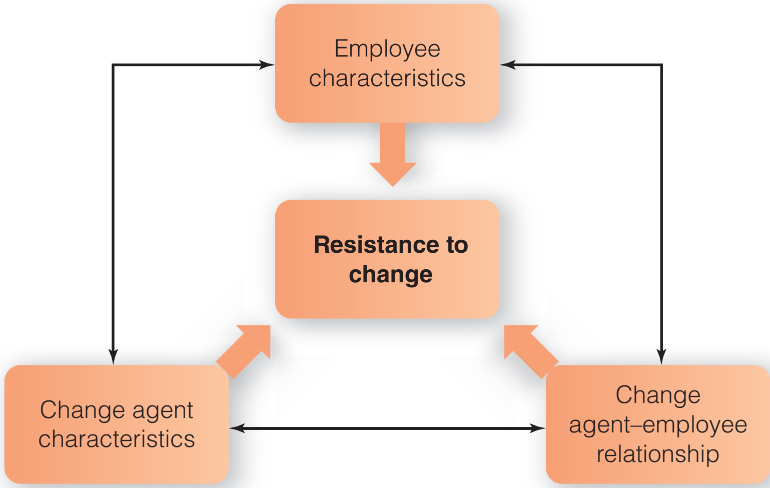
Resistance can be considered to be the interaction of three causes: (1) employee characteristics, (2) change agent characteristics, and (3) the change agent–employee relationship. *(See Figure 10.5.)* For example, an employee's resistance is partly based on his or her perception of change, which is influenced by the attitudes and behaviors exhibited by the change agent and the level of trust between change agent and the employee.

Let us consider these three sources.

FIGURE 10.5

A model of resistance to change

Source: Adapted from R. Kreitner and A. Kinicki. Organizational Behavior, *9th ed. (Burr Ridge, IL: McGraw-Hill/Irwin, 2010), p. 549. Reprinted with permission of The McGraw-Hill Companies.*



1. Employee Characteristics

The characteristics of a given employee consist of his or her individual differences (discussed in Chapter 11), actions and inactions, and perceptions of change. Your level of adaptability is one key characteristic that affects resistance to change. How adaptable are you? You can find out by taking Self-Assessment 10.3.

SELF-ASSESSMENT 10.3 connect

How Adaptable Are You?

The following survey was designed to assess your level of adaptability. Go to **connect.mheducation.com** and take Self-Assessment 10.3. When you're done, answer the following questions:

1. What is your level of adaptability? Are you surprised by the results?
2. Based on your scores, identify three things you can do to increase your level of adaptability? Explain.
3. Why would recruiters prefer to hire adaptable people?

2. Change Agent Characteristics

The characteristics of the change agent—the individual who is a catalyst in helping organizations change—also consist of his or her individual differences, actions and inactions, and perceptions of change. Such characteristics that might contribute to employee resistance to change might include leadership style, personality, tactfulness, sense of timing, awareness of cultural traditions or group relationships, and ability to empathize with the employee's perspective.

3. Change Agent–Employee Relationship

As you might expect, resistance to change is reduced when change agents and employees have a trusting relationship—faith in each other's intentions. Mistrust, on the other hand, encourages secrecy, which begets deeper mistrust, and can doom an otherwise well-conceived change.

Ten Reasons Employees Resist Change

Whether changes are adaptive, innovative, or radically innovative, employees may resist change for all kinds of reasons. Ten of the leading reasons for not accepting change are as follows.[96]

1. Individual's Predisposition toward Change How people react to change depends a lot on how they learned to handle change and ambiguity as children. One person's parents may have been patient, flexible, and understanding, and from the time the child was weaned she may have learned there were positive compensations for the loss of immediate gratification. Thus, she will associate making changes with love and approval. Another person's parents may have been unreasonable and unyielding, forcing him to do things (piano lessons, for example) that he didn't want to do. Thus, he will be distrustful of making changes because he will associate them with demands for compliance.[97]

2. Surprise & Fear of the Unknown When radically different changes are introduced without warning—for example, without any official announcements—the office rumor mill will go into high gear, and affected employees will become fearful of the implications of the changes. Harvard business scholar Rosabeth Moss Kanter recommends that in such cases a transition manager should be appointed who is charged with keeping all relevant parties adequately informed.[98]

3. Climate of Mistrust Trust involves reciprocal faith in others' intentions and behavior. Mistrust encourages secrecy, which causes deeper mistrust, putting even well-conceived changes at risk of failure. Managers who trust their employees make the change process an open, honest, and participative affair. Employees who trust their managers are more apt to expend extra effort and take chances with something different.

4. Fear of Failure Intimidating changes on the job can cause employees to doubt their capabilities. Self-doubt erodes self-confidence and cripples personal growth and development.

5. Loss of Status or Job Security Administrative and technological changes that threaten to alter power bases or eliminate jobs—as often happens during corporate restructurings that threaten middle-management jobs—generally trigger strong resistance.

6. Peer Pressure Even people who are not themselves directly affected by impending changes may actively resist in order to protect the interests of their friends and coworkers.

7. Disruption of Cultural Traditions or Group Relationships Whenever individuals are transferred, promoted, or reassigned, it can disrupt existing cultural and group relationships.

Example: Traditionally Sony Corp. promoted insiders to new positions. When an outsider, Howard Stringer, was named as the next chairman and CEO and six corporate officers were asked to resign, creating a majority board of foreigners, the former CEO, Nobuyuki Idei, worried the moves might engender strong employee resistance.[99]

8. Personality Conflicts Just as a friend can get away with telling us something we would resent hearing from an adversary, the personalities of change agents can breed resistance.

9. Lack of Tact or Poor Timing Introducing changes in an insensitive manner or at an awkward time can create employee resistance. Employees are more apt to accept changes when managers effectively explain their value, as, for example, in demonstrating their strategic purpose to the organization.

10. Nonreinforcing Reward Systems Employees are likely to resist when they can't see any positive rewards from proposed changes, as, for example, when one is asked to work longer hours without additional compensation.

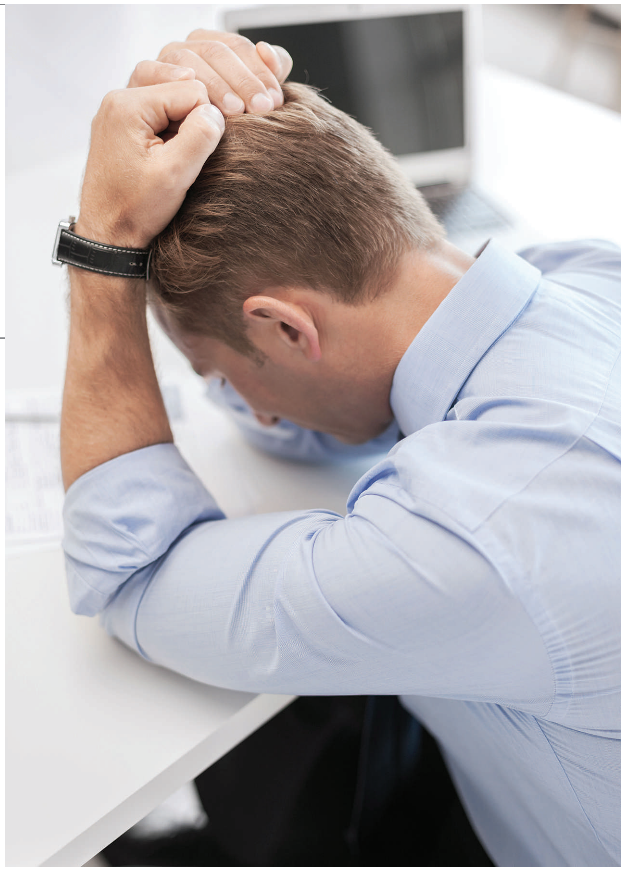
Where do you stand on change? Do you tend to accept and embrace change, or do you have tendencies to resist it? The following self-assessment will provide feedback on your attitudes toward change. If your scores indicate resistance, you should consider what can be done to move your attitudes in a more positive direction.

SELF-ASSESSMENT 10.4 connect

Assessing Your Resistance to Change

The following survey was designed to assess your resistance to change. Go to **connect.mheducation.com** and take Self-Assessment 10.4. When you're done, answer the following questions:

1. Are you more or less willing to accept change? Discuss.
2. Based on your scores, identify three things you can do to lower your resistance to change. These changes may involve new thoughts or beliefs or the display of new behaviors.
3. What questions might a recruiter ask during an interview to determine whether or not you tend to resist change? What would be your answers?



Change is hard. Lots of people don't like change. Among the reasons: one's individual predisposition toward change, surprise and fear of the unknown, mistrust, loss of status or job security, and poor timing. Do some of these reasons seem particularly to apply to you? When was the last time you had to wrestle with momentous changes?

Key Terms Used in This Chapter

Key Points

10.1 The Nature of Change in Organizations

- Among supertrends shaping the future of business: (1) The marketplace is becoming more segmented and moving toward more niche products. (2) More competitors offering targeted products, requiring faster speed-to-market. (3) Some traditional companies may not survive radical change. (4) China, India, and other offshore suppliers are changing the way we work. (5) Knowledge, not information, is becoming the new competitive advantage.
- Two types of change are reactive and proactive. Reactive change is making changes in response to problems or opportunities as they arise. Proactive change involves making carefully thought-out changes in anticipation of possible or expected problems or opportunities.
- Forces for change may consist of forces outside the organization or inside it. (1) External forces consist of four types: demographic characteristics; technological advancements; shareholder, customer, and market changes; and social and political pressures. (2) Internal forces may be of two types: human resources concerns and managers' behavior.

10.2 Types & Models of Change

- Whether organizational change is administrative or technological, it can be adaptive, innovative, or radically innovative, depending on (1) the degree of complexity, cost, and uncertainty and (2) its potential for generating employee resistance.
- Adaptive change, the least threatening, is reintroduction of a familiar practice. Innovative change is the introduction of a practice that is new to the organization. Radically innovative change, the most threatening, involves introducing a practice that is new to the industry.
- Kurt Lewin's change model has three stages—unfreezing, changing, and refreezing—to explain how to initiate, manage, and stabilize planned change. (1) In the unfreezing stage, managers try to instill in employees the motivation to change. (2) In the changing stage, employees need to be given the tools for change, such as new information. (3) In the refreezing stage, employees need to be helped to integrate the changed attitudes and behavior into their normal behavior.
- In a model corresponding with Lewin's, John Kotter's suggests an organization needs to follow eight steps to avoid the eight common errors senior management usually commits. The first four represent unfreezing: establish a sense of urgency, create the guiding coalition, develop a vision and strategy, and communicate the change vision. The next three steps represent the changing stage: empower broad-based action, generate short-term wins, and consolidate gains and produce more change. The last step, corresponding to refreezing, is to anchor new approaches in the organization's culture.

10.3 Organizational Development: What It Is, What It Can Do

- Organizational development (OD) is a set of techniques for implementing planned change to make people and organizations more effective. Often OD is put into practice by a change agent, a consultant with a background in behavioral sciences who can be a catalyst in helping organizations deal with old problems in new ways. OD can be used to manage conflict, revitalize organizations, and adapt to mergers.
- The OD process follows a three-step process: (1) Diagnosis attempts to ascertain the problem. (2) Intervention is the attempt to correct the diagnosed problems. (3) Evaluation

attempts to find out how well the intervention worked.

- Four factors that make OD work successfully are (1) multiple interventions are used; (2) top managers give the OD program their support; (3) goals are geared to both short- and long-term results; and (4) OD is affected by culture.

10.4 Promoting Innovation within the Organization

- Invention is creating or making up something new. Creativity is the act of developing new or imaginative ideas into reality. Innovation, by contrast, is the activity of creating new ideas and converting them into useful applications—specifically new goods and services.
- Two myths about innovation are (1) innovation happens in a "Eureka!" moment and (2) innovation can be systematized.
- The starting point for organizational innovation involves the six seeds of innovation: (1) innovation comes from dedicated people working to solve a well-defined problem; (2) innovations often occur when people change their approach to solving a problem; (3) innovations can begin when people are curious about something of interest to them; (4) innovation happens because an organization wants to make money; (5) many innovations grow from the desire to achieve something; and (6) many innovations occur as a result of multiple factors.
- Innovations may be a product innovation or a process innovation. A product innovation is a change in the appearance or performance of a product or service or the creation of a new one. A process innovation is a change in the way a product or service is conceived, manufactured, or disseminated.
- Innovations may also be core innovations, the optimizing of products or services for existing customers, or transformational innovations, the invention of breakthrough products or services that don't exist yet and that are aimed at creating brand new markets and customers. Innovation doesn't happen as a matter of course. Four ways to encourage it are as follows: (1) Provide the right organizational culture, so that it is viewed as a benefit rather than as a boondoggle. (2) Provide the human capital; make the right kind of people available. (3) Provide the resources. (4) Provide the rewards, so that experimentation is reinforced in ways that matter.
- Four steps for fostering innovation are as follows. (1) Recognize problems and opportunities and devise solutions. (2) Gain allies by communicating your vision. (3) Overcome employee resistance and empower and reward them to achieve progress. (4) Execute well by effectively managing people, groups, and organizational processes and systems in the pursuit of innovation.

10.5 The Threat of Change: Managing Employee Fear & Resistance

- Resistance to change is an emotional/behavioral response to real or imagined threats to an established work routine. Resistance can be considered to be the interaction of three causes: (1) employee characteristics, (2) change-agent characteristics, and (3) the change agent–employee relationship
- Ten reasons employees resist change are as follows: (1) individuals' predisposition toward change; (2) surprise and fear of the unknown; (3) climate of mistrust; (4) fear of failure; (5) loss of status or job security; (6) peer pressure; (7) disruption of cultural traditions or group relationships; (8) personality conflicts; (9) lack of tact or poor timing; and (10) nonreinforcing reward systems.

Understanding the Chapter: What Do I Know?

1. What are the two principal types of change?
2. Describe the four kinds of external forces of changes and two kinds of internal forces of change.
3. Organizational change ranges along a continuum of what three levels of threat?
4. How does Kurt Lewin's model of change work?
5. What is the organizational development process?
6. What's the difference between a product innovation and a process innovation?
7. Explain four ways to encourage innovation to happen.
8. What are four steps for fostering innovation?
9. Employee resistance can be considered to be the interaction of what three causes?
10. There are 10 reasons employees resist change. What are some of them?
11. What are the principal labor-management issues?

Hewlett-Packard Is Counting on Organizational Change to Boost Revenue Growth

Meg Whitman became CEO of Hewlett-Packard Co. in 2011. Since the time H-P's revenue peaked in 2011 at $127 billion, it has dropped every subsequent year. On the positive side, the company had two consecutive quarters of growth in 2014. H-P also is trying to right-size and reduce costs by planning to lay off 16,000 employees. H-P earlier decided to lay off 34,000 people, resulting in a total reduction of 50,000 employees.[100]

Whitman described the job cuts "as an opportunity to streamline the company further and make it more nimble. An expected $1 billion in cost savings in fiscal 2016 would allow H-P to invest in new technologies and skills to revive growth." Others, like UBS analyst Steven Milunovich, believe that these job cuts will erode employee morale and may lead to increased turnover.[101]

"But fixing the world's biggest tech company—with $120 billion in annual revenues and 330,000 employees—is a herculean task. Bloated by more than 70 acquisitions in the past 15 years, HP isn't just sprawling and stalled out; it may actually be running in reverse."[102]

Whitman decided to change the organizational structure to fuel growth. She created two clusters of businesses. One focuses on corporate technology customers. This group, which sells servers, storage, and networking, delivered 43% of the company's overall operating profits according to *Forbes.* Unfortunately, the software and services that accompany all this hardware have not been as successful. H-P tried to build the software side of the business via acquisitions, which according to *Forbes* have not been very successful. The magazine noted that "when it comes to software acquisitions, Autonomy [H-P's enterprise software company] was merely the most high-profit misstep. All told, over the past decade HP squandered nearly $19 billion to buy myriad outfits that contribute only 7% to overall profit. The services unit, which staffs other companies' tech projects, is barely at breakeven."[103] H-P is currently "looking for small to midsize acquisition candidates in cloud computing, security, and analytics software."[104]

The second structural cluster sells printers, PCs, laptops, and mobile devices to people worldwide. This segment of the business contributed 29% of operating profits in 2013. The problem here is that the lucrative printer business is shrinking. Technology is simply moving more toward ink-free photo and document sharing, which benefits companies like Google, Facebook, and Dropbox.

Strategically, H-P also is trying to get back into the fast-growing tablet market. The company attempted to gain entry in this market in 2011 with the TouchPad model, but it was a failure. Since February 2013, the company has introduced new models, and they are being well received in the market. In a similar vein, H-P has created an overall vice president for design. This was done to create a strategic focus on product development.

H-P didn't stop at just a reorganization or a new tablet strategy, according to *Forbes.* A survey of the company's 20,000 salespeople revealed that employees rated the internal sales tools a mere "7" on a scale of 1 to 100. For example, it took HP as much as three weeks to prepare a sales quote, when competitors could do it in a matter of days. The company decided to upgrade its sales process by using new tools from Salesforce.com.

Whitman also took to the road to reassure customers that H-P was doing the "right things." In the last year, she conducted "305 one-on-one meetings with customers or sales-channel partners, aides say, as well as another 42 roundtable chats with small groups" around the world.

It did not take Whitman long to realize that the organizational culture also needed to be changed to foster consistency between the company's strategies and culture. According to *Forbes,* she eliminated the barbed wire fence and locked gates that separated parking lots for the executives and the general employee population. "We should enter the building the same way everyone else does," she said. She also decided to work from a cubicle, like most employees, instead of from a larger, more private location. She keeps a picture of her mother in her office. She also role models when she travels by staying at more modestly priced hotels.[105]

While H-P is positive about the changes taking place, some analysts are more skeptical. Bill Shope, an analyst from Goldman Sachs, concluded that "serial restructuring cannot solve H-P's secular challenges, particularly following years of underinvestment." He forecasts that H-P's revenue might fall to $107 billion in fiscal 2015.[106]

FOR DISCUSSION

1. Which of the supertrends are driving H-P to change?
2. Which of the forces for change are causing H-P to undertake major organizational change? Explain.
3. How might Meg Whitman have used Lewin's and Kotter's models of change to increase the probability of achieving positive organizational change? Provide specific recommendations.
4. To what extent is H-P following the four steps for fostering innovation? Explain.
5. What advice would you give Whitman based on what you learned in this chapter? Be specific.

Legal/Ethical Challenge

Should CEOs Fire Employees Based on the Opinions of U.S. Senators?

This case involves the controversy surrounding General Motors and its response, or lack of response, to the need to recall 1.6 million vehicles that could have faulty ignition switches.

GM's CEO Mary Barra has now testified before several congressional committees on why it took so long to recall the vehicles with potential ignition problems.[107] Barra has apologized for the problem and admitted that something was wrong with their internal processes. The company has also established a fund to compensate victims. Distribution of payments is being managed by Kenneth Feinberg.

In a July 2014 congressional meeting, members questioned Barra about her decision to retain Michael Millikin on her staff. Millikin, who has been with GM since 1977, is the company's top lawyer. While under oath, he stated that he "didn't know until February about an ignition-switch defect now linked to at least 13 deaths in Chevrolet Cobalts and similar cars built in the last decade."

According to *The Wall Street Journal,* an internal report commissioned by GM found that members of Millikin's staff were warned repeatedly starting in 2010 that GM could face costly, punitive damage awards over its failure to address safety problems related to the ignition defect. Millikin claims that he did not know about these cases because company lawyers settled the cases for amounts that did not require review by Millikin himself.

The congressional committee is not buying this explanation and some members want Barra to fire Millikin. For example, Senator Claire McCaskill (D., Missouri) said, "How in the world, in the aftermath of this report, did Michael Millikin keep his job? This is either gross negligence or gross incompetence." Senator Richard Blumenthal (D., Connecticut) accused Millikin "of overseeing a staff that engaged in deceit and potential fraud." Both Millikin and Barra deny these charges. Barra believes that the company needs a person with Millikin's experience and integrity to help the company work through this crisis.[108]

SOLVING THE CHALLENGE

What would you do about firing Michael Millikin if you were Mary Barra?

1. Nothing. Congress does not have the power to force Barra to fire an employee and it does not know what it takes to run a large company. Termination decisions should be left to the company.
2. Continue to investigate the situation and do not fire him if you believe he is exonerated by the internal report.
3. Terminate him even though the internal report suggests that Millikin did not know about the issue. He should have known, and his lack of oversight is one cause of this terrible problem.
4. Invent other options.

Source: This case is based on J. Bennett and S. Hughes, "Panel Prods GM for Actions," The Wall Street Journal, *July 18, 2014, p. B3.*

11

Managing Individual Differences & Behavior

Supervising People as People

Major Questions You Should Be Able to Answer

11.1 Personality & Individual Behavior

Major Question: In the hiring process, do employers care about one's personality and individual traits?

11.2 Values, Attitudes, & Behavior

Major Question: How do the hidden aspects of individuals—their values and attitudes—affect employee behavior?

11.3 Perception & Individual Behavior

Major Question: What are the distortions in perception that can cloud one's judgment?

11.4 Work-Related Attitudes & Behaviors Managers Need to Deal With

Major Question: Is it important for managers to pay attention to employee attitudes?

11.5 The New Diversified Workforce

Major Question: What trends in workplace diversity should managers be aware of?

11.6 Understanding Stress & Individual Behavior

Major Question: What causes workplace stress, and how can it be reduced?

the manager's toolbox

Managing the Millennials: What's Different about Today's Generation of Younger Workers

Are the 75 million so-called Millennials, born between 1977 and 1994, really so different from earlier generations (the 78 million Baby Boomers, born 1946–1964, and 49 million Gen Xers, 1965–1976)? Do they need to be managed in different ways? The answer to both questions is yes.[1]

Independent, Tech-Savvy, Diverse, Educated—& Anxious

Some major characteristics of Millennials: (1) They are extremely independent, because many were raised as day care or latchkey kids. (2) They are tech-savvy, used to smartphones and the Internet, and accustomed to a faster pace of life. (3) They are racially and ethnically diverse. (4) They are probably the most educated in American history. (5) They are anxious they can't meet their financial needs.

How Millennials Want to Be Managed

In the workplace, these translate into a skepticism about rules, policies, and procedures; a requirement for more autonomy; and a need for constant stimulation. Millennials not only want a good income and good relationships with bosses and coworkers but also challenging daily work, the opportunity for growth, the chance to show off skills and be recognized for their accomplishments, casual dress environment, and flexible schedules for social and personal time. Some tips for managing this group:

- **Allow them independent decision making and expression.** Millennials are impatient, skeptical, and blunt and expressive, but they are used to adapting and making decisions. Show appreciation for their individuality and let them participate in decision making.
- **Train them and mentor them.** Millennials are strongly attracted to education and training, the best kind not being classroom training but forms of independent learning. At the same time, they should be given the chance to create long-term bonds with mentors.
- **Give them constant feedback and recognition.** Millennials need to know they are making an impact and need to be recognized for their workplace contributions. Thus, supervisors should show them how their work contributes to the bottom line. This generation revels in, even craves, constant praise, so managers should provide rewards in the form of praise, flextime, and extra responsibility.
- **Provide them with access to technology.** To attract and retain Millennial employees, companies need to provide the newest and best technology.
- **Create customized career paths.** Millennials would most like to be self-employed, but few are able to do it because of high start-up costs. Employers can reinforce the sense of control that this generation desires by providing them with a realistic account of their progress and their future within the organization.

For Discussion As a worker, you might hope to be led by someone who would follow the preceding suggestions. But suppose your boss is of the old "tough guy" school and doesn't manage this way. In a difficult job market, would you stick it out? How would you try to let your supervisor know how you would prefer to be managed?

forecast What's Ahead in This Chapter

This first of five chapters on leadership discusses how to manage for individual differences and behaviors. We describe personality and individual behavior; values, attitudes, and behavior; and specific work-related attitudes and behaviors managers need to be aware of. We next discuss distortions in perception, which can affect managerial judgment. Finally, we consider what stress does to individuals.

11.1 Personality & Individual Behavior

MAJOR QUESTION

In the hiring process, do employers care about one's personality and individual traits?

THE BIG PICTURE

Personality consists of stable psychological and behavioral attributes that give you your identity. We describe five personality dimensions and five personality traits that managers need to be aware of to understand workplace behavior.

In this and the next four chapters we discuss the third management function (after planning and organizing)—namely, leading. *Leading,* as we said in Chapter 1, is defined as *motivating, directing, and otherwise influencing people to work hard to achieve the organization's goals.*

How would you describe yourself? Are you outgoing? aggressive? sociable? tense? passive? lazy? quiet? Whatever the combination of traits, which result from the interaction of your genes and your environment, they constitute your personality. More formally, **personality consists of the stable psychological traits and behavioral attributes that give a person his or her identity.**[2] As a manager, you need to understand personality attributes because they affect how people perceive and act within the organization.[3]

The Big Five Personality Dimensions

In recent years, the many personality dimensions have been distilled into a list of factors known as the Big Five.[4] **The Big Five personality dimensions are (1) extroversion, (2) agreeableness, (3) conscientiousness, (4) emotional stability, and (5) openness to experience.**

- **Extroversion.** How outgoing, talkative, sociable, and assertive a person is.
- **Agreeableness.** How trusting, good-natured, cooperative, and soft-hearted one is.
- **Conscientiousness.** How dependable, responsible, achievement-oriented, and persistent one is.
- **Emotional stability.** How relaxed, secure, and unworried one is.
- **Openness to experience.** How intellectual, imaginative, curious, and broad-minded one is.

Sociable and assertive. Does it take a certain kind of personality to be a good salesperson? Have you ever known people who were quiet, unassuming, even shy but who were nevertheless very persistent and persuasive—that is, good salespeople?

Standardized personality tests are used to score people on each dimension to draw a person's personality profile that is supposedly as unique as his or her fingerprints. For example, if you scored low on the first trait, extroversion, you would presumably be prone to shy and withdrawn behavior. If you scored low on emotional stability, you supposedly would be nervous, tense, angry, and worried. (An example of a personality test is the Myers-Briggs, discussed in Chapter 9; to take a replica of this test for free, go to *www.personalitypathways.com/type_inventory.html.*)

Where do you think you stand in terms of the big five? Are you curious? If yes, take Self-Assessment 11.1.

SELF-ASSESSMENT 11.1 connect

Where Do You Stand on the Big Five Dimensions of Personality?

This survey is designed to assess your personality, using the Big Five index. Go to **connect.mheducation.com** and take Self-Assessment 11.1. When you're done, answer the following questions:

1. What is your personality profile according to the Big Five?
2. Which of the Big Five is most likely going to help you achieve good grades in your classes and to gain employment after graduation?

Do Personality Tests Work for the Workplace? As a manager, you would want to know if the Big Five model in particular and personality testing in general can help predict behavior in the workplace. Is a personality test helpful in predicting a match between personality and job performance? Two findings:

- **Extroversion—the outgoing personality.** As might be expected, extroversion (an outgoing personality) has been associated with success for managers and salespeople. Also, extroversion is a stronger predictor of job performance than agreeableness, across all professions, according to researchers. "It appears that being courteous, trusting, straightforward, and soft-hearted [that is, agreeableness] has a smaller impact on job performance," conclude the researchers, "than being talkative, active, and assertive [that is, extroversion]."[5]
- **Conscientiousness—the dependable personality.** Conscientiousness (strong work ethic) has been found to have the strongest positive correlation with job performance and training performance. According to researchers, "those individuals who exhibit traits associated with a strong sense of purpose, obligation, and persistence generally perform better than those who do not."[6]

The table below presents tips to help managers avoid abuses and discrimination lawsuits when using personality and psychological testing for employment decisions.[7] *(See Table 11.1.)*

TABLE 11.1

Cautions about Using Personality Tests in the Workplace

- *Use professionals.* Rely on reputable, licensed psychologists for selecting and overseeing the administration, scoring, and interpretation of personality and psychological tests. This is particularly important, since not every psychologist is expert at these kinds of tests.
- *Don't hire on the basis of personality test results alone.* Supplement any personality test data with information from reference checks, personal interviews, ability tests, and job performance records. Also avoid hiring people on the basis of specified personality profiles. As a case in point, there is no distinct "managerial personality."
- *Be alert for gender, racial, and ethnic bias.* Regularly assess any possible adverse impact of personality tests on the hiring of women and minorities. This is truly a matter of great importance, since you don't want to find your company (or yourself) embroiled in a lawsuit at some point downstream.
- *Graphology tests don't work, but integrity tests do.* Personality traits and aptitudes cannot be inferred from samples of people's penmanship, as proponents of graphology tests claim. However, dishonest job applicants can often be screened by integrity tests, since dishonest people are reportedly unable to fake conscientiousness, even on a paper-and-pencil test.

The Proactive Personality

A person who scores well on the Big Five dimension of conscientiousness is probably a good worker. He or she may also be a **proactive personality, someone who is more apt to take initiative and persevere to influence the environment.** Research reveals that proactive people tend to be more satisfied with their jobs, committed to their employer, and produce more work than nonproactive individuals.[7]

Core Self-Evaluations

A core self-evaluation represents a broad personality trait comprising four positive individual traits: (1) *self-efficacy,* (2) *self-esteem*, (3) *locus of control*, and (4) *emotional stability*. Managers need to be aware of these personality traits so as to understand workplace behavior.

1. Self-Efficacy: "I Can/Can't Do This Task"

Self-efficacy is the **belief in one's personal ability to do a task.** This is about your personal belief that you have what it takes to succeed.

Have you noticed that those who are confident about their ability tend to succeed, whereas those preoccupied with failure tend not to? Indeed, high expectations of self-efficacy have been linked with all kinds of positives: not only success in varied physical and mental tasks but also reduced anxiety and increased tolerance for pain.[8] One study found that the sales performance of life-insurance agents was much better among those with high self-efficacy.[9] A meta-analysis involving 21,616 people also found significant positive correlation between self-efficacy and job performance.[10] Low self-efficacy is associated with **learned helplessness, the debilitating lack of faith in one's ability to control one's environment.**[11]

Self-efficacy. Erik Weihenmayer, blind since age 13, is a self-described "unrealistic optimist." He became the first blind climber to scale Mt. Everest. Do you have a personal belief that you can succeed at great things?

Among the implications for managers:

- **Assign jobs accordingly.** Complex, challenging, and autonomous jobs tend to enhance people's perceptions of their self-efficacy. Boring, tedious jobs generally do the opposite.
- **Develop self-efficacy.** Self-efficacy is a quality that can be nurtured. Employees with low self-efficacy need lots of constructive pointers and positive feedback.[12] Goal difficulty needs to match individuals' perceived self-efficacy, but goals can be made more challenging as performance improves.[13] Small successes need to be rewarded. Employees' expectations can be improved through guided experiences, mentoring, and role modeling.[14]

2. Self-Esteem: "I Like/Dislike Myself" How worthwhile, capable, and acceptable do you think you are? The answer to this question is an indicator of your **self-esteem, the extent to which people like or dislike themselves, their overall self-evaluation.**[15] Research offers some interesting insights about how high or low self-esteem can affect people and organizations.

- **People with high self-esteem.** Compared with people with low self-esteem, people with high self-esteem are more apt to handle failure better, to emphasize the positive, to take more risks, and to choose more unconventional jobs.[16] However, when faced with pressure situations, high-self-esteem people have been found to become egotistical and boastful.[17] Some have even been associated with aggressive and violent behavior.
- **People with low self-esteem.** Conversely, low-self-esteem people confronted with failure have been found to have focused on their weaknesses and to have had primarily negative thoughts.[18] Moreover, they are more dependent on others and are more apt to be influenced by them and to be less likely to take independent positions.

Can self-esteem be improved? According to one study, "low self-esteem can be raised more by having the person think of *desirable* characteristics *possessed* rather than of undesirable characteristics from which he or she is free."[19] Some ways in which managers can build employee self-esteem are shown below. *(See Table 11.2.)*

TABLE 11.2

Some Ways that Managers Can Boost Employee Self-Esteem

• Reinforce employees' positive attributes and skills.
• Provide positive feedback whenever possible.
• Break larger projects into smaller tasks and projects.
• Express confidence in employees' abilities to complete their tasks.
• Provide coaching whenever employees are seen to be struggling to complete tasks.

3. Locus of Control: "I Am/Am Not the Captain of My Fate" As we discussed briefly in Chapter 1, **locus of control indicates how much people believe they control their fate through their own efforts.** If you have an *internal locus of control,* you believe you control your own destiny. If you have an *external locus of control,* you believe external forces control you.

Research shows internals and externals have important workplace differences. Internals exhibit less anxiety, greater work motivation, and stronger expectations that effort leads to performance. They also obtain higher salaries.[20]

These findings have two important implications for managers:

- **Expect different degrees of structure and compliance for each type.** Employees with internal locus of control will probably resist close managerial supervision. Hence, they should probably be placed in jobs requiring high initiative and lower compliance. By contrast, employees with external locus of control might do better in highly structured jobs requiring greater compliance.
- **Employ different reward systems for each type.** Since internals seem to have a greater belief that their actions have a direct effect on the consequences of that action, internals likely would prefer and respond more productively to incentives such as merit pay or sales commissions. (We discuss incentive compensation systems in Chapter 12.)

4. Emotional Stability: "I'm Fairly Secure/Insecure When Working Under Pressure"

Emotional stability is the extent to which people feel secure and unworried and how likely they are to experience negative emotions under pressure. People with low levels of emotional stability are prone to anxiety and tend to view the world negatively, whereas people with high levels tend to show better job performance.

Emotional Intelligence: Understanding Your Emotions & the Emotions of Others

Emotional intelligence (EI or EQ) has been defined as "the ability to carry out accurate reasoning about emotions and the ability to use emotions and emotional knowledge to enhance thought."[21] Said another way, **emotional intelligence is the ability to monitor your and others' feelings and to use this information to guide your thinking and actions.** The trait of emotional intelligence was first introduced in 1909. Since that time much research has examined the components of EI and its consequences.[22]

Why High EI Is Important

Recent research underscores the importance of developing higher EI. It was associated with (1) better social relations for children and adults, (2) better family and intimate relationships, (3) being perceived more positively by others, (4) better academic achievement, and (5) better psychological well-being. **Daniel Goleman,** a psychologist who popularized the trait of EI, concluded that EI is composed of four key components: self-awareness, self-management, social awareness, and relationship management.[23] *(See Table 11.3.)*

TABLE 11.3

The Traits of Emotional Intelligence

1. *Self-awareness.* The most essential trait. This is the ability to read your own emotions and gauge your moods accurately, so you know how you're affecting others.
2. *Self-management.* This is the ability to control your emotions and act with honesty and integrity in reliable and adaptable ways. You can leave occasional bad moods outside the office.
3. *Social awareness.* This includes empathy, allowing you to show others that you care, and organizational intuition, so you keenly understand how your emotions and actions affect others.
4. *Relationship management.* This is the ability to communicate clearly and convincingly, disarm conflicts, and build strong personal bonds.

Sources: Adapted from D. Goleman, R. Boyatzis, and A. McKee, "Primal Leadership: The Hidden Driver of Great Performance," Harvard Business Review, *December 2001, p. 49; and* Primal Leadership: Realizing the Power of Emotional Intelligence *(Boston: Harvard Business School Press, 2002), p. 39.*

Can You Raise Your EI?

Is there any way to raise your own emotional intelligence, to sharpen your social skills? Although parts of EI represent stable traits that are not readily changed, other aspects, such as using empathy, can be developed.[24] Two suggestions for improvement are as follows:

- **Develop awareness of your EI level.** Becoming aware of your level of emotional intelligence is the first step. The self-assessment below can be used for this purpose. (Some companies use the Personal Profile Analysis during the hiring process to provide insights into a person's EI.[25])
- **Learn about areas needing improvement.** The next step is to learn more about those EI aspects in which improvement is needed. For example, to improve your skills at using empathy, find articles on the topic and try to implement their recommendations. One such article suggests that empathy in communications is enhanced by trying to (1) understand how others feel about what they are communicating and (2) gaining appreciation of what people want from an exchange.[26]

EXAMPLE

Emotional Intelligence: Self-Understanding Should Include "the Good, the Bad, & the Ugly"

Charlotte Beers is a former chairwoman and CEO of advertising agency Ogilvy & Mather Worldwide, but in her early 30s she was a management supervisor and "thought I was really doing well." Then she heard from a friend that a colleague described her management style as "menacing." That surprised her because Beers regarded herself as "a friendly, gentle Southern belle," and the criticism was the exact opposite of the way she thought of herself.[27]

Learning to Self-Correct. She goes on: "I began to watch myself—something I think we all have to do—and I realized I did end meetings on a threatening note. I created urgency when there was none. I was taking on the persona of 'I really mean business' that I had learned from an earlier boss." After that she learned to watch herself more and to self-correct about talking too much and interrupting other people.

YOUR CALL

The comment about her coming off as menacing, though devastating at first to her, was important because "nothing is more helpful than finding out how others see you," says Beers. "[You need to learn to] keep your own scorecard, and it has to include the good, the bad, and the ugly." Do you agree? Could you conduct this kind of research about yourself in an impersonal way to find out how others see you?

Both research and our experience suggest that your emotional intelligence can help or hurt your career. Would you like to know where you stand and what you might do to improve your level of emotional intelligence? If yes, take Self-Assessment 11.2. ●

SELF-ASSESSMENT 11.2 connect

What Is Your Level of Emotional Intelligence?

The following survey is designed to assess your emotional intelligence. Go to **connect.mheducation.com** and take Self-Assessment 11.2. When you're done, answer the following questions:

1. How do you stand on the five dimensions of emotional intelligence?
2. Use the scores from the items to identify your strengths and liabilities.
3. Identify two things you might focus on to enhance your emotional intelligence.

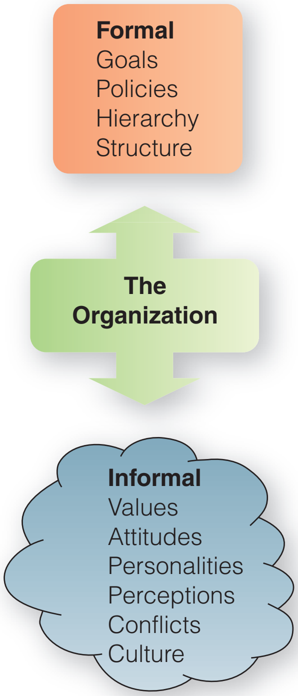
11.2 Values, Attitudes, & Behavior

MAJOR QUESTION How do the hidden aspects of individuals—their values and attitudes—affect employee behavior?

THE BIG PICTURE

Organizational behavior (OB) considers how to better understand and manage people at work. In this section, we discuss individual values and attitudes and how they affect people's actions and judgments.

FIGURE 11.1
Formal and informal aspects of an organization



If you look at a company's annual report or at a brochure from its corporate communications department, you are apt to be given a picture of its *formal aspects:* Goals. Policies. Hierarchy. Structure.

Could you exert effective leadership if the formal aspects were all you knew about the company? What about the *informal aspects*? Values. Attitudes. Personalities. Perceptions. Conflicts. Culture. Clearly, you need to know about these hidden, "messy" characteristics as well. *(See Figure 11.1, left.)*

Organizational Behavior: Trying to Explain & Predict Workplace Behavior

The informal aspects are the focus of the interdisciplinary field known as **organizational behavior (OB), which is dedicated to better understanding and management of people at work.** In particular, OB tries to help managers not only *explain* workplace behavior but also to *predict* it, so that they can better lead and motivate their employees to perform productively. OB looks at two areas:

- **Individual behavior.** This is the subject of this chapter. We discuss such individual attributes as values, attitudes, personality, perception, and learning.
- **Group behavior.** This is the subject of later chapters, particularly Chapter 13, where we discuss norms, roles, and teams.

Let's begin by considering individual values, attitudes, and behavior.

Values: What Are Your Consistent Beliefs & Feelings about *All* Things?

Values are abstract ideals that guide one's thinking and behavior across all situations.[28] Lifelong behavior patterns are dictated by values that are fairly well set by the time people are in their early teens. After that, however, one's values can be reshaped by significant life-altering events, such as having a child, undergoing a business failure, or surviving the death of a loved one, a war, or a serious health threat.

From a manager's point of view, it's helpful to know that values are those concepts, principles, things, people, or activities for which a person is willing to work hard—even make sacrifices for. Compensation, recognition, and status are common values in the workplace.[29] However, according to numerous surveys, employees are more interested in striking a balance between work and family life rather than just earning a paycheck.[30] For instance, 86% of 550 employees responding to one survey said flexibility to balance their work and personal life was an important aspect of job satisfaction.

Attitudes: What Are Your Consistent Beliefs & Feelings about *Specific* Things?

Values are abstract ideals—global beliefs and feelings—that are directed toward all objects, people, or events. Values tend to be consistent both over time and over related situations.

By contrast, attitudes are beliefs and feelings that are directed toward *specific* objects, people, or events. More formally, an **attitude is defined as a learned predisposition toward a given object.**[31] It is important for you to understand the components of attitudes because attitudes directly influence our behavior.[32]

Example: If you dislike your present job, will you be happier if you change to a different job? Not necessarily. It depends on your attitude. In one study, researchers found that the attitudes of 5,000 middle-aged male employees toward their jobs were very stable over a 5-year period. Men with positive attitudes tended to stay positive, those with negative attitudes tended to stay negative. More revealingly, even those who changed jobs or occupations generally expressed the same attitudes they had previously.[33]

The Three Components of Attitudes: Affective, Cognitive, & Behavioral

Attitudes have three components—*affective, cognitive,* and *behavioral*.[34]

- **The affective component—"I feel." The affective component of an attitude consists of the feelings or emotions one has about a situation.** How do you *feel* about people who talk loudly on cell-phones in restaurants? If you feel annoyed or angry, you're expressing negative emotions or affect. (If you're indifferent, your attitude is neutral.)
- **The cognitive component—"I believe." The cognitive component of an attitude consists of the beliefs and knowledge one has about a situation.** What do you *think* about people in restaurants talking on cell-phones? Is what they're doing inconsiderate, acceptable, even admirable (because it shows they're productive)? Your answer reflects your beliefs or ideas about the situation.
- **The behavioral component—"I intend." The behavioral component of an attitude, also known as the intentional component, refers to how one intends or expects to behave toward a situation.** What would you *intend to do* if a person talked loudly on a cell-phone at the table next to you? Your action may reflect your negative or positive feelings (affective), your negative or positive beliefs (cognitive), and your intention or lack of intention to do anything (behavioral).

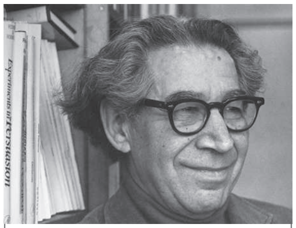
All three components are often manifested at any given time. For example, if you call a corporation and get one of those telephone-tree menus ("For customer service, press 1 . . .") that never seems to connect you to a human being, you might be so irritated that you would say:

- "I hate being given the runaround." [*affective component—your feelings*]
- "That company doesn't know how to take care of customers." [*cognitive component—your perceptions*]
- "I'll never call them again." [*behavioral component—your intentions*]

When Attitudes & Reality Collide: Consistency & Cognitive Dissonance

One of the last things you want, probably, is to be accused of hypocrisy—to be criticized for saying one thing and doing another. Like most people, you no doubt want to maintain consistency between your attitudes and your behavior.

But what if a strongly held attitude bumps up against a harsh reality that contradicts it? Suppose you're extremely concerned about getting AIDS, which you believe you might get from contact with body fluids, including blood. Then you're in a life-threatening



Leon Festinger. In 1957, the psychologist and his associates penetrated a cult whose members predicted that most people on earth would perish in a cataclysmic event except for a handful that would be rescued by aliens in a flying saucer. Festinger found himself standing with cult members on a hilltop awaiting the event, which, of course, did not happen. Later he proposed the term *cognitive dissonance* to explain how they rationalized the failure of their prophecy. Have you observed people employing this mechanism when the surefire thing they predicted did not occur?

auto accident in a third-world country and require surgery and blood transfusions—including transfusions of blood from (possibly AIDS-infected) strangers in a blood bank. Do you reject the blood to remain consistent with your beliefs about getting AIDS?

In 1957, social psychologist **Leon Festinger** proposed the term **cognitive dissonance** **to describe the psychological discomfort a person experiences between his or her cognitive attitude and incompatible behavior.**[35] Because people are uncomfortable with inconsistency, Festinger theorized, they will seek to reduce the "dissonance" or tension of the inconsistency. How they deal with the discomfort, he suggested, depends on three factors:

- **Importance.** How important are the elements creating the dissonance? Most people can put up with some ambiguities in life. For example, many drivers don't think obeying speed limits is very important, even though they profess to be law-abiding citizens. People eat greasy foods even though they know that ultimately they may contribute to heart disease.
- **Control.** How much control does one have over the matters that create dissonance? A juror may not like the idea of voting the death penalty but believe that he or she has no choice but to follow the law in the case. A taxpayer may object to his taxes being spent on, say, special-interest corporate welfare for a particular company but not feel that he or she can withhold taxes.
- **Rewards.** What rewards are at stake in the dissonance? You're apt to cling to old ideas in the face of new evidence if you have a lot invested emotionally or financially in those ideas. If you're a police officer who worked 20 years to prove a particular suspect guilty of murder, you're not apt to be very accepting of contradictory evidence after all that time.

Among the main ways to reduce cognitive dissonance are the following. *(See Table 11.4.)*

- **Change your attitude and/or behavior.** This would seem to be the most obvious, even rational, response to take when confronted with cognitive dissonance.
- **Belittle the importance of the inconsistent behavior.** This happens all the time.
- **Find consonant elements that outweigh the dissonant ones.** This kind of rationalizing goes on quite often, as when employees are confronted with ethical dilemmas but fear losing their jobs.

TABLE 11.4 **Examples of Ways to Reduce Cognitive Dissonance**

TECHNIQUE	EXAMPLES
Change attitude and/or behavior	Gregory Withow once belonged to the White Aryan Resistance and other racist groups. He preached hatred and bashed Japanese tourists in San Francisco. Then he met Sylvia, who rejected his white-supremacist ideas. As he grew to love her, he found himself caught between his ideas and her disapproval. To decrease this cognitive dissonance, he renounced his old racist beliefs and changed his behavior, even becoming a spokesperson for the antiracist Anti-Defamation League.
Belittle importance of the inconsistent behavior	All cigarette smokers are repeatedly exposed to information that smoking is hazardous to health. But many belittle the habit as not being as risky as the antismoking messages suggest. ("My grandmother smokes, and she's in her 80s.")
Find consonant elements that outweigh dissonant ones	Ethics professor Sissela Bok says students may justify cheating on an exam by saying "I don't usually do this, but here I really have to do it." As one MIT graduate student said, students see cheating take place and "feel they have to. People get used to it, even though they know it's not right."

Sources: R. Plotnik, Introduction to Psychology, *3rd ed. (Pacific Grove, CA: Brooks/Cole, 1993), p. 602; E. Aronson, R. D. Akert, and T. D. Wilson,* Social Psychology, *6th ed. (Upper Saddle River, NJ: Pearson Prentice Hall, 2006); S. Bok, cited in E. Venant, "A Nation of Cheaters,"* San Francisco Chronicle, *January 7, 1992, p. D3, reprinted from* Los Angeles Times; *A. Dobrzeniecki, quoted in D. Butler, "MIT Students Guilty of Cheating,"* Boston Globe, *March 2, 1991, p. 25.*

Behavior: How Values & Attitudes Affect People's Actions & Judgments

Values (global) and attitudes (specific) are generally in harmony, but not always. For example, a manager may put a positive *value* on helpful behavior (global) yet may have a negative *attitude* toward helping an unethical coworker (specific). Together, however, values and attitudes influence people's workplace **behavior—their actions and judgments.**

EXAMPLE

How Values & Attitudes Affect Behavior: Thinking Beyond Profit to Create Value for Society

As a manager, would you think most employees would agree that innovation is beneficial—that the original Silicon Valley firms prospered because they were constantly creating new products and services? Employees may have the *value,* then, that innovation is good—that it leads to productivity and profitability.

However, what if employees think that a company's purpose is to be solely a money-making machine? They might have the *attitude* that social innovation is unnecessary, even discouraged.

The Thinking behind Great Companies. Great companies, suggests Rosabeth Moss Kanter of Harvard Business School, have broader values—and attitudes. Firms such as IBM, PepsiCo, and Procter & Gamble, she says, "work to make money, of course, but in their choices of how to do so, they think about building enduring institutions. . . . Society and people are not afterthoughts or inputs to be used and discarded but are core to their purpose."[36] Balancing public interest with financial interest means that CEOs must expand their investments beyond profit-maximizing activities such as marketing, research and development, and the like, and include employee empowerment, emotional engagement, values-based leadership, and related social contributions.

Ways of Creating Value. "Affirming purpose and values through service is a regular part of how great companies express their identities," Kanter believes. Thus, on the 100th anniversary of its founding, International Business Machines offered a global service day, with 300,000 IBM employees signing up to perform 2.6 million hours of service to the world, such as giving schools training in software tools. In West Africa, Procter & Gamble set up Pampers mobile clinics to reduce infant mortality by having health care professionals teach postnatal care, examine babies, and hand out Pampers diapers. "The emotional tugs for P&G employees are strong," says Kanter; "they feel inspired by the fact that their product is at the center of a mission to save lives."

Service day. IBM employees in New York City work with NYC CoolRoofs to try to reduce energy usage and lower greenhouse gases.

YOUR CALL

Where do you think the inspiration for giving a firm a motivating purpose and values beyond making money should come from? Does it have to come from a company's leaders? Do you think it could begin as voluntary activity, as with employees finding each other through company chat rooms and sharing ideas in their free time?

11.3 Perception & Individual Behavior

MAJOR QUESTION

What are the distortions in perception that can cloud one's judgment?

THE BIG PICTURE

Perception, a four-step process, can be skewed by four types of distortion: stereotyping, the halo effect, the recency effect, and causal attribution. We also consider the self-fulfilling prophecy, which can affect our judgment as well.

If you were a smoker, which warning on a cigarette pack would make you think more about quitting? "Smoking seriously harms you and others around you"? A blunt "Smoking kills"? Or a stark graphic image showing decaying teeth?

This is the kind of decision public health authorities in various countries are wrestling with. (One study found that highly graphic images about the negative effects of smoking had the greatest impact on smokers' intentions to quit.[37]) These officials, in other words, are trying to decide how *perception* might influence behavior.

The Four Steps in the Perceptual Process

Perception is the process of interpreting and understanding one's environment. The process of perception is complex, but it can be boiled down to four steps.[38] *(See Figure 11.2.)*

FIGURE 11.2 The four steps in the perceptual process

1. Selective attention "Did I notice something?" → **2. Interpretation & evaluation** "What was it I noticed & what does it mean?" → **3. Storing in memory** "Remember it as an event, concept, person, or all three?" → **4. Retrieving from memory to make judgments & decisions** "What do I recall about that?"

In this book, we are less concerned about the theoretical steps in perception than in how perception is distorted, since this has considerable bearing on the manager's judgment and job. In any one of the four stages of the perception process misunderstandings or errors in judgment can occur. Perceptual errors can lead to mistakes that can be damaging to yourself, other people, and your organization.

Four Distortions in Perception

Although there are other types of distortion in perception, we will describe the following: (1) *stereotyping,* (2) the *halo effect,* (3) the *recency effect,* and (4) *causal attribution.*

1. Stereotyping: "Those Sorts of People Are Pretty Much the Same" If you're a tall African American man, do people make remarks about basketball players? If you're of Irish descent, do people believe you drink a lot? If you're Jewish, do people think you're money-oriented? If you're a woman, do people think you're automatically nurturing? All these are stereotypes. **Stereotyping is the tendency to attribute to an individual the characteristics one believes are typical of the group to which that individual belongs.**[39]

Principal areas of stereotyping that should be of concern to you as a manager are (1) *sex-role stereotypes,* (2) *age stereotypes,* and (3) *race/ethnicity stereotypes.* (People with disabilities, discussed in Section 11.5, are also apt to be stereotyped.)

Sex-Role Stereotypes A *sex-role stereotype* is the belief that differing traits and abilities make males and females particularly well suited to different roles. Although research shows that men and women do not differ in stereotypical ways, the stereotypes still persist.[40] Thus, for example, people tend to prefer male bosses and generally view women leaders as being less effective than men.[41]

Some good news is that there doesn't seem to be a pro-male bias in hiring recommendations or in performance ratings.[42] Unfortunately, promotional decisions may still be affected by sex-role stereotyping. A study of a multinational Fortune 500 company, for example, revealed that men received more favorable evaluations than women in spite of controlling for age, education, organizational tenure, salary grade, and type of job.[43]

Age Stereotypes *Age stereotypes* tend to depict older workers as less involved in their work, less satisfied, less motivated, and less committed than younger workers.[44] This may be why workers over age 55 found it harder to get jobs than younger colleagues during the 2009 recession year.[45] But in fact research shows that as employees' age increases, so does their job involvement and satisfaction, work motivation, and organizational commitment.[46]

Stereotypes also depict older workers as being less creative and more accident prone; however, this is not borne out.[47] Finally, the stereotype that older workers have higher **absenteeism—when an employee doesn't show up for work**—is not supported by the research; if anything, managers should focus more attention on absenteeism among younger rather than older workers.[48]

Because the median age of Americans is currently 37.6 years—the oldest in our history—it seems clear that managers will probably be dealing with an older workforce.[49] Moreover, by 2050, about one-fifth of the population will be over age 65, but many, whether by choice or by necessity, will continue working.[50] World-famous heart surgeon Michael DeBakey, for instance, who was born in 1908, continued to work into his late nineties.[51]

Race/Ethnicity Stereotypes *Race/ethnicity stereotypes* don't bear repeating here, but it is noteworthy that there are not a lot of Hispanic and African American managers in the United States. For example, in 2014, only 20.7% of Hispanics and Latinos held managerial, professional, and related jobs and only 29.1% of blacks, compared with 38.7% of whites and 49.5% of Asians.[52] An encouraging sign, incidentally, is that analysis of census data found that in 14 of the 25 largest metropolitan areas, including Boston, New York, and San Francisco, more immigrants (who can be of any race, of course, but are often stereotyped as racial minorities) were employed in white-collar occupations than in lower-wage work, such as construction or cleaning.[53]

2. The Halo Effect: "One Trait Tells Me All I Need to Know"

Do you think physically attractive people have more desirable traits than unattractive people—that they are happier, kinder, more successful, more socially skilled, more sensitive, more interesting, independent, exciting, sexually warm, even smarter and nicer? All of these traits have been attributed to attractive people.[54] This situation is an example of the **halo effect, in which we form an impression of an individual based on a single trait.** (The phenomenon is also called the *horn-and-halo effect,* because not only can a single positive trait be generalized into an array of positive traits but the reverse is also true.)

As if we needed additional proof that life is unfair, it has been shown that attractive people generally are treated better than unattractive people. Attractive members of Congress get more TV coverage, and attractive political candidates win more often.[55] Attractive students have higher expectations by teachers in terms of academic achievement.[56] Attractive employees are generally paid higher salaries than unattractive ones are, and attractive CEOs are paid more than less appealing CEOs.[57] (Male CEOs also tend to be taller—6 feet compared to an average man's 5-feet-10.5 inches, in one Swedish study.[58]) Clearly, however, if a manager fails to look at *all* of an individual's traits, he or she has no right to complain if that employee doesn't work out.

EXAMPLE

The Halo Effect: Do Good Looks Make People Richer & Happier?

Are attractive employees paid more than ordinary (or unattractive) people for the same work? Are they happier? That would seem to be the case, according to a 2011 study involving more than 25,000 people worldwide.[59]

$250,000 More. Five large surveys conducted from 1971 to 2009 in the United States, Britain, and Germany found that beautiful people earn an extra $250,000 during their careers than the least attractive people. In addition, says University of Texas economist Daniel Hamermesh, leader of the study, the best-looking people are more likely to remain employed, get promoted, find a higher-earning (and better-looking) spouse, and even get better deals on home loans.[60] Hamermesh is also author of *Beauty Pays: Why Attractive People Are More Successful.*[61] "In economic terms, beauty is scarce. People distinguish themselves and pay attention to beauty," he says. "Companies realize that hiring better-looking people helps in various ways. In every market, whether it's jobs or marriage, beauty matters." The result of all this is that beautiful people are generally happier people than ordinary folks. "The majority of beauty's effect on happiness works through its impact on economic outcomes," says Hamermesh.[62]

Do Good Looks Produce Confident Communicators? Another study produces additional insights:[63]

- Although beautiful people are no better than ordinary people at solving puzzles such as mazes, they are more self-confident about their abilities. "Being good looking," says one article about the study, "seems to be strongly associated with self-confidence, a trait that is apparently attractive to employers."[64]
- When study subjects pretending to be employers looked only at resumes, physical appearance had no effect on their judgments, as you might expect. When photos, in-person interviews, and even phone interviews were involved, employers showed higher estimates for beautiful people's productivity—especially when they had face-to-face interviews but even with telephone-only interviews, the result, apparently, of the effect of self-confidence that came across on the phone.
- Good-looking people are good communicators, which also contributes to employers' positive perceptions.

The Halo Misperception. In sum, "Employers (wrongly) expect good-looking workers to perform better than their less-attractive counterparts under both visual and oral interaction," said the researchers, "even after controlling for individual worker characteristics and worker confidence."

YOUR CALL

Are you yourself influenced in your judgment of people by how attractive they are? Do you think as a manager you could look beyond people's physical appearances to be a good judge of their competence? Why?

Handsomely compensated. Attractive employees are generally paid better than unattractive ones are. Why do you think that is? Do you think it's inevitable?

3. The Recency Effect: "The Most Recent Impressions Are the Ones That Count"

The recency effect is the tendency to remember recent information better than earlier information, perhaps because when you activate your recall, the later recollections are still present in working memory.[65] You see this misperception often operating among investors (even professionals), who are more likely to buy a stock if they see something about it in the news or if it has a high one-day return.[66]

EXAMPLE

The Recency Effect: Can You Use It to Get a Better Performance Review?

If you work for a firm that does employee performance reviews only once a year, as is common in India, maybe you should take your vacation during the first six months and work your hardest during the second six months—those preceding your annual appraisal. "The recency effect has a lot to do with the [amount] of the bonus you make," says one Indian manager. "It's often what you have done or achieved in the last three to six months that drives your bonus."[67] In 2012, Adobe Systems, maker of Photoshop and other software, which has 10,000 employees, 2,000 of them in India, announced it was giving up the once-a-year performance review, in part because of the recency effect.[68]

YOUR CALL

What decision(s) would you admit to making in which you were influenced by the recency effect?

4. Causal Attributions

Causal attribution is the activity of inferring causes for observed behavior. Rightly or wrongly, we constantly formulate cause-and-effect explanations for our own and others' behavior. Attributional statements such as the following are common: "Joe drinks too much because he has no willpower; but I need a few drinks after work because I'm under a lot of pressure."

Even though our causal attributions tend to be self-serving and are often invalid, it's important to understand how people formulate attributions because they profoundly affect organizational behavior. For example, a supervisor who attributes an employee's poor performance to a lack of effort might reprimand that person. However, training might be deemed necessary if the supervisor attributes the poor performance to a lack of ability.

As a manager, you need to be alert to two attributional tendencies that can distort one's interpretation of observed behavior—the *fundamental attribution bias* and the *self-serving bias.*

- **Fundamental attribution bias.** In the **fundamental attribution bias, people attribute another person's behavior to his or her personal characteristics rather than to situational factors.**

  Example: A study of manufacturing employees found that top managers attributed the cause of industrial back pain to individuals, whereas workers attributed it to the environment.[69]

- **Self-serving bias.** In the **self-serving bias, people tend to take more personal responsibility for success than for failure.**

  Example: The way students typically analyze their performance on exams shows self-serving bias. "A" students are likely to attribute their grade to high ability or hard work and "D" students blame factors such as bad luck, unclear lectures, and unfair testing.[70]

  Another example: Europeans blamed Wall Street for the 2010 economic collapse in Greece. However, a *Wall Street Journal* article points out that a close look at Greece's finances "over the nearly 10 years since it adopted the euro shows not only that Greece was the principal author of its debt problems, but also that fellow European governments repeatedly turned a blind eye to its flouting of rules."[71]

The Self-Fulfilling Prophecy, or Pygmalion Effect

The self-fulfilling prophecy, also known as the *Pygmalion* ("pig-*mail*-yun") *effect*, describes the phenomenon in which people's expectations of themselves or others lead them to behave in ways that make those expectations come true.

Expectations are important. An example is a waiter who expects some poorly dressed customers to be stingy tippers, who therefore gives them poor service and so gets the result he or she expected—a much lower tip than usual. Research has shown that by raising managers' expectations for individuals performing a wide variety of tasks, higher levels of achievement and productivity can be achieved.[72]

The lesson for you as a manager is that when you expect employees to perform badly, they probably will, and when you expect them to perform well, they probably will. (In the G. B. Shaw play *Pygmalion,* a speech coach bets he can get a lower-class girl to change her accent and her demeanor so that she can pass herself off as a duchess. In six months, she successfully "passes" in high society, having assumed the attributes of a woman of sensitivity and taste.)

PRACTICAL ACTION

How Can Managers Harness the Pygmalion Effect to Lead Employees?

Luke Iorio, president of The Institute for Professional Excellence in Coaching, says that employees want to use their knowledge and experience to contribute to the value of the organization. "Employees have many answers [managers] haven't thought of," he says. "The main thing is to see people as they can be, and to expect great things of them."[73] And more often than not, they'll deliver.

Research in a variety of industries and occupations shows that the effect of the self-fulfilling prophecy can be quite strong.[74] That is, managerial expectations powerfully influence employee behavior and performance. Managers can harness this effect by building a hierarchical framework that reinforces positive performance expectations throughout the organization. The foundation of this framework is employee self-expectations. In turn, positive self-expectations improve interpersonal expectations by encouraging people to work toward common goals. This cooperation enhances group-level productivity and promotes positive performance expectations within the work group.

How to Create a Pygmalion Effect

Because positive self-expectations are the foundation for creating an organizationwide Pygmalion effect, let us consider how managers can create positive performance expectations. This task may be accomplished using various combinations of the following:

1. Recognize that everyone has the potential to increase his or her performance.
2. Instill confidence in your staff.
3. Set high performance goals.
4. Positively reinforce employees for a job well done.
5. Provide constructive feedback when necessary.
6. Help employees advance through the organization.
7. Introduce new employees as if they have outstanding potential.
8. Become aware of your personal prejudices and nonverbal messages that may discourage others.
9. Encourage employees to visualize the successful execution of tasks.
10. Help employees master key skills and tasks.[75]

YOUR CALL

How can you put the Pygmalion effect to use in college organizational life?

11.4 Work-Related Attitudes & Behaviors Managers Need to Deal With

MAJOR QUESTION

Is it important for managers to pay attention to employee attitudes?

THE BIG PICTURE

Attitudes are important because they affect behavior. Managers need to be alert to the key work-related attitudes having to do with engagement, job satisfaction, and organizational commitment. Among the types of employee behavior they should attend to are their on-the-job performance and productivity, absenteeism and turnover, organizational citizenship behaviors, and counterproductive work behaviors.

"Keep the employees happy," we often hear. It's true that attitudes are important, the reason being that *attitudes affect behavior.* But is keeping employees happy all that managers need to know to get results? We discuss motivation for performance in the next chapter. Here, let us consider what managers need to know about key work-related attitudes and behaviors.

Three types of attitudes managers are particularly interested in are (1) *employee engagement,* (2) *job satisfaction,* and (3) *organizational commitment.*

1. Employee Engagement: How Connected Are You to Your Work?

Research on job involvement has evolved into the study of an individual difference called **employee engagement, defined as an individual's involvement, satisfaction, and enthusiasm for work.**[76] Engaged employees are expected to have feelings of urgency, intensity, and enthusiasm, as well as focus, which make them more committed to their employer and to put more effort into their jobs.[77] In other words, such employees "give their all" at work.

Some consulting firms have collected data to support the practical value of employee engagement.[78] For example, when an employee is engaged, it can take 10 times as much money to lure him or her away as a disengaged employee, according to some data.[79] Case studies further suggest that employee performance increases 10% when employees are highly engaged and increase 50% when they have both high engagement and high enablement (such as a supportive environment).[80]

People who are positive or optimistic, proactive, conscientious, and mindful (focused in the present, not daydreaming) are thought to be more likely to be more engaged employees.[81] Employees are also more likely to become engaged when an organization has the kind of culture that promotes employee development, recognition, and trust between management and employees.[82] Job security and feelings of psychological safety (when employees feel free of fear in trying new ideas) also propel job engagement.[83]

Do you want to achieve higher grades in your classes? If yes, you will find that being engaged in your studies will help. You can determine your level of engagement with your studies by completing Self-Assessment 11.3. Results can be used to develop an engagement improvement plan.

SELF-ASSESSMENT 11.3 connect

To What Extent Are You Engaged in Your Studies?

The following survey was designed to assess your level of engagement in your studies. Go to **connect.mheducation.com** and take Self-Assessment 11.3. When you're done, answer the following questions:

1. What is your level of engagement?
2. Find your three lowest-rated items. Based on the content of these items, what can you do to improve your level of engagement? Hint: doing this requires you to identify the cause of the low ratings for each item.

2. Job Satisfaction: How Much Do You Like or Dislike Your Job? **Job satisfaction is the extent to which you feel positive or negative about various aspects of your work.** Most people don't like everything about their jobs. Their overall satisfaction depends on how they feel about several components, such as *work, pay, promotions, coworkers, and supervision.*[84] Among the key correlates of job satisfaction are stronger motivation, job involvement, organizational commitment, and life satisfaction and less absenteeism, tardiness, turnover, and perceived stress.[85]

Reportedly only 47.7% of U.S. workers were satisfied with their jobs in 2013, down from 61.1% in 1987, according to a study of 5,000 households.[86] But another survey found that employee job satisfaction in 2013 was 81%, down from a high of 86% in 2009 but up from a low of 77% in 2002.[87] Job satisfaction today is much better, of course, than in the aftermath of the 2007–2009 recession. Then Americans were forced to work longer hours and often for the same or less pay, and many struck back by suing employers for violating wage-and-hour laws, as by forcing them to work off the clock or without overtime pay.[88]

But what is the relationship between job satisfaction and job performance—does more satisfaction cause better performance or does better performance cause more satisfaction? This is a subject of much debate among management scholars.[89] One comprehensive study found that (1) job satisfaction and performance are moderately related, meaning that employee job satisfaction is a key work attitude managers should consider when trying to increase performance; but (2) the relationship between satisfaction and performance is complex and it seems that both variables influence each other through a host of individual differences and work-environment characteristics.[90]

How satisfied are you with the job you are in now, if you have one, or the last job you had? To get an idea, complete Self-Assessment 11.4.

SELF-ASSESSMENT 11.4 connect

How Satisfied Are You with Your Present Job?

The following survey was designed to assess how satisfied you are with your current job, or a previous job, if you're not presently working. Go to **connect.mheducation.com** and take Self-Assessment 11.4. When you're done, answer the following questions:

1. What is your level of satisfaction with recognition, compensation, and supervision?
2. If you have low to medium satisfaction with any aspect of the job, identify what can be done to increase your job satisfaction. Be sure to consider what you can do, what your boss might do, or what the organization might do. Be specific.

3. Organizational Commitment **Organizational commitment reflects the extent to which an employee identifies with an organization and is committed to its goals.** For instance, some managers question whether mothers with children can be fully committed to their jobs, although one survey found that only 4% of more than 2,612 women said that their bosses think that they are not as committed to their jobs because they have children.[91] Research shows a strong positive relationship between organizational commitment and job satisfaction and a moderate association with job performance.[92] Thus, if managers are able to increase job satisfaction, employees may show higher levels of commitment, which in turn can elicit higher performance.[93] It can also reduce employee turnover.[94]

Important Workplace Behaviors

Why, as a manager, do you need to learn how to manage individual differences? The answer, as you might expect, is so that you can influence employees to do their best work. Among the types of behavior are (1) performance and productivity, (2) absenteeism and turnover, (3) organizational citizenship behaviors, and (4) counterproductive work behaviors.

Thriving employees. Zingerman's, an Ann Arbor, Michigan, community of food-related businesses, encourages employees to thrive through such devices as information sharing and experimenting with ways to solve problems on their own. Employees with high job satisfaction can help organizations grow.

1. Evaluating Behavior When Employees Are Working: Performance & Productivity Every job has certain expectations, but in some jobs performance and productivity are easier to define than in others. How many contacts should a telemarketing sales rep make in a day? How many sales should he or she close? Often a job of this nature will have a history of accomplishments (from what previous job holders have attained) so that it is possible to quantify performance behavior.

However, an advertising agency account executive handling major clients such as a carmaker or a beverage manufacturer may go months before landing this kind of big account. Or, as we've mentioned, a researcher in a pharmaceutical company may take years to develop a promising new prescription drug.

In short, the method of evaluating performance must match the job being done.

2. Evaluating Behavior When Employees Are Not Working: Absenteeism & Turnover Should you be suspicious of every instance of absenteeism? Of course, some absences—illness, death in the family, or jury duty, for example—are legitimate. However, a lot of no-show behavior is related to job dissatisfaction.[95] One study of 700 managers found 20% called in sick simply because they didn't feel like going to work that day. The top three reasons for employees taking bogus sick days are for doing personal errands, catching up on sleep, and relaxing.[96]

Absenteeism may be a precursor to **turnover, when employees leave their jobs.** Every organization experiences some turnover, as employees leave for reasons of family, better job prospects, or retirement. However, except in low-skill industries, a continual revolving door of new employees is usually not a good sign, since replacement and training is expensive.[97] For an hourly employee, experts estimate the cost of turnover is about 30% of annual salary and for professional employees it is up to 150%.[98]

Experience demonstrates five practical ways to reduce turnover: (1) Base hiring decisions on the extent to which an applicant's values fit the organization's values. (2) Provide post-hiring support, which is referred to as onboarding. **Onboarding programs help employees to integrate and transition to new jobs by making them familiar with corporate policies, procedures, culture, and politics by clarifying work-role expectations and responsibilities.**[99] (3) Focus on enhancing employee engagement. (4) Incorporate realistic job previews (RJPs, discussed in Chapter 9) into the hiring process. (5) Offer employees benefits, such as flexible work hours (discussed in Chapter 12), that meet their needs and values.[100]

3. Evaluating Behavior That Exceeds Work Roles: Organizational Citizenship Behaviors **Organizational citizenship behaviors are those employee behaviors that are not directly part of employees' job descriptions—that exceed their work-role requirements.** Examples, according to one description, include "such gestures as constructive statements about the department, expression of personal interest in the work of others, suggestions for improvement, training new people, respect for the spirit as well as the letter of housekeeping rules, care for organizational property, and punctuality and attendance well beyond standard or enforceable levels."[101]

Research demonstrates a significant and moderately positive correlation between organizational citizenship behaviors and job satisfaction, productivity, efficiency, and customer satisfaction.[102]

4. Evaluating Behavior That Harms the Organization: Counterproductive Work Behaviors

The flip side of organizational citizenship behaviors would seem to be what are called **counterproductive work behaviors (CWB), types of behavior that harm employees and the organization as a whole.** Such behaviors may include absenteeism and tardiness, drug and alcohol abuse, and disciplinary problems but also extend beyond them to more serious acts such as accidents, sabotage, sexual harassment, violence, theft, and white-collar crime.[103] Some 96% of workers say they have experienced uncivil behavior, and 98% have witnessed it.[104]

Clearly, if an employee engages in some kind of CWB, the organization needs to respond quickly and appropriately, defining the specific behaviors that are unacceptable and the requirements for acceptable behavior.[105] It is more desirable, however, to take preventive measures. One way is to screen for CWB during the hiring process. For instance, it's been found that applicants scoring higher on cognitive ability (intelligence) tests are less likely to be involved in violence and property damage after they are hired.[106] Employees are also less likely to engage in CWB if they have satisfying jobs that offer autonomy or that don't require them to supervise too many people.[107]

EXAMPLE

Extreme Counterproductive Work Behaviors: Violence in the Workplace

A fairly common kind of CWB is bullying, which we described in Chapter 9. Bullying, harassment, or unfair treatment can be inflicted on subordinates, coworkers, and even customers. Indeed, in one survey of U.S. employees, 45% said they had had a boss who was abusive.[108] Such behavior is especially toxic to the organization because when employees are intimidated, humiliated, or undermined by an abusive manager, they say they are more likely to quit their jobs or to retaliate with CWB aimed at that manager or their fellow workers.[109]

Post Office Massacres. In *Murder by Proxy: How America Went Postal* (2010), filmmaker Emil Chiaberi takes a look at how hostile work environments, along with societal changes and economic downturns, have contributed to shooting sprees in post offices, businesses, and schools in the last quarter century. A focus of the documentary is Royal Oak, Michigan, letter carrier Thomas McIlvane, who was written up for taking lunch at inappropriate locations, ordered to have his vehicle inspected for a brake-light problem everyone could see didn't exist, and then eventually dismissed for swearing at a supervisor. McIlvane later fired 100 rounds at postal employees, killing four and injuring four before turning the gun on himself. A congressional committee determined McIlvane "was a powder keg ready to blow because of petty, intimidating, even 'reprehensible' managers at the Royal Oak Post Office," according to one account.[110]

Recognizing Potential Violence. "Violence rarely begins with someone walking in and shooting others," says psychiatrist Roger Brunswick. "Violence usually builds slowly and starts with bullying, intimidation, and threats."[111] Newspaper stories about mass shootings by disgruntled or mentally ill employees (or students, as in 2014 at the University of California, Santa Barbara) have made organizations more aware that erratic behavior has to be spotted and dealt with early. Pitney Bowes, for instance, set up a hotline that employees may call anonymously to report any such concerns, and it has trained managers in identifying signs of troubling behavior.[112]

YOUR CALL

If a coworker of yours said something like, "I could KILL my boss for [something he or she did]," how would you take it? What would you do?

11.5 The New Diversified Workforce

MAJOR QUESTION

What trends in workplace diversity should managers be aware of?

THE BIG PICTURE

One of today's most important management challenges is working with stakeholders of all sorts who vary widely in diversity—in age, gender, race, religion, ethnicity, sexual orientation, capabilities, and socioeconomic background. Managers should also be aware of the differences between internal and external dimensions of diversity and barriers to diversity.

Might you hold a few preconceptions that are worth examining? Here's a reality check:

- **Assumption: Illegal immigrants dramatically impact the U.S. economy.** No, says a study by the Migration Policy Institute. Undocumented immigrants represent only about 5% of the workforce and contribute just 0.03% of the U.S. gross domestic product.[113]
- **Assumption: Customer bias favoring white men has just about disappeared.** Unfortunately not, suggests a study of college students, which found that people give higher ratings for customer satisfaction to white men than to women and members of minorities.[114]
- **Assumption: Young workers earn less than they used to.** Yes, evidently. In the decade ending 2011, the average inflation-adjusted hourly wage for male college graduates dropped 11% and for female college graduates 7%, and it hasn't got much better since.[115]

The United States is becoming more diverse in its ethnic, racial, gender, and age makeup—more nonwhite, more single, more working parents, and so on—and the consequences are not always what you would expect.

In the view of Scott E. Page, professor of complex systems, political science, and economics at the University of Michigan, diversity and variety in staffing produces organizational strength.[116] "Diverse groups of people bring to organizations more and different ways of seeing a problem," he told an interviewer, "and, thus, faster/better ways of solving it. . . . There's certainly a lot of evidence that people's identity groups—ethnic, racial, sexual, age—matter when it comes to diversity in thinking."[117]

Diversity may have its benefits, but it can also be an important management challenge. Let's consider this.

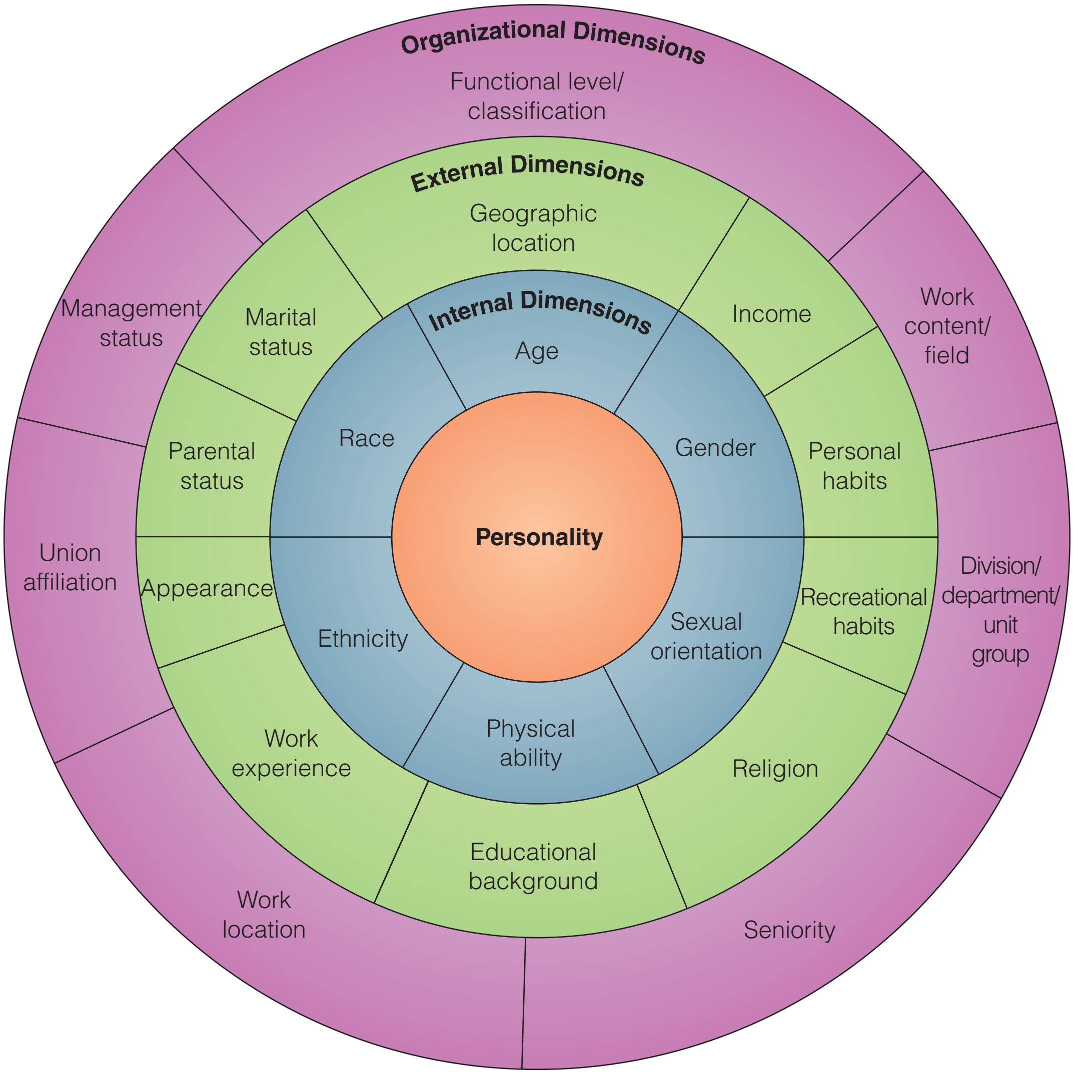
How to Think about Diversity: Which Differences Are Important?

Diversity represents all the ways people are unlike and alike—the differences and similarities in age, gender, race, religion, ethnicity, sexual orientation, capabilities, and socioeconomic background. Note here that diversity is not synonymous with differences. Rather, it encompasses both differences and similarities. This means that as a manager you need to manage both simultaneously.

To help distinguish the important ways in which people differ, diversity experts Lee Gardenswartz and Anita Rowe have identified a "diversity wheel" consisting of four layers of diversity: (1) personality, (2) internal dimensions, (3) external dimensions, and (4) organizational dimensions. *(See Figure 11.3, next page.)*

FIGURE 11.3 **The diversity wheel**

Four layers of diversity



Source: From Diverse Teams at Work *by Lee Gardenswartz and Anita Rowe. Copyright 2003, Society for Human Resource Management, Alexandria, VA. Used with permission. All rights reserved.*

Let's consider these four layers:

Personality At the center of the diversity wheel is personality. It is at the center because, as we said in Section 11.1, *personality* is defined as the stable physical and mental characteristics responsible for a person's identity.

Internal Dimensions **Internal dimensions of diversity are those human differences that exert a powerful, sustained effect throughout every stage of our lives:** gender, age, ethnicity, race, sexual orientation, physical abilities.[118] These are referred to as the *primary* dimensions of diversity because they are not within our control for the most part. Yet they strongly influence our attitudes and expectations and assumptions about other people, which in turn influence our own behavior.

What characterizes internal dimensions of diversity is that they are visible and salient in people. And precisely because these characteristics are so visible, they may be associated with certain stereotypes—for example, that black people work in menial jobs. For instance, an African American female middle manager reports that, while on vacation and sitting by the pool at a resort, she was approached by a 50ish white male who "demanded that I get him extra towels. I said, 'Excuse me?' He then said, 'Oh, you don't work here,' with no shred of embarrassment or apology in his voice."[119]

External Dimensions **External dimensions of diversity include an element of choice; they consist of the personal characteristics that people acquire, discard, or modify throughout their lives:** educational background, marital status, parental status, religion, income, geographic location, work experience, recreational habits, appearance, personal habits. They are referred to as the *secondary* dimensions of diversity because we have a greater ability to influence or control them than we do internal dimensions.

These external dimensions also exert a significant influence on our perceptions, behavior, and attitudes. If you are not a believer in the Muslim religion, for example, you may not perceive the importance of some of its practices—as did Abercrombie and Fitch subsidiary Hollister, which told college student Hani Khan that she had to remove her hijab (Islamic headscarf) to work at its San Mateo, California, store, then fired her when she refused. The Equal Employment Opportunity Commission sued the company in 2011 on Khan's behalf, since headscarves did not affect her job performance.[120]

Organizational Dimensions Organizational dimensions include management status, union affiliation, work location, seniority, work content, and division or department.

Trends in Workforce Diversity

How is the U.S. workforce apt to become more diverse in the 21st century? Let's examine five categories on the internal dimension—*age, gender, race/ethnicity, sexual orientation, and physical/mental abilities*—and one category on the external dimension, *educational level*.

Age: More Older People in the Workforce The most significant demographic event, the late Peter Drucker suggested, "is that in the developed countries the number and proportion of younger people is rapidly shrinking. . . . Those shrinking numbers of younger people will have to both drive their economies and help support much larger numbers of older people."[121] Particularly in Europe and Northeast Asia, and to a lesser extent in the United States, an aging population is "a looming economic and social burden," says a 2014 report.[122]

The United States, suggested Drucker, is the only developed economy to have enough young people, and that is only because immigrants to the United States still have large families. Even so, the median age of the American worker is predicted to reach 42.8 by 2020, up from 34.3 in 1980.[123] Indeed, workers ages 55 and older are expected to make up over one-quarter of the labor force in 2022.[124]

Do you have much experience being around older people? How do you feel about the idea of working with them? To find out, try Self-Assessment 11.5.

Diversity enriches. A diverse population in a company can provide ideas, experience, and points of view that strengthen the business culture. What has been your experience, if any, with a diverse workplace?

SELF-ASSESSMENT 11.5 connect

What Are Your Attitudes about Working with Older Employees?

The following survey was designed to assess your attitudes about working with older employees. Go to **connect.mheducation.com** and take Self-Assessment 11.5. When you're done, answer the following questions:

1. What is the quality of your relationships with older employees? How about your satisfaction with working with older people?
2. How might the quality of relationships with older employees affect your performance and promotability?
3. To what extent might your satisfaction with working with older people impact your performance and promotability?

Gender: More Women Working Since the 1960s women have been flooding into the workplace in great numbers, with about 75% of women ages 25–54 in the workforce, up from about 40% in the late 1950s.[125] In addition, more and more businesses are now owned by women—businesses where women were owners or half-owners represented 45.7% of all firms.[126] Finally, women are gaining ground in the top rungs of business. In 2014, 24 Fortune 500 companies were run by women (up from 15 in 2009); in percentage terms, 4.8% of CEOs of Fortune 500 and 5.1% of Fortune 1000 companies were women.[127]

But if pay discrepancies between women and men have improved slightly, as of 2012 (as we noted in Chapter 9) women overall still earned only 77 cents to every $1 for a man.[128] Traditionally, women have earned roughly the same pay as men only in jobs paying $25,000–$30,000 a year, but the farther up the pay scale and the higher the education level, the wider the earnings gap. Recently it was found that, for every dollar a man earns, a woman cashier earns 92 cents, a registered nurse 91 cents, and an administrative assistant 87 cents. But for a woman physician or surgeon, it is 68 cents, a woman lawyer or judge 75 cents, a woman college professor 77 cents, and a woman psychologist 77 cents. In financial services, women earn as little as 66 cents to a man's dollar.[129]

The obstacles to women's progress are known as the **glass ceiling—the metaphor for an invisible barrier preventing women and minorities from being promoted to top executive jobs.** For instance, at Fortune 500 companies in 2013, females accounted for only 14.6% of executive-officer positions.[130]

What factors are holding women back? Three that are mentioned are negative stereotypes, lack of mentors, and limited experience in line or general management.[131] For women who have become vice president or higher in Fortune 1000 companies, four strategies were identified as critical to their success: consistently exceeding performance expectations, developing a style with which male managers are comfortable, seeking out difficult or challenging assignments, and having influential mentors.[132]

Interestingly, however, several studies have suggested that female managers outshine their male counterparts on almost every measure, from motivating others to fostering communication to producing high-quality work to goal-setting to mentoring employees.[133] Indeed, one study, by Catalyst, an advocacy group for women in business, found that companies with more women executives have better financial performance.[134] In Chapter 9 we mentioned that venture capital firms that invested in women-led companies during the decade 2000–2010 outperformed those that didn't.[135] We discuss women in leadership further in Chapter 14 and women and communication in Chapter 15.

Race & Ethnicity: More People of Color in the Workforce The non-Hispanic white population is projected to peak in 2024, then to slowly decrease. By 2060, whites are projected to change from 78% in 2012 to 69%, African Americans from 13.1% to 14.7%, Asians from 5.1% to 8.2%, Hispanics or Latinos from 17% to 31%, and American Indian/Alaskan Native from 1.2% to 1.5%.[136] We already mentioned that people of color have hit the glass ceiling, with whites holding more of the managerial and professional jobs. In addition, there are two other trends that show that American businesses need to do a lot better by minority populations.

First, minorities tend to earn less than whites. Median household income in 2009 (a recession year) was $38,409 for African Americans and $39,730 for Hispanics. It was $62,545 for whites. (Asians and Pacific Islanders had the highest median income, at $75,027.)[137]

Second, a number of studies have shown that minorities experienced more perceived discrimination, racism-related stress, and less psychological support than whites did.[138]

Sexual Orientation: LGBT People Become More Visible In a Gallup survey of more than 120,000 U.S. adults, 3.4% answered "yes" when asked if they identified as lesbian, gay, bisexual, or transgendered (LGBT).[139] Despite a changing social and legal landscape, however, over half (53%) of LGBT workers nationwide say they hide who they are at work, according to a recent report.[140] (The corporate suite is one of the last frontiers for LGBT civil rights, as former BP oil giant CEO John Browne, who is gay, made clear in his 2014 book *The Glass Closet.*[141]) LGBT workers report higher levels of stress compared with other workers, stress that can be alleviated with LGBT-supportive workplace policies.[142] Finally, gay and bisexual male workers were found to earn 10%–32% less than equally qualified heterosexual counterparts.[143]

How important is the issue of sexual orientation? Once again, if managers are concerned about hiring and keeping workplace talent, they shouldn't ignore the motivation and productivity of 3.4% of the workforce. Many employers are recognizing this: 88% of Fortune 500 companies include sexual orientation in their nondiscrimination policies, and more than 60% offer domestic partner health benefits for same-sex couples, according to the Human Rights Campaign.[144] No doubt things will change further now that 19 states have legalized same-sex marriage and that protection for gay and transgender workers has been signed into law.[145]

People with Differing Physical & Mental Abilities About 18.7% of civilian, noninstitutionalized Americans have a physical or mental disability, according to the U.S. Census Bureau.[146] Since 1992 we have had the **Americans with Disabilities Act, which prohibits discrimination against the disabled** and requires organizations to reasonably accommodate an individual's disabilities.[147]

Even so, disabled people have difficulty finding work. The Census Bureau found less than half (41.1%) of disabled people ages 21–64 were employed, compared to 79.1% of abled people.[148] Here, too, is a talent pool that managers will no doubt find themselves tapping into in the coming years. (Disability studies, incidentally, has become a hot subject on college campuses.[149])

Disability. Everyone recognizes the wheelchair as signifying that a person is disabled, but other disabilities are not easily identified—and may not invite understanding. Do you think that mental disabilities, for example, should be accommodated in employment? If you were subject to mood swings, would you think that would prevent you from doing your job effectively?

Educational Levels: Mismatches between Education & Workforce Needs Two important mismatches between education and workplace are these:

- **College graduates may be in jobs for which they are overqualified.** Almost a half a million college graduates are working minimum-wage jobs—260,000 with bachelor's degrees, 200,000 with associates degrees.[150] In other words, a great many college graduates are **underemployed—working at jobs that require less education than they have**—such as tending bar, stocking clothes at Target, or other jobs that someone with less education could do.
- **High-school dropouts and others may not have the literacy skills needed for many jobs.** A recent study found that 7% of all people in the United States between the ages of 16 and 24 had dropped out of high school in 2012.[151] Men make up 56% of such dropouts. If, as has been alleged, more than two-thirds of the American workforce reads below ninth-grade level, that is a real problem for employers, because about 70% of the on-the-job reading materials are written at or above that level.[152]

Barriers to Diversity

Some barriers are erected by diverse people themselves. In the main, however, most barriers are put in their paths by organizations.[153] When we speak of "the organization's barriers," we are, of course, referring to the *people* in the organization—especially those who may have been there for a while—who are resistant to making it more diverse.

Resistance to change in general is an attitude that all managers come up against from time to time, and resistance to diversity is simply one variation. It may be expressed in the following six ways:

1. Stereotypes & Prejudices

Ethnocentrism is the belief that one's native country, culture, language, abilities, or behavior is superior to those of another culture. (An example was the "Linsanity" or surprised enthusiasm expressed by sports fans in 2012 over pro basketball player Jeremy Lin, a Harvard-educated economics graduate of Chinese descent, who defied racial stereotypes by scoring at least 23 points—in one case 38 points—in his first four games with the New York Knicks. Before Lin, many people assumed that blacks and whites were better basketball players than Asian Americans.[154]) When differences are viewed as being weaknesses—which is what many stereotypes and prejudices ultimately come down to—this may be expressed as a concern that diversity hiring will lead to a sacrifice in competence and quality.

2. Fear of Discrimination against Majority Group Members

Some employees are afraid that attempts to achieve greater diversity in their organization will result in bias against the majority group—that more black or Asian employees will be promoted to fire captain or police lieutenant, for example, over the heads of supposedly more qualified whites.

3. Resistance to Diversity Program Priorities

Some companies, such as PepsiCo, IBM, and Deloitte & Touche, have taken aggressive diversity approaches, such as offering special classes teaching tolerance for diversity and seminars in how to get along.[155] Some employees may see diversity programs as distracting them from the organization's "real work." In addition, they may be resentful of diversity-promoting policies that are reinforced through special criteria in the organization's performance appraisals and reward systems.

4. Unsupportive Social Atmosphere

Diverse employees may be excluded from office camaraderie and social events.

5. Lack of Support for Family Demands

In 2013, there were over 34.4 million married couples with children under 18 in the United States. In 59.1% of such families, both parents worked; in 31%, only the father worked; and in 6.3%, only the mother worked.[156] But more and more women are moving back and forth between being at-home mothers and in the workforce, as economic circumstances dictate.[157] Yet in a great many households, it is still women who primarily take care of children, as well as other domestic chores. When organizations aren't supportive in offering flexibility in hours and job responsibilities, these women may find it difficult to work evenings and weekends or to take overnight business trips.

Woman manager. On the job she might be a high-powered manager of scores of people, but at home she may still be expected to be the principal manager of an important few—the children.

6. Lack of Support for Career-Building Steps

Organizations may not provide diverse employees with the types of work assignments that will help qualify them for positions in senior management. In addition, organizations may fail to provide the kind of informal training or mentoring that will help them learn the political savvy to do networking and other activities required to get ahead.

11.6 Understanding Stress & Individual Behavior

MAJOR QUESTION

What causes workplace stress, and how can it be reduced?

THE BIG PICTURE

Stress is what people feel when enduring extraordinary demands or opportunities and are not sure how to handle them. There are six sources of stress: individual differences, individual task, individual role, group, organizational, and nonwork demands. We describe some consequences of stress and three ways to reduce it in the organization.

Stress is the tension people feel when they are facing or enduring extraordinary demands, constraints, or opportunities and are uncertain about their ability to handle them effectively.[158] Stress is the feeling of tension and pressure; **the source of stress is called a stressor.**

There's no question that work is stressful. Indeed, a 2013 study by the American Psychological Association found that almost two-thirds (65%) of American adults cite work as a significant source of stress, with 35% saying they typically felt tense or stressed out during the workday.[159] Low-paid workers are particularly apt to suffer stress more than those on top.[160] Commonly cited causes of work stress include low salaries (54%), lack of opportunities for growth or advancement (53%), lack of recognition (53%), and dissatisfaction with their employer's work-life balance practices (43%).[161]

The Toll of Workplace Stress

The American Institute of Stress estimates that workplace stress costs the U.S. economy over $300 billion a year in health care, missed work, and stress-reduction treatment.[162] Stress can cause conflicts at work, make you fatigued all the time, and generate problems like insomnia, backaches, headaches, and chest pain.[163]

Work stress can also, as you might guess, put managers at risk. Men who suppress anger at work are two to five times more likely to suffer heart attacks or die from heart disease as those who express their "desk rage."[164] Losing one's job is, as you might imagine, a very stressful event, being associated with decreased psychological and physical well-being.[165] A Yale study found that layoffs more than doubled the risk of heart attack and stroke among older workers.[166]

Workplace stress diminishes positive emotions, job satisfaction, organizational commitment, and job performance and increases alcohol and illicit drug use, overeating, and job turnover.[167] Indeed, historically researchers have generally believed that there is an *inverted U-shaped relationship* between stress and performance. That is, low levels of stress lead to low performance (because people are not "charged up" to perform), but high levels of stress also lead to an energy-sapping fight-or-flight response that produces low performance. Optimal performance, according to this hypothesis, results when people are subjected to moderate levels of stress.

How Does Stress Work?

Stress has both physical and emotional components. Physically, according to Canadian researcher Hans Selye, considered the father of the modern concept of stress, stress is "the nonspecific response of the body to any demand made upon it."[168] Emotionally, stress has been defined as the feeling of being overwhelmed, "the perception that events or circumstances have challenged, or exceeded, a person's ability to cope."[169]

Stressors can be *hassles,* or simple irritants, such as misplacing or losing things, concerns about one's physical appearance, and having too many things to do. Or they can be *crises,* such as sudden occasions of overwhelming terror—a horrible auto accident, an incident of childhood abuse. Or they can be *strong stressors,* which can dramatically strain a person's ability to adapt—extreme physical discomfort, such as chronic severe back pain.

Stressors can be both *negative* and *positive.* That is, one can understand that being fired or being divorced can be a great source of stress but so can being promoted or getting married. As Selye writes, "It is immaterial whether the agent or the situation we face is pleasant or unpleasant; all that counts is the intensity of the demand for adjustment and adaptation."[170] In addition, Selye distinguished between bad stress (what he called "distress"), in which the result of the stressor can be anxiety and illness, and good stress ("eustress," pronounced *yu stress*), which can stimulate a person to better coping and adaptation, such as performing well on a test.[171] In this discussion, however, we are mainly concerned with how stress negatively affects people and their performance.

The Sources of Job-Related Stress

There are six sources of stress on the job: (1) *demands created by individual differences,* (2) *individual task demands,* (3) *individual role demands,* (4) *group demands,* (5) *organizational demands,* and (6) *nonwork demands.*

Stressful No. 7. Many jobs are stressful, some because people's lives are at stake (military personnel, firefighters, police officers), some because they are highly deadline-driven (event coordinators, public relations executives). Senior corporate executives ranked No. 7 on CareerCast's 2014 list of 10 most stressful jobs. If you hate stress, what kind of job should you have?

1. Demands Created by Individual Differences: The Stress Created by Genetic or Personality Characteristics Some people are born worriers, those with a gene mutation (known as BDNF) that Yale researchers identify with people who chronically obsess over negative thoughts.[172] Others are impatient, hurried, deadline-ridden, competitive types with the personality characteristic known as **Type A behavior pattern, meaning they are involved in a chronic, determined struggle to accomplish more in less time.**[173] Type A behavior has been associated with increased performance in the work of professors, students, and life insurance brokers.[174] However, it also has been associated with greater cardiovascular activity and higher blood pressure, as well as to heart disease, especially for individuals who showed strong feelings of anger, hostility, and aggression.[175]

2. Individual Task Demands: The Stress Created by the Job Itself Some occupations are more stressful than others.[176] Being a retail store manager, for instance, can be quite stressful for some people.[177] But being a home-based blogger, paid on a piecework basis to generate news and comment, may mean working long hours to the point of exhaustion.[178]

Low-level jobs can be more stressful than high-level jobs because employees often have less control over their lives and thus have less work satisfaction. Being a barista, day care teacher, hotel concierge, or purchasing agent, which don't usually pay very well, can be quite stressful.[179]

3. Individual Role Demands: The Stress Created by Others' Expectations of You **Roles are sets of behaviors that people expect of occupants of a position.** Stress may come about because of *role overload, role conflict,* and *role ambiguity.*

- **Role overload.** Role overload occurs when others' expectations exceed one's ability. Example: If you as a student are carrying a full course load plus working two-thirds time plus trying to have a social life, you know what role overload is—and what stress is. Similar things happen to managers and workers.

- **Role conflict.** Role conflict occurs when one feels torn by the different expectations of important people in one's life. Example: Your supervisor says the company needs you to stay late to meet an important deadline, but your family expects you to be present for your child's birthday party.
- **Role ambiguity.** Role ambiguity occurs when others' expectations are unknown. Example: You find your job description and the criteria for promotion vague, a complaint often voiced by newcomers to an organization.

4. Group Demands: The Stress Created by Coworkers & Managers Even if you don't particularly care for the work you do but like the people you work with, that can be a great source of satisfaction and prevent stress. When people don't get along, that can be a great stressor. Alternatively, even if you have stress under control, a coworker's stress might bother you, diminishing productivity.[180]

In addition, managers can create stress for employees. People who have bad managers are five times more likely to have stress-induced headaches, upset stomachs, and loss of sleep.[181]

5. Organizational Demands: The Stress Created by the Environment & Culture The physical environments of some jobs are great sources of stress: poultry processing, asbestos removal, coal mining, fire fighting, police work, ambulance driving, and so on. Even white-collar work can take place in a stressful environment, with poor lighting, too much noise, improper placement of furniture, and no privacy.[182]

An organizational culture that promotes high-pressure work demands on employees will fuel the stress response.[183] The pace of information technology certainly adds to the stress. "For example," says Michael Patsalos-Fox, chairman of the Americas region for consulting firm McKinsey & Company, "you used to have media companies and you used to have telecom [telecommunications] companies, right? . . . The problem is that they are encroaching on each other. The onset of a lot of technologies is blurring the boundary between industries that were quite separate, creating opportunities for industries to attack each other."[184] Such rapidly changing technologies and financial pressures are what keep top executives awake at night.

6. Nonwork Demands: The Stresses Created by Forces Outside the Organization As anyone knows who has had to cope with money problems, divorce, support of elderly relatives, or other serious nonwork concerns, the stresses outside one's work life can have a significant effect on work. Even people with ordinary lives can find the stress of coping with family life rugged going.

The Consequences of Stress

Positive stress is constructive and can energize you, increasing your effort, creativity, and performance. Negative stress is destructive, resulting in poorer-quality work, dissatisfaction, errors, absenteeism, and turnover.

De-stressing. Experts say that exercise can be a tremendous stress reliever. Many companies maintain physical-fitness centers not only as an employee perk but also because they realize that exercise helps to improve stamina and endurance while reducing tension.

Symptoms of Stress Negative stress reveals itself in three kinds of symptoms:

- **Physiological signs.** Lesser physiological signs are sweaty palms, restlessness, backaches, headaches, upset stomach, and nausea. More serious signs are hypertension and heart attacks.
- **Psychological signs.** Psychological symptoms include boredom, irritability, nervousness, anger, anxiety, hostility, and depression.
- **Behavioral signs.** Behavioral symptoms include sleeplessness, changes in eating habits, and increased smoking/alcohol/drug abuse. Stress may be revealed through reduced performance and job satisfaction.

Burnout "When you keep investing more energy and the return remains low, that's when you burn out," suggests Michael Staver, founder of an executive training company.[185]

Burnout is a state of emotional, mental, and even physical exhaustion, expressed as listlessness, indifference, or frustration. The Maslach Burnout Inventory lists 22 elements, including emotional exhaustion, cynicism or depersonalization, and reduced personal efficacy.[186] Clearly, the greatest consequence of negative stress for the organization is reduced productivity. Overstressed employees are apt to call in sick, miss deadlines, take longer lunch breaks, and show indifference to performance. However, some may put in great numbers of hours at work without getting as much accomplished as previously.[187]

Alcohol & Other Drug Abuse Have an employee who's often late? Who frequently calls in sick on Mondays? Who is somewhat sloppy? Whose memory is slipping?[188] Maybe he or she is afflicted with *alcoholism,* a chronic, progressive, and potentially fatal disease characterized by a growing compulsion to drink. Alcoholics come from every occupation and social class, from students to college professors to priests to airline pilots. Alcoholism may not interfere with a person's job in an obvious way until it shows up in absenteeism, accidents, slipshod work, or significant use of a company's medical benefits.

Alcohol is the most common drug of abuse, but the misuse of others may also affect a person's productivity—legal drugs such as tranquilizers or illegal drugs such as marijuana, Ecstasy, cocaine, or heroin. If you as a manager think you might be dealing with an employee with a substance-abuse problem, it's suggested you not try to make accusations but firmly point out that productivity is suffering and that it's up to the subordinate to do something about it. While not doing any counseling yourself, you can try steering the employee to the Human Resources Department, which may have an employee assistance program that may help employees overcome personal problems affecting their job performance.

Incidentally, although many people swear by 12-step programs, such as that offered by Alcoholics Anonymous, an examination of several studies found that such programs were no more and no less successful than any other interventions in reducing alcohol dependence and alcohol-related problems.[189]

Reducing Stressors in the Organization

There are all kinds of **buffers, or administrative changes, that managers can make to reduce the stressors that lead to employee burnout.** Examples: Extra staff or equipment at peak periods. Increased freedom to make decisions. Recognition for accomplishments. Time off for rest or personal development. Assignment to a new position. Three- to 5-day employee retreats at off-site locations for relaxation and team-building activities. Sabbatical leave programs to replenish employees' energy and desire to work.

Some general organizational strategies for reducing unhealthy stressors are the following:[190]

- **Roll out employee assistance programs.** **Employee assistance programs (EAPs) include a host of programs aimed at helping employees to cope with stress, burnout, substance abuse, health-related problems, family and marital issues, and any general problem that negatively influences job performance.**[191]
- **Recommend a holistic wellness approach.** **A holistic wellness program focuses on self-responsibility, nutritional awareness, relaxation techniques, physical fitness, and environmental awareness.** This approach goes beyond stress reduction by encouraging employees to strive, in one definition, for "a harmonious and productive balance of physical, mental, and social well-being brought about by the acceptance of one's personal responsibility for developing and adhering to a health promotion program."[192]
- **Create a supportive environment.** Job stress often results because employees work under poor supervision and lack freedom. Wherever possible, it's better to keep the organizational environment less formal, more personal, and more supportive of employees.
- **Make jobs interesting.** Stress also results when jobs are routinized and boring. Better to try to structure jobs so that they allow employees some freedom.
- **Make career counseling available.** Companies such as IBM make career planning available, which reduces the stress that comes when employees don't know what their career options are and where they're headed.

Good times—for now. Office stress can certainly lead to "a few drinks after work" becoming a regular pastime—and then almost a necessity, for some people. More than 30% of American adults have abused alcohol or suffered from alcoholism at some point in their lives. Those who get treatment first receive it, on average, at about age 30—eight years after they developed their dependency on drinking. Only 24% of alcoholics, however, receive any treatment at all. Do you find alcohol helps relieve your stress? Are you concerned about it?

Key Terms Used in This Chapter

Key Points

11.1 Personality & Individual Behavior

- Personality consists of the stable psychological traits and behavioral attributes that give a person his or her identity. There are five personality dimensions and five personality traits that managers need to be aware of to understand workplace behavior.
- The Big Five personality dimensions are extroversion, agreeableness, conscientiousness, emotional stability, and openness to experience. Extroversion, an outgoing personality, is associated with success for managers and salespeople. Conscientiousness, or a dependable personality, is correlated with successful job performance. A person who scores well on conscientiousness may be a proactive personality, someone who is more apt to take initiative and persevere to influence the environment.
- A core self-evaluation represents a broad personality trait comprising four positive individual traits: (1) Self-efficacy is the belief in one's personal ability to do a task. Low self-efficacy is associated with learned helplessness, the debilitating lack of faith in one's ability to control one's environment. (2) Self-esteem is the extent to which people like or dislike themselves. (3) Locus of control indicates how much people believe they control their fate through their own efforts. (4) Emotional stability is the extent to which people feel secure and unworried and how likely they are to experience negative emotions under pressure.
- Emotional intelligence is defined as the ability to monitor your and others' feelings and use this information to guide your thinking and actions.

11.2 Values, Attitudes, & Behavior

- Organizational behavior (OB) is dedicated to better understanding and managing people at work. OB looks at two areas: individual behavior (discussed in this chapter) and group behavior (discussed in later chapters).
- Values must be distinguished from attitudes and from behavior. Values are abstract ideals that guide one's thinking and behavior across all situations.
- Attitudes are defined as learned predispositions toward a given object. Attitudes have three components. The affective component consists of the feelings or emotions one has about a situation. The

cognitive component consists of the beliefs and knowledge one has about a situation. The behavioral component refers to how one intends or expects to behave toward a situation.

- When attitudes and reality collide, the result may be cognitive dissonance, the psychological discomfort a person experiences between his or her cognitive attitude and incompatible behavior. Cognitive dissonance depends on three factors: importance, control, and rewards. The ways to reduce cognitive dissonance are to change your attitude and/or your behavior, belittle the importance of the inconsistent behavior, or find consonant elements that outweigh the dissonant ones.
- Together, values and attitudes influence people's workplace behavior—their actions and judgments.

11.3 Perception & Individual Behavior

- Perception is the process of interpreting and understanding one's environment. Four types of distortion in perception are (1) stereotyping, the tendency to attribute to an individual the characteristics one believes are typical of the group to which that individual belongs; (2) the halo effect, the forming of an impression of an individual based on a single trait; (3) the recency effect, the tendency to remember recent information better than earlier information; and (4) causal attribution, the activity of inferring causes for observed behavior. Two attributional tendencies that can distort one's interpretation of observed behavior are the fundamental attribution bias, in which people attribute another person's behavior to his or her personal characteristics rather than to situational factors, and the self-serving bias, in which people tend to take more personal responsibility for success than for failure.
- The self-fulfilling prophecy (Pygmalion effect) describes the phenomenon in which people's expectations of themselves or others lead them to behave in ways that make those expectations come true.

11.4 Work-Related Attitudes & Behaviors Managers Need to Deal With

- Managers need to be alert to work-related attitudes having to do with (1) employee engagement, an individual's involvement, satisfaction, and enthusiasm for work; (2) job satisfaction, the extent to which you feel positive or negative about various aspects of your work; and (3) organizational commitment, reflecting the extent to which an employee identifies with an organization and is committed to its goals.
- Among the types of behavior that managers need to influence are (1) performance and productivity; (2) absenteeism, when an employee doesn't show up for work, and turnover, when employees leave their jobs; (3) organizational citizenship behaviors, those employee behaviors that are not directly part of employees' job descriptions—that exceed their work-role requirements; and (4) counterproductive work behaviors, behaviors that harm employees and the organization as a whole.

11.5 The New Diversified Workforce

- Diversity represents all the ways people are alike and unlike—the differences and similarities in age, gender, race, religion, ethnicity, sexual orientation, capabilities, and socioeconomic background.
- There are two dimensions of diversity: (1) Internal dimensions of diversity are those human differences that exert a powerful, sustained effect throughout every stage of our lives: gender, ethnicity, race, physical abilities, age, and sexual orientation. (2) External dimensions of diversity consist of the personal characteristics that people acquire, discard, or modify throughout their lives: personal habits, educational background, religion, income, marital status, and the like.
- There are five categories in the internal dimension and one category in the external dimension in which the U.S. workforce is becoming more diverse: (1) age, (2) gender, (3) race and ethnicity, (4) sexual orientation, (5) physical/mental abilities, and, on the external dimension, (6) educational level.
- There are six ways in which employees and managers may express resistance to diversity: (1) Some express stereotypes and prejudices based on ethnocentrism, the belief that one's native country, culture, language, abilities, or behavior is superior to that of another country. (2) Some employees are afraid of discrimination against majority group members. (3) Some employees see diversity programs as distracting them from the organization's supposed "real work." (4) Diverse employees may experience an unsupportive social atmosphere. (5) Organizations may not be supportive of flexible hours and other matters that can help employees cope with family demands. (6) Organizations may show lack of support for career-building steps for diverse employees.

11.6 Understanding Stress & Individual Behavior

- Stress is the tension people feel when they are facing or enduring extraordinary demands, constraints, or opportunities and are uncertain about their ability to handle them effectively. Stress is the feeling of tension and pressure; the source of stress is called a stressor.
- There are six sources of stress on the job: (1) Demands created by individual differences may arise from a Type A behavior pattern, meaning people have the personality characteristic that involves them in a chronic, determined struggle to accomplish more in less time. (2) Individual task demands are the stresses created by the job itself. (3) Individual role demands are the stresses created by other people's expectations of you. Roles are sets of behaviors that people expect of occupants of a position. Stress may come about because of role overload, role conflict, or role ambiguity. (4) Group demands are the stresses created by coworkers and managers. (5) Organizational demands are the stresses created by the environment and culture of the organization. (6) Nonwork demands are the stresses created by forces outside the organization, such as money problems or divorce.
- Positive stress can be constructive. Negative stress can result in poor-quality work; such stress is revealed through physiological, psychological, or behavioral signs. One sign is burnout, a state of emotional, mental, and even physical exhaustion. Stress can lead to alcohol and other drug abuse.
- There are buffers, or administrative changes, that managers can make to reduce the stressors that lead to employee burnout, such as adding extra staff or giving employees more power to make decisions. Some general organizational strategies for reducing unhealthy stressors are to roll out employee assistance programs, recommend a holistic wellness approach, create a supportive environment, make jobs interesting, and make career counseling available.

Understanding the Chapter: What Do I Know?

1. What are the Big Five personality dimensions?
2. What are four personality traits managers need to be aware of to understand workplace behavior?
3. How is emotional intelligence defined?
4. How do you distinguish values from attitudes and behavior?
5. What is the process of perception?
6. What are four types of distortion in perception, and what is the Pygmalion effect?
7. What are three work-related attitudes managers need to be conscious of?
8. What are four types of behavior that managers need to influence?
9. Explain the two dimensions of diversity.
10. What are six sources of stress on the job?

Management in Action

Steve Jobs's Personality & Attitudes Drove His Success

This case is based on an interview of Steve Jobs by Walter Isaacson, the author of the 2011 book Steve Jobs.

His saga is the entrepreneurial creation myth writ large. Steve Jobs cofounded Apple in his parents' garage in 1976, was ousted in 1985, returned to rescue it from near bankruptcy in 1997, and by the time he died, in October 2011, had built it into the world's most valuable company. Along the way he helped to transform seven industries: personal computing, animated movies, music, phones, tablet computing, retail stores, and digital publishing. . . .

When Jobs returned to Apple in 1997, it was producing an array of computers and peripherals, including a dozen different versions of the Macintosh. After a few weeks of product review sessions, he'd finally had enough. "Stop!" he shouted. "This is crazy." He grabbed a Magic Marker, padded in his bare feet to a whiteboard, and drew a two-by-two grid. "Here's what we need," he declared. Atop the two columns, he wrote

"Consumer" and "Pro." He labeled the two rows "Desktop" and "Portable." Their job, he told his team members, was to focus on four great products, one for each quadrant. All other products should be canceled. There was a stunned silence. But by getting Apple to focus on making just four computers, he saved the company. "Deciding what not to do is as important as deciding what to do," he told me. "That's true for companies, and it's true for products."

After he righted the company, Jobs began taking his "top 100" people on a retreat each year. On the last day, he would stand in front of a whiteboard (he loved whiteboards, because they gave him complete control of a situation and they engendered focus) and ask, "What are the 10 things we should be doing next?" People would fight to get their suggestions on the list. Jobs would write them down—and then cross off the ones he decreed dumb. After much jockeying, the group would come up with a list of 10. Then Jobs would slash the bottom seven and announce, "We can only do three."

Focus was ingrained in Jobs's personality and had been honed by his Zen training. He relentlessly filtered out what he considered distractions. Colleagues and family members would at times be exasperated as they tried to get him to deal with issues they considered important. But he would give a cold stare and refuse to shift his laserlike focus until he was ready. . . .

Part of Jobs's compulsion to take responsibility for what he called "the whole widget" stemmed from his personality, which was very controlling. But it was also driven by his passion for perfection and making elegant products. He got hives, or worse, when contemplating the use of great Apple software on another company's uninspired hardware, and he was equally allergic to the thought that unapproved apps or content might pollute the perfection of an Apple device. It was an approach that did not always maximize short-term profits, but in a world filled with junky devices, inscrutable error messages, and annoying interfaces, it led to astonishing products marked by delightful user experiences. Being in the Apple ecosystem could be as sublime as walking in one of the Zen gardens of Kyoto that Jobs loved, and neither experience was created by worshipping at the altar of openness or by letting a thousand flowers bloom. Sometimes it's nice to be in the hands of a control freak. . . .

After the iPod became a huge success, Jobs spent little time relishing it. Instead he began to worry about what might endanger it. One possibility was that mobile phone makers would start adding music players to their handsets. So he cannibalized iPod sales by creating the iPhone. "If we don't cannibalize ourselves, someone else will," he said.

John Sculley, who ran Apple from 1983 to 1993, was a marketing and sales executive from Pepsi. He focused more on profit maximization than on product design after Jobs left, and Apple gradually declined. "I have my own theory about why decline happens at companies," Jobs told me. They make some great products, but then the sales and marketing people take over the company, because they are the ones who can juice up the profits. "When the sales guys run the company, the product guys don't matter so much, and a lot of them just turn off. It happened at Apple when Sculley came in, which was my fault, and it happened when Ballmer took over at Microsoft."

When Jobs returned, he shifted Apple's focus back to making innovative products: the sprightly iMac, the PowerBook, and then the iPod, the iPhone, and the iPad. As he explained, "My passion has been to build an enduring company where people were motivated to make great products. Everything else was secondary. Sure, it was great to make a profit, because that was what allowed you to make great products. But the products, not the profits, were the motivation. Sculley flipped these priorities to where the goal was to make money. It's a subtle difference, but it ends up meaning everything—the people you hire, who gets promoted, what you discuss in meetings."

Caring deeply about what customers want is much different from continually asking them what they want; it requires intuition and instinct about desires that have not yet been formed. "Our task is to read things that are not yet on the page," Jobs explained. Instead of relying on market research, he honed his version of empathy, an intimate intuition about the desires of his customers. He developed his appreciation for intuition—feelings that are based on accumulated experiential wisdom—while he was studying Buddhism in India as a college dropout. "The people in the Indian countryside don't use their intellect like we do; they use their intuition instead," he recalled. "Intuition is a very powerful thing—more powerful than intellect, in my opinion." . . .

Jobs's (in)famous ability to push people to do the impossible was dubbed by colleagues his Reality Distortion Field, after an episode of *Star Trek* in which aliens create a convincing alternative reality through sheer mental force. An early example was when Jobs was on the night shift at Atari and pushed Steve Wozniak to create a game called Breakout. Woz said it would take months, but Jobs stared at him and insisted he could do it in four days. Woz knew that was impossible, but he ended up doing it.

Those who did not know Jobs interpreted the Reality Distortion Field as a euphemism for bullying and lying. But those who worked with him admitted that the trait, infuriating as it might be, led them to perform extraordinary feats. Because Jobs felt that life's ordinary rules didn't apply to him, he could inspire his team to change the course of computer history with a small fraction of the resources that Xerox or IBM had. "It was a self-fulfilling distortion," recalls Debi Coleman, a member of the original Mac team who won an award one year for being the employee who best stood up to Jobs. "You did the impossible because you didn't realize it was impossible."

One day Jobs marched into the cubicle of Larry Kenyon, the engineer who was working on the Macintosh operating system, and complained that it was taking too long to boot up. Kenyon started to explain why reducing the boot-up time wasn't possible, but Jobs cut him off. "If it would save a person's life, could you find a way to shave 10 seconds off the boot time?" he asked. Kenyon allowed that he probably could. Jobs went to a whiteboard and showed that if five million people were using the Mac and it took 10 seconds extra to turn it on every day, that added up to 300 million or so hours a year—the equivalent of at least 100 lifetimes a year. After a few weeks Kenyon had the machine booting up 28 seconds faster. . . .

During the development of almost every product he ever created, Jobs at a certain point "hit the pause button" and went back to the drawing board because he felt it wasn't perfect. That happened even with the movie *Toy Story*. After Jeff Katzenberg and the team at Disney, which had bought the rights to the movie, pushed the Pixar team to make it edgier and darker, Jobs and the director, John Lasseter, finally stopped production and rewrote the story to make it friendlier. When he was about to launch Apple Stores, he and his store guru, Ron Johnson, suddenly decided to delay everything a few months so that the stores' layouts could be reorganized around activities and not just product categories. . . .

Jobs was famously impatient, petulant, and tough with the people around him. But his treatment of people, though not laudable, emanated from his passion for perfection and his desire to work with only the best. It was his way of preventing what he called "the bozo explosion," in which managers are so polite that mediocre people feel comfortable sticking around. "I don't think I run roughshod over people," he said, "but if something sucks, I tell people to their face. It's my job to be honest." When I pressed him on whether he could have gotten the same results while being nicer, he said perhaps so. "But it's not who I am," he said. "Maybe there's a better way—a gentlemen's club where we all wear ties and speak in this Brahmin language and velvet code words—but I don't know that way, because I am middle-class from California." . . .

It's important to appreciate that Jobs's rudeness and roughness were accompanied by an ability to be inspirational. He infused Apple employees with an abiding passion to create groundbreaking products and a belief that they could accomplish what seemed impossible. And we have to judge him by the outcome. Jobs had a close-knit family, and so it was at Apple: His top players tended to stick around longer and be more loyal than those at other companies, including ones led by bosses who were kinder and gentler. CEOs who study Jobs and decide to emulate his roughness without understanding his ability to generate loyalty make a dangerous mistake.

"I've learned over the years that when you have really good people, you don't have to baby them," Jobs told me. "By expecting them to do great things, you can get them to do great things. Ask any member of that Mac team. They will tell you it was worth the pain." Most of them do. "He would shout at a meeting, 'You asshole, you never do anything right,'" Debi Coleman recalls. "Yet I consider myself the absolute luckiest person in the world to have worked with him."

FOR DISCUSSION

1. How would you evaluate Jobs in terms of the Big Five personality dimensions?
2. How would you evaluate Jobs in terms of the five traits important to organizational behavior? Explain.
3. What were Jobs's attitudes about effective leadership? Use the three components of attitudes to explain.
4. Do you believe that Jobs's personality and attitudes affected the workplace attitudes and behaviors of Apple employees? Explain.
5. What factors were causing stress for Jobs? Explain.

Source: Excerpted from W. Isaacson, "The Real Leadership Lessons of Steve Jobs," Harvard Business Review, *April 2012, pp. 93–100.*

Legal/Ethical Challenge

Should Airlines Accommodate Overweight People?

Traveling on an airplane can be extra difficult for overweight and tall people. Boeing's 757 standard seat width is 17 inches, while Airbus's is 18 inches wide. Given individual differences in hip width, this can be a problem, particularly for women. This issue was investigated by the Civilian American and European Surface Anthropometry Resource Project

(Caesar). The project was funded by a consortium of companies.

The Caesar project measured over 4,000 people from the U.S. and Europe and uncovered the following: "the hip breadth of men in the 95th percentile of the population, i.e., on the very big side, measures 17.6 inches." This means that 95% of all men can fit into a standard Airbus seat. In contrast, females face a different situation. According to Caesar's report, "the hip breadth of women in the 90th percentile is 19.2 inches, and those in the 95th percentile have hips measuring 22.4 inches." The core skeletal systems is the reason for the difference between men and women. Females simply have a larger pelvis than men.

Do you think airlines should accommodate people with larger hips? Although there are not any regulations in the U.S. to accommodate people, airlines handle the issue differently. Southwest used to make people purchase two tickets if they could not fit into one seat, then the company changed its mind. Customers complained. United currently requires people to purchase two seats if they can't fit into one, but American, Delta, and US Airways will try to find an extra seat. If none are available, these airlines will bump the individual to a later flight in search of that extra seat. Pacific-based carrier Samoa Air resolved the issue by simply charging fees based on passengers' weight.

Airbus has decided to turn the issue of seat size into a profit maker. The aircraft manufacturer is planning to make aisle seats 20 inches wide, while reducing the standard 18-inch seat to 17 inches. Travelers will be required to pay more for the larger aisle seat.

SOLVING THE CHALLENGE

1. Because women on average have larger hip breadth than men, it is not fair to base fees on the size of a seat. This would disadvantage women. I would follow the policy of trying to find a person a second seat at no additional cost if they can't fit into one seat.
2. I like the policy of Samoa Air. Make people pay based on their weight. After all, airlines charge to check baggage based on its weight so why should it be any different for passengers.
3. Airlines can't accommodate everyone. If someone is overweight or has larger hip breadth, then they need to pay for the accommodation. This would also enable smaller people to pay additional fees for more space should they desire it.
4. Airlines should try to maximize their profit, and charging for extra seat space makes great sense. The same is true for taller people. If they want more space, they should pay for it.
5. Invent other options.

Source: Excerpted from K. Mayo, "Economy Plus Size," Bloomberg Businessweek, *May 6–May 12, 2013, p. 81.*

12

Motivating Employees

Achieving Superior Performance in the Workplace

Major Questions You Should Be Able to Answer

12.1 Motivating for Performance
Major Question: What's the motivation for studying motivation?

12.2 Content Perspectives on Employee Motivation
Major Question: What kinds of needs motivate employees?

12.3 Process Perspectives on Employee Motivation
Major Question: Is a good reward good enough? How do other factors affect motivation?

12.4 Job Design Perspectives on Motivation
Major Question: What's the best way to design jobs—adapt people to work or work to people?

12.5 Reinforcement Perspectives on Motivation
Major Question: What are the types of incentives I might use to influence employee behavior?

12.6 Using Compensation & Other Rewards to Motivate
Major Question: How can I use compensation and other rewards to motivate people?

the manager's toolbox

Managing for Motivation: Keeping Employees Invested in Their Jobs

"Get a life!" everyone says. But what, exactly, is a "life," anyway?

As more and more people have begun asking this question, it has spilled over into organizational life. The result has been a new category of work rewards and incentives called *work–life benefits.*

Balancing Work & Personal Lives

As one definition has it, work–life benefits are programs "used by employers to increase productivity and commitment by removing certain barriers that make it hard for people to strike a balance between their work and personal lives."[1] Examples are nonsalary incentives such as flexible work arrangements, tuition assistance, and paid time off for education and community service.

In managing for motivation, the subject of this chapter, you need to be thinking about employees not as "human capital" or "capital assets" but as people who are *investors:* they are investing their time, energy, and intelligence—their lives—in your organization, for which they deserve a return that makes sense to them.

What Workers Want—Yes!

To keep your employees invested in their jobs and performing well, it helps to know what the Gallup Organization discovered in surveying 80,000 managers and 1 million workers over 25 years.[2] Gallup found that in the best workplaces employees gave strong "yes" answers to the following 12 questions:

- Do I know what's expected of me?
- Do I have the right materials and equipment I need to do my work right?
- Do I have the opportunity to do what I do best every day?
- In the last seven days, have I received recognition or praise for good work?
- Does my supervisor, or someone at work, seem to care about me as a person?
- Is there someone at work who encourages my development?
- Does my opinion seem to count?
- Does the mission of my company make me feel like my work is important?
- Are my coworkers committed to doing quality work?
- Do I have a best friend at work?
- In the last six months, have I talked with someone about my progress?
- Have I had opportunities to learn and grow?

Involving Employees in the Company's Success

The best managers, Gallup says, meet with workers individually at least every three months, not just once or twice a year. In doing so, they not only discuss performance but also try to find out what employees want to accomplish and how the manager can help. In addition, good managers focus on strengths, rather than weaknesses, allowing employees to devote time to what they do best.

Even before *Fortune* magazine began publishing its annual list of "The 100 Best Companies to Work For" (Google was No. 1 in 2014), managers had been concerned about trying to motivate their employees. In prerecession times, according to a project leader who helped with the *Fortune* list, the best companies kept their employees an average of 6 years, as opposed to a U.S. average of 3.6 years. They accomplished this by pushing for employees at all levels to feel involved in the company's success.[3]

For Discussion Which 3 of the 12 questions listed above are most important to you? Which do you think are most important to most employees?

forecast What's Ahead in This Chapter

This chapter discusses motivation from four perspectives: content (theories by Maslow, McClelland, Deci and Ryan, and Herzberg); process (equity, expectancy, and goal-setting theories); job design; and reinforcement. We then consider rewards for motivating performance.

12.1 Motivating for Performance

MAJOR QUESTION

What's the motivation for studying motivation?

THE BIG PICTURE

Motivation is defined as the psychological processes that arouse and direct people's goal-directed behavior. The model of how it works is that people have certain needs that motivate them to perform specific behaviors for which they receive rewards, both extrinsic and intrinsic, that feed back and satisfy the original need. The three major perspectives on motivation are need-based, process, and reinforcement.

What would make you rise a half hour earlier than usual to ensure you got to work on time—and to perform your best once there? Among the possible inducements (such as those offered by SAS, Google, and Salesforce): free snacks, on-site laundry, child care assistance, freedom to paint your walls, scholarships for employees' children, having your dog at work.[4]

Whether employment rates are high or low, there are always companies, industries, and occupations in which employers feel they need to bend over backward to retain their human capital.

Motivation: What It Is, Why It's Important

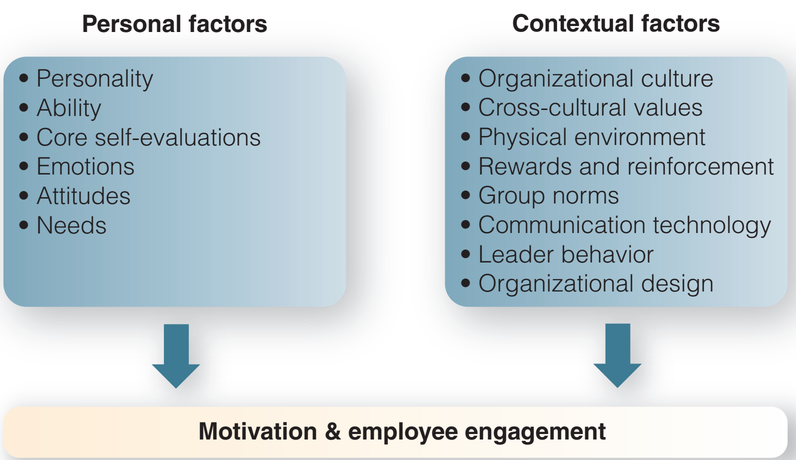
Why do people do the things they do? The answer is this: they are mainly motivated to fulfill their wants, their needs.

What Is Motivation & How Does It Work?

Motivation may be defined as the psychological processes that arouse and direct goal-directed behavior.[5] Motivation is difficult to understand because you can't actually see it or know it in another person; it must be *inferred* from one's behavior. Nevertheless, it's imperative that you as a manager understand the process of motivation if you are to guide employees in accomplishing your organization's objectives.

The way motivation works actually is complex, the result of multiple *personal and contextual factors*. *(See Figure 12.1.)*

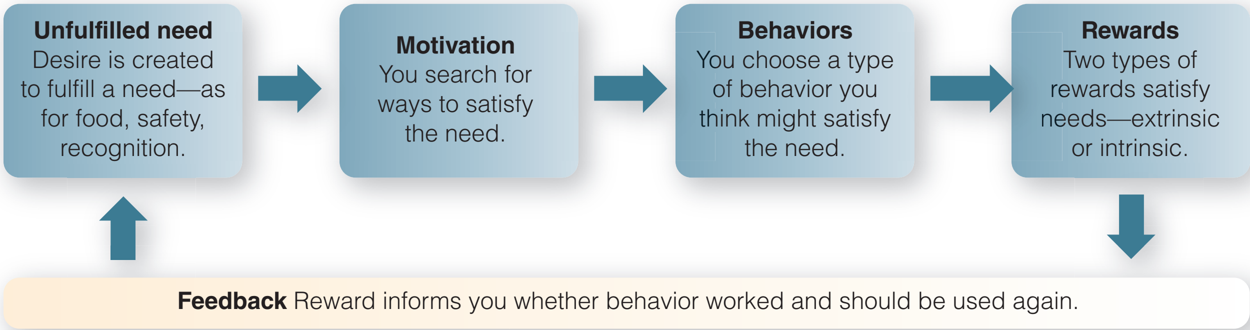
FIGURE 12.1
An integrated model of motivation



The individual personal factors that employees bring to the workplace range from personality to ability to emotions to attitudes, many of which we described in Chapter 11. The contextual factors range from organizational culture, to cross-cultural values, to the physical environment, and other matters we discuss in this chapter and the next. Both categories of factors influence an employee's level of motivation and engagement at work.

However, motivation can also be expressed in a simple model—namely, that people have certain *needs* that *motivate* them to perform specific *behaviors* for which they receive *rewards* that *feed back* and satisfy the original need. *(See Figure 12.2, below.)*

FIGURE 12.2 **A simple model of motivation**



For example, as an hourly worker you desire more money (need), which impels you (motivates you) to work more hours (behavior), which provides you with more money (reward) and informs you (feedback loop) that working more hours will fulfill your need for more money in the future.

Rewards (as well as motivation itself) are of two types—*extrinsic* and *intrinsic*.[6] Managers can use both to encourage better work performance.

- **Extrinsic rewards—satisfaction in the payoff from others.** An **extrinsic reward is the payoff, such as money, a person receives from others for performing a particular task.** An extrinsic reward is an external reward; the payoff comes from pleasing others.

  Example: An experiment by General Electric found that paying employees who were smokers up to $750—an extrinsic reward—to quit and stay off cigarettes was three times as successful as a comparison group that got no paid incentives.[7] (Some firms are asking their employees to pay higher insurance premiums or adopt other financial incentives to spur them to quit smoking, lose weight, or join a fitness program.[8])

- **Intrinsic rewards—satisfaction in performing the task itself.** An **intrinsic reward is the satisfaction, such as a feeling of accomplishment, a person receives from performing the particular task itself.** An intrinsic reward is an internal reward; the payoff comes from pleasing yourself.

  Example: Jenny Balaze left her post in Ernst & Young LLC's Washington, DC, office to spend 12 weeks in Buenos Aires as a volunteer providing free accounting services to a small publishing firm. It was among "the best three months of my life," says the 27-year-old business advisory services manager.[9]

We all are motivated by a combination of extrinsic and intrinsic rewards. Which type of reward is more valuable to you? Answering this question can help you generate self-motivation and higher performance. Find out about your relative interest in extrinsic and intrinsic rewards by taking Self-Assessment 12.1.

SELF-ASSESSMENT 12.1 connect

Are You More Interested in Extrinsic or Intrinsic Rewards?

The following survey was designed to assess extrinsic and intrinsic motivation. Go to **connect.mheducation.com** and take Self-Assessment 12.1. When you're done, answer the following questions:

1. What is more important to you, extrinsic or intrinsic rewards? Are you surprised by the results?
2. How can you use the results to increase your motivation to obtain good grades in your classes?
3. If you were managing someone like yourself, what would you do to increase the individual's motivation?

Why Is Motivation Important? It seems obvious that organizations would want to motivate their employees to be more productive. Actually, though, as a manager you will find knowledge of motivation important for five reasons.[10] In order of importance, you want to motivate people to:

1. **Join your organization.** You need to instill in talented prospective workers the desire to come to work for you.
2. **Stay with your organization.** Whether you are in good economic times or bad, you always want to be able to retain good people.
3. **Show up for work at your organization.** In many organizations, absenteeism and lateness are tremendous problems.[11]
4. **Be engaged while at your organization.** Engaged employees produce higher-quality work and better customer service.
5. **Do extra for your organization.** You hope your employees will perform extra tasks above and beyond the call of duty (be organizational "good citizens").

The Four Major Perspectives on Motivation: Overview

There is no theory accepted by everyone as to what motivates people. In this chapter, therefore, we present the four principal perspectives. From these, you may be able to select what ideas seem most workable to you. The four perspectives on motivation are (1) *content,* (2) *process,* (3) *job design,* and (4) *reinforcement,* as described in the following four main sections.

12.2 Content Perspectives on Employee Motivation

MAJOR QUESTION

What kinds of needs motivate employees?

THE BIG PICTURE

Content perspectives are theories emphasizing the needs that motivate people. Needs are defined as physiological or psychological deficiencies that arouse behavior. The content perspective includes four theories: Maslow's hierarchy of needs, McClelland's acquired needs theory, Deci and Ryan's self-determination theory, and Herzberg's two-factor theory.

Content perspectives, also known as *need-based perspectives,* are theories that emphasize the needs that motivate people. Content theorists ask, "What kind of needs motivate employees in the workplace?" **Needs are defined as physiological or psychological deficiencies that arouse behavior.** They can be strong or weak, and, because they are influenced by environmental factors, they can vary over time and from place to place.

In addition to McGregor's Theory X/Theory Y (see Chapter 2), content perspectives include four theories:

- Maslow's hierarchy of needs theory
- McClelland's acquired needs theory
- Deci and Ryan's self-determination theory
- Herzberg's two-factor theory

Maslow's Hierarchy of Needs Theory: Five Levels

In 1943, one of the first researchers to study motivation, Brandeis University psychology professor **Abraham Maslow** (mentioned previously in Chapter 2) put forth his **hierarchy of needs theory, which proposes that people are motivated by five levels of needs: (1) physiological, (2) safety, (3) love, (4) esteem, and (5) self-actualization.**[12] *(See Figure 12.3.)*

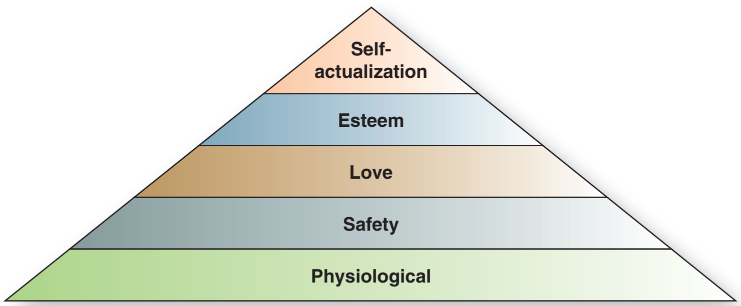


FIGURE 12.3
Maslow's hierarchy of needs

1. **Physiological need—the most basic human physical need:** Need for food, clothing, shelter, comfort, self-preservation. *Workplace example: these are covered by wages.*
2. **Safety need:** Need for physical safety, emotional security, avoidance of violence. *Workplace examples: health insurance, job security, work safety rules, pension plans satisfy this need.*
3. **Love need:** Need for love, friendship, affection. *Workplace examples: office parties, company softball teams, management retreats.*
4. **Esteem need:** Need for self-respect, status, reputation, recognition, self-confidence. *Workplace examples: bonuses, promotions, awards.*
5. **Self-actualization need—the highest level need:** Need for self-fulfillment: increasing competence, using abilities to the fullest. *Workplace example: sabbatical leave to further personal growth.*

The Five Levels of Needs In proposing this hierarchy of five needs, ranging from basic to highest level, Maslow suggested that needs are never completely satisfied. That is, our actions are aimed at fulfilling the "deprived" needs, the needs that remain unsatisfied at any point in time. Thus, for example, once you have achieved safety (security), which is the second most basic need, you will then seek to fulfill the third most basic need—love (belongingness).

EXAMPLE

Looking for Peak Performance: A Hotel CEO Applies Maslow's Hierarchy to Employees, Customers, & Investors

Chip Conley is CEO and founder of boutique hotel company Joie de Vivre (JDV), whose mission statement is "creating opportunities to celebrate the joy of life." In *Peak: How Great Companies Get Their Mojo from Maslow,* he describes how JDV used Maslow's theory to motivate the business's three key stakeholders—employees, customers, and investors—by tapping into the power of self-actualization to create peak performance.[13]

Motivating Employees. Applying the Maslow pyramid to employees, says Conley, "the basic need that a job satisfies is money. Toward the middle are needs like recognition for a job well done, and at the top are needs like meaning and creative expression."[14]

Thus, housekeepers, who represent half of a hotel's workers, would be gathered in small groups and asked what the hotels would look like if they weren't there each day. Following their answers (unvacuumed carpets, piled-up trash, bathrooms filled with wet towels), they were then asked to come up with alternative names for housekeeping. Some responses: "serenity keepers," "clutter busters," "the peace-of-mind police."

From this exercise, workers developed a sense of how the customer experience would not be the same without them.[15] And that, says Conley, "gets to a sense of meaning in your work that satisfies that high-level human motivation." Addressing the highest-level need gives employees "a sense that the job helps them become the best people they can be."[16]

Motivating Customers. Many hotels offer clean, safe accommodations. JDV designs each of its 30 hotels to "flatter and vindicate a different category of customers' distinct self-image," says Conley. Thus, in San Francisco, the Hotel Rex's tweedy décor and Jack London touches appeal to urbane literary types. The Vitale's fitness-conscious services and minimalist design target "the kind of bourgeois bohemian who might like *Dwell Magazine.*"[17]

Motivating Investors. Although most investors focus on a "returns-driven relationship" (bottom of the pyramid), some have higher motivations. They are driven not by the deal "but rather [by] an interesting, worthwhile deal," which JDV attempts to provide.[18]

YOUR CALL

To what extent can Chip Conley's ideas be used in larger organizations?

Using the Hierarchy of Needs Theory to Motivate Employees Research does not clearly support Maslow's theory, although it remains popular among managers. Still, the importance of Maslow's contribution is that he showed that workers have needs beyond that of just earning a paycheck. To the extent the organization permits, managers should first try to meet employees' level 1 and level 2 needs, of course, so that employees won't be preoccupied with them. Then, however, they need to give employees a chance to fulfill their higher-level needs in ways that also advance the goals of the organization.[19]

McClelland's Acquired Needs Theory: Achievement, Affiliation, & Power

David McClelland, a well-known psychologist, investigated the needs for affiliation and power and as a consequence proposed the **acquired needs theory, which states that three needs—achievement, affiliation, and power—are major motives determining people's behavior in the workplace.**[20] McClelland believes that we are not born with our needs; rather we learn them from the culture—from our life experiences.

The Three Needs Managers are encouraged to recognize three needs in themselves and others and to attempt to create work environments that are responsive to them. The three needs, one of which tends to be dominant in each of us, are as follows. *(See Figure 12.4, right.)*

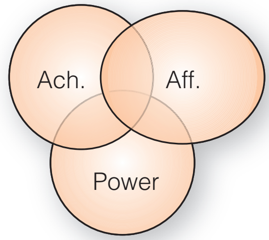
- **Need for achievement—"I need to excel at tasks."** This is the desire to excel, to do something better or more efficiently, to solve problems, to achieve excellence in challenging tasks.
- **Need for affiliation—"I need close relationships."** This is the desire for friendly and warm relations with other people.
- **Need for power—"I need to control others."** This is the desire to be responsible for other people, to influence their behavior or to control them.[21]

McClelland identifies two forms of the need for power—personal and institutional. The negative kind is the need for *personal power,* as expressed in the desire to dominate others, and involves manipulating people for one's own gratification.

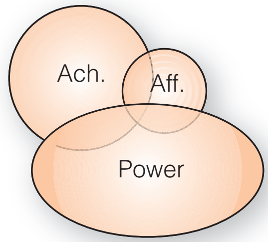
The positive kind, characteristic of top managers and leaders, is the desire for *institutional power,* as expressed in the need to solve problems that further organizational goals.

Research tells us that your performance will vary along the lines of the three acquired needs. Where do you think you stand in terms of being motivated by these three needs? You can find out by completing Self-Assessment 12.2.

FIGURE 12.4
McClelland's three needs



A "well-balanced" individual: achievement, affiliation, and power are of equal size.



A "control freak" individual: achievement is normal, but affiliation is small and power is large.

SELF-ASSESSMENT 12.2 connect

Assessing Your Acquired Needs

The following survey was designed to assess your motivation in terms of acquired needs. Go to **connect.mheducation.com** and take Self-Assessment 12.2. When you're done, answer the following questions:

1. What is the order of your most important needs? Are you surprised by this result?
2. Given that achievement and power needs are associated with career advancement, how might you increase these two need states?

Using Acquired Needs Theory to Motivate Employees McClelland associates the three needs with different sets of work preferences, as follows:[22]

Need for Achievement If you (or an employee) are happy with accomplishment of a task being its own reward, don't mind or even prefer working alone, and are willing to take moderate risks, then you probably have a *high need for achievement.* That being the case, you (or your employee) would probably prefer doing the kind of work that offers pay for performance, challenging but achievable goals, and individual responsibility for results. People high in need for achievement tend to advance in technical fields requiring creativity and individual skills.[23]

Need for Power If you, like most effective managers, have a *high need for power,* that means you enjoy being in control of people and events and being recognized for this responsibility. Accordingly, your preference would probably be for work that allows you to control or have an effect on people and be publicly recognized for your accomplishments.

Need for Affiliation If you tend to seek social approval and satisfying personal relationships, you may have a *high need for affiliation.* In that case, you may not be the most efficient manager because at times you will have to make decisions that will make people resent you. Instead, you will tend to prefer work, such as sales, that provides for personal relationships and social approval.

Deci & Ryan's Self-Determination Theory: Competence, Autonomy, & Relatedness

Developed by **Edward Deci** (pronounced "*Dee*-see") and **Richard Ryan,** psychologists at the University of Rochester, **self-determination theory assumes that people are driven to try to grow and attain fulfillment, with their behavior and well-being influenced by three innate needs: competence, autonomy, and relatedness.**[24]

Focus on Intrinsic Motivation

Self-determination theory focuses primarily on intrinsic motivation and rewards (such as feeling independent) rather than on extrinsic motivation and rewards (such as money or fame). Intrinsic motivation is longer lasting than extrinsic motivation and has a more positive impact on task performance.[25]

The Three Innate Needs

To achieve psychological growth, according to the theory, people need to satisfy the three innate (that is, inborn) needs of competence, autonomy, and relatedness:

1. **Competence—"I want to feel a sense of mastery."** People need to feel qualified, knowledgeable, and capable of completing a goal or task and to learn different skills.
2. **Autonomy—"I want to feel independent and able to influence my environment."** People need to feel they have freedom and the discretion to determine what they want to do and how they want to do it.
3. **Relatedness—"I want to feel connected to other people."** People need to feel a sense of belonging, of attachment to others.

Using Self-Determination Theory to Motivate Employees

Managers can apply this theory by trying to create work environments that encourage employees to experience competence, autonomy, and relatedness. Some specific suggestions:

- **Competence.** Managers can provide tangible resources, time, contacts, and coaching to improve employee competence, making sure that employees have the knowledge and information they need to perform their jobs. Example: At NetApp, a data storage company, managers regularly notify the vice chairman when they "catch someone doing something right." He makes 10–20 phone calls a day to thank such special employees.[26]
- **Autonomy.** To enhance feelings of autonomy, managers can develop trust with their employees and empower them by delegating meaningful tasks to them. Example: Unilever provides smartphones and other technologies to 100,000 employees (factory production workers excepted) to enable them to work anytime, anywhere, as long as they meet company needs.[27]
- **Relatedness.** Many companies, such as Sacramento-based Nugget Market, use camaraderie to foster relatedness. "The company doesn't see this as a workplace," says one employee. "They see it as a family. This is our home, where customers are treated as guests."[28]

Are you feeling motivated in this course? To what extent does the instructor for this course satisfy your needs for competence, autonomy, and relatedness? You can find out by taking Self-Assessment 12.3.

SELF-ASSESSMENT 12.3 connect

Assessing Your Needs for Self-Determination

The following survey was designed to assess the extent to which an instructor is satisfying your needs for self-determination. Go to **connect.mheducation.com** and take Self-Assessment 12.3. When you're done, answer the following questions:

1. Are your needs being met? Do the results make sense in terms of your level of motivation in this course?
2. Based on the results, identify two things you might do to increase your motivation.
3. Based on the results, identify two things your instructor might do to increase your motivation.

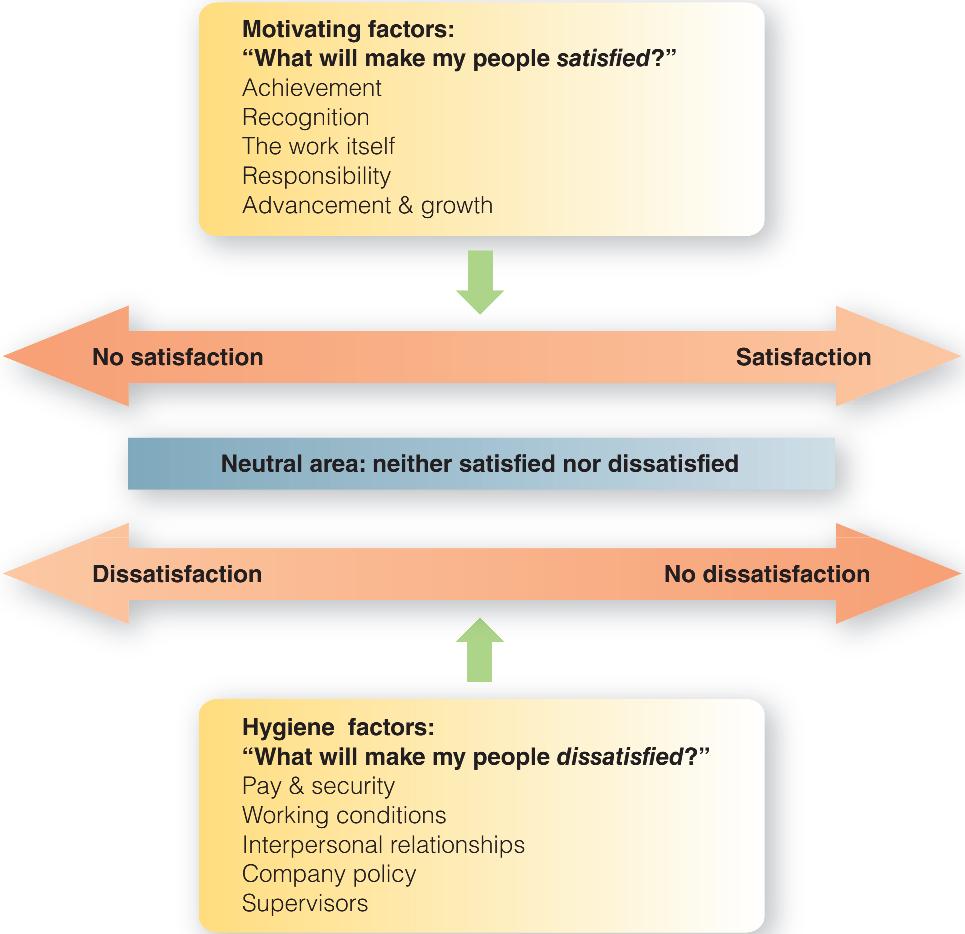
Herzberg's Two-Factor Theory: From Dissatisfying Factors to Satisfying Factors

Frederick Herzberg arrived at his needs-based theory as a result of a landmark study of 203 accountants and engineers who were interviewed to determine the factors responsible for job satisfaction and dissatisfaction.[29] Job satisfaction was more frequently associated with achievement, recognition, characteristics of the work, responsibility, and advancement. Job dissatisfaction was more often associated with working conditions, pay and security, company policies, supervisors, and interpersonal relationships. The result was Herzberg's **two-factor theory, which proposed that work satisfaction and dissatisfaction arise from two different factors—work satisfaction from *motivating factors* and work dissatisfaction from *hygiene factors*.**

Hygiene Factors versus Motivating Factors In Herzberg's theory, the hygiene factors are the lower-level needs, and the motivating factors are the higher-level needs. The two areas are separated by a zone in which employees are neither satisfied nor dissatisfied. *(See Figure 12.5, next page.)*

How much do you want? Would a clean desk in a big office with a view represent the tangible realization of managerial success for you? Would this be a motivation that would make you feel satisfied?

FIGURE 12.5
Herzberg's two-factor theory: satisfaction versus dissatisfaction



- **Hygiene factors—"Why are my people dissatisfied?"** The lower-level needs, **hygiene factors, are factors associated with job *dissatisfaction—such as salary, working conditions, interpersonal relationships, and company policy—all of which affect the job context* in which people work.**

  An example of a hygiene factor is the temperature in a factory that's not air-conditioned during the summer. Installing air-conditioning will remove a cause of job dissatisfaction. It will not, however, spur factory workers' motivation and make them greatly satisfied in their work. Because motivating factors are absent, workers become, in Herzberg's view, merely neutral in their attitudes toward work—neither dissatisfied nor satisfied.

- **Motivating factors—"What will make my people satisfied?"** The higher-level needs, **motivating factors, or simply *motivators,* are factors associated with job *satisfaction*—such as achievement, recognition, responsibility, and advancement—all of which affect the job content or the rewards of work performance.** Motivating factors—challenges, opportunities, recognition—must be instituted, Herzberg believed, to spur superior work performance.

  An example of a motivating factor would be to give factory workers more control over their work. For instance, instead of repeating a single task over and over, a worker might join with other workers on a team in which each one does several tasks. This is the approach that Swedish automaker Volvo took in building cars.

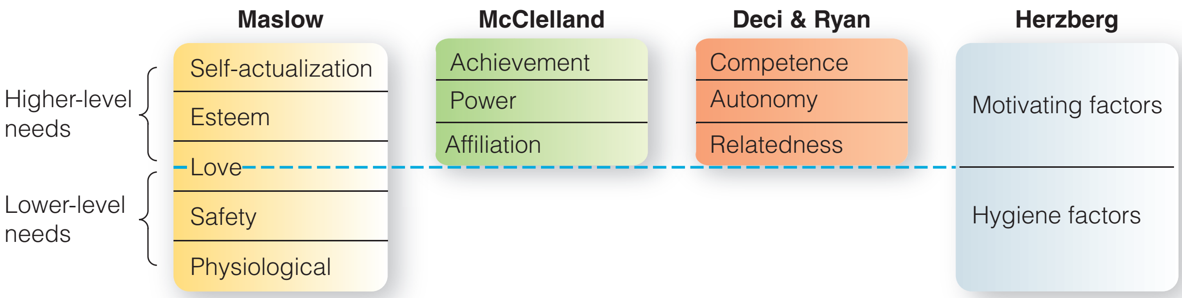
Using Two-Factor Theory to Motivate Employees During the Great Recession, with fewer jobs available, many people felt they were stuck in jobs they disliked—61% in 2009, according to a survey by the Conference Board.[30] In 2013, the survey found even worse results—only half of American workers said they were satisfied with their jobs.[31] Another study, however, finds that 81% of U.S. employees report overall satisfaction with their current job, with the important parts being compensation/pay (by 60%), job security (59%), and opportunities to use skills/abilities (also 59%).[32]

There will always be some employees who dislike their jobs, but the basic lesson of Herzberg's research is that you should first eliminate dissatisfaction (hygiene factors), making sure that working conditions, pay levels, and company policies are reasonable. You should then concentrate on spurring motivation by providing opportunities for achievement, recognition, responsibility, and personal growth (motivating factors).

Positive hygiene factors could include allowing pets at work; offering videogame arcades, fitness classes, and intramural sports (volleyball, soccer); and providing a library of free movies, books, and magazines.[33] (Or, if you work at Google, you could also have a college reimbursement plan, legal aid, and travel assistance—and if you die, the company will pay your family half your salary for a decade.)[34]

The four needs theories are compared below. *(See Figure 12.6.)* Note how acquired need theory (McClelland) and self-determination theory (Deci & Ryan) focus only on higher-level needs. ●

FIGURE 12.6 **A comparison of needs & satisfaction theories: Maslow hierarchy of needs, McClelland acquired need, Deci & Ryan self-determination, and Herzberg two-factor**



12.3 Process Perspectives on Employee Motivation

MAJOR QUESTION

Is a good reward good enough? How do other factors affect motivation?

THE BIG PICTURE

Process perspectives, which are concerned with the thought processes by which people decide how to act, have three viewpoints: equity theory, expectancy theory, and goal-setting theory.

Process perspectives are concerned with the thought processes by which people decide how to act—how employees choose behavior to meet their needs. Whereas need-based perspectives simply try to understand employee needs, process perspectives go further and try to understand why employees have different needs, what behaviors they select to satisfy them, and how they decide if their choices were successful.

In this section we discuss three process perspectives on motivation:

- Equity theory
- Expectancy theory
- Goal-setting theory

Equity Theory: How Fairly Do You Think You're Being Treated in Relation to Others?

Fairness—or, perhaps equally important, the *perception* of fairness—can be a big issue in organizations. For example, if, as a salesperson for Target, you received a 10% bonus for doubling your sales, would that be enough? What if other Target salespeople received 15%?

Equity theory focuses on employee perceptions as to how fairly they think they are being treated compared with others. Developed by psychologist **J. Stacey Adams,** equity theory is based on the idea that employees are motivated to see fairness in the rewards they expect for task performance.[35] Employees are motivated to resolve feelings of injustice.

How, for example, might employees respond to knowing that the average pay for CEOs in 2013 was about 257 times the average worker's pay, up from 181 times in 2009?[36] (The head of a typical large public company earned $10.5 million in 2013. The average American with a bachelor's degree makes $2.3 million—over a lifetime. By contrast, Apple CEO Timothy Cook earns that amount in a shade over two days.[37]) How about the fact that in 2013 women made only 81% of men's earnings?[38] Some experts suggest that such imbalances are partly responsible for the more than $50 billion a year in employee theft.[39]

The Elements of Equity Theory: Comparing Your Inputs & Outputs with Those of Others

The key elements in equity theory are *inputs, outputs (rewards),* and *comparisons. (See Figure 12.7, opposite page.)*

- **Inputs—"What do you think you're putting into the job?"** The inputs that people perceive they give to an organization are their time, effort, training, experience, intelligence, creativity, seniority, status, and so on.
- **Outputs or rewards—"What do you think you're getting out of the job?"** The outputs are the rewards that people receive from an organization: pay, benefits, praise, recognition, bonuses, promotions, status perquisites (corner office with a view, say, or private parking space), and so on.
- **Comparison—"How do you think your ratio of inputs and rewards compares with those of others?"** Equity theory suggests that people compare the *ratio* of their own outcomes to inputs against the *ratio* of someone else's

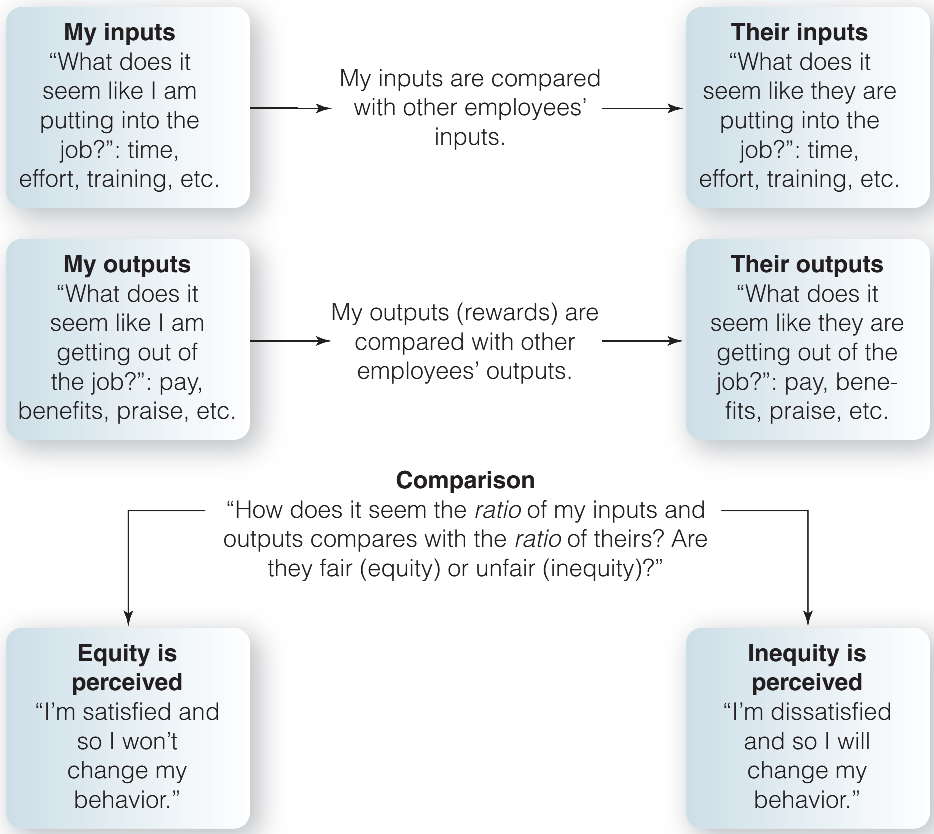


FIGURE 12.7

Equity theory

How people perceive they are being fairly or unfairly rewarded.

outcomes to inputs. When employees compare the ratio of their inputs and outputs (rewards) with those of others—whether coworkers within the organization or even other people in similar jobs outside it—they then make a judgment about fairness. Either they perceive there is *equity*, and so are satisfied with the ratio and so they don’t change their behavior. Or they perceive there is *inequity*, and so they feel resentful and act to change the inequity.[40]

Using Equity Theory to Motivate Employees Adams suggests that employees who feel they are being underrewarded will respond to the perceived inequity in one or more negative ways, as by reducing their inputs, trying to change the outputs or rewards they receive, distorting the inequity, changing the object of comparison, or leaving the situation. *(See Table 12.1.)*

TABLE 12.1

Some Ways Employees Try to Reduce Inequity

- **They will reduce their inputs:** They will do less work, take long breaks, call in “sick” on Mondays, leave early on Fridays, and so on.
- **They will try to change the outputs or rewards they receive:** They will lobby the boss for a raise, or they will pilfer company equipment.
- **They will distort the inequity:** They will exaggerate how hard they work so they can complain they’re not paid what they’re worth.
- **They will change the object of comparison:** They may compare themselves with another person instead of the original one.
- **They will leave the situation:** They will quit, transfer, or shift to another reference group.

By contrast, employees who think they are treated fairly are more likely to support organizational change, more apt to cooperate in group settings, and less apt to turn to arbitration and the courts to remedy real or imagined wrongs.

Three practical lessons that can be drawn from equity theory are as follows.

1. Employee Perceptions Are What Count Probably the most important result of research on equity theory is this: No matter how fair managers think the organization's policies, procedures, and reward system are, each employee's *perception* of those factors is what counts. Thus, managers should provide positive recognition about employee behavior and performance and explain the reasons behind their decisions.

2. Employee Participation Helps Managers benefit by allowing employees to participate in important decisions. For example, a recent study showed that employees were more satisfied with changes to their jobs when they participated in creating the changes.[41]

3. Having an Appeal Process Helps When employees are able to appeal decisions affecting their welfare, it promotes the belief that management treats them fairly. Perceptions of fair treatment promote job satisfaction, commitment, and citizenship behavior and reduce absenteeism and turnover.[42]

Research clearly shows that our perceptions of equity or fair treatment are significantly associated with job satisfaction, commitment, performance, and turnover. It thus is important for managers to understand employees' feelings about equitable treatment. Are you being treated fairly at work? Do you have an appreciation for the different ways in which managers can treat us fairly? You can get answers to these questions by taking Self-Assessment 12.4.

SELF-ASSESSMENT 12.4 connect

Measuring Perceived Fair Interpersonal Treatment

The following survey was designed to assess the extent to which you are experiencing fair interpersonal treatment at work. Go to **connect.mheducation.com** and take Self-Assessment 12.4. When you're done, answer the following questions:

1. Are you being treated equitably?
2. Based on examining the three lowest-scoring items, what could your manager do to improve your perceptions of equity?
3. What can you do to increase your perceptions of fair interpersonal treatment?

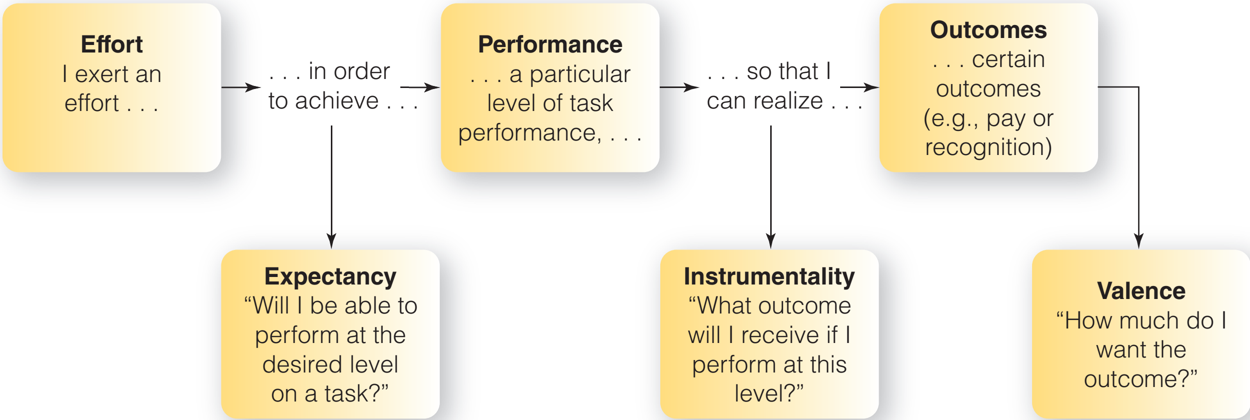
Expectancy Theory: How Much Do You Want & How Likely Are You to Get It?

Introduced by **Victor Vroom, expectancy theory suggests that people are motivated by two things: (1) how much they want something and (2) how likely they think they are to get it.**[43] In other words, assuming they have choices, people will make the choice that promises them the greatest reward if they think they can get it.

The Three Elements: Expectancy, Instrumentality, Valence What determines how willing you (or an employee) are to work hard at tasks important to the success of the organization? The answer, says Vroom, is: You will do what you *can* do when you *want* to.

Your motivation, according to expectancy theory, involves the relationship between your *effort,* your *performance,* and the desirability of the *outcomes* (such as pay or recognition) of your performance. These relationships, which are shown in the following drawing, are affected by the three elements of *expectancy, instrumentality,* and *valence. (See Figure 12.8.)*

FIGURE 12.8 **Expectancy theory: the major elements**



1. Expectancy—"Will I Be Able to Perform at the Desired Level on a Task?" **Expectancy is the belief that a particular level of effort will lead to a particular level of performance.** This is called the *effort-to-performance expectancy.*

Example: If you believe that putting in more hours working at Target selling clothes will result in higher sales, then you have high effort-to-performance expectancy. That is, you believe that your efforts will matter. You think you have the ability, the product knowledge, and so on so that putting in extra hours of selling can probably raise your sales of clothes.

2. Instrumentality—"What Outcome Will I Receive If I Perform at This Level?" **Instrumentality is the expectation that successful performance of the task will lead to the outcome desired.** This is called the *performance-to-reward expectancy.*

Example: If you believe that making higher sales will cause Target to give you a bonus, then you have high performance-to-reward expectancy. You believe *if* you can achieve your goals, the outcome will be worthwhile. This element is independent of the previous one—you might decide you don't have the ability to make the extra sales, but if you did, you'll be rewarded. (Lately, because of the public's concern about the quality of the educational system in the United States, school boards and politicians are implementing programs that tie teachers' pay to performance.[44])

3. Valence—"How Much Do I Want the Outcome?" **Valence is value, the importance a worker assigns to the possible outcome or reward.**

Example: If you assign a lot of importance or a high value to Target's prospective bonus or pay raise, then your valence is said to be high.

For your motivation to be high, you must be high on all three elements—expectancy, instrumentality, and valence. If any element is low, you will not be motivated. Your effort-to-performance expectancy might be low, for instance, because you doubt making an effort will make a difference (because retail clothing selling has too much competition). Or your performance-to-reward expectancy might be low because you don't think Target is going to give you a bonus for being a star at selling. Or your valence might be low because you don't think the bonus or raise is going to be high enough to justify working evenings and weekends.

Using Expectancy Theory to Motivate Employees The principal problem with the expectancy theory is that it is complex. Even so, the underlying logic is understandable, and research seems to show that managers are not following its principles.[45]

When attempting to motivate employees, managers should ask the following questions:

- **What rewards do your employees value?** As a manager, you need to get to know your employees and determine what rewards (outcomes) they value, such as pay raises or recognition.
- **What are the job objectives and the performance level you desire?** You need to clearly define the performance objectives and determine what performance level or behavior you want so that you can tell your employees what they need to do to attain the rewards.
- **Are the rewards linked to performance?** You want to reward high performance, of course. Thus, employees must be aware that *X* level of performance within *Y* period of time will result in *Z* kinds of rewards. In a team context, however, research shows that it is best to use a combination of individual and team-based rewards.[46]
- **Do employees believe you will deliver the right rewards for the right performance?** Your credibility is on the line here. Your employees must believe that you have the power, the ability, and the will to give them the rewards you promise for the performance you are requesting.

EXAMPLE

Reducing the F's: Applying Expectancy Theory to Failing Students

"A highly skilled CEO is hard to find," observes a business writer. "Highly paid CEOs, however, are everywhere you look."[47]

Indeed, the mass media are full of stories about top managers who don't produce results but are still rewarded (such as the Staples executives who didn't make their 2013 goals but received a special bonus anyway—"for effort").[48] Where's the inducement to deliver superior performance when you're going to be rewarded anyway?[49]

Maybe we can learn from high school.

Fewer F's. As a principal in Arizona high schools, Dr. Tim Richard has used a motivational program called Celebration/Remediation to improve the grades of students. For instance, at 3,000-student Westwood High School in Mesa, which had 1,200 failing pupils, students with F grades dropped to 900 within the first few months. At Poston Butte High School, the number of students with one or more F's was reduced from 555 to 262 in nine weeks. "Once we changed the culture by bringing on Celebration/Remediation . . . ," Richard said, "the kids have completely embraced it."[50] (Poston Butte also rewards students who pass all their classes with an early release from school.)

Celebration or Remediation? At Westwood, the program worked like this: "Students are allowed to go outside and have fun with their friends for 28 minutes on four mornings a week," Richard told *The Arizona Republic.* "But those who have even one F must stay inside for 'remediation'—28 minutes of extra study, help from peer tutors, or meetings with teachers."[51]

Richard believes the key to motivating students is to link a highly valued reward—socializing with friends outside—with grades. Socializing includes not only hanging out but also eating snacks, playing organized games, and listening and dancing to music. "You really appreciate celebration after you have been in remediation," said Ivana Baltazar, a 17-year-old senior who raised her grade in economics from an F to a B after receiving help through the program.

YOUR CALL

The tricky part, observes Westwood student tutor Joseph Leung, is addressing expectancy—"getting people out of the mindset that they can't succeed. . . . A lot of times they just haven't done their homework. I try to help them understand that the difference between a person passing and failing is their work ethic." For top executives in business, expectancy doesn't seem to be a problem, it's instrumentality and valence. How could you apply Richard's program to reward performance in business?

Goal-Setting Theory: Objectives Should Be Specific & Challenging but Achievable

We have been considering the importance of goal setting since first introducing the topic in Chapter 5. **Goal-setting theory suggests that employees can be motivated by goals that are specific and challenging but achievable.** According to psychologists **Edwin Locke** and **Gary Latham,** who developed the theory, it is natural for people to set and strive for goals; however, the goal-setting process is useful only if people *understand* and *accept* the goals.

The Four Motivational Mechanisms of Goal-Setting Theory

Goal setting helps motivate you by doing the following:

1. It Directs Your Attention Goal setting directs your attention toward goal-relevant tasks and away from irrelevant ones.

2. It Regulates the Effort Expended The effort you expend is generally proportional to the goal's difficulty.

3. It Increases Your Persistence Goal setting makes obstacles become challenges to be overcome, not reasons to fail.

4. It Fosters Use of Strategies & Action Plans The use of strategies and action plans make it more likely you will realize success.

Some Practical Results of Goal-Setting Theory

A *goal* is defined as an objective that a person is trying to accomplish through his or her efforts. To result in high motivation and performance, according to recent research, goals must have a number of characteristics, as follows:

1. Goals Should Be Specific Goals such as "Sell as many cars as you can" or "Be nicer to customers" are too vague. Instead, goals need to be specific—usually meaning *quantitative,* as in "Boost your revenues 25%" and "Cut absenteeism by 10%."[52]

2. Goals Should Be Challenging but Achievable Goals should be tailored to fit individual abilities and training, not set so low that lots of people can achieve them nor set so high that most people will give up. Difficult goals will lead to higher performance only when employees are committed to them; if they are not, difficult goals may simply lead to low performance.[53]

3. Goals Should Be Linked to Action Plans An action plan outlines the activities or tasks that need to be accomplished in order to obtain a goal and reminds us of what we should be working on. Both individuals (such as college students) and organizations are more likely to achieve their goals when they develop detailed action plans.[54]

4. Goals Need Not Be Set Jointly to Be Effective It doesn't seem to matter whether goals are set by managers, by employees, or by both together to be effective.[55] Thus, managers should probably do whatever suits the individual and the situation (a contingency approach). On the other hand, employees should be encouraged to develop their own action plans, which will foster stronger goal commitment.[56]

5. Feedback Enhances Goal Attainment Feedback lets employees know if they are on or off course, provides them with performance standards, and gives them the information they need to adjust their efforts.

Some of the preceding recommendations are embodied in the advice we presented in Chapter 5—namely, that goals should be SMART: Specific, Measurable, Attainable, Results-oriented, and have Target dates.

12.4 Job Design Perspectives on Motivation

MAJOR QUESTION

What's the best way to design jobs—adapt people to work or work to people?

THE BIG PICTURE

Job design, the division of an organization's work among employees, applies motivational theories to jobs to increase performance and satisfaction. The traditional approach to job design is to fit people to the jobs; the modern way is to fit the jobs to the people, using job enrichment and approaches that are based on Herzberg's landmark two-factor theory, discussed earlier in this chapter. The job characteristics model offers five job attributes for better work outcomes.

About half of workers reported in a recent year that their current job was stagnant.[57] Is there anything that can be done about this?

Job design is (1) the division of an organization's work among its employees and (2) the application of motivational theories to jobs to increase satisfaction and performance. There are two different approaches to job design, one traditional, one modern, that can be taken in deciding how to design jobs. The traditional way is *fitting people to jobs;* the modern way is *fitting jobs to people.*[58]

Fitting People to Jobs

Fitting people to jobs is based on the assumption that people will gradually adapt to any work situation. Even so, jobs must still be tailored so that nearly anyone can do them. This is the approach often taken with assembly-line jobs and jobs involving routine tasks. For managers the main challenge becomes "How can we make the worker most compatible with the work?"

One technique is **job simplification, the process of reducing the number of tasks a worker performs.** When a job is stripped down to its simplest elements, it enables a worker to focus on doing more of the same task, thus increasing employee efficiency and productivity. This may be especially useful, for instance, in designing jobs for mentally disadvantaged workers, such as those run by Goodwill Industries. However, research shows that simplified, repetitive jobs lead to job dissatisfaction, poor mental health, and a low sense of accomplishment and personal growth.[59]

Fitting Jobs to People

Fitting jobs to people is based on the assumption that people are underutilized at work and that they want more variety, challenges, and responsibility. This philosophy, an outgrowth of Herzberg's theory, is one of the reasons for the popularity of work teams in the United States. The main challenge for managers is "How can we make the work most compatible with the worker so as to produce both high performance and high job satisfaction?"

Two techniques for this type of job design are (1) *job enlargement* and (2) *job enrichment.*

Job Enlargement: Putting More Variety into a Job

The opposite of job simplification, **job enlargement consists of increasing the number of tasks in a job to increase variety and motivation.** For instance, the job of installing flat screens in television sets could be enlarged to include installation of the circuit boards as well.

Although proponents claim job enlargement can improve employee satisfaction, motivation, and quality of production, research suggests job enlargement by itself won't have a significant and lasting positive effect on job performance. After all, working at two boring tasks instead of one doesn't add up to a challenging job. Instead, job enlargement is just one tool of many that should be considered in job design.[60]

Job Enrichment: Putting More Responsibility & Other Motivating Factors into a Job Job enrichment is the practical application of Frederick Herzberg's two-factor motivator-hygiene theory of job satisfaction.[61] Specifically, **job enrichment consists of building into a job such motivating factors as responsibility, achievement, recognition, stimulating work, and advancement.**

However, instead of the job-enlargement technique of simply giving employees additional tasks of similar difficulty (known as *horizontal loading*), with job enrichment employees are given more responsibility (known as *vertical loading*). Thus, employees take on chores that would normally be performed by their supervisors. For example, one department store authorized thousands of its sales clerks to handle functions normally reserved for store managers, such as handling merchandise-return problems and approving customers' checks.

The Job Characteristics Model: Five Job Attributes for Better Work Outcomes

Developed by researchers **J. Richard Hackman** and **Greg Oldham,** the job characteristics model of design is an outgrowth of job enrichment.[62] **The job characteristics model consists of (a) five core job characteristics that affect (b) three critical psychological states of an employee that in turn affect (c) work outcomes—the employee's motivation, performance, and satisfaction.** The model is illustrated below. *(See Figure 12.9.)*

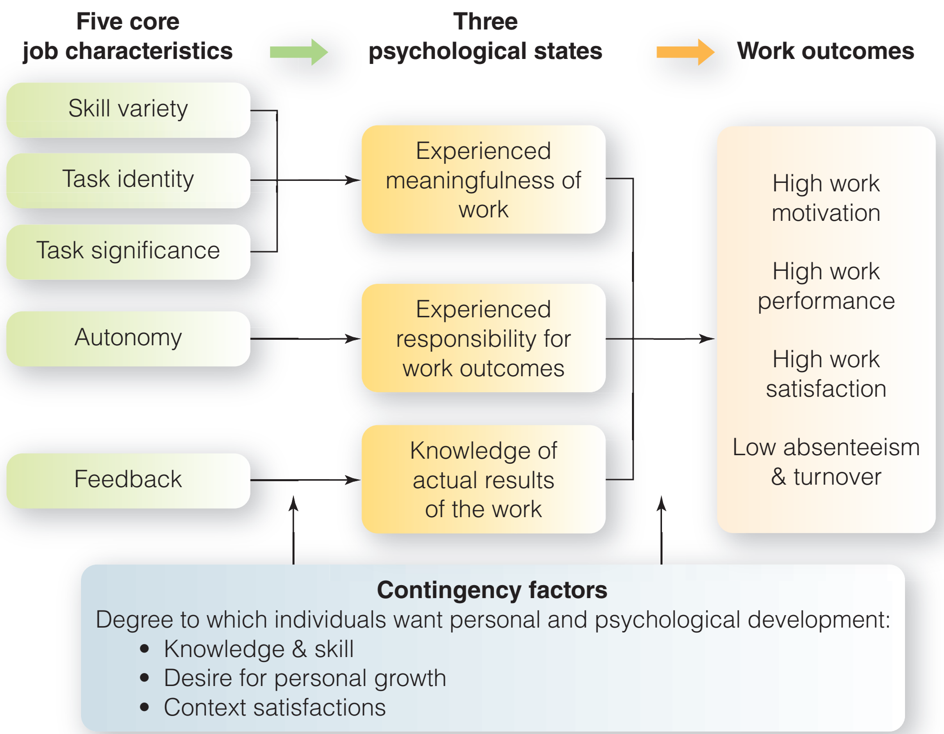


FIGURE 12.9
The job characteristics model
Source: From J. Richard Hackman and Greg R. Oldham, Work Redesign, *le ©1980. Reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.*

Five Job Characteristics The five core job characteristics are *skill variety, task identity, task significance, autonomy,* and *feedback,* as follows.

Skill variety. Being an airline pilot—or a museum curator, a building contractor, a physician, or an orchestra conductor—requires a greater number of skills than, say, driving a truck. Do highly skilled employees typically make good managers? What skills do airline pilots have that would make them effective managers in other kinds of work?

1. Skill Variety—"How Many Different Skills Does Your Job Require?" *Skill variety* describes the extent to which a job requires a person to use a wide range of different skills and abilities.

Example: The skill variety required by a rocket scientist is higher than that for a short-order cook.

2. Task Identity—"How Many Different Tasks Are Required to Complete the Work?" *Task identity* describes the extent to which a job requires a worker to perform all the tasks needed to complete the job from beginning to end.

Example: The task identity for a craftsperson who goes through all the steps to build a handmade acoustic guitar is higher than it is for an assembly-line worker who just installs windshields on cars.

3. Task Significance—"How Many Other People Are Affected by Your Job?" *Task significance* describes the extent to which a job affects the lives of other people, whether inside or outside the organization.

Example: A technician who is responsible for keeping a hospital's electronic equipment in working order has higher task significance than a person wiping down cars in a carwash.

4. Autonomy—"How Much Discretion Does Your Job Give You?" *Autonomy* describes the extent to which a job allows an employee to make choices about scheduling different tasks and deciding how to perform them.

Example: College-textbook salespeople have lots of leeway in planning which campuses and professors to call on. Thus, they have higher autonomy than do toll-takers on a bridge, whose actions are determined by the flow of vehicles.

5. Feedback—"How Much Do You Find Out How Well You're Doing?" *Feedback* describes the extent to which workers receive clear, direct information about how well they are performing the job.

Example: Professional basketball players receive immediate feedback on how many of their shots are going into the basket. Engineers working on new weapons systems may go years before learning how effective their performance has been.

How the Model Works According to the job characteristics model, these five core characteristics affect a worker's motivation because they affect three critical psychological states: *meaningfulness of work, responsibility for results,* and *knowledge of results.* (Refer to Figure 12.9 again.) In turn, these positive psychological states fuel *high motivation, high performance, high satisfaction,* and *low absenteeism and turnover.*

One other element—shown at the bottom of Figure 12.9—needs to be discussed: *contingency factors.* This refers to the degree to which a person wants personal and psychological development. Job design works when employees are motivated; to be so, they must have three attributes: (1) necessary knowledge and skill, (2) desire for personal growth, and (3) context satisfactions—that is, the right physical working conditions, pay, and supervision.

Job design works. A meta-analysis of 259 studies involving 219,625 people showed that job design was positively associated with employee performance, job satisfaction, organizational commitment, and physical and psychological well-being. Job design also was associated with lower absenteeism and intentions to quit.[63] Similar results were found in another meta-analysis involving studies of over 75,000 people.[64]

Applying the Job Characteristics Model There are three major steps to follow when applying the model.

- **Diagnose the work environment to see whether a problem exists.** Hackman and Oldham developed a self-report instrument for managers to use called the *job diagnostic survey.* This will indicate whether an individual's so-called motivating potential score (MPS)—the amount of internal work motivation associated with a specific job—is high or low.
- **Determine whether job redesign is appropriate.** If a person's MPS score is low, an attempt should be made to determine which of the core job characteristics is causing the problem. You should next decide whether job redesign is appropriate for a given group of employees. Job design is most likely to work in a participative environment in which employees have the necessary knowledge and skills.
- **Consider how to redesign the job.** Here you try to increase those core job characteristics that are lower than national norms.

Example: Employers want to save on health costs by helping employees with diabetes, heart disease, and similar chronic conditions avoid emergency room visits and hospital admissions.[65] However, since primary care doctors, who could help patients manage their conditions (as by reminding diabetics to monitor their blood-glucose levels daily), are paid less than physicians in other specialties, the system has turned such doctors "into little chipmunks on a wheel, pumping out patients every five minutes," as one observer described it.[66] The solution? Redesign the job by rewarding primary care doctors for spending more time with patients.[67]

12.5 Reinforcement Perspectives on Motivation

MAJOR QUESTION

What are the types of incentives I might use to influence employee behavior?

THE BIG PICTURE

Reinforcement theory suggests behavior will be repeated if it has positive consequences and won't be if it has negative consequences. There are four types of reinforcement: positive reinforcement, negative reinforcement, extinction, and punishment. This section also describes how to use some reinforcement techniques to modify employee behavior.

Reinforcement evades the issue of people's needs and thinking processes in relation to motivation, as we described under the need-based and process perspectives. Instead, the reinforcement perspective, which was pioneered by **Edward L. Thorndike** and **B. F. Skinner,** is concerned with how the consequences of a certain behavior affect that behavior in the future.[68]

Skinner was the father of *operant conditioning,* the process of controlling behavior by manipulating its consequences. Operant conditioning rests on Thorndike's *law of effect,* which states that behavior that results in a pleasant outcome is likely to be repeated and behavior that results in unpleasant outcomes is not likely to be repeated.

From these underpinnings has come **reinforcement theory, which attempts to explain behavior change by suggesting that behavior with positive consequences tends to be repeated, whereas behavior with negative consequences tends not to be repeated.** The use of reinforcement theory to change human behavior is called *behavior modification.*

The Four Types of Reinforcement: Positive, Negative, Extinction, & Punishment

Reinforcement is anything that causes a given behavior to be repeated or inhibited, whether praising a child for cleaning his or her room or scolding a child for leaving a tricycle in the driveway.

There are four types of reinforcement: (1) *positive reinforcement,* (2) *negative reinforcement,* (3) *extinction,* and (4) *punishment.* *(See Figure 12.10, next page.)*

Positive Reinforcement: Strengthens Behavior

Positive reinforcement is the use of positive consequences to strengthen a particular behavior.

Example: A supervisor who's asked an insurance salesperson to sell more policies might reward successful performance by saying, "It's great that you exceeded your sales quota, and you'll get a bonus for it. Maybe next time you'll sell even more and will become a member of the Circle of 100 Top Sellers and win a trip to Paris as well." Note the rewards: praise, more money, recognition, awards. Presumably this will *strengthen* the behavior and the sales rep will work even harder in the coming months.

Negative Reinforcement: Also Strengthens Behavior

Negative reinforcement is the process of strengthening a behavior by withdrawing something negative.

Example: A supervisor who has been nagging a salesperson might say, "Well, so you exceeded your quota" and stop the nagging. Note the neutral statement; there is no praise but also no longer any negative statements. This could cause the sales rep to *maintain* his or her existing behavior.

Extinction: Weakens Behavior

Extinction is the weakening of behavior by ignoring it or making sure it is not reinforced.

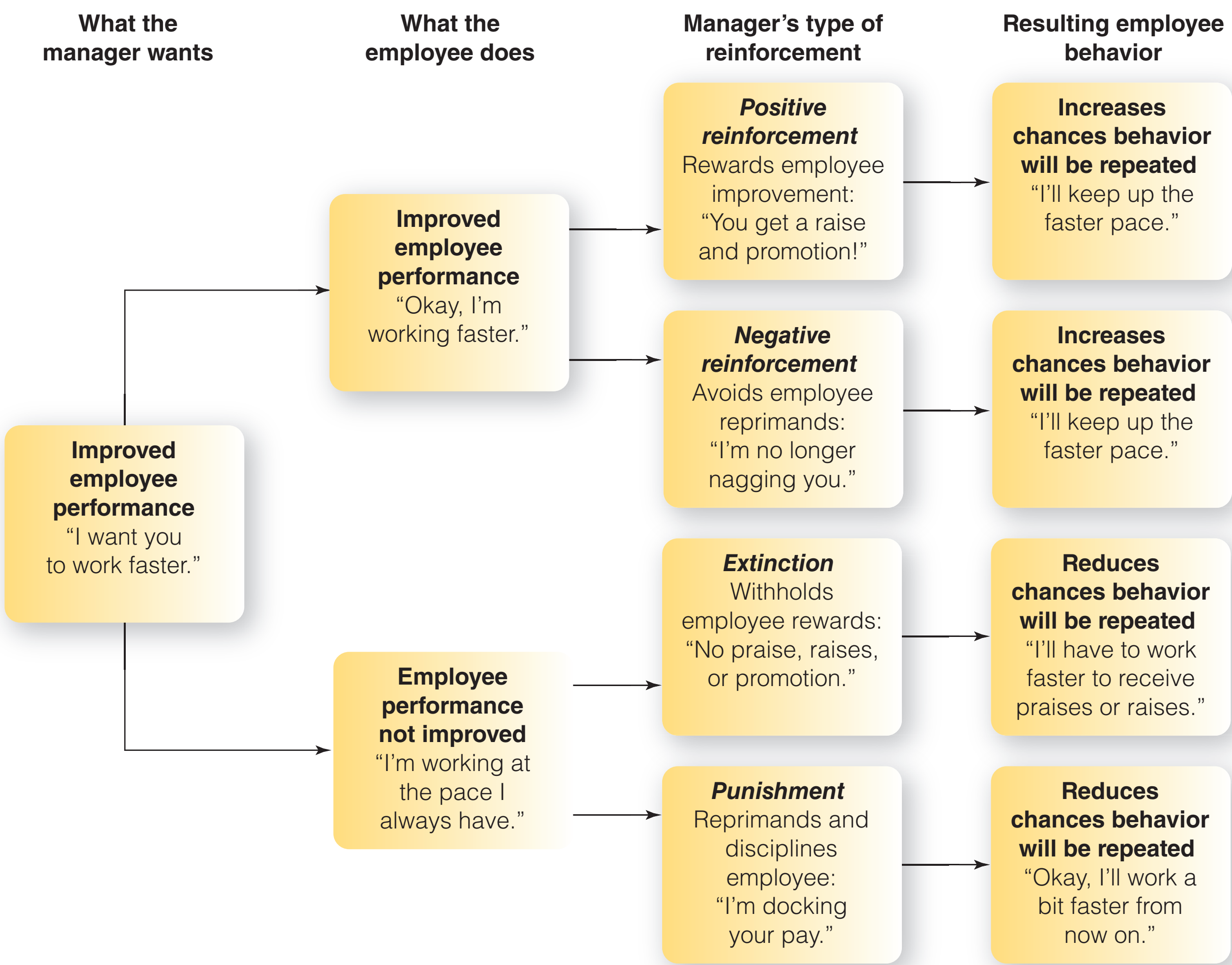


FIGURE 12.10
Four types of reinforcement
These are different ways of changing employee behavior.

Example: A supervisor might tell a successful salesperson, "I know you exceeded your sales-goal quota, but now that our company has been taken over by another firm, we're not giving out bonuses anymore." Presumably this will *weaken* the salesperson's efforts to perform better in the future.

Punishment: Also Weakens Behavior

Punishment is the process of weakening behavior by presenting something negative or withdrawing something positive.

Example: A supervisor might tell an unsuccessful salesperson who's been lazy about making calls to clients and so didn't make quota, "Well, if this keeps up, you'll probably be let go." This could *inhibit* the salesperson from being so lackadaisical about making calls to clients. (Incidentally, criticism has a stronger impact than praise, suggests one social psychologist, and is longer lasting in its effects.[69])

Using Reinforcement to Motivate Employees

The following are some guidelines for using two types of reinforcement—positive reinforcement and punishment.

Positive Reinforcement

There are several aspects of positive reinforcement, which should definitely be part of your toolkit of managerial skills:

- **Reward only desirable behavior.** You should give rewards to your employees only when they show *desirable* behavior. Thus, for example, you should give praise to employees not for showing up for work on time (an expected part of any job) but for showing up early.

- **Give rewards as soon as possible.** You should give a reward as soon as possible after the desirable behavior appears. Thus, you should give praise to an early-arriving employee as soon as he or she arrives, not later in the week.
- **Be clear about what behavior is desired.** Clear communication is everything. You should tell employees exactly what kinds of work behaviors are desirable and you should tell everyone exactly what they must do to earn rewards.
- **Have different rewards and recognize individual differences.** Recognizing that different people respond to different kinds of rewards, you should have different rewards available. Thus, you might give a word of praise verbally to one person, text or e-mail a line or two to another person, or send a hand-scrawled note to another.

Punishment Unquestionably there will be times when you'll need to threaten or administer an unpleasant consequence to stop an employee's undesirable behavior. Sometimes it's best to address a problem by combining punishment with positive reinforcement. Some suggestions for using punishment are as follows.

- **Punish only undesirable behavior.** You should give punishment only when employees show frequent *undesirable* behavior. Otherwise, employees may come to view you negatively as a tyrannical boss. Thus, for example, you should reprimand employees who show up, say, a half hour late for work but not 5 or 10 minutes late.
- **Give reprimands or disciplinary actions as soon as possible.** You should mete out punishment as soon as possible after the undesirable behavior occurs. Thus, you should give a reprimand to a late-arriving employee as soon as he or she arrives.
- **Be clear about what behavior is undesirable.** Tell employees exactly what kinds of work behaviors are undesirable and make any disciplinary action or reprimand match the behavior. A manager should not, for example, dock an hourly employee's pay if he or she is only 5 or 10 minutes late for work.
- **Administer punishment in private.** You would hate to have your boss chew you out in front of your subordinates, and the people who report to you also shouldn't be reprimanded in public, which would lead only to resentments that may have nothing to do with an employee's infractions.
- **Combine punishment and positive reinforcement.** If you're reprimanding an employee, be sure to also say what he or she is doing right and state what rewards the employee might be eligible for. For example, while reprimanding someone for being late, say that a perfect attendance record over the next few months will put that employee in line for a raise or promotion.

Punishment. Does getting a wallet-busting speeding ticket change your behavior? What if it happens several times? Yet consider also other, presumably stronger forms of governmental punishment that are supposed to act as deterrents to bad behavior. Does the possibility of the death penalty really deter homicides? Why or why not?

12.6 Using Compensation & Other Rewards to Motivate

MAJOR QUESTION

How can I use compensation and other rewards to motivate people?

THE BIG PICTURE

Compensation, the main motivator of performance, includes pay for performance, bonuses, profit sharing, gainsharing, stock options, and pay for knowledge. Other nonmonetary incentives address needs that aren't being met, such as work–life balance, growth in skills, and commitment.

"In the past, people could see the fruits of their labor immediately: a chair made or a ball bearing produced," writes *Wall Street Journal* columnist Jared Sandberg. However, in the information age, when so much of a person's time is spent looking into a phone display or computer screen and working on partial tasks seemingly unconnected to something whole, "it can be hard to find gratification from work that is largely invisible."[70] As work becomes more invisible and intangible, more team based rather than individual based, it also becomes harder to measure, harder to define its successful accomplishment—and harder to motivate employees to perform well at it.

Is Money the Best Motivator?

Most workers rate having a caring boss higher than they value monetary benefits, according to several surveys.[71] The Great Place to Work Institute has determined that great employers have three traits in common: employee trust in management, pride in the company, and camaraderie with colleagues.[72] Clearly, then, motivating doesn't just involve dollars.

Motivation & Compensation

Most people are paid an hourly wage or a weekly or monthly salary. Both of these are easy for organizations to administer, of course. But by itself a wage or a salary gives an employee little incentive to work hard. Incentive compensation plans try to do so, although no single plan will boost the performance of all employees.

Characteristics of the Best Incentive Compensation Plans In accordance with most of the theories of motivation we described earlier, for incentive plans to work, certain criteria are advisable, as follows. (1) Rewards must be linked to performance and be measurable. (2) The rewards must satisfy individual needs. (3) The rewards must be agreed on by manager and employees. (4) The rewards must be believable and achievable by employees.

Popular Incentive Compensation Plans In what way would you like to be rewarded for your efforts? Some of the most well-known incentive compensation plans are *pay for performance, bonuses, profit sharing, gainsharing, stock options,* and *pay for knowledge.*

- **Pay for performance.** Also known as *merit pay,* **pay for performance bases pay on one's results.** Thus, different salaried employees might get different pay raises and other rewards (such as promotions) depending on their overall job performance.[73]

  Examples: One standard pay-for-performance plan, already mentioned, is payment according to a **piece rate, in which employees are paid according to how much output they produce,** as is often used with farmworkers picking fruit and vegetables. Another is the **sales commission, in which sales**

Motivation as a small business owner. Susan Brown of Golden, Colorado, had dreamed of opening her own business since she was a child. However, she invented the Boppy, a simple pillow stuffed with foam, almost accidentally, when her daughter's day care center asked parents to bring in pillows to prop up infants who couldn't sit up on their own. Today the Boppy Co. (now part of the Artsana Group) has annual sales of $15–$25 million. For some people, like Brown, the only way to merge motivation and compensation is to own and manage their own business. What factors or incentives motivate you to work hard?

representatives are paid a percentage of the earnings the company made from their sales, so that the more they sell, the more they are paid.[74]

- **Bonuses.** **Bonuses are cash awards given to employees who achieve specific performance objectives.**

  Example: Nieman Marcus, the department store, pays its salespeople a percentage of the earnings from the goods they sell.

  Unfortunately, the documents that most companies file (proxy documents to the Securities and Exchange Commission) to explain what specific targets executives had to meet to earn their bonuses are not very clear, being couched mainly in legalese.[75]

- **Profit sharing.** **Profit sharing is the distribution to employees of a percentage of the company's profits.**

  Example: In one T-shirt and sweatshirt manufacturing company, 10% of pretax profits are distributed to employees every month, and more is given out at the end of the year. Distributions are apportioned according to such criteria as performance, attendance, and lateness for individual employees.

- **Gainsharing.** **Gainsharing is the distribution of savings or "gains" to groups of employees who reduced costs and increased measurable productivity.** In one version (the so-called *Scanlon plan),* a portion of any cost savings, usually 75%, are distributed to employees. Example: In a recent year, Indianapolis-based Mike's Carwash paid out $569,000 in gainsharing to 437 employees in 37 locations who had been challenged to beat targets set at the corporate level.

- **Stock options.** With **stock options, certain employees are given the right to buy stock at a future date for a discounted price.** The motivator here is that employees holding stock options will supposedly work hard to make the company's stock rise so that they can obtain it at a cheaper price. Along with its other benefits, by giving stock options to all employees who work 20 or more hours a week, Starbucks Corp. has been able to hold its employee turnover rate 120% below the quick-service restaurant industry average.[76]

- **Pay for knowledge.** Also known as *skill-based pay,* **pay for knowledge ties employee pay to the number of job-relevant skills or academic degrees they earn.**

  Example: The teaching profession is a time-honored instance of this incentive, in which elementary and secondary teachers are encouraged to increase their salaries by earning further college credit. However, firms such as FedEx also have pay-for-knowledge plans.

Nonmonetary Ways of Motivating Employees

Employees who can behave autonomously, solve problems, and take the initiative are apt to be the very ones who will leave if they find their own needs aren't being met—namely:

- **The need for work–life balance.** For more than half of men and women in a 2013 Accenture survey, work–life balance is the key determinant of career success—ahead of money, recognition, autonomy, or making a difference.[77] A 25-year study of values in the United States found that "employees have become less convinced that work should be an important part of one's life or that working hard makes me a better person."[78] Millennials in particular are apt to say the most important things in life are "being a good parent" (52%) and "having a successful marriage" (30%) rather than "having a high-paying career" (15%).[79]
- **The need to expand skills.** Having watched their parents undergo downsizing, younger workers in particular are apt to view a job as a way of gaining skills that will enable them to earn a decent living in the future.
- **The need to matter.** Workers now want to be with an organization that allows them to feel they matter. They want to commit to their profession or fellow team members rather than have to profess a blind loyalty to the corporation.[80]

There is a whole class of nonmonetary incentives to attract, retain, and motivate employees. The foremost example is the *flexible workplace*—including part-time work, flextime, compressed workweek, job sharing, and telecommuting, as described in the Practical Action box.

PRACTICAL ACTION

The Flexible Workplace[81]

At Maynard Webb's investment fund, Webb Investment Network, employees are encouraged to work remotely and set their own schedules, and are assessed by their performance. That's because, says Webb, the author of *Reinventing Work,* traditional 9-to-5 jobs are becoming a thing of the past, and top talent are looking for more options in their lives.[82]

But it's not just the cream of the crop who can benefit. With so many two-paycheck families, single parents, and other diverse kinds of employees in the workforce, many employers now recognize the idea of a *flexible workplace* as a way of recruiting, retaining, and motivating staff. Several studies have found that employees with flexible work arrangements are healthier, happier, more productive, more positive about their work, and less likely to change jobs.[83] Among the types of alternative work schedules available are the following.

Part-Time Work—Less Than 40 hours

Part-time work is any work done on a schedule less than the standard 40-hour workweek. Some part-time workers—so-called temporary workers or contingency workers—actually want to work 40 hours or more, but can't find full-time jobs.[84] Others, however, work part time by choice. Today an organization can hire not only part-time clerical help, for instance, but also part-time programmers, market researchers, lawyers, even part-time top executives.

Flextime—Flexible Working Hours

Flextime, or flexible time, consists of flexible working hours, or any schedule that gives one some choices in working hours. If, for example, an organization's normal working hours are 9 a.m. to 5 p.m., a flextime worker might be allowed to start and finish an hour earlier or an hour later—for instance, to work from 8 a.m. to 4 p.m. The main requirement is that the employee be at work during certain core hours, to be available for meetings, consultations, and so on. By offering flextime hours, organizations can attract and keep employees with special requirements such as the need to take care of children or elderly parents. It also benefits employees who wish to avoid commuting during rush hour. (Unfortunately, one study found that it was *men*—particularly men seeking career advancement opportunities—who are more likely to be granted a flexible schedule.[85])

Compressed Workweek—40 Hours in Four Days

In a compressed workweek, employees perform a full-time job in less than 5 days of standard 8- (or 9-) hour shifts. The most common variation is a 40-hour week performed in 4 days of 10 hours each, which gives employees three (instead of two) consecutive days off. The benefits are that organizations can offer employees more leisure time and reduced wear and tear and expense from commuting. The disadvantages are possible scheduling problems, unavailability of an employee to coworkers and customers, and fatigue from long workdays.

Job Sharing—Two People Split the Same Job

In job sharing, two people divide one full-time job. Usually, each person works a half day, although there can be other arrangements—working alternate days or alternate weeks, for example. As with a compressed workweek, job sharing provides employees with more personal or leisure time. The disadvantage is that it can result in communication problems with coworkers or customers. (Recently only 18% of employers in one survey allowed two workers to divide responsibilities between them, down from 29% in 2008.[86])

Telecommuting & Other Work-at-Home Schedules

There have always been some employees who have had special full-time or part-time arrangements whereby they are allowed to work at home—an activity known as *telecommuting*—keeping in touch with their employers and coworkers by e-mail and phone. By one estimate, 2.6% of the American workforce are telecommuting.[87] Today two-thirds of employers in one study allow at least some employees to work from home occasionally (up from 50% in 2008), and 38% allow some to do so occasionally (up from 23%).[88]

Working at home with telecommunications between office and home is called telecommuting. The advantages to employers are increased productivity because telecommuters experience less distraction at home and can work flexible hours.[89]

YOUR CALL

For what you're doing right now at this point in your life, which of these possibilities would suit you best, and why? Would it be workable for your employer if all your coworkers did it as well?

Other incentives can be expressed simply as *treat employees well,* some examples of which follow.

Thoughtfulness: The Value of Being Nice A study by Walker Information, an Indianapolis-based research firm, found that employers spend too little time showing workers they matter, as manifested in lack of communication and lack of interest in new ideas and contributions.[90] A majority of employees feel underappreciated, according to one survey. Forty percent of employees who rated their boss's performance as poor said they were likely to look for a new job; only 11% of those who rated it excellent said they would.[91] "Being nice" to employees means, for example, reducing criticism, becoming more effusive in your praise, and writing thank-you notes to employees for exceptional performance.[92]

The number one reason people quit their jobs, it's believed, is their dissatisfaction with their supervisors, not their paychecks. Thus, industrial psychologist B. Lynn Ware suggests that if you learn valued employees are disgruntled, you should discuss it with them.[93] Employers can promote personal relationships, which most employees are concerned about on the job, by offering breaks or other opportunities in which people can mix and socialize.

Work–Life Benefits Work–life benefits, according to Kathie Lingle, are programs "used by employers to increase productivity and commitment by removing certain barriers that make it hard for people to strike a balance between their work and personal lives."[94] (Unfortunately, the United States ranks 28 out of 36 on a list of countries with the best work–life balance.[95])

Lingle, who is national work–life director for KPMG, an accounting and consulting firm, emphasizes that work–life benefits "are not a reward, but a way of getting work done." After all, some employees are low performers simply because of a lack of work–life balance, with great demands at home. "If you only give these 'rewards' to existing high performers," says Lingle, "you're cutting people off who could, with some support, be high performers." Nevertheless, handing out extra time off can be used to reward performance and prevent burnout.[96]

Besides alternative scheduling, work–life benefits include helping employees with day care costs or even establishing on-site centers; domestic-partner benefits; job-protected leave for new parents; and provision of technology such as mobile phones and laptops to enable parents to work at home.[97]

Cubicle culture. It might be too difficult to design a setup in which everyone has an office with a view. But would it be possible to design a layout in which everyone has a private office? Do you think it would better motivate employees?

Surroundings The cubicle, according to new research, is stifling the creativity and morale of many workers, and the bias of modern-day office designers for open spaces and neutral colors is leading to employee complaints that their workplaces are too noisy or too bland. Some businesses, such as advertising giant Grey Group in New York, have even moved beyond cubicles to completely open offices, which at Grey has required a business psychologist to hold "space therapy" sessions to ease employee concerns.[98]

"There is no such thing as something that works for everybody," says Alan Hedge, a professor of environmental analysis at Cornell University.[99] An 8-foot-by-8-foot cubicle may not be a good visual trigger for human brains, and companies wanting to improve creativity and productivity may need to think about giving office employees better things to look at.[100]

Skill-Building & Educational Opportunities Learning opportunities can take two forms. Managers can see that workers are matched with coworkers from whom they can learn, allowing them, for instance, to "shadow" (watch and imitate) workers in other jobs or be in interdepartmental task forces. There can also be tuition reimbursement for part-time study at a college or university.[101]

Sabbaticals Intel and Apple understand that in a climate of 80-hour weeks people need to recharge themselves. But even McDonald's offers sabbaticals to long-time employees, giving a month to a year of paid time off in which to travel, learn, and pursue personal projects. The aim, of course, is to enable employees to recharge themselves but also, it is hoped, to cement their loyalty to the organization.[102]

Key Terms Used in This Chapter

acquired needs theory 380
bonuses 400
content perspectives 379
equity theory 386
expectancy 389
expectancy theory 388
extinction 396
extrinsic reward 377
gainsharing 400
goal-setting theory 391
hierarchy of needs theory 379
hygiene factors 384
instrumentality 389
intrinsic reward 377
job characteristics model 393
job design 392
job enlargement 392
job enrichment 392
job simplification 392
motivating factors 384
motivation 376
needs 379
negative reinforcement 396
pay for knowledge 400
pay for performance 399
piece rate 399
positive reinforcement 396
process perspectives 386
profit sharing 400
punishment 397
reinforcement 396
reinforcement theory 396
sales commission 399
self-determination theory 382
stock options 400
two-factor theory 383
valence 389

Key Points

12.1 Motivating for Performance

- Motivation is defined as the psychological processes that arouse and direct goal-directed behavior.
- In a simple model of motivation, people have certain needs that motivate them to perform specific behaviors for which they receive rewards that feed back and satisfy the original need.
- Rewards are of two types: (1) An extrinsic reward is the payoff, such as money, a person receives from others for performing a particular task. (2) An intrinsic reward is the satisfaction, such as a feeling of accomplishment, that a person receives from performing the particular task itself.
- As a manager, you want to motivate people to do things that will benefit your organization—join it, stay with it, show up for work at it, perform better for it, and do extra for it.
- Four major perspectives on motivation are (1) content, (2) process, (3) job design, and (4) reinforcement.

12.2 Content Perspectives on Employee Motivation

- Content perspectives or need-based perspectives emphasize the needs that motivate people. Needs are defined as physiological or psychological deficiencies that arouse behavior.
- Besides the McGregor Theory X/Theory Y (Chapter 2), need-based perspectives include (1) the hierarchy of needs theory, (2) the acquired needs theory, (3) the self-determination theory, and (4) the two-factor theory.
- The hierarchy of needs theory proposes that people are motivated by five levels of need: physiological, safety, love, esteem, and self-actualization needs.
- The acquired needs theory states that three needs—achievement, affiliation, and power—are major motives determining people's behavior in the workplace.
- The self-determination theory assumes that people are driven to try to grow and attain fulfillment, with their behavior and well-being influenced by three innate needs: competence, autonomy, and relatedness.
- The two-factor theory proposes that work satisfaction and dissatisfaction arise from two different factors: work satisfaction from so-called motivating factors, and work dissatisfaction from so-called hygiene factors.
- Hygiene factors, the lower-level needs, are factors associated with job dissatisfaction—such as salary and working conditions—which affect the environment in which people work. Motivating factors, the higher-level needs, are factors associated with job satisfaction—such as achievement and advancement—which affect the rewards of work performance.

12.3 Process Perspectives on Employee Motivation

- Process perspectives are concerned with the thought processes by which people decide how to act. Three process perspectives on motivation are (1) equity theory, (2) expectancy theory, and (3) goal-setting theory.

- Equity theory focuses on employee perceptions as to how fairly they think they are being treated compared with others.
- The key elements in equity theory are inputs, outputs (rewards), and comparisons. (1) With inputs, employees consider what they are putting into the job in time, effort, and so on. (2) With outputs or rewards, employees consider what they think they're getting out of the job in terms of pay, praise, and so on. (3) With comparison, employees compare the ratio of their own outcomes to inputs against the ratio of someone else's outcomes to inputs. Three practical lessons of equity theory are that employee perceptions are what count, employee participation helps, and having an appeal process helps.
- Expectancy theory suggests that people are motivated by how much they want something and how likely they think they are to get it. The three elements affecting motivation are expectancy, instrumentality, and valence. (1) Expectancy is the belief that a particular level of effort will lead to a particular level of performance. (2) Instrumentality is the expectation that successful performance of the task will lead to the outcome desired. (3) Valence is the value, the importance a worker assigns to the possible outcome or reward.
- When attempting to motivate employees, according to the logic of expectancy theory, managers should ascertain what rewards employees value, what job objectives and performance level they desire, whether there are rewards linked to performance, and whether employees believe managers will deliver the right rewards for the right performance.
- Goal-setting theory suggests that employees can be motivated by goals that are specific and challenging but achievable and linked to action plans.
- In addition, the theory suggests that goals should be set jointly with the employee, be measurable, and have a target date for accomplishment and that employees should receive feedback and rewards.

12.4 Job Design Perspectives on Motivation

- Job design is, first, the division of an organization's work among its employees and, second, the application of motivational theories to jobs to increase satisfaction and performance.
- Two approaches to job design are fitting people to jobs (the traditional approach) and fitting jobs to people.
- Fitting jobs to people assumes people are underutilized and want more variety. Two techniques for this type of job design include (1) job enlargement, increasing the number of tasks in a job to increase variety and motivation, and (2) job enrichment, building into a job such motivating factors as responsibility, achievement, recognition, stimulating work, and advancement.
- An outgrowth of job enrichment is the job characteristics model, which consists of (a) five core job characteristics that affect (b) three critical psychological states of an employee that in turn affect (c) work outcomes—the employee's motivation, performance, and satisfaction.
- The five core job characteristics are (1) skill variety—how many different skills a job requires; (2) task identity—how many different tasks are required to complete the work; (3) task significance—how many other people are affected by the job; (4) autonomy—how much discretion the job allows the worker; and (5) feedback—how much employees find out how well they're doing.
- These five characteristics affect three critical psychological states: meaningfulness of work, responsibility for results, and knowledge of results.
- Three major steps to follow when applying the job characteristics model are (1) diagnose the work environment to see if a problem exists, (2) determine whether job redesign is appropriate, and (3) consider how to redesign the job.

12.5 Reinforcement Perspectives on Motivation

- Reinforcement theory attempts to explain behavior change by suggesting that behavior with positive consequences tends to be repeated whereas behavior with negative consequences tends not to be repeated. Reinforcement is anything that causes a given behavior to be repeated or inhibited.
- There are four types of reinforcement. (1) Positive reinforcement is the use of positive consequences to strengthen a particular behavior. (2) Negative reinforcement is the process of strengthening a behavior by withdrawing something negative. (3) Extinction is the weakening of behavior by ignoring it or making sure it is not reinforced. (4) Punishment is the process of weakening behavior by presenting something negative or withdrawing something positive.
- In using positive reinforcement to motivate employees, managers should reward only desirable behavior, give rewards as soon as possible, be clear about what behavior is

desired, and have different rewards and recognize individual differences.

- In using punishment, managers should punish only undesirable behavior, give reprimands or disciplinary actions as soon as possible, be clear about what behavior is undesirable, administer punishment in private, and combine punishment and positive reinforcement.

12.6 Using Compensation & Other Rewards to Motivate

- Compensation is only one form of motivator. For incentive compensation plans for work, rewards must be linked to performance and be measurable; they must satisfy individual needs; they must be agreed on by manager and employee; and they must be perceived as being equitable, believable, and achievable by employees.
- Popular incentive compensation plans are the following. (1) Pay for performance bases pay on one's results. One kind is payment according to piece rate, in which employees are paid according to how much output they produce. Another is the sales commission, in which sales representatives are paid a percentage of the earnings the company made from their sales. (2) Bonuses are cash awards given to employees who achieve specific performance objectives. (3) Profit sharing is the distribution to employees of a percentage of the company's profits. (4) Gainsharing is the distribution of savings or "gains" to groups of employees who reduced costs and increased measurable productivity. (5) Stock options allow certain employees to buy stock at a future date for a discounted price. (6) Pay for knowledge ties employee pay to the number of job-relevant skills or academic degrees they earn.
- There are also nonmonetary ways of compensating employees. Some employees will leave because they feel the need for work–life balance, the need to expand their skills, and the need to matter. To retain such employees, nonmonetary incentives have been introduced, such as the flexible workplace.
- Other incentives that keep employees from leaving are thoughtfulness by employees' managers, work–life benefits such as day care, attractive surroundings, skill-building and educational opportunities, and work sabbaticals.

Understanding the Chapter: What Do I Know?

1. What is motivation, and how does it work?
2. What are the two principal types of rewards?
3. What are the four major perspectives on motivation?
4. Briefly describe the four content perspectives discussed in this chapter: hierarchy of needs theory, acquired needs theory, self-determination theory, and two-factor theory.
5. What are the principal elements of the three process perspectives: equity theory, expectancy theory, and goal-setting theory?
6. What is the definition of job design, and what are two techniques of job design?
7. Describe the five job attributes of the job characteristics model?
8. What are the four types of reinforcement?
9. What are six incentive compensation plans?
10. Discuss some nonmonetary ways of motivating employees?

Management in Action

Caterpillar Puts Employee Pay at Risk, but Is It Done Fairly?

Caterpillar has put workers on notice that its short-term incentive plan, the centerpiece of a performance-based, profit-sharing program, will make its smallest payout since the recession when the payments go out next March [2014].

Like a lot of companies, the world's largest maker of mining and construction equipment has adopted what is known as a "pay-at-risk" compensation system, which ties a percentage of nearly every nonunion employee's income to Caterpillar's financial performance.

In updates to the plan's roughly 60,000 participants, and in quarterly disclosures to investors, Caterpillar said it expects outlays related to the program to be down as much as 40% from last year, reflecting sharply reduced payments to employees.

As U.S. workers pause this weekend to mark Labor Day, more of them than ever before are being required to participate in these alternative pay systems. The plans enable companies to have their labor costs more closely track the ups and downs of business cycles—but they also expose employees to those fluctuations.

Advocates of the plans say they allow employees to participate in the prosperity of their employers. Caterpillar, for instance, has issued checks worth nearly $2.8 billion over the last three years.

But critics say the plans are also part of a broader transfer of risk from employer to employee that has in recent decades led to the demise of company-paid traditional pension plans and the rise of self-funded, self-directed 401(k)s.

"Variable pay is not just for executives anymore," said Ken Abosch, a compensation expert at Aon Hewitt. "There's been a very strong but consistent trend to push variable pay programs deeper into organizations, and it's become a mainstream pay-for-performance practice."

The "pay-at-risk" plan at Caterpillar, like similar incentive programs at thousands of other U.S. companies, accounts for between 8% and 64% of an employee's annual compensation, depending upon pay grade.

Yet the payouts can roller coaster in ways that seem unrelated to the company's actual performance, and create uncertainty around what employees actually get paid for the work they do.

In March 2012, shortly after Caterpillar closed out what was at the time the most profitable year since its founding, it distributed a record $1.2 billion to the roughly 50% of its 120,000 global workers who participate in the plan.

The next year, the Peoria, Illinois, company did even better, with sales up 10% and earnings-per-share up 15%. But the payout to employees plunged 31%. The reason: The results, while impressive and an all-time record, fell short of internal targets set by management.

Doug Oberhelman, Caterpillar's chairman and chief executive, was not exempted. His short-term incentive pay dropped 34% last year, according to securities filings. But unlike many rank-and-file employees, Oberhelman also participates in a medium-term incentive plan, which pays out cash each year based on three-year performance measures, providing a cushion from annual fluctuations.

As a result, Oberhelman's total cash incentive pay rose 2% last year, and his overall compensation jumped 32%, according to SEC filings.

Caterpillar spokesman Jim Dugan said in a statement that the anticipated reduction in short-term incentive pay for 2013 would "impact Doug Oberhelman's compensation significantly in total cash terms." Dugan added that "the value of other compensation components will also significantly impact his total compensation" but declined to be more specific.

Caterpillar will not break any profit records in 2013. Cancellations from mining customers have weighed on sales and profits, and the company has been forced to cut its forecast for full-year earnings twice, and to plan major cost cuts.

Still, Caterpillar is on track to report its third-highest profit in history. If the company's current projections hold up, when this year ends, Caterpillar's earnings per share will have fallen 12% over a two-year period. But payouts under its short-term incentive plan will have plunged 60%.

In Peoria, home to 6,000 of the workers covered by the plan, City Treasurer Patrick Nichting said that in good years, it is easy to see ripple effects of the Caterpillar payouts on the local economy.

"If we just look at home rule sales tax, from 2009 to 2012, comparing it year over year and month over month, there always seems to be a spike in March," Nichting said.

This year, though, retailers noticed a dip after Caterpillar began to warn employees that payments for 2013 could drop. Some local business people say they noticed an almost immediate drop in sales activity.

FOR DISCUSSION

1. To what extent is Caterpillar's compensation plan consistent with recommendations derived from need theories? Discuss.
2. To what extent is Caterpillar's pay plan consistent with equity theory? Explain.
3. To what extent is Caterpillar's pay plan consistent with expectancy theory? Explain.
4. What are the key lessons learned from this case? Discuss.

Source: Excerpted from James B. Kelleher, "Caterpillar Plan Illustrates Risk of Variable Pay Plans," Reuters, September 1, 2013, www.reuters.com/article/2013/09/01/us-usa-workers-pay-analysis (accessed August 15, 2014).

Legal/Ethical Challenge

Should College Athletes Be Paid to Perform?

As of today, college athletes are not allowed to be paid for playing a sport according to rules established by the National Collegiate Athletic Association (NCAA). The NCAA describes it mission as "a membership-driven organization dedicated to safeguarding the well-being of student-athletes and equipping them with the skills to succeed on the playing field, in the classroom and throughout life."[103] The NCAA believes that athletes should not receive any direct compensation because they receive benefits such as athletic scholarships, medical care, academic support services, and first-class training.

Others think that the NCAA is unfairly benefiting on the talent of college athletes. Consider the revenue generated only from the Bowl Championship Series (BCS) to determine a national champion in college football. According to *Bloomberg Businessweek*, the BCS generated $170 million in 2013. Revenue from college football is expected to grow in 2014 under a new system called the College Football Playoff.

Here is what *Bloomberg Businessweek* had to say about the new playoff system. "The new system will be better in almost every conceivable way. Regular-season games will matter more. In addition to the title game, we'll be given two high stakes semifinals. The national champion will truly be the national champion. And let's not forget about the money. More games mean more revenue—a lot more revenue—for the school and the NCAA." It is estimated that the playoff series will generate $480 million a year.[104]

The NCAA has also refused to pay college athletes for the use of their likeness in licensing agreements. This led to a lawsuit in 2009 by Ed O'Bannon, a former University of California at Los Angeles basketball player. His image was used in video games, yet he received nothing from the profits. He filed an antitrust suit against the NCAA, and a federal judge ruled in his favor in August 2014. The judge concluded that basketball and football players can earn "a limited share of the revenues generated from the use of their names, images, and likeness in addition to a full grant-in-aid."[105] The ruling says nothing about paying athletes separately for their performance in a chosen sport.

SOLVING THE CHALLENGE

Is it fair to not pay college athletes direct compensation for playing a sport?

1. Yes. I agree with the NCAA. Athletes receive plenty of benefits such as scholarships, medical coverage, and world class training.
2. No. The athletes risk personal injury and they spend lots of time practicing instead of studying, which can impact their nonathletic marketability upon graduation. Athletes deserve to be paid.
3. No, but doing so would create havoc with college sports. It would mean that players in every sport would need to be paid. This would likely lead to the cancellation of low revenue sports like volleyball, swimming, golf, and gymnastics. I would pay athletes for the use of their likenesses in games and marketing, but no direct compensation for playing the sport.
4. Invent another option.

13

Groups & Teams

Increasing Cooperation, Reducing Conflict

Major Questions You Should Be Able to Answer

13.1 Groups versus Teams

Major Question: How is one collection of workers different from any other?

13.2 Stages of Group & Team Development

Major Question: How does a group evolve into a team?

13.3 Building Effective Teams

Major Question: How can I as a manager build an effective team?

13.4 Managing Conflict

Major Question: Since conflict is a part of life, what should a manager know about it in order to deal successfully with it?

the manager's toolbox

Reaching across Time & Space: The Challenge of Managing Virtual Teams

Once upon a time, managers subscribed to the so-called Fifty-Foot Rule—namely, "If people are more than 50 feet apart, they are not likely to collaborate." That is no longer true in today's era of virtual teams. Virtual teams (also known as geographically dispersed teams) are groups of people who use information technology—computers and telecommunications—to collaborate across space, time, and organizational boundaries.[1]

As technology has made it easier for workers to function from remote places, it has posed challenges for managers. Following are some suggestions for managing virtual workers, whether they are working a few miles away at home or on the other side of the world:[2]

Take Baby Steps & Manage by Results

When trying out virtual arrangements with new employees, take it slow. Let them show they can handle the challenge. Focus on what's accomplished, not whether an employee is working from her patio or at 10 p.m. Set interim deadlines on projects and stick to them.

State Expectations

Nip problems in the bud by letting virtual workers know what you expect from them. With home-based workers, for example, go over the terms of your virtual arrangement—whether, for example, you want them to carry an office cell phone—and tell them if there are specific ways you want the job done.

Write It Down

Record directions, project changes, and updates in writing, by sending an e-mail or fax or by using web-based services that allow for sharing calendars and tracking projects. Keep all communications in a shared database, so that a historical document of the group's work is available for new team members to study.

Communicate, but Be Considerate

Team members should know what times are appropriate to call one another (think time zones here) and what days (considering cultural, family, or work schedules) are off-limits. Make sure everyone is reachable during normal business hours, as via phone, e-mail, or text.

Be Aware of Cultural Differences

Even if everyone on a global team speaks English, be aware that others may not understand slang, culturally narrow expressions, and American humor. Encourage everyone to slow down their speech. Realize that team members from China and India, say, may have difficulty saying no or may fall silent in order to save face. At bottom, building global and virtual teams is all about building trust—being respectful and doing what you say you're going to do. Handle serious conflicts face-to-face whenever possible.

Meet Regularly

Human contact still matters. If possible, launch the team with a face-to-face meeting. When possible, schedule periodic and regular meetings where all team members can discuss current projects and telecommuters can catch up on office gossip. Fly out-of-towners in at least quarterly, so they can develop working friendships with your in-office staff.

For Discussion What do you feel might be the greatest difficulties of always working online with numerous people that you never see? How would you try to avoid or solve these difficulties?

forecast What's Ahead in This Chapter

In this chapter, we consider groups versus teams and discuss different kinds of teams. We describe how groups evolve into teams and discuss how managers can build effective teams. We also consider the nature of conflict, both good and bad.

13.1 Groups versus Teams

MAJOR QUESTION

How is one collection of workers different from any other?

THE BIG PICTURE

Teamwork promises to be a cornerstone of future management. A team is different from a group. A group typically is management-directed, a team self-directed. Groups may be formal, created to do productive work, or informal, created for friendship. Work teams, which engage in collective work requiring coordinated effort, may be organized according to four basic purposes: advice, production, project, and action. Two types of teams are continuous improvement and self-managed teams.

Over a quarter century ago, management philosopher Peter Drucker predicted that future organizations would not only be flatter and information-based but also organized around teamwork—and that has certainly come to pass.[3]

"You lead today by building teams and placing others first," says General Electric CEO Jeffrey Immelt. "It's not about you."[4] "We have this mythology in America about the lone genius," says Tom Kelley, general manager of Ideo, a Palo Alto, California, multidisciplinary industrial design company that helped create the Apple mouse, first laptop computer, and soft-handled Gripper toothbrush for Oral-B. "We love to personify things. But Michelangelo didn't paint the Sistine Chapel alone, and Edison didn't invent the light bulb alone."[5]

Regardless, when you take a job in an organization, the chances are you won't be working alone. You'll be working with others in situations requiring teamwork.

The argument for promoting diversity suggested by scholar Scott E. Page (see Chapter 3)—namely, that different kinds of people "bring to organizations more and different ways of seeing a problem and, thus, faster/better ways of solving it"—is also a principal strength of teams.[6] However, teamwork is now the cornerstone of progressive management for many other reasons, as the table below shows. *(See Table 13.1.)*

TABLE 13.1 **Why Teamwork IS Important**

THE IMPROVEMENTS	EXAMPLE
Increased productivity	At one GE factory, teamwork resulted in a workforce that was 20% more productive than comparable GE workforces elsewhere.
Increased speed	Guidant Corp., maker of lifesaving medical devices, halved the time it took to get products to market.
Reduced costs	Boeing used teamwork to develop the 777 at costs far less than normal.
Improved quality	Westinghouse used teamwork to improve quality performance in its truck and trailer division and within its electronic components division.
Reduced destructive internal competition	Men's Wearhouse fired a salesman who wasn't sharing walk-in customer traffic, and total clothing sales volume among all salespeople increased significantly.
Improved workplace cohesiveness	Cisco Systems told executives they would gain or lose 30% of their bonuses based on how well they worked with peers and in 3 years had record profits.

Groups & Teams: How Do They Differ?

Aren't a group of people and a team of people the same thing? By and large, no. One is a collection of people, the other a powerful unit of collective performance. One is typically management-directed, the other self-directed.

Consider the differences.

What a Group Is: A Collection of People Performing as Individuals A **group is defined as (1) two or more freely interacting individuals who (2) share norms, (3) share goals, and (4) have a common identity.**[7] A group is different from a crowd, a transitory collection of people who don't interact with one another, such as a crowd gathering on a sidewalk to watch a fire. And it is different from an organization, such as a labor union, which is so large that members also don't interact.[8]

An example of a work group would be a collection of, say, 10 employees meeting to exchange information about various companies' policies on wages and hours.

What a Team Is: A Collection of People with Common Commitment McKinsey & Company management consultants Jon R. Katzenbach and Douglas K. Smith say it is a mistake to use the terms *group* and *team* interchangeably. Successful teams, they say, tend to take on a life of their own. Thus, a **team is defined as a small group of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.**[9] "The essence of a team is common commitment," say Katzenbach and Smith. "Without it, groups perform as individuals; with it, they become a powerful unit of collective performance."[10]

An example of a team would be a collection of 2–10 employees who are studying industry pay scales, with the goal of making recommendations for adjusting pay grades within their own company.

Three traits employees like about their most admired bosses are they trust their employees, show honesty and authenticity, and possess great team-building skills.[11] Surveys of recruiters also reveal a preference to hire people with good teaming skills. How do you feel about working in teams? To find out, try Self-Assessment 13.1.

SELF-ASSESSMENT 13.1 connect

Attitudes toward Teamwork

The following survey was designed to assess your attitude toward teamwork. Go to **connect.mheducation.com** and take Self-Assessment 13.1. When you're done, answer the following questions:

1. What is your attitude toward teamwork?
2. If you do not have a positive teamwork attitude, consider the reason why and identify what you might do to foster a more positive attitude.
3. Develop three potential questions that a recruiter might ask to determine if you are positively disposed to teamwork. Now answer the questions.

Formal versus Informal Groups

Groups may be either formal or informal.[12]

- **Formal groups—created to accomplish specific goals.** A **formal group is a group assigned by organizations or its managers to accomplish specific goals.** A formal group may be a division, a department, a work group, or a committee. It may be permanent or temporary. In general, people are assigned to them according to their skills and the organization's requirements.

- **Informal groups—created for friendship.** An **informal group** is a group formed by people whose overriding purpose is getting together for friendship or a common interest. An informal group may be simply a collection of friends who hang out with one another, such as those who take coffee breaks together, or it may be as organized as a prayer breakfast, a bowling team, a service club, a company "alumni group" (for example, former Apple employees), or other voluntary organization.

What's important for you as a manager to know is that informal groups can advance or undercut the plans of formal groups. The formal organization may make efforts, say, to speed up the plant assembly line or to institute workplace reforms. But these attempts may be sabotaged through the informal networks of workers who meet and gossip over lunch pails and after-work beers.[13]

However, interestingly, informal groups can also be highly productive—even more so than formal groups.

EXAMPLE

Informal Groups & Informal Learning: Sharing Knowledge in the Lunchroom & on Social Media

As a manager, what would you think if you saw employees making brief conversation near the lunchroom coffeepot? "The assumption was made that this was chitchat, talking about their golf game," said a training director at the Siemens Power Transmission and Distribution plant in Wendell, North Carolina, where managers worried about workers gathering so often in the cafeteria. "But there was a whole lot of work activity."[14]

Workplace Learning: Mostly Informal. And indeed research has found that *70% of workplace learning is informal.*[15] With this knowledge, Siemens managers alerted supervisors about the informal meetings and even placed overhead projectors and empty pads of paper in the lunchroom to facilitate the exchange of information. Technology firm Qualcomm uses employees' storytelling tendencies as a way to communicate information, as well as to reinforce the company's culture and values.[16]

The Peer-to-Peer Web. What about when employees are in far-flung places? "Sales reps are out in the field and they're kind of on islands," pointed out an Indianapolis software-firm executive "It's a challenge to keep everyone connected."[17] So when the 75 reps started overwhelming the sales-support staff with questions about product details and client information, the company created a website on which the reps could post and answer questions in an informal peer-to-peer learning setting. (Incidentally, to do parts of their jobs, 47% of business technology users at North American and European companies use websites that are not sanctioned by their corporate information technology department, according to one study.[18])

Talking it out. Ever worked in a job in which you got a lot of informal training through conversations over coffee? Could this be done with social networking?

YOUR CALL

Can games (such as the online multiplayer game Second Life) or other social media (Facebook, Twitter) be used to foster informal workplace collaboration? How about allowing employees to BYOD—"bring your own device" to work, such as their own smartphone or tablet?[19]

Work Teams for Four Purposes: Advice, Production, Project, & Action

The names given to different kinds of teams can be bewildering. We have identified some important ones on the next page. *(See Table 13.2.)*

TABLE 13.2 **Various Types of Teams**

These teams are not mutually exclusive. Work teams, for instance, may also be self-managed, cross-functional, or virtual.

Continuous improvement team	Volunteers of workers and supervisors who meet intermittently to discuss workplace and quality-related problems; formerly called quality circle
Cross-functional team	Members composed of people from different departments, such as sales and production, pursuing a common objective
Problem-solving team	Knowledgeable workers who meet as a temporary team to solve a specific problem and then disband
Self-managed team	Workers are trained to do all or most of the jobs in a work unit, have no direct supervisor, and do their own day-to-day supervision
Top-management team	Members consist of the CEO, president, and top department heads and work to help the organization achieve its mission and goals
Virtual team	Members interact by computer network to collaborate on projects
Work team	Members engage in collective work requiring coordinated effort; purpose of team is advice, production, project, or action *(see text discussion)*

We described *virtual teams* extensively in Chapter 8, as well as in the Manager's Toolbox at the start of this chapter.

You will probably benefit most by understanding the various types of *work teams* distinguished according to their purpose. Work teams, which engage in collective work requiring coordinated effort, are of four types, which may be identified according to their basic purpose: *advice, production, project,* or *action*.[20]

1. Advice Teams *Advice teams* are created to broaden the information base for managerial decisions. Examples are committees, review panels, advisory councils, employee involvement groups, and continuous improvement teams (as we'll discuss).

2. Production Teams *Production teams* are responsible for performing day-to-day operations. Examples are mining teams, flight-attendant crews, maintenance crews, assembly teams, data processing groups, and manufacturing crews.

3. Project Teams *Project teams* work to do creative problem solving, often by applying the specialized knowledge of members of a **cross-functional team, which is staffed with specialists pursuing a common objective.** Examples are task forces, research groups, planning teams, architect teams, engineering teams, and development teams.

4. Action Teams *Action teams* work to accomplish tasks that require people with (1) specialized training and (2) a high degree of coordination, as on a baseball team, with specialized athletes acting in coordination. Examples are hospital surgery teams, airline cockpit crews, mountain-climbing expeditions, police SWAT teams, and labor contract negotiating teams. (A unique challenge for action teams is to exhibit peak performance on demand.[21])

Team building. The team ethic at Hong Kong–based Cathay Pacific has helped the multinational airline provide excellent service that pleases both passengers and shareholders. Here Cathay trainees get practice handling unruly passengers and putting on their best face. Do you think there are better ways to get this training?

Self-Managed Teams: Workers with Own Administrative Oversight

To give you an idea of how teams work, consider self-managed teams. These kinds of teams have emerged out of what were called quality circles, now known as **continuous improvement teams, which consist of small groups of volunteers or workers and supervisors who meet intermittently to discuss workplace- and quality-related problems.** Typically a group of 10–12 people will meet for 60–90 minutes once or twice a month, with management listening to presentations and the important payoff for members usually being the chance for meaningful participation and skills training.[22]

From Continuous Improvement Teams to Self-Managed Teams In many places, such as the Texas Instruments electronics factory in Malaysia, the continuous improvement teams have evolved into a system made up almost entirely of self-managed teams, with routine activities formerly performed by supervisors now performed by team members. "Self-managed" does not, however, mean simply turning workers loose to do their own thing. **Self-managed teams are defined as groups of workers who are given administrative oversight for their task domains.** Administrative oversight involves delegated activities such as planning, scheduling, monitoring, and staffing. More than 75% of the top 1,000 U.S. companies currently use some form of self-managed work teams.[23]

Self-managed teams are an outgrowth of a blend of behavioral science and management practice.[24] The goal has been to increase productivity and employee quality of work life. The traditional clear-cut distinction between manager and managed is being blurred as non-managerial employees are delegated greater authority and granted increased autonomy.[25]

Are Self-Managed Teams Effective? The most common chores of today's self-managed teams are work scheduling and customer interaction, and the least common are hiring and firing. Most self-managed teams are also found at the shop-floor level in factory settings, although some experts predict growth of the practice in service operations and even management ranks.[26] Self-managed teams have been found to have a positive effect on productivity and attitudes of self-responsibility and control, although there is no significant effect on job satisfaction and organizational commitment.[27] Although these conclusions don't qualify as a sweeping endorsement of self-managed teams, experts expect a trend toward such teams in North America because of a strong cultural bias in favor of direct participation. The following table shows some ways to empower self-managed teams. *(See Table 13.3.)*

TABLE 13.3 Some Ways to Empower Self-Managed Teams

1. Managers should make team members accountable for their work, allow them to set their own team goals, and let them solve their own work-related problems.
2. The team should work with a whole product or service (not just a part), assign jobs and tasks to its members, develop their own quality standards and measurement techniques, and handle their own problems with internal and external customers.
3. Team members are cross-trained on jobs within their (and other) teams; do their own hiring, training, and firing; do their own evaluations of each other; and are paid (at least in part) as a team.
4. The team has access to important information and resources inside and outside the organization, is allowed to communicate with and draw support from other teams and departments, and sets its own rules and policies.

Source: Adapted from B. L. Kirkman and B. Rosen, "Powering Up Teams," Organizational Dynamics, *Winter 2000, p. 56. Reprinted with permission of Elsevier.*

13.2 Stages of Group & Team Development

MAJOR QUESTION

How does a group evolve into a team?

THE BIG PICTURE

Groups may evolve into teams by going through five stages of development: forming, storming, norming, performing, and adjourning.

Managers often talk of products and organizations going through stages of development, from birth to maturity to decline. Groups and teams go through the same thing. One theory proposes five stages of development: *forming, storming, norming, performing, adjourning.*[28] *(See Figure 13.1, right.)*

Let us consider these stages in which groups may evolve into teams—bearing in mind that the stages often aren't of the same duration or intensity or even necessarily always in this sequence.

FIGURE 13.1

Five stages of group & team development

Stage 1: Forming—"Why Are We Here?"

The first stage, **forming, is the process of getting oriented and getting acquainted.** This stage is characterized by a high degree of uncertainty as members try to break the ice and figure out who is in charge and what the group's goals are. For example, if you were to become part of a team that is to work on a class project, the question for you as an individual would be "How do I fit in here?" For the group, the question is "Why are we here?"[29]

At this point, mutual trust is low, and there is a good deal of holding back to see who takes charge and how.[30] Conflict at this stage may actually be beneficial, leading to increased creativity.[31] At this juncture, if the formal leader (such as the class instructor or a supervisor) does not assert his or her authority, an emergent leader will eventually step in to fill the group's need for leadership and direction.

What the Leader Should Do Leaders typically mistake this honeymoon period as a mandate for permanent control, but later problems may force a leadership change. During this stage, leaders should allow time for people to become acquainted and to socialize.

Stage 2: Storming—"Why Are We Fighting over Who's in Charge & Who Does What?"

The second stage, **storming, is characterized by the emergence of individual personalities and roles and conflicts within the group.** For you as an individual, the question is "What's my role here?"[32] For the group, the issue is "Why are we fighting over who's in charge and who does what?" This stage may be of short duration or painfully long, depending on the goal clarity and the commitment and maturity of the members.

This is a time of testing. Individuals test the leader's policies and assumptions as they try to determine how they fit into the power structure.[33] Subgroups take shape, and subtle forms of rebellion, such as procrastination, occur. Many groups stall in stage 2 because power politics may erupt into open rebellion.

What the Leader Should Do In this stage, the leader should encourage members to suggest ideas, voice disagreements, and work through their conflicts about tasks and goals.

Stage 3: Norming—"Can We Agree on Roles & Work as a Team?"

In the third stage, **norming, conflicts are resolved, close relationships develop, and unity and harmony emerge.** For individuals, the main issue is "What do the others expect me to do?" For the group, the issue is "Can we agree on roles and work as a team?" Note, then, that the *group* may now evolve into a *team.*

Teams set guidelines related to what members will do together and how they will do it. The teams consider such matters as attendance at meetings, being late, and missing assignments as well as how members treat one another.

Groups that make it through stage 2 generally do so because a respected member other than the leader challenges the group to resolve its power struggles so something can be accomplished. Questions about authority are resolved through unemotional, matter-of-fact group discussion. A feeling of team spirit is experienced because members believe they have found their proper roles. **Group cohesiveness, a "we feeling" binding group members together,** is the principal by-product of stage 3.[34] (We discuss cohesiveness next, in Section 13.3.)

What the Leader Should Do This stage generally does not last long. Here the leader should emphasize unity and help identify team goals and values.

Stage 4: Performing—"Can We Do the Job Properly?"

In **performing, members concentrate on solving problems and completing the assigned task.** For individuals, the question here is "How can I best perform my role?" For the group/team, the issue is "Can we do the job properly?"

What the Leader Should Do During this stage, the leader should allow members the empowerment they need to work on tasks.

Research tells us that high-performing teams successfully navigating the process of group or team development tend to display productive energy toward getting things done.[35] Do your current teams at work or school display this productive energy? You can find out by completing Self-Assessment 13.2.

SELF-ASSESSMENT 13.2 connect

Assessing Your Team's Productive Energy

The following survey was designed to assess your team's productive energy. Go to **connect.mheducation.com** and take Self-Assessment 13.2. When you're done, answer the following questions:

1. To what extent does the team display productive energy? Are you surprised by the results?
2. Based on your survey scores, what can be done to improve the level of energy being displayed by the team? Be specific.
3. What would the survey suggest that you should do next time you are the leader of a work or school project team?

Stage 5: Adjourning—"Can We Help Members Transition Out?"

In the final stage, **adjourning, members prepare for disbandment.** Having worked so hard to get along and get something done, many members feel a compelling sense of loss. For the individual, the question now is "What's next?" For the team, the issue is "Can we help members transition out?"

What the Leader Should Do The leader can help ease the transition by rituals celebrating "the end" and "new beginnings." Parties, award ceremonies, graduations, or mock funerals can provide the needed punctuation at the end of a significant teamwork project. The leader can emphasize valuable lessons learned in group dynamics to prepare everyone for future group and team efforts.

13.3 Building Effective Teams

MAJOR QUESTION

How can I as a manager build an effective team?

THE BIG PICTURE

To build a group into a high-performance team, managers must consider matters of cooperation, trust, and cohesiveness, followed by performance goals and feedback, motivation through mutual accountability, team size, roles, norms, and awareness of groupthink.

"What is a high-performance team?" Answers to that question in a nationwide survey of team members from many organizations revealed several attributes: participative leadership, shared responsibility, sense of common purpose, trust and open communication, application of creative talents, seeing change as an opportunity for growth, task focus, and rapid acting on opportunities.[36] Thus, as a future manager, the first thing you have to realize is that building a high-performance team is going to require some work. But the payoff will be a stronger, better-performing work unit.[37]

The most essential considerations in building a group into an effective team are (1) *cooperation,* (2) *trust,* and (3) *cohesiveness.* These are followed by (4) *performance goals and feedback,* (5) *motivation through mutual accountability,* (6) *size,* (7) *roles,* (8) *norms,* and (9) *awareness of groupthink.*

1. Cooperation: "We Need to Systematically Integrate Our Efforts"

Human cooperation has a long history, with some hunter-gatherers in Tanzania—who live much as humans did about 10,000 years ago—linked in social networks very much like ours (without the cell phones and other connections, of course).[38] Indeed, unlike other animals, such as chimpanzees and monkeys, humans are able to build bigger and better tools by sharing knowledge and learning from one another—in short, by cooperating.[39] Individuals are said to be **cooperating when their efforts are systematically integrated to achieve a collective objective.**[40] One meta-analysis of 122 studies suggests that cooperation is superior to competition and individualistic efforts in promoting achievement and productivity.[41]

2. Trust: "We Need to Have Reciprocal Faith in Each Other"

Trust is defined as reciprocal faith in others' intentions and behaviors.[42] The word "reciprocal" emphasizes the give-and-take aspect of trust—that is, we tend to give what we get: trust begets trust, distrust begets distrust. Trust is based on *credibility*—how believable you are based on your past acts of integrity and follow-through on your promises. Besides enhancing your credibility by showing professionalism, technical ability, and good business sense, you can build trust in your team members by the methods shown at right. *(See Table 13.4.)*

3. Cohesiveness: "Togetherness Is Vital"

Another important characteristic of teams is **cohesiveness, the tendency of a group or team to stick together.** This is the familiar sense of togetherness or "we-ness" you feel, for example, when you're a member of a volleyball team, a fraternity or a sorority, or a company's sales force.[43] Managers can stimulate cohesiveness by encouraging people to have face-to-face exchanges at work. A recent study found that patterns of communication

TABLE 13.4

How to Build & Maintain Trust with Team Members

1. *Communicate truthfully.* Be candid about problems and limitations (including your own), explain decisions, provide accurate feedback.
2. *Offer support—by being available.* Be approachable, provide help, coaching, and support members' ideas.
3. *Show respect—by delegating and listening.* Respect members' decision making by delegating authority and actively listening.
4. *Show fairness—by giving credit and being impartial.* Give recognition when deserved, be objective when evaluating performance.
5. *Show predictability—by keeping promises,* both expressed and implied.

Source: Reprinted by permission of Harvard Business Review. *Adapted from "Nobody Trusts the Boss Completely—Now What?" by F. Bartolome, March–April 1989. Copyright 1989 by the Harvard Business School Publishing Corporation. All rights reserved.*

among team members were the most important predictor of team success.[44] Cohesiveness is also achieved by following the tips in the following table. *(See Table 13.5.)*

TABLE 13.5

How to Enhance Cohesiveness in Teams: Ten Factors that Lead to Success

1. Keep the team small.
2. Encourage members' interaction and cooperation.
3. Emphasize members' common characteristics.
4. Strive for a favorable public image to enhance the team's prestige.
5. Give each member a stake in the team's success—a "piece of the action."
6. Point out threats from competitors to enhance team togetherness.
7. Ensure performance standards are clear and regularly update members on team goals.
8. Frequently remind members they need each other to get the job done.
9. Direct each member's special talents toward the common goals.
10. Recognize each member's contributions.

Source: Adapted and modified from R. Kreitner and A. Kinicki, Organizational Behavior, *10th ed. (New York: McGraw-Hill/Irwin, 2013), p. 315.*

4. Performance Goals & Feedback

As an individual, you no doubt prefer to have measurable goals and to have feedback about your performance. The same is true with teams. Teams are not just collections of individuals. They are individuals organized for a collective purpose. That purpose needs to be defined in terms of specific, measurable performance goals with continual feedback to tell team members how well they are doing.

An obvious example are the teams you see on television at Indianapolis or Daytona Beach during automobile racing. When the driver guides the race car off the track to make a pit stop, a team of people quickly jack up the car to change tires, refuel the tank, and clean the windshield—all operating in a matter of seconds. The performance goals are to have the car back on the track as quickly as possible. The number of seconds of elapsed time—and the driver's place among competitors once back in the race—tells them how well they are doing.

Cooperation and collaboration. A crew swarms over a car driven by A. J. Allmendinger during a pit stop in the NASCAR 2014 Sprint Cup All-Star Race at Watkins Glen, New York. Cereal maker General Mills was able to cut the time workers changed a production line for a Betty Crocker product from 4.5 hours to just 12 minutes by adapting ideas in efficiency and high performance from a NASCAR pit crew working at blinding speed.

5. Motivation through Mutual Accountability

Do you work harder when you're alone or when you're in a group? When clear performance goals exist, when the work is considered meaningful, when members believe their efforts matter, and when they don't feel they are being exploited by others—this kind of culture supports teamwork.[45] Being mutually accountable to other members of the team rather than to a supervisor makes members feel mutual trust and commitment—a key part in motivating members for team effort. To bring about this team culture, managers often allow teams to do the hiring of new members.

6. Size: Small Teams or Large Teams?

Size, which is often determined by the team's purpose, can be important in affecting members' commitment and performance. Whereas in some flat-organization structures, groups may consist of 30 or more employees, teams seem to range in size from 2 to 16 people, with those of 5–12 generally being the most workable and 5–6 considered optimal.[46] A survey of 400 workplace team members in the United States found that the average team consisted of 10 members, with 8 being the most common size.[47]

Small and large teams have different characteristics, although the number of members is, to be sure, somewhat arbitrary.[48]

Small Teams: 2–9 Members for Better Interaction & Morale

Teams with 9 or fewer members have two advantages:

- **Better interaction.** Members are better able to interact, share information, ask questions of one another, and coordinate activities than are those in larger teams. In particular, teams with five or fewer offer more opportunity for personal discussion and participation.
- **Better morale.** They are better able to see the worth of their individual contributions and thus are more highly committed and satisfied. Members are less apt to feel inhibited in participating. Team leaders are subject to fewer demands and are able to be more informal.[49]

However, small teams also have some disadvantages:

- **Fewer resources.** With fewer hands, there will be fewer resources—less knowledge, experience, skills, and abilities to apply to the team's tasks.
- **Possibly less innovation.** A group that's too small may show less creativity and boldness because of the effect of peer pressure.
- **Unfair work distribution.** Because of fewer resources and less specialization, there may be an uneven distribution of the work among members.

Large Teams: 10–16 Members for More Resources & Division of Labor

Teams with 10–16 members have different advantages over small teams. (Again, the numbers are somewhat arbitrary.)

- **More resources.** Larger teams have more resources to draw on: more knowledge, experience, skills, abilities, and perhaps time. These will give them more leverage to help them realize the team's goals.
- **Division of labor.** In addition, a large team can take advantage of **division of labor, in which the work is divided into particular tasks that are assigned to particular workers.**

Yet bigness has its disadvantages:

- **Less interaction.** With more members, there is less interaction, sharing of information, and coordinating of activities. Leaders may be more formal and autocratic, since members in teams this size are apt to be more tolerant of autocratic leadership. The larger size may also lead to the formation of cliques.
- **Lower morale.** Because people are less able to see the worth of their individual contributions, they show less commitment and satisfaction and more turnover and absenteeism. They also express more disagreements and turf struggles and make more demands on leaders.
- **Social loafing.** The larger the size, the more likely performance is to drop, owing to the phenomenon known as **social loafing, the tendency of people to exert less effort when working in groups than when working alone.**[50] (Today

social loafers are more apt to be known as *sliders*—high achievers who have "checked out," in the words of former *BusinessWeek* columnists Jack and Suzy Welch, and who have to be dealt with "before they begin to suck the team into their negative energy field and drag it down."[51])

EXAMPLE

Team Size: And the Magic Number Is . . .

The subject of team size has become a topic of fascination, according to two scholars, because "in the past decade, research on team effectiveness has burgeoned as teams have become increasingly common in organizations of all kinds."[52] What's the right number of people for a team?

The "Two-Pizza Rule." Various companies have various rules. At Amazon.com, there is a "two-pizza rule"—namely, if a team can't be fed by two pizzas, it's too large.[53] Other companies have their own ideal sizes: Titeflex, 6–10 people; EDS, 8–12; Johnsonville Foods, 12; Volvo, 20. Microsoft Corp. felt the optimal size for a software-development team was 8.[54]

The late J. Richard Hackman, a Harvard professor of social and organizational psychology, thought there should be no more than 6—the maximum he would allow for students forming project groups.[55] In 1970, Hackman and colleague Neil Vidmar set out to discover the perfect size, asking various teams large and small whether their number was too large or too small for the task.[56]

The optimal number: 4.6.

Task Is Key. Size is not the only consideration, however. For instance, says Wharton management professor Katherine J. Klein, the nature of the team's task is key because it defines the type of skills you are looking for and the type of coordination necessary.[57]

YOUR CALL

What's been your experience, if any, with team size? At what point does adding members begin to hurt a team's performance as people become less motivated and group coordination becomes more difficult?

7. Roles: How Team Members Are Expected to Behave

Roles are socially determined expectations of how individuals should behave in a specific position. As a team member, your role is to play a part in helping the team reach its goals. Members develop their roles based on the expectations of the team, of the organization, and of themselves, and they may do different things. You, for instance, might be a team leader. Others might do some of the work tasks. Still others might communicate with other teams.[58]

Two types of team roles are task and maintenance.[59]

Task Roles: Getting the Work Done

A task role, or ***task-oriented role,*** **consists of behavior that concentrates on getting the team's tasks done.** Task roles keep the team on track and get the work done. If you stand up in a team meeting and say, "What is the real issue here? We don't seem to be getting anywhere," you are performing a task role.

Examples: Coordinators, who pull together ideas and suggestions; orienters, who keep teams headed toward their stated goals; initiators, who suggest new goals or ideas; and energizers, who prod people to move along or accomplish more are all playing task roles.

Maintenance Roles: Keeping the Team Together

A maintenance role, or ***relationship-oriented role,*** **consists of behavior that fosters constructive relationships among team members.** Maintenance roles focus on keeping team members. If someone at a team meeting says, "Let's hear from those who oppose this plan," he or she is playing a maintenance role.

Examples are encouragers, who foster group solidarity by praising various viewpoints; standard setters, who evaluate the quality of group processes; harmonizers, who mediate conflict through reconciliation or humor; and compromisers, who help resolve conflict by meeting others "halfway."

8. Norms: Unwritten Rules for Team Members

Norms are more encompassing than roles. **Norms are general guidelines or rules of behavior that most group or team members follow.** Norms point up the boundaries between acceptable and unacceptable behavior.[60] Although some norms can be made explicit (as the example below shows), typically they are unwritten and seldom discussed openly; nevertheless, they have a powerful influence on group and organizational behavior.

EXAMPLE

How to Develop Team Norms: Creating a "Fear-Free Zone" of Trust

Trust is everything. The CEO of Siemens, the German electronics and electrical engineering powerhouse, says that a climate of trust is required to make teams work.[61] So does the lead scientist of the IBM team that built Watson, the computer smart enough to beat the grand champions of the game of "Jeopardy."[62] And so does Pamela Fields, CEO of Stetson, the hat and apparel company.[63]

"You're Not Telling Us What You Want." In her first management job, at cosmetics giant Avon, Fields was "just a bull in a china shop," she said, failing to direct the three people reporting to her. Finally, they sat her down and told her "you're not telling us what you want and you're not telling us how you think we should get there." From this and other frank discussion, Fields learned the necessity for creating a workplace where honesty is valued. Thus, she says, "I vowed to create an environment in which truth is important. It takes a lot of spine to tell the truth, especially in a large organization, where obfuscation is a political skill that I don't have."

Fields's way of establishing the norms for a "truth-telling" climate, she said in an interview, is to tell her team members that everyone matters, that she has their back, that if something goes wrong, it's her problem and that if something goes right, it's their success. "And people know that they can come to me and let me have it. . . . There's a complete fear-free zone."

YOUR CALL

Creating a fear-free zone starts with establishing the norms in a public forum, as when Fields tells audiences about an employee coming to her and saying that an idea is dumb, that it isn't going to work, and they should talk about it. Such public acknowledgments by the boss encourages a spirit of openness and candor among team members. As a manager of a team, do you think you could adopt a climate of trust in which your team members understand that if something goes wrong it's your problem, not theirs?

Why Norms Are Enforced: Four Reasons

Norms tend to be enforced by group or team members for four reasons:[64]

- **To help the group survive—"Don't do anything that will hurt us."** Norms are enforced to help the group, team, or organization survive.
  Example: The manager of your team or group might compliment you because you've made sure it has the right emergency equipment.
- **To clarify role expectations—"You have to go along to get along."** Norms are also enforced to help clarify or simplify role expectations.
  Example: At one time, new members of Congress wanting to buck the system by which important committee appointments were given to those with the most seniority were advised to "go along to get along"—go along with the rules in order to get along in their congressional careers.
- **To help individuals avoid embarrassing situations—"Don't call attention to yourself."** Norms are enforced to help group or team members avoid embarrassing themselves.
  Examples: You might be ridiculed by fellow team members for dominating the discussion during a report to top management ("Be a team player, not a

The importance of trust. David A. Ferucci (center), with two IBM colleagues, led a team of artificial intelligence researchers that programmed a computing system named Watson to compete on the game show *Jeopardy,* whose host, Alex Trebeck, is shown in 2011 talking about the upcoming event. Watson beat the previous (human) grand champions. All successful teams operate within a climate of trust.

show-off"). Or you might be told not to discuss religion or politics with customers, whose views might differ from yours.

- **To emphasize the group's important values and identity—"We're known for being special."** Finally, norms are enforced to emphasize the group, team, or organization's central values or to enhance its unique identity.

  Examples: Nordstrom's department store chain emphasizes the great lengths to which it goes in customer service. Some colleges give an annual award to the instructor whom students vote best teacher.

9. Groupthink: When Peer Pressure Discourages "Thinking Outside the Box"

On a hot day, as the family is comfortably playing dominoes on a porch in Coleman, Texas, the father-in-law suggests taking a 53-mile trip to Abilene for dinner. Though the rest of the family—wife, husband, and mother-in-law—would rather not make the long, hot drive, they keep their preferences to themselves and agree to the trip. Later, back home after suffering a good deal of discomfort (including bad food), the mother-in-law says she would rather have stayed home. The husband and wife chime in that they agreed only to keep the others happy; the father-in-law then announces he only suggested it because he thought the others might be bored. This, says scholar James Harvey, is what he calls the *Abilene paradox*—the tendency of people to go along with others for the sake of avoiding conflict.[65]

Cohesiveness? Or Blind Unwillingness? The Abilene paradox shows that cohesiveness isn't always good. An undesirable by-product that may occur, according to psychologist **Irvin Janis,** is **groupthink—a cohesive group's blind unwillingness to consider alternatives.** In this phenomenon, group or team members are friendly and tight-knit, but they are unable to think "outside the box." Their "strivings for unanimity override their motivation to realistically appraise alternative courses of action," said Janis.[66]

Examples: The Senate Intelligence Committee said groupthink was a major factor in the U.S. invasion of Iraq because too many people in the government had tended to think alike and therefore failed to challenge basic assumptions about Iraq's weapons capability.[67] Investors in Silicon Valley often show a herd mentality to be part of "the next big thing."[68]

It cannot be said, however, that group opinion is always risky. Indeed, financial writer James Surowiecki, author of *The Wisdom of Crowds,* argues that "Under the right circumstances, groups are remarkably intelligent, and are often smarter than the smartest people in them."[69] As evidence, he cites how groups have been used to predict the election of the president of the United States, find lost submarines, and correct the spread on a sporting event.[70]

Symptoms of Groupthink How do you know that you're in a group or team that is suffering from groupthink? Some symptoms include the following:[71]

- **Invulnerability, inherent morality, and stereotyping of opposition.** Because of feelings of invulnerability, group members have the illusion that nothing can go wrong, breeding excessive optimism and risk taking. Members may also be so assured of the rightness of their actions that they ignore the ethical implications of their decisions. These beliefs are helped along by stereotyped views of the opposition, which leads the group to underestimate its opponents.
- **Rationalization and self-censorship.** Rationalizing protects the pet assumptions underlying the group's decisions from critical questions. Self-censorship also stifles critical debate. It is especially hard to argue with success, of course. But if enough key people, such as outside analysts, had challenged Lehman Brothers, the fourth-largest U.S. investment bank, when it seemed to be flying high, it might not have led to the largest bankruptcy filing in corporate history.
- **Illusion of unanimity, peer pressure, and mindguards.** The illusion of unanimity is another way of saying that silence by a member is interpreted to mean consent. But if people do disagree, peer pressure leads other members to question the loyalty of the dissenters. In addition, in a groupthink situation there may exist people who might be called *mindguards*—self-appointed protectors against adverse information.
- **Groupthink versus "the wisdom of crowds."** Groupthink is characterized by a pressure to conform that often leads members with different ideas to censor themselves—the opposite of collective wisdom, says James Surowiecki, in which "each person in the group is offering his or her best independent forecast. It's not at all about compromise or consensus."[72]

No doubt you've felt yourself pulled in a "groupthink opinion" at some point. Probably we all have. Self-Assessment 13.3 provides you with a way to evaluate the extent to which groupthink is affecting a team. Results provide insight about reducing this counterproductive group dynamic.

SELF-ASSESSMENT 13.3 connect

Assessing Groupthink

The following survey was designed to assess groupthink. Go to **connect.mheducation.com** and take Self-Assessment 13.3. When you're done, answer the following questions:

1. Where does the team stand on the three aspects of groupthink?
2. Based on your survey scores, what would you do differently to reduce groupthink in the group you evaluated? Be specific.

The Results of Groupthink: Decision-Making Defects Groups with a moderate amount of cohesiveness tend to produce better decisions than groups with low or high cohesiveness. Members of highly cohesive groups victimized by groupthink make the poorest decisions—even though they show they express great confidence in those decisions.[73]

Among the decision-making defects that can arise from groupthink are the following:

- **Reduction in alternative ideas.** The principal casualty of groupthink is a shrinking universe of ideas. Decisions are made based on few alternatives.

Once preferred alternatives are decided on, they are not reexamined, and, of course, rejected alternatives are not reexamined.

- **Limiting of other information.** When a groupthink group has made its decision, others' opinions, even those of experts, are rejected. If new information is considered at all, it is biased toward ideas that fit the group's preconceptions. Thus, no contingency plans are made in case the decision turns out to be faulty.

EXAMPLE

Groupthink: An Enthusiasm for Brainstorming, a Technique that Often Doesn't Work

Promoted as an idea-generation machine, brainstorming has become "practically a religion" at design firm Ideo (developer of the first Apple mouse) and other companies.[74] As we described in Chapter 7, brainstorming consists of employees getting together and pouring forth as many ideas as possible ("go for quantity") while withholding criticism and negative feedback ("defer judgment"). In an era of open work environments and team-based collaboration, brainstorming would seem to be a perfect fit.

Groupthink about Group Thinking. Unfortunately, the enthusiasm for this group-thinking technique may itself be a form of groupthink—a belief that brainstorming is more productive than in fact it is. According to Washington University psychologist Keith Sawyer, "Decades of research have consistently shown that brainstorming groups think of far fewer ideas than the same number of people who work alone and pool their ideas."[75] Three characteristics of brainstorming have been called into question:

1. **Free Association.** A problem with free association is that it doesn't produce much creativity because for most people the first thoughts that come to mind are entirely predictable (if you say "blue," most people will say "green," "sky," or "ocean").[76] To develop original ideas, one must first get past the layer of predictability.
2. **No Criticism.** Brainstorming orthodoxy dictates that there should be no criticism during idea generation. However, research comparing three groups—no criticism allowed, debate and criticism encouraged, and no guidelines given—found that the debaters produced more ideas than the brainstormers and no-guidelines groups.[77] Although staying positive and not hurting people's feelings is all well and good, debate seems to spur more creativity.
3. **Groups versus Individuals.** "Research strongly suggests that people are more creative when they enjoy privacy and freedom from interruption," says Susan Cain.[78] The author of *Quiet: The Power of Introverts in a World that Can't Stop Talking,* Cain cites evidence that the most spectacularly creative people in many fields (such as Steve Wozniak, who invented the user-friendly personal computer and co-founded Apple with Steve Jobs) are often introverted and need solitude as a catalyst to innovation.

YOUR CALL

Do you agree that brainstorming has endured too long because of admirers' groupthink? But an important exception to its dismal record, says Cain, is Internet "electronic brainstorming, where large groups outperform individuals." Why do you suppose that is?

Preventing Groupthink: Making Criticism & Other Perspectives Permissible

Janis believes it is easier to prevent groupthink than to cure it. As preventive measures, he suggests the following:

- **Allow criticism.** Each member of a team or group should be told to be a critical evaluator, able to actively voice objections and doubts. Subgroups within the group should be allowed to discuss and debate ideas. Once a consensus has been reached, everyone should be encouraged to rethink his or her position to check for flaws.
- **Allow other perspectives.** Outside experts should be used to introduce fresh perspectives. Different groups with different leaders should explore the same policy questions. Top-level executives should not use policy committees to rubber-stamp decisions that have already been made. When major alternatives are discussed, someone should be made devil's advocate to try to uncover all negative factors.

Thinking alike. Is it too much of a stretch to assume that people who look alike think alike? What are more important influences on groupthink?

Thus far in this chapter we have considered the things that make groups and teams both effective and ineffective. So how can you determine if a team is effective? A group's output surely is one indicator, but there are others that are more "process-oriented." You can get an idea of these process-oriented indicators by taking Self-Assessment 13.4.

SELF-ASSESSMENT 13.4 connect

Assessing Team Effectiveness

The following survey was designed to assess the overall effectiveness of a team's internal processes. Go to **connect.mheducation.com** and take Self-Assessment 13.4. When you're done, answer the following questions:

1. How effective is the team?
2. What aspects of the team's internal processes are most in need of positive development?
3. Based on your survey scores, what are three recommendations for improving the team's internal processes? Be specific.

13.4 Managing Conflict

MAJOR QUESTION

Since conflict is a part of life, what should a manager know about it in order to deal successfully with it?

THE BIG PICTURE

Conflict, an enduring feature of the workplace, is a process in which one party perceives that its interests are being opposed or negatively affected by another party. Conflict can be negative (bad) or functional (good). Indeed, either too much or too little conflict can affect performance. This section identifies three sources of conflict in organizations and also describes four ways to stimulate constructive conflict.

Mistakes, pressure-cooker deadlines, increased workloads, demands for higher productivity, and other kinds of stress—all contribute to on-the-job conflict.[79] Most people envision *conflict* as meaning shouting and fighting, but as a manager you will encounter more subtle, nonviolent forms: opposition, criticism, arguments. Thus, a definition of conflict seems fairly mild: **Conflict is a process in which one party perceives that its interests are being opposed or negatively affected by another party.**[80]

The Nature of Conflict: Disagreement Is Normal

Conflict is simply disagreement, a perfectly normal state of affairs. Conflicts may take many forms: between individuals, between an individual and a group, between groups, within a group, and between an organization and its environment.

Although all of us might wish to live lives free of conflict, it is now recognized that certain kinds of conflict can actually be beneficial.[81] Let us therefore distinguish between *dysfunctional conflict* (bad) and *functional conflict* (good).

- **Dysfunctional conflict—bad for organizations.** From the standpoint of the organization, **dysfunctional conflict is conflict that hinders the organization's performance or threatens its interests.** As a manager, you need to do what you can to remove negative conflict, sometimes called *dysfunctional conflict.*
- **Functional conflict—good for organizations.** The good kind of conflict is **functional conflict, which benefits the main purposes of the organization and serves its interests.**[82] There are some situations in which this kind of conflict—also called *functional conflict* or *cooperative conflict*—is considered advantageous.

EXAMPLE

Dysfunctional & Functional Conflict: Do Nasty Bosses Get Better Performance?

There are some great films about horrible bosses—Kevin Spacey in *Swimming with Sharks* ("My bathmat means more to me than you"), so abusive he is kidnapped by his employee, and Meryl Streep in *The Devil Wears Prada* ("Details of your incompetence do not interest me"), a fear-inspiring fashion-magazine editor who keeps her new assistant quivering with dread. Are such portraits real? Says one former magazine editorial assistant about the Streep-style boss, "If you happen to be working for the wrong editor, you could find yourself doing their kid's homework or being yelled at, or crying in the bathroom."[83]

Unfortunately, this kind of tyranny is very common. As we mentioned in Chapter 9, bullying at work is experienced by 35% of employees, according to one survey, and 51%, according to another—and often the bully is the boss.[84]

Abuse Flows Downhill. Does such negative conflict get results? Surprisingly, often it does. One study of 373 randomly chosen employees found that, although some reacted to abusive bosses by doing little or nothing, others performed better—in part, it's speculated, to make themselves look good and others look worse.[85]

The jerk. Ever worked for an angry boss? How did you deal with the situation? Have there been circumstances in which people working for you might have called *you* a jerk (or worse)? What should you have done differently?

Yet other research shows that abuse flows downhill, and when supervisors feel they have been unjustly treated, they may vent their resentment by abusing those who report to them. Subordinates generally cope either through avoidance or, less commonly, through confrontation and are in any case less inclined to feel committed to their organizations, to speak unfavorably about their companies to outsiders, and to seek jobs elsewhere.[86]

The "No-Jerk Rule." When Stanford organizational psychologist Robert Sutton published a short essay in which he urged more civility in organizations by steady application of what he calls "the no-jerk rule" (although he used a far stronger word than "jerk"), he elicited more e-mails than he had received on any other subject, showing the topic had touched a nerve.[87]

Jerks may be everywhere, he says, but "the key is to make explicit to everyone involved in hiring decisions that candidates who have strong skills but who show signs they will belittle and disrespect others cannot be hired under any circumstances." In addition, "Insults, put-downs, nasty teasing, and rude interruptions [should be] dealt with as soon as possible, preferably by the most respected and powerful members" of the company.[88]

YOUR CALL

Have you ever worked for jerks (otherwise known, as Sutton puts it, as "tyrants, bullies, boors, destructive narcissists, and psychologically abusive people")? How did you respond to them?

Can Too Little or Too Much Conflict Affect Performance?

It's tempting to think that a conflict-free work group is a happy work group, as indeed it may be. But is it a productive group? In the 1970s, social scientists specializing in organizational behavior introduced the revolutionary idea that organizations could suffer from *too little* or *too much* conflict. Neither scenario is good.

- **Too little conflict—indolence.** Work groups, departments, or organizations that experience too little conflict tend to be plagued by apathy, lack of creativity, indecision, and missed deadlines. The result is that organizational performance suffers.

- **Too much conflict—warfare.** Excessive conflict, on the other hand, can erode organizational performance because of political infighting, dissatisfaction, lack of teamwork, and turnover. Workplace aggression and violence are manifestations of excessive conflict.[89]

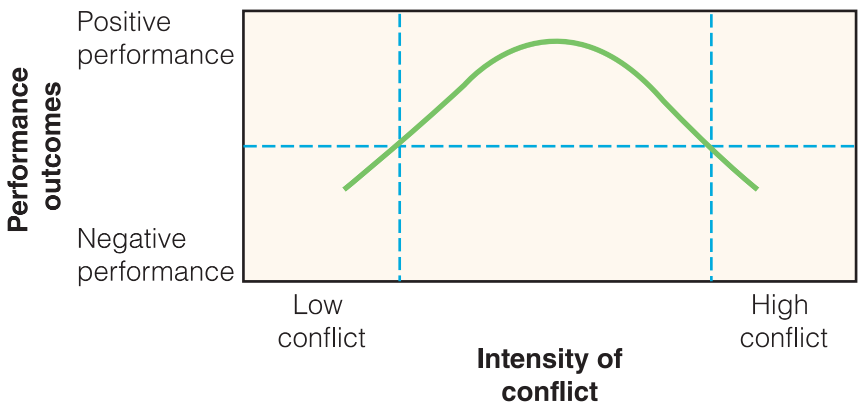
Thus, it seems that a moderate level of conflict can induce creativity and initiative, thereby raising performance, as shown in the diagram below. *(See Figure 13.2.)*[90] As might be expected, however, the idea as to what constitutes "moderate" will vary among managers.

FIGURE 13.2

The relationship between intensity of conflict & performance outcomes

Too little conflict or too much conflict causes performance to suffer.

Source: Derived from L. D. Brown, Managing Conflict at *Organizational Interfaces (Englewood Cliffs, NJ: Prentice-Hall, 1983).*



Three Kinds of Conflict: Personality, Intergroup, & Cross-Cultural

There are a variety of sources of conflict—so-called *conflict triggers*. Three of the principal ones are (1) *between personalities*, (2) *between grou*ps, and (3) *between cultures*. By understanding these, you'll be better able to take charge and manage the conflicts rather than letting the conflicts take you by surprise and manage you.

1. Personality Conflicts: Clashes Because of Personal Dislikes or Disagreements We've all had confrontations, weak or strong, with people because we disagreed with them or disliked their personalities, such as their opinions, their behavior, their looks, whatever. **Personality conflict is defined as interpersonal opposition based on personal dislike or disagreement.** Such conflicts often begin with instances of *workplace incivility,* or employees' lack of regard for each other, which, if not curtailed, can diminish job satisfaction and organizational loyalty.[91]

Some particular kinds of personality conflicts are the following:

- **Personality clashes—when individual differences can't be resolved.** Personality, values, attitudes, and experience can be so disparate that sometimes the only way to resolve individual differences—personality clashes—is to separate two people.
- **Competition for scarce resources—when two parties need the same things.** Within organizations there is often a scarcity of needed resources—for example, funds, office space, equipment, employees, and money for raises. When resources are scarce, being a manager becomes more difficult and conflict more likely.
- **Time pressure—when people believe there aren't enough hours to do the work.** Setting a deadline is a useful way of inducing people to perform. Or it can be a source of resentment, rage, and conflict if employees think their manager has unrealistic expectations.

- **Communication failures—when people misperceive and misunderstand.** The need for clear communication is a never-ending, ongoing process. Even under the best of circumstances, people misunderstand others, leading to conflict.

EXAMPLE

"What We've Got Have Here Is a Failure to Communicate": The Plight of the Tongue-Tied

Miscommunication happens for all kinds of reasons—sometimes because there is no communication at all.

Clamming Up in Small Groups. Some people simply clam up in small-group settings, often because they think others are smarter or of higher status. Becoming tongue-tied this way seems to be more common in women and in people with higher IQs, according to a Virginia Tech study.[92] The researchers speculate they are "more attuned to group social dynamics, subconsciously worrying about their performance and evaluating themselves in relation to others," says one report.[93]

Ways to Cope. If speaking up is hard for you to do in small groups, you can take comfort that the people who froze the most in the study were actually the smartest. Otherwise, you can cope by preparing before the meeting (practice your delivery and bring notes), telling the person running the meeting beforehand that you have some points and would like the opportunity to be called upon, or joining with a more outgoing or higher-status member in the group who can bring up your points and then toss you an opening.[94]

YOUR CALL

Do you tend to go silent during some small-group settings or social situations? Perhaps it's not that you're shy but rather an introvert and want to collect your thoughts before speaking—hard to do in the company of extroverts who "think out loud." Could any of the advice above work for you?

2. Intergroup Conflicts: Clashes between Work Groups, Teams, & Departments The downside of cohesiveness, the "we" feeling discussed earlier, is that it can translate into "we versus them." This produces conflict among work groups, teams, and departments within an organization.

Some ways in which intergroup conflicts are expressed are as follows:

- **Inconsistent goals or reward systems—when people pursue different objectives.** It's natural for people in functional organizations to be pursuing different objectives and to be rewarded accordingly, but this means that conflict is practically built into the system.
- **Ambiguous jurisdictions—when job boundaries are unclear.** "That's not my job and those aren't my responsibilities." "Those resources belong to me because I need them as part of my job." When task responsibilities are unclear, that can often lead to conflict.
- **Status differences—when there are inconsistencies in power and influence.** It can happen that people who are lower in status according to the organization chart actually have disproportionate power over those theoretically above them, which can lead to conflicts.

3. Multicultural Conflicts: Clashes between Cultures With cross-border mergers, joint ventures, and international alliances common features of the global economy, there are frequent opportunities for clashes between cultures. Often success or failure, when business is being conducted across cultures, arises from dealing with differing assumptions about how to think and act.

One study of 409 expatriates (14% of them female) from U.S. and Canadian multinational firms working in 51 different countries identified nine specific ways to facilitate interaction with host-country nationals, the results of which are shown at

TABLE 13.6

Ways to Build Cross-Cultural Relationships

1. Be a good listener
2. Be sensitive to others' needs *tied with . . .*
3. Be cooperative, not overly competitive
4. Advocate inclusive (participative) leadership
5. Compromise rather than dominate
6. Build rapport through conversations
7. Be compassionate and understanding
8. Avoid conflict by emphasizing harmony
9. Nurture others (develop and mentor)

Source: Adapted from R. L. Tung, "American Expatriates Abroad: From Neophytes to Cosmopolitans," Journal of World Business, *Summer 1998, table 6, p. 136. Reprinted with permission from Elsevier.*

left. *(See Table 13.6.)* Note that "Be a good listener" tops the list—the very thing lacking in so many American managers, who are criticized for being blunt to the point of insensitivity.[95]

How to Stimulate Constructive Conflict

As a manager you are being paid not just to manage conflict but even to create some, where it's constructive and appropriate, in order to stimulate performance. Constructive conflict, if carefully monitored, can be very productive under a number of circumstances: when your work group seems afflicted with inertia and apathy, resulting in low performance; when there's a lack of new ideas and resistance to change; when there seem to be a lot of yes-men and yes-women (expressing groupthink) in the work unit; when there's high employee turnover; or when managers seem unduly concerned with peace, cooperation, compromise, consensus, and their own popularity rather than in achieving work objectives.

The following four devices are used to stimulate constructive conflict:

1. Spur Competition among Employees Competition is, of course, a form of conflict, but competition is often healthy in spurring people to produce higher results. Thus, a company will often put its salespeople in competition with one another by offering bonuses and awards for achievement—a trip to a Caribbean resort, say, for the top performer of the year.

2. Change the Organization's Culture & Procedures Competition may also be established by making deliberate and highly publicized moves to change the corporate culture—by announcing to employees that the organization is now going to be more innovative and reward original thinking and unorthodox ideas. Procedures, such as paperwork sign-off processes, can also be revamped. Results can be reinforced in visible ways through announcements of bonuses, raises, and promotions.

3. Bring in Outsiders for New Perspectives Without "new blood," organizations can become inbred and resistant to change. This is why managers often bring in outsiders—people from a different unit of the organization, new hires from competing companies, or consultants. With their different backgrounds, attitudes, or management styles, these outsiders can bring a new perspective and can shake things up.

4. Use Programmed Conflict: Devil's Advocacy & the Dialectic Method

Programmed conflict is designed to elicit different opinions without inciting people's personal feelings.[96] Sometimes decision-making groups become so bogged down in

Top employee. Companies frequently stimulate constructive competition among employees to produce better performance. Top salespeople, for instance, may be rewarded with a trip to a Mexican resort. Do you think you would do well in a company that makes you compete with others to produce higher results?

details and procedures that nothing of substance gets done. The idea here is to get people, through role playing, to defend or criticize ideas based on relevant facts rather than on personal feelings and preferences.

The method for getting people to engage in this debate of ideas is to do disciplined role playing, for which two proven methods are available: *devil's advocacy* and the *dialectic method.* These two methods work as follows:

- **Devil's advocacy—role-playing criticism to test whether a proposal is workable. Devil's advocacy is the process of assigning someone to play the role of critic** to voice possible objections to a proposal and thereby generate critical thinking and reality testing.[97]

  Periodically role-playing devil's advocate has a beneficial side effect in that it is great training for developing analytical and communicative skills. However, it's a good idea to rotate the job so no one person develops a negative reputation.
- **The dialectic method—role-playing two sides of a proposal to test whether it is workable.** Requiring a bit more skill training than devil's advocacy does, the **dialectic method is the process of having two people or groups play opposing roles in a debate in order to better understand a proposal.** After the structured debate, managers are more equipped to make an intelligent decision.[98]

Five Basic Behaviors to Help You Better Handle Conflict

Whatever kind of organization you work for, you'll always benefit from knowing how to manage conflict. There are five basic behaviors that enable you to work on disagreements and keep them from flaring into out-of-control personality conflicts: *openness, equality, empathy, supportiveness,* and *positiveness.*[99]

1. Openness State your views openly and honesty, not trying to disguise the real object of your disagreement. Look at the conflict as a way to better understand the situation and find a solution. Concentrate on identifying the problem and taking a problem-solving approach.

2. Equality Treat the other's status and ideas as equal to yours, allowing that person time to completely express his or her opinions. Evaluate all ideas fairly and logically, without regard to ownership.

3. Empathy Try to experience the other person's feelings and point of view, showing you are truly listening by using such expressions as "I appreciate how you feel . . ."

4. Supportiveness Let the other person know you want to find a resolution that will benefit you both. Describe the specifics you have difficulty understanding, without evaluating or judging them. Support the other person's position when it makes sense to do so.

5. Positiveness Be positive about the other person and your relationship. Express your willingness to work toward a resolution that will be feasible for everyone.

Before beginning to try to adopt these behaviors preparatory to dealing with a dispute, you should also try to be aware of your customary conflict-handling style. We describe five possibilities in the Practical Action box, opposite.

PRACTICAL ACTION

Dealing with Disagreements: Five Conflict-Handling Styles

Even if you're at the top of your game as a manager, working with groups and teams of people will now and then put you in the middle of disagreements, sometimes even destructive conflict. How can you deal with it?

There are five conflict-handling styles, or techniques, a manager can use for handling disagreements with individuals: *avoiding, accommodating, forcing, compromising,* and *problem solving.*[100]

Avoiding—"Maybe the Problem Will Go Away"

Avoiding involves ignoring or suppressing a conflict. Avoidance is appropriate for trivial issues, when emotions are high and a cooling-off period is needed, or when the cost of confrontation outweighs the benefits of resolving the conflict. It is not appropriate for difficult or worsening problems.

The benefit of this approach is that it buys time in unfolding and ambiguous situations. The weakness is that it provides only a temporary fix and sidesteps the underlying problem.

Accommodating—"Let's Do It Your Way"

An accommodating manager is also known as a "smoothing" or "obliging" manager. *Accommodating* is allowing the desires of the other party to prevail. As one writer describes it, "An obliging [accommodating] person neglects his or her own concern to satisfy the concern of the other party."[101] Accommodating may be an appropriate conflict-handling strategy when it's possible to eventually get something in return or when the issue isn't important to you. It's not appropriate for complex or worsening problems.

The advantage of accommodating is that it encourages cooperation. The weakness is that once again it's only a temporary fix that fails to confront the underlying problem.

Forcing—"We Have to Do It My Way"

Also known as "dominating," *forcing* is simply ordering an outcome, when a manager relies on his or her formal authority and power to resolve a conflict, but the needs of the other party are largely ignored. Forcing is appropriate when an unpopular solution must be implemented and when it's not important that others be committed to your viewpoint.

The advantage of forcing is speed: It can get results quickly. The disadvantage is that in the end it doesn't resolve personal conflict—if anything, it aggravates it by breeding hurt feelings and resentment.

Compromising—"Let's Split the Difference"

In *compromising,* both parties give up something in order to gain something. Compromise is appropriate when both sides have opposite goals or possess equal power. But compromise isn't workable when it is used so often that it doesn't achieve results—for example, continual failure to meet production deadlines. Compromise, says one writer, sometimes represents "the mistaken idea that any agreement is better than no agreement."[102]

The benefit of compromise is that it is a democratic process that seems to have no losers. However, since so many people approach compromise situations with a win-lose attitude, they may be disappointed and feel cheated.

Problem Solving—"Let's Cooperate to Reach a Win-Win Solution that Benefits Both of Us"

Problem solving, or integrating, is about collaboration. In this style, the manager strives to confront the issue and cooperatively identify the problem, generating and weighing alternatives, and selecting a solution. Problem solving is appropriate for complex issues plagued by misunderstanding. It is inappropriate for resolving conflicts rooted in opposing value systems.

The strength of problem solving is its longer-lasting impact because it deals with the underlying problem, not just its symptoms. Its weakness is that it's very time-consuming. Nevertheless, problem solving is usually the best approach for dealing with groups and teams of people.

YOUR CALL

Which style are you most likely to use, based on your experience? You can find out by completing Self-Assessment 13.5.

SELF-ASSESSMENT 13.5 connect

What Is Your Conflict-Management Style?

The following exercise is designed to determine your conflict-handling style. Go to **connect.mheducation.com** and take Self-Assessment 13.5. When you're done, answer the following questions:

1. Were you surprised by the results? Why or why not? Explain.
2. Were the scores for your primary and backup conflict-handling styles relatively similar, or was there a large gap? What does this imply? Discuss.
3. Is your conflict-handling style one that can be used in many different conflict scenarios? Explain.
4. What are some skills you can work on to become more effective at handling conflict?

Key Terms Used in This Chapter

Key Points

13.1 Groups versus Teams

- Groups and teams are different—a group is typically management-directed, a team self-directed. A group is defined as two or more freely interacting individuals who share collective norms, share collective goals, and have a common identity. A team is defined as a small group of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable.
- Groups may be either formal, established to do something productive for the organization and headed by a leader, or informal, formed by people seeking friendship with no officially appointed leader.
- Teams are of various types, but one of the most important is the work team, which engages in collective work requiring coordinated effort. Work teams may be of four types, identified according to their basic purpose: advice, production, project, and action. A project team may also be a cross-functional team, staffed with specialists pursuing a common objective.
- Two types of teams worth knowing about are continuous improvement teams, consisting of small groups of volunteers or workers and supervisors who meet intermittently to discuss workplace and quality-related problems, and self-managed teams, defined as groups of workers given administrative oversight for their task domains.

13.2 Stages of Group & Team Development

- A group may evolve into a team through five stages. (1) Forming is the process of getting oriented and getting acquainted. (2) Storming is characterized by the emergence of individual personalities and roles and conflicts within the group. (3) In norming, conflicts are resolved, close relationships develop, and unity and harmony emerge. (4) In performing, members concentrate on solving problems and completing the assigned task. (5) In adjourning, members prepare for disbandment.

13.3 Building Effective Teams

- There are nine considerations managers must take into account in building a group into an effective team. (1) They must ensure individuals are cooperating, or systematically integrating their efforts to achieve a collective objective. (2) They must establish a climate of trust, or reciprocal faith in others' intentions and behaviors. (3) They must consider the team's cohesiveness, the tendency of a group or team to stick together.
- (4) They must establish measurable goals and have feedback about members' performance. (5) They must motivate members by making them mutually accountable to one another. (6) They must consider what size is optimal. Teams with nine or fewer members have better interaction and morale, yet they also have fewer resources, are possibly less innovative, and may have work unevenly distributed among members. Teams of 10–16 members have more resources and can take advantage of division of labor, yet they may be characterized by less interaction, lower morale, and social loafing.
- (7) They must consider the role each team member must play. A role is defined as the

socially determined expectation of how an individual should behave in a specific position. Two types of team roles are task and maintenance. A task role consists of behavior that concentrates on getting the team's tasks done. A maintenance role consists of behavior that fosters constructive relationships among team members.

- (8) They must consider team norms, the general guidelines or rules of behavior that most group or team members follow. Norms tend to be enforced by group or team members for four reasons: to help the group survive, to clarify role expectations, to help individuals avoid embarrassing situations, and to emphasize the group's important values and identity.
- (9) They must be aware of groupthink, a cohesive group's blind unwillingness to consider alternatives. Symptoms of groupthink are feelings of invulnerability, certainty of the rightness of their actions, and stereotyped views of the opposition; rationalization and self-censorship; and illusion of unanimity, peer pressure, and the appearance of self-appointed protectors against adverse information. The results of groupthink can be reduction in alternative ideas and limiting of other information. Two ways to prevent groupthink are to allow criticism and to allow other perspectives.

13.4 Managing Conflict

- Conflict is a process in which one party perceives that its interests are being opposed or negatively affected by another party. Conflict can be dysfunctional, or negative. However, constructive, or functional, conflict benefits the main purposes of the organization and serves its interests. Too little conflict can lead to indolence; too much conflict can lead to warfare.
- Three types of conflict are clashes between personalities, intergroup conflict, and cross-cultural conflict.
- Four devices for stimulating constructive conflict are (1) spurring competition among employees, (2) changing the organization's culture and procedures, (3) bringing in outsiders for new perspectives, and (4) using programmed conflict to elicit different opinions without inciting people's personal feelings.
- Two methods used in programmed conflict are (1) devil's advocacy, in which someone is assigned to play the role of critic to voice possible objections to a proposal, and (2) the dialectic method, in which two people or groups play opposing roles in a debate in order to better understand a proposal. There are five basic behaviors that enable you to work on disagreements and keep them from flaring into out-of-control personality conflicts: openness, equality, empathy, supportiveness, and positiveness.

Understanding the Chapter: What Do I Know?

1. How do groups and teams differ?
2. What's the difference between formal groups and informal groups?
3. Describe four types of work teams.
4. What are the stages of group and team development?
5. Explain the nine most essential considerations in building a group into an effective team.
6. How do functional and dysfunctional conflict differ?
7. What are three types of conflict?
8. How would you go about stimulating constructive conflict?
9. What are devil's advocacy and the dialectic method?
10. What are five basic behaviors to help you better handle conflict?

Management in Action

Wooga Effectively Utilizes Teams When Creating Game Apps

Wooga is a collection of many small, independent teams. Each team is responsible for making and running a single game and is expected to make their own decisions while being cross-functional and autonomous. They should freely share learnings and don't compete with each other, meaning they effectively act like small, independent start-ups within a larger framework.

It's completely up to them if they want to listen or ignore outside advice—even if it's from one of the founders. This is only possible by having great people. So hiring the right people is the single most important thing we do at Wooga. We believe in the mantra, "If in doubt, don't hire." That works very well. Teams are at the heart of how Wooga is organized. Seventy percent of employees are working in a game team. There are departmental heads, such as the Head of Engineering, of which we have two, who take care of different parts of that field, and others that look after their respective departments.

The rest are providing central services like marketing, customer care, and localization (20%) or others like HR, PR, Finance, Business Analytics, and teams that maintain simple services for persistence of games. "Service" is the key word here—those teams serve the game teams and not the other way around. For example, there are no artificial budget processes and game teams can decide release dates themselves.

Each game team is led by a product lead that has the final decision for the team. This ensures a fast decision is always possible and the company can scale without top management becoming a bottleneck. In essence this is a delegation of power from central management to the teams. This starts with the type of game a product lead wants to make and ends with the way the teams organize themselves internally.

Teams start small with 1–3 people, with the first always being the future lead and providing the initial concept of the game. They develop a prototype that can be reviewed and, most importantly, play tested. If it's not good enough, the team starts afresh. If it looks promising, the team is ramped up slowly, keeping it below 10 people for as long as possible.

After going live, the team size can remain stable or be increased. Further feature development does not slow down the development process but as extra information is derived from live metrics, a/b testing becomes possible and the whole game needs to be operated.

An important point is that even though teams are independent and compare KPIs [key performance indicators], they do not compete with each other. There is a constant exchange of knowledge and lessons learned between them. This is how we leverage the innovations made by individual teams (and compensate risks individual teams take).

On one level this is done by each team being asked to provide a 5–10 minute weekly meeting where they report their progress to the rest of the company and explain their learnings, which could be from something like previous a/b tests or new feature announcements. There are no limits or off areas regarding which information can be shared, as long as others can benefit from the information.

Also, these meeting are open for every employee to attend. This way we can try out new things in one game, and when they work, that knowledge is spread to other teams. This works quite organically.

Another level of knowledge exchange is between members of the same discipline. We organize monthly internal lightning talk rounds called "5 minutes of fame" where anyone in the company can give a short talk regarding something they want to share and everyone can attend these talks. . . .

Whenever a topic is too complex to handle it in a lightning talk we do brown bag talks. This is a lunchtime talk, where participants get a free lunch after the 25-minute talk. Half of the company usually attends these talks, of which we have about one per month. . . .

Since teams are cross-functional, there is a wide range of skills to utilize, and good teams organize themselves with members working closely together. Again, the idea is not to have a single person knowing and deciding everything, but making it the responsibility of every team member to push the game forward.

Teams themselves are autonomous and do not depend on other teams to create and run their game. As a result, teams do their own analytics while using a shared service provided by the Business Analytics service team and a few standardized KPIs. Similarly, there is no operation/admin team to operate the servers or other parts of infrastructure. Those who write the software operate it themselves. Engineers are not forced to share or reuse code, so there is no central framework that everyone must use. . . .

We think agile development is not about applying a specific methodology, it is about following the correct principles and to constantly reflect on whether you are aligned correctly and to correct things when necessary.

As a result there is no unified process on how teams should develop their software. Teams decide on their own how to do things, although they usually blend in elements of Scrum and/or Kanban. That means standups in the morning are the standard, although variations do exist.

The company also has a unique view of using monetary performance bonuses. Co-founder and CEO Jens Begemann told Fast Company *that monetary performance bonuses promote internal competition. He believes that this would in turn undermine the collaboration among team members and across teams that is needed to generate great products. Instead, the company uses shares of stock as incentives to motivate employees to care about the greater good of the company. This seems to be working because the company has experienced tremendous growth in the last few years and there is very little employee turnover.*

FOR DISCUSSION

1. Are the product development teams at Wooga more of a group or a team? Explain your rationale.
2. What does Wooga do to promote cooperation and cohesiveness among their product development teams?
3. To what extent are Wooga's teams subject to groupthink? Does the company do anything to prevent groupthink among its development teams?
4. What is your opinion about the company's view of not paying performance bonuses? What are the pros and cons?
5. What is your biggest takeaway about teams based on this case?

Source: Excerpted from Jesper Richter-Reichhelm, "Using Independent Teams to Scale a Small Company: A Look at How Games Company Wooga Works," Entrepreneur, *September 8, 2013,* http://thenextweb.com/entrepreneur/2013/09/08/using-independent-teams-to-scale-a-small-company-a-look-at-how-games-company-wooga-works *(accessed August 17, 2014).*

Information in last paragraph based on P. Glader, "Wooga, a Case Study in No Cash Bonus Culture," Fast Company, *February 21, 2012,* www.fastcompany.com/1816541/wooga-case-study-no-cash-bonus-culture *(accessed August 17, 2014).*

Legal/Ethical Challenge

When Employees Smoke Marijuana Socially: A Manager's Quandary

You work in a state where it is illegal to smoke marijuana, and your employer has a zero-tolerance policy regarding the use of drugs. You also are a supervisor at a telephone call center and have very positive relationships with members of your work team and your manager. A friend of yours, Christina, is also a supervisor, and her younger brother, Blake, is a member of your work team.

Christina invites you to her birthday party at her home, and you happily agree to attend. During the party, you walk out to the backyard to get some fresh air and notice that Blake and several other employees of your company are smoking marijuana: None of these individuals have prescriptions for medical marijuana. You have been told on several occasions by members of your own work team that these same individuals have used marijuana at other social events.

Although Blake is a member of your work team, his friends are not. You don't really feel any need to tell management about these people smoking pot because you have never noticed their being impaired at work. If the company found out that you knew about their smoking, it could adversely affect your career. The company expects managers to act with honesty, integrity, and to be forthright with senior management. That said, the issue has come up in your mind because Blake applied for a promotion to a supervisory position. Although he is a good worker, you wonder if his smoking marijuana might affect his judgment. More importantly, the vice president of Human Resources just requested a recommendation from you regarding Blake's promotion.

SOLVING THE DILEMMA

As a supervisor, what would you do?

1. I would not tell the vice president of human resources about Blake's drug use. He's doing a good job and I have not seen any impairment.
2. I would tell the vice president of human resources about the incident in which I observed Blake smoking marijuana. I need to honor the company's directives about a zero-tolerance policy on drug use.
3. I would talk to Blake. I would explain my predicament and then ask him about the frequency of his drug use. If Blake promised to stop smoking marijuana, I would not tell the vice president of human resources about the incident.
4. Invent other options. Discuss.

14

Power, Influence, & Leadership

From Becoming a Manager to Becoming a Leader

Major Questions You Should Be Able to Answer

14.1 The Nature of Leadership: Wielding Influence
Major Question: I don't want to be just a manager; I want to be a leader. What's the difference between the two?

14.2 Trait Approaches: Do Leaders Have Distinctive Personality Characteristics?
Major Question: What does it take to be a successful leader?

14.3 Behavioral Approaches: Do Leaders Show Distinctive Patterns of Behavior?
Major Question: Do effective leaders behave in similar ways?

14.4 Situational Approaches: Should Leadership Vary with the Situation?
Major Question: How might effective leadership vary according to the situation at hand?

14.5 The Uses of Transformational Leadership
Major Question: What does it take to truly inspire people to perform beyond their normal levels?

14.6 Three Additional Perspectives
Major Question: If there are many ways to be a leader, which one would describe me best?

the manager's toolbox

Advancing Your Career: Staying Ahead in the Workplace of Tomorrow

Someday maybe you can afford to have a *personal career coach*—the kind long used by sports and entertainment figures and now adopted in the upper ranks of business. These individuals "combine executive coaching and career consulting with marketing and negotiations," says one account. "They plot career strategy, help build networks of business contacts, . . . and shape their clients' images."[1]

One such career coach is Richard L. Knowdell, president of Career Research and Testing in San Jose, California. He offers the following strategies for staying ahead in the workplace of tomorrow.[2]

Take Charge of Your Career, & Avoid Misconceptions

Because you, not others, are in charge of your career, and it's an ongoing process, you should develop a career plan and base your choices on that plan. When considering a new job or industry, find out how that world *really* works, not what it's reputed to be. When considering a company you might want to work for, find out its corporate "style" or culture by talking to its employees.

Develop New Capacities

"Being good at several things will be more advantageous in the long run than being excellent at one narrow specialty," says Knowdell. "A complex world will not only demand *specialized knowledge* but also *general and flexible skills.*"

Anticipate & Adapt to, Even Embrace, Changes

Learn to analyze, anticipate, and adapt to new circumstances in the world and in your own life. For instance, as technology changes the rules, *embrace* the new rules.

Keep Learning

"You can take a one- or two-day course in a new subject," says Knowdell, "just to get an idea of whether you want to use those specific skills and to see if you would be good at it. Then, if there is a match, you could seek out an extended course."

Develop Your People & Communications Skills

No matter how much communication technology takes over the workplace, there will always be a strong need for effectiveness in interpersonal relationships. In particular, learn to listen well. Incidentally, one poll found that "appearance"—meaning clothes, accessories, and shoes—ranked second only to "communication skills" as the quality most associated with professionalism.[3] (You might try imitating your bosses' clothing styles.)

For Discussion Which of these five rules do you think is most important—and why?

forecast What's Ahead in This Chapter

Are there differences between managers and leaders? This chapter considers this question. We discuss the sources of a leader's power and how leaders use persuasion to influence people. We then consider the following approaches to leadership: trait, behavioral, situational, transformational, and three additional perspectives.

14.1 The Nature of Leadership: Wielding Influence

MAJOR QUESTION

I don't want to be just a manager; I want to be a leader. What's the difference between the two?

THE BIG PICTURE

Being a manager and being a leader are not the same. That said, they both are necessary in the pursuit of organizational goals. For example, leadership skills are needed to create and communicate a company's vision, strategies, and goals, while management skills are needed to execute on these plans and goals. This section highlights how management and leadership skills are complementary and describes five sources of power leaders draw on to influence others. Leaders use the power of persuasion to get others to follow them. Five approaches to leadership are described in the next five sections.

Leadership. What is it? Is it a skill anyone can develop?

Leadership is the ability to influence employees to voluntarily pursue organizational goals.[4] In an effective organization, leadership is present at all levels, say Tom Peters and Nancy Austin in *A Passion for Excellence,* and it represents the sum of many things. Leadership, they say, "means vision, cheerleading, enthusiasm, love, trust, verve, passion, obsession, consistency, the use of symbols, paying attention as illustrated by the content of one's calendar, out-and-out drama (and the management thereof), creating heroes at all levels, coaching, effectively wandering around, and numerous other things."[5]

Managers & Leaders: Not Always the Same

You see the words *manager* and *leader* used interchangeably all the time. However, as one pair of leadership experts has said, "Leaders manage and managers lead, but the two activities are not synonymous."[6]

"Management," says Tim Bucher, CEO of TastingRoom.com, a wine site, "is about doing things right—dotting the I's, crossing the T's. . . . But leadership is about doing the right thing. . . . You have to make a call, and in some ways it might be against company policy."[7]

Managers do planning, organizing, directing, and control. Leaders inspire, encourage, and rally others to achieve great goals. Managers implement a company's vision and strategic plan. Leaders create and articulate that vision and plan. The table on the next page summarizes key characteristics of each. *(See Table 14.1.)*

Managerial Leadership: Can You Be *Both* a Manager & a Leader?

Absolutely. The latest thinking is that individuals are able to exhibit a broad array of the contrasting behaviors shown in Table 14.1 (a concept called *behavioral complexity*).[8] Thus, in the workplace, many people are capable of exhibiting **managerial leadership, defined as "the process of influencing others to understand and agree about what needs to be done and the process of facilitating individual and collective efforts to accomplish shared objectives."**[9] Here the "influencing" part is leadership and the "facilitating" part is management.

Managerial leadership may be demonstrated not only by managers appointed to their positions but also by those who exercise leadership on a daily basis but don't carry formal management titles (such as certain coworkers on a team).

TABLE 14.1
Characteristics of Being a Manager & a Leader

BEING A MANAGER MEANS . . .	BEING A LEADER MEANS . . .
Planning, organizing, directing, controlling	Being visionary
Executing plans and delivering goods and services	Being inspiring, setting the tone, and articulating the vision
Managing resources	Managing people
Being conscientious	Being inspirational (charismatic)
Acting responsibly	Acting decisively
Putting customers first—responding to and acting for customers	Putting people first—responding to and acting for followers
Mistakes can happen when managers don't appreciate people are the key resource, underlead by treating people like other resources, or fail to be held accountable	Mistakes can happen when leaders choose the wrong goal, direction, or inspiration; overlead; or fail to implement the vision

Source: Adapted from P. Lorenzi, "Managing for the Common Good: Prosocial Leadership," Organizational Dynamics, *Vol. 33, No. 3 (2004), p. 286. Reprinted with permission from Elsevier.*

Coping with Complexity versus Coping with Change: The Thoughts of John Kotter

In considering management versus leadership, retired Harvard Business School professor **John Kotter** suggests that one is not better than the other, that in fact they are *complementary* systems of action. The difference is that . . .

- *Management* is about coping with *complexity*,
- *Leadership* is about coping with *change.*[10]

Let's consider these differences.

Being a Manager: Coping with Complexity

Management is necessary because complex organizations, especially the large ones that so much dominate the economic landscape, tend to become chaotic unless there is good management.[11] (For a good description of a manager's busy day, review Chapter 1, as analyzed by Henry Mintzberg.)

According to Kotter, companies manage complexity in three ways:

- **Determining what needs to be done—planning and budgeting.** Companies manage complexity first by *planning and budgeting*—setting targets or goals for the future, establishing steps for achieving them, and allocating resources to accomplish them.
- **Creating arrangements of people to accomplish an agenda—organizing and staffing.** Management achieves its plan by *organizing and staffing,* Kotter says—creating the organizational structure and hiring qualified individuals to fill the necessary jobs, then devising systems of implementation.
- **Ensuring people do their jobs—controlling and problem solving.** Management ensures the plan is accomplished by *controlling and problem solving,* says Kotter. That is, managers monitor results versus the plan in some detail by means of reports, meetings, and other tools. They then plan and organize to solve problems as they arise.

Amazing Amazon. Jeffrey Bezos, founder and CEO of online retailer Amazon.com, has done nearly everything Kotter suggests. For instance, Bezos's "culture of divine discontent" permits employees to plunge ahead with new ideas even though they know that most will probably fail.

Being a Leader: Coping with Change As the business world has become more competitive and volatile, doing things the same way as last year (or doing it 5% better) is no longer a formula for success. More changes are required for survival—hence the need for leadership.

Leadership copes with change in three ways:

- **Determining what needs to be done—setting a direction.** Instead of dealing with complexity through planning and budgeting, leaders strive for constructive change by *setting a direction.* That is, they develop a vision for the future, along with strategies for realizing the changes.
- **Creating arrangements of people to accomplish an agenda—aligning people.** Instead of organizing and staffing, leaders are concerned with *aligning people,* Kotter says. That is, they communicate the new direction to people in the company who can understand the vision and build coalitions that will realize it.
- **Ensuring people do their jobs—motivating and inspiring.** Instead of controlling and problem solving, leaders try to achieve their vision by *motivating and inspiring.* That is, they appeal to "basic but often untapped human needs, values, and emotions," says Kotter, to keep people moving in the right direction, despite obstacles to change.

Do Kotter's ideas describe real leaders in the real business world? Certainly many participants in a seminar convened by *Harvard Business Review* appeared to agree. "The primary task of leadership is to communicate the vision and the values of an organization," Frederick Smith, chairman and CEO of FedEx, told the group. "Second, leaders must win support for the vision and values they articulate. And third, leaders have to reinforce the vision and the values."[12]

Do You Have What It Takes to Be a Leader? Managers have legitimate power (as we'll describe) that derives from the formal authority of the positions to which they have been appointed. This power allows managers to hire and fire, reward and punish. Managers plan, organize, and control, but they don't necessarily have the characteristics to be leaders.

Whereas management is a process that lots of people are able to learn, leadership is more visionary. As we've said, leaders inspire others, provide emotional support, and try to get employees to rally around a common goal. Leaders also play a role in creating a vision and strategic plan for an organization, which managers are then charged with implementing.

Do you feel you're up for being a leader? Is getting a college degree part of your plan for moving into the managerial ranks? Everyone is not suited to lead and you can get feedback on your readiness to lead by completing Self-Assessment 14.1.

SELF-ASSESSMENT 14.1 connect

Assessing Your Readiness to Assume the Leadership Role

The following survey was designed to assess your readiness to assume the leadership role. Go to **connect.mheducation.com** and take Self-Assessment 14.1. When you're done, answer the following questions:

1. What is your level of readiness? Are you surprised by the results?
2. Looking at the three highest- and lowest-rated items in the survey, what can you do to increase your readiness to lead? Think of specific actions you take right now.
3. Do you think your readiness to lead will change over time? Explain your rationale.

Five Sources of Power

To really understand leadership, we need to understand the concept of power and authority. *Authority* is the right to perform or command; it comes with the job. In contrast, *power* is the extent to which a person is able to influence others so they respond to orders.

People who pursue **personalized power—power directed at helping oneself**—as a way of enhancing their own selfish ends may give the word *power* a bad name. However, there is another kind of power, **socialized power—power directed at helping others.**[13] This is the kind of power you hear in expressions such as "My goal is to have a powerful impact on my community."

Within organizations there are typically five sources of power leaders may draw on: *legitimate, reward, coercive, expert,* and *referent.*

1. Legitimate Power: Influencing Behavior Because of One's Formal Position

Legitimate power, which all managers have, is power that results from managers' formal positions within the organization. All managers have legitimate power over their employees, deriving from their position, whether it's a construction boss, ad account supervisor, sales manager, or CEO. This power may be exerted both positively or negatively—as praise or as criticism, for example.

2. Reward Power: Influencing Behavior by Promising or Giving Rewards

Reward power, which all managers have, is power that results from managers' authority to reward their subordinates. Rewards can range from praise to pay raises, from recognition to promotions.

Example: "Talking to people effectively is all about being encouraging," says Andrea Wong, president and CEO of Lifetime Network and Entertainment Services. She tries to use praise to reward positive behavior. "When I have something bad to say to someone, it's always hard because I'm always thinking of the best way to say it."[14]

3. Coercive Power: Influencing Behavior by Threatening or Giving Punishment

Coercive power, which all managers have, results from managers' authority to punish their subordinates. Punishment can range from verbal or written reprimands to demotions to terminations. In some lines of work, fines and suspensions may be used. Coercive power has to be used judiciously, of course, since a manager who is seen as being constantly negative will produce a lot of resentment among employees. But there have been many leaders who have risen to the top of major corporations—such as Disney's Michael Eisner, Miramax's Harvey Weinstein, and Apple's Steve Jobs—who have been abrasive and intimidating.[15]

4. Expert Power: Influencing Behavior Because of One's Expertise

Expert power is power resulting from one's specialized information or expertise. Expertise, or special knowledge, can be mundane, such as knowing the work schedules and assignments of the people who report to you. Or it can be sophisticated, such as having computer or medical knowledge. Secretaries may have expert power because, for example, they have been in a job a long time and know all the necessary contacts. CEOs may have expert power because they have strategic knowledge not shared by many others.

5. Referent Power: Influencing Behavior Because of One's Personal Attraction

Referent power is power deriving from one's personal attraction. As we will see later in this chapter (under the discussion of transformational leadership, Section 14.5), this kind of power characterizes strong, visionary leaders who are able to persuade their followers by dint of their personality, attitudes, or background. Referent power may be associated with managers, but it is more likely to be characteristic of leaders.

Leadership & Influence: Using Persuasion to Get Your Way at Work

Steve Harrison, CEO of a career management firm, was escorting Ray, his newly hired chief operating officer, to meet people at a branch office. After greeting the receptionist and starting to lead Ray past her into the interior offices, Harrison felt himself being pulled back. He watched as Ray stuck out his hand, smiled, and said, "Good morning, Melissa, I'm Ray. I'm new here. It's so great to meet you!" He then launched into a dialogue with Melissa, to her obvious delight.

Afterward, Harrison asked Ray, "What was that all about?" "It's called the two-minute schmooze," Ray replied. "Our receptionists meet or talk by phone to more people critical to our company in one day than you or I will ever meet in the course of a year."[16]

Ray would probably be considered a leader because of his ability to *influence* others—to get them to follow his wishes. There are nine tactics for trying to influence others, but some work better than others. In one pair of studies, employees were asked in effect, "How do you get your boss, coworker, or subordinate to do something you want?" The nine answers—ranked from most used to least used tactics—were as follows.[17]

1. Rational Persuasion Trying to convince someone by using reason, logic, or facts.

Example: "You know, all the cutting-edge companies use this approach."

2. Inspirational Appeals Trying to build enthusiasm or confidence by appealing to others' emotions, ideals, or values.

Example: "If we do this as a goodwill gesture, customers will love us."

3. Consultation Getting others to participate in a decision or change.

Example: "Wonder if I could get your thoughts about this matter."

4. Ingratiating Tactics Acting humble or friendly or making someone feel good or feel important before making a request.

Example: "I hate to impose on your time, knowing how busy you are, but you're the only one who can help me."

5. Personal Appeals Referring to friendship and loyalty when making a request.

Example: "We've known each other a long time, and I'm sure I can count on you."

6. Exchange Tactics Reminding someone of past favors or offering to trade favors.

Example: "Since I backed you at last month's meeting, maybe you could help me this time around."

7. Coalition Tactics Getting others to support your effort to persuade someone.

Example: "Everyone in the department thinks this is a great idea."

8. Pressure Tactics Using demands, threats, or intimidation to gain compliance.

Example: "If this doesn't happen, you'd better think about cleaning out your desk."

9. Legitimating Tactics Basing a request on one's authority or right, organizational rules or policies, or express or implied support from superiors.

Example: "This has been green-lighted at the highest levels."

These influence tactics are considered *generic* because they are applied in all directions—up, down, and sideways within the organization. The first five influence tactics are considered "soft" tactics because they are considered friendlier than the last four "hard," or pressure, tactics. As it happens, research shows that of the three possible responses to an influence tactic—enthusiastic commitment, grudging compliance, and outright resistance—commitment is most apt to result when the tactics used are consultation, strong rational persuasion, and inspirational appeals.[18]

Knowing this, do you think you have what it takes to be a leader? To answer this, you need to understand what factors produce people of leadership character. We consider these in the rest of the chapter.

Five Approaches to Leadership

The next five sections describe five principal approaches or perspectives on leadership, which have been refined by research. They are (1) *trait,* (2) *behavioral,* (3) *situational,* (4) *transformational,* and (5) *three additional. (See Table 14.2.)*

TABLE 14.2

Five Approaches to Leadership

1. **Trait approaches**
   - *Leadership traits*—positive task-oriented traits and positive/negative interpersonal attributes
   - *Gender studies*—motivating others, fostering communication, producing high-quality work, and so on
2. **Behavioral approaches**
   - *Task-oriented behavior*—initiating-structure and transactional leadership
   - *Relationship-oriented behavior*—three behaviors: consideration, empowering leadership, and servant leadership
   - *Passive behavior*—laissez-faire leadership
   - *Transformational behavior*—discussed in Section 14.5
3. **Situational approaches**
   - *Fiedler's contingency model*—task-oriented style and relationship-oriented style—*and three dimensions of control:* leader-member, task structure, position power
   - *House's path–goal revised leadership model*—clarifying paths for subordinates' goals, and employee characteristics and environmental factors that affect leadership behaviors
4. **Transformational leadership approach**
   - *Transformational leadership*—transform employees to pursue organizational goals over self-interests, using inspirational motivation, idealized influence, individualized consideration, intellectual stimulation
5. **Three additional perspectives**
   - *Leader–member exchange (LMX) model*—leaders have different sorts of relationships with different subordinates
   - *E-Leadership*—using information technology for one-to-one, one-to-many, and between group and collective interactions
   - *Followers*—we also describe the role of followers in the leadership process.

14.2 Trait Approaches: Do Leaders Have Distinctive Personality Characteristics?

MAJOR QUESTION

What does it take to be a successful leader?

THE BIG PICTURE

Trait approaches attempt to identify distinctive characteristics that account for the effectiveness of leaders. We describe (1) positive task-oriented traits and positive/negative interpersonal attributes (narcissism, Machiavellianism, psychopathy) and (2) some results of gender studies.

Consider a leader dubbed "CEO of the Decade" in 2009 by *Fortune* magazine for 10 years of achievements in the fields of music, movies, and mobile phones, not to mention computing. "Remaking any one business is a career-defining achievement," wrote *Fortune* editor Adam Lashinsky; "four is unheard of."[19]

That leader was, of course, the late Steve Jobs of Apple. Did he have distinctive personality traits that might teach us something about leadership? Perhaps he did. He seemed to embody the traits of (1) dominance, (2) intelligence, (3) self-confidence, (4) high energy, and (5) task-relevant knowledge.

These are the five traits that researcher **Ralph Stogdill** in 1948 concluded were typical of successful leaders.[20] Stogdill is one of many contributors to **trait approaches to leadership, which attempt to identify distinctive characteristics that account for the effectiveness of leaders.**[21]

Positive Task-Oriented Traits & Positive/Negative Interpersonal Attributes

Traits play a central role in how we perceive leaders, and they ultimately affect leadership effectiveness.[22] On the basis of more recent studies, we would revise Stogdill's leadership list to comprise the following four positive task-oriented traits: (1) intelligence, (2) conscientiousness, (3) openness to experience, and (4) emotional stability.

These traits in turn can be expanded into a list of both positive *and* negative interpersonal attributes often found in leaders, as shown at left.[23] *(See Table 14.3.)*

TABLE 14.3

Key Positive & Negative Interpersonal Attributes Often Found in Leaders

POSITIVE ATTRIBUTES
Extraversion
Agreeableness
Communication skills
NEGATIVE ATTRIBUTES
Narcissism
Machiavellianism
Psychopathy

"Dark Side" Traits: Narcissism, Machiavellianism, & Psychopathy

We have discussed most positive interpersonal attributes elsewhere, but we need to describe the negative, or "dark side," traits of some leaders: narcissism, Machiavellianism, and psychopathy.[24]

- **Narcissism.** **Narcissism is defined as having "a self-centered perspective, feelings of superiority, and a drive for personal power and glory."**[25] Narcissists have inflated views of themselves, seek to attract the admiration of others, and fantasize about being in control of everything. Although passionate and charismatic, narcissistic leaders may provoke counterproductive work behaviors in others, such as strong resentments and resistance.[26]
- **Machiavellianism.** Inspired by the pessimistic beliefs of Niccolò Machiavelli, a philosopher and writer (*The Prince*) in the Italian Renaissance, **Machiavellianism (pronounced "mah-kyah-*vel*-yahn-izm") displays a cynical view of human nature and condones opportunistic and unethical ways of manipulating people, putting results over principles.** This view is manifested in such expressions as "All people lie to get what they want" and "You have to cheat to get ahead." Like narcissism, Machiavellianism is also associated with counterproductive work behaviors, especially as people begin to understand that they are being coldly manipulated.

- **Psychopathy.** **Psychopathy ("sigh-*kop*-a-thee") is characterized by lack of concern for others, impulsive behavior, and a dearth of remorse when the psychopath's actions harm others.** Not surprisingly, a person with a psychopathic personality can be a truly toxic influence in the workplace.

If you have a propensity for any of these, you need to know that the expression of "dark side" traits tends to result in career derailment—being demoted or fired.[27]

Is Trait Theory Useful? Three ways in which organizations may apply trait theory are as follows:

- **Use personality and trait assessments.** Organizations may incorporate personality and trait assessments into their selection and promotion processes (being careful to use valid measures of leadership traits).
- **Choose personality over intelligence.** According to research, when organizations are selecting leaders, personality should be considered more important than intelligence.[28]
- **Use management development programs.** To enhance employee leadership traits and positive personal attributes, a great number of companies send targeted employees to management development programs that include management classes, coaching sessions, trait assessments, mentoring, and the like.[29]

Gender Studies: Do Women Have Traits that Make Them Better Leaders?

Do women not want to be at the top of the organizational pyramid? Despite the myths, actually they do.

Indeed, a New York research firm found that 55% of women and 57% of men aspire to be CEO, challenging the notion that more women aren't at the top because they don't want to be there.[30] Indeed, women have been found to be just as assertive as men.[31] In fact, it's possible that women may have traits that make them better managers—indeed, better leaders—than men.

The Evidence on Women Executives A number of management studies have found, according to *BusinessWeek,* that by and large "women executives, when rated by their peers, underlings, and bosses, score higher than their male counterparts on a wide variety of measures—from producing high-quality work to goal-setting to mentoring employees."[32] In one study of 425 high-level executives, women won higher ratings on 42 of the 52 skills measured.[33]

What are the desirable traits in which women excel?

- Women were found to be better at teamwork and partnering, being more collaborative, seeking less personal glory, being motivated less by self-interest than in what they can do for the company, being more stable, and being less turf conscious. Women were also found to be better at producing quality work, recognizing trends, and generating new ideas and acting on them. Women used a more democratic or participative style than men, who were apt to use a more autocratic and directive style than women.[34]
- Women have been found to display more social leadership, whereas men have been found to display more task leadership.[35]
- Women executives, when rated by their peers, managers, and direct reports, scored higher than their male counterparts on a variety of effectiveness criteria.[36]

Sheryl Sandberg. Named in 2014 the ninth most powerful woman in the world by *Forbes* and the 10th most powerful woman in business by *Fortune,* Sandberg is the chief operating officer (COO) and business face of Facebook. She's also a passionate advocate for women achieving more top corporate leadership jobs. As she told a Barnard College graduating class, "A world where men ran half our homes and women ran half our institutions would be just a much greater world."

The Lack of Women at the Top Only 24 women (4.8%) are CEOs of Fortune 500 companies, and only 45 women (5.1%) are CEOs of Fortune 1000 firms.[37] In addition, less than 9% of top management positions are filled by women.[38] Interestingly, however, companies with the top 10 highest paid female CEOs produce significantly higher dividends than firms with the top 10 highest paid male CEOs—2.98% versus 2.45%, according to one study.[39] So why, then, aren't more women in positions of leadership? Among the possible explanations:

- **Unwillingness to compete or sacrifice.** Though hardworking, many women simply aren't willing to compete as hard as most men are or are not willing to make the required personal sacrifices.[40] As Jamie Gorelick, former vice chair of Fannie Mae but also mother of two children ages 10 and 15, said when declining to be considered for CEO: "I just don't want that pace in my life."[41]
- **Modesty.** Women have a tendency to be overly modest and to give credit to others rather than taking it for themselves, which can undermine opportunities for promotions and raises.[42]
- **Lack of mentor.** Women are less likely than their male counterparts to have access to a supportive mentor.[43]
- **Starting out lower, and more likely to quit.** Perhaps most important, early career success is pivotal; women MBAs start out at lower levels than men do in their first jobs, putting them at a disadvantage that is hard to overcome. Further, findings from a study of over 475,000 people from 20 corporations revealed that women quit their jobs more often than men.[44] Higher quit rates can deprive women from obtaining promotions and experiences needed for career advancement.

Things may be gradually changing, though not as fast as they should. With more than half of college students being women and with women making up half the work-force, it's possible that the new group rising through middle management could well lead to more than 100 Fortune 500 CEOs in the next 10 years.[45]

14.3 Behavioral Approaches: Do Leaders Show Distinctive Patterns of Behavior?

MAJOR QUESTION

Do effective leaders behave in similar ways?

THE BIG PICTURE

Behavioral leadership approaches try to determine unique behaviors displayed by effective leaders. These approaches can be divided into four categories, the first three of which are discussed in this section: (1) task-oriented behavior, (2) relationship-oriented behavior, (3) passive behavior, and (4) transformational behavior (discussed in Section 14.5).

Maybe what's important to know about leaders is not their *personality traits* but rather their *patterns of behavior*. This is the line of thought pursued by those interested in **behavioral leadership approaches, which attempt to determine the unique behaviors displayed by effective leaders.** These approaches can be divided into four categories:

- Task-oriented behavior
- Relationship-oriented behavior
- Passive behavior
- Transformational behavior (discussed in Section 14.5)

Task-Oriented Leader Behaviors: Initiating-Structure Leadership & Transactional Leadership

The primary purpose of **task-oriented leadership behaviors is to ensure that people, equipment, and other resources are used in an efficient way to accomplish the mission of a group or organization.**[46] Examples of task-oriented behaviors are planning, clarifying, monitoring, and problem solving. However, two kinds are particularly important: (1) *initiating-structure leadership* and (2) *transactional leadership*.[47]

Men of steel. What kind of leadership behavior is appropriate for directing these kinds of workers—the kind that directs them how to complete the task or the kind that develops good worker-boss relationships?

Initiating-Structure Leadership: "Here's What We Do to Get the Job Done"

Initiating-structure leadership is leader behavior that organizes and defines—that is, "initiates the structure for"—what employees should be doing to maximize output. Clearly, this is a very task-oriented approach.

Example: Stephen Greer, head of Hong Kong–based metal recycler Hartwell Pacific, was so focused on new markets that he neglected to keep his eye on essential control systems such as accounting procedures, inventory audits, and new-hire reference checks—until the day he woke up to find the company was losing several million dollars from fraud and theft. Greer, whose entrepreneurial experience is described in *Starting from Scrap,* then launched oversight systems for his Asian operations: installing metal detectors, requiring three management signatures on company checks, having local finance managers report directly to headquarters instead of to their own general managers, and regularly bringing local managers to the headquarters to compare revenues, costs, and overall performance so as to determine if one site might be out of line with the others. Result: Greer's initiating-structure leadership helped to correct the fraud and theft problems, ultimately leading to profitable growth.[48]

Transactional Leadership: "Here's What We Do to Get the Job Done, & Here Are the Rewards"

As a manager, your power stems from your ability to provide rewards (and threaten reprimands) in exchange for your subordinates' doing the work. When you do this, you are performing **transactional leadership, focusing on clarifying employees' roles and task requirements and providing rewards and punishments contingent on performance.** As with initiating structure leadership, transactional leadership also encompasses setting goals and monitoring progress.[49]

Example: Chicago-based ThoughtWorks, a software developer, 40 sales representatives. When the company was founded in 1993, CEO Craig Gorsline determined the sales reps' roles and task requirements were to explain software pricing and policies, as well as close sales and do customer hand holding. The rewards paid to reps consisted of commissions on the revenue they generated, a common method of compensation in sales.

Recently, ThoughtWorks executives decided this transactional model had to be changed. Customers now used the Internet to compare pricing and policies. Moreover, paying sales commissions ran the risk of such negative behaviors as, according to *The New York Times,* "focusing on an individual's profit over the company's, emphasizing short-term outcomes, and encouraging competition among sales representatives."[50] The new world demanded reps who could do what was right for the customer rather than themselves. Accordingly, ThoughtWorks abolished commissions in favor of paying reps a straight salary—a move many favored because it guaranteed them a steady paycheck.

Initiating-structure leadership has a moderately strong positive relationship with leadership effectiveness, according to research.[51] Transaction leadership also has a positive association with leader effectiveness and group performance.[52]

Relationship-Oriented Leader Behavior: Consideration, Empowerment, & Servant Leadership

Relationship-oriented leadership is primarily concerned with the leader's interactions with his or her people. The emphasis is on enhancing employees' skills and creating positive work relationships among coworkers and between the leader and the led. Such leaders often act as mentors, providing career advice, giving employees assignments that will broaden their skills, and empowering them to make their own decisions.[53]

There are three kinds of relationship-oriented behaviors:

- Consideration
- Empowering leadership
- Servant leadership

Consideration: "The Concerns & Needs of My Employees Are Highly Important" **Consideration is leader behavior that is concerned with group members' needs and desires and that is directed at creating mutual respect or trust.** This is an important type of behavior to use in addition to task leadership because it promotes social interactions and identification with the team and leader. Considerate leader behavior has a moderately strong positive relationship with measures of leadership effectiveness.[54]

The most effective leaders use different blends of task behavior and consideration when interacting with others. To what extent do you think you do this when interacting with school or work colleagues? You can answer this question by taking Self-Assessment 14.2.

SELF-ASSESSMENT 14.2 connect

Assessing Your Task & Relationship-Oriented Leader Behavior

The following survey was designed to evaluate your own leader behavior. Go to **connect.mheducation.com** and take Self-Assessment 14.2. When you're done, answer the following questions:

1. Do you prefer to use task or relationship leadership? Why do you think this is the case?
2. Look at the items for the two lowest scored items for initiating structure and consideration and then identify how you can increase the extent to which you display both types of leadership.
3. When would it be most important to display initiating structure and consideration? Explain your rationale.

Empowering Leadership: "I Want My Employees to Feel They Have Control over Their Work" **Empowering leadership represents the extent to which a leader creates perceptions of psychological empowerment in others. Psychological empowerment is employees' belief that they have control over their work.** Such psychological empowerment is expected to drive intrinsic motivation, creativity, and performance.[55] Let's see how this process works.

Increasing employee psychological empowerment requires four kinds of behaviors—leading for (1) meaningfulness, (2) self-determination, (3) competence, and (4) progress.

- **Leading for meaningfulness: inspiring and modeling desirable behaviors.** Managers lead for meaningfulness by *inspiring* their employees and *modeling* desired behaviors. Example: Employees may be helped to identify their passions at work by the leader's creating an exciting organizational vision that employees can connect with emotionally. Employees at drug maker Millennium, for example, are inspired by the company's vision to cure cancer.[56]
- **Leading for self-determination: delegating meaningful tasks.** Managers can lead for employee self-determination by *delegating* meaningful tasks to them. "Delegating is essential," says Gail Evans, an executive vice president at Atlanta-based CNN. "If you refuse to let your staff handle their own projects, you're jeopardizing their advancement—because they aren't learning new skills and adding successes to their resume."[57]
- **Leading for competence: supporting and coaching employees.** It goes without saying that employees need to have the necessary knowledge to

perform their jobs. Accomplishing this goal involves managers' *supporting* and *coaching* their employees. Assigning a challenging task will help to fuel workers' intrinsic motivation, and deficiencies can be handled through training, mentoring, positive feedback, and sincere recognition.

- **Leading for progress: monitoring and rewarding employees.** Managers lead for progress by *monitoring* and *rewarding* others. We discussed how to do this in Chapter 12.

One technique used to empower employees is **participative management (PM), the process of involving employees in setting goals, making decisions, solving problems, and making changes in the organization.** We consider this further in the Practical Action box.

PRACTICAL ACTION

Participative Management: Empowering Employees to Handle Decision Making

Participatory management (PM) is predicted to increase motivation, innovation, and performance because it helps employees fulfill three basic needs: autonomy, meaningfulness of work, and interpersonal contact.[58] Indeed, employees themselves seem to want to participate more in management: In one nationwide survey of 2,408 workers, two-thirds expressed the desire for more influence or decision-making power in their jobs.[59] PM can address these needs because it has been shown to increase employee job involvement, organizational commitment, and creativity, and it can lower role conflict and ambiguity.[60]

Is PM Really Effective? Although participation has a significant effect on job performance and job satisfaction, that effect, unfortunately, is small.[61] Accordingly, PM is probably not a quick-fix solution for low productivity and motivation. Nonetheless, it can probably be effective in certain situations, assuming that managers and employees interact constructively—that is, have the kind of relationship that fosters cooperation and respect rather than competition and defensiveness.[62]

Factors that Can Help Make PM Work. Although participative management doesn't work in all cases, it can be effective if certain factors are present, such as the following.[63]

- **Top management is continually involved:** Implementing PM must be monitored and managed by top management.
- **Middle and supervisory managers are supportive:** These managers tend to resist PM because it reduces their authority. Thus, it's important to gain the support and commitment of managers in these ranks.
- **Employees trust managers:** PM is unlikely to succeed when employees don't trust management.
- **Employees are ready:** PM is more effective when employees are properly trained, prepared, and interested in participating.
- **Employees don't work in interdependent jobs:** Interdependent employees generally don't have a broad understanding of the entire production process, so their PM contribution may actually be counterproductive.
- **PM is implemented with TQM:** A study of Fortune 1000 firms during three different years found employee involvement was more effective when it was implemented as part of a broader total quality management (TQM) program.

Servant Leadership: "I Want to Serve My Subordinates & the Organization, Not Myself" The term *servant leadership,* coined by Robert Greenleaf in 1970, reflects not only his onetime background as a management researcher for AT&T but also his views as a lifelong philosopher and devout Quaker.[64] **Servant leadership focuses on providing increased service to others—meeting the goals of both followers and the organization—rather than to oneself.**

Servant leadership is not a quick-fix approach to leadership. Rather, it is a long-term, approach to life and work. Ten characteristics of the servant leader are shown opposite. *(See Table 14.4.)* One can hardly go wrong by trying to adopt these characteristics.

TABLE 14.4
Ten Characteristics of the Servant Leader

1.	Focus on listening.
2.	Ability to empathize with others' feelings.
3.	Focus on healing suffering.
4.	Self-awareness of strengths and weaknesses.
5.	Use of persuasion rather than positional authority to influence others.
6.	Broad-based conceptual thinking.
7.	Ability to foresee future outcomes.
8.	Belief they are stewards of their employees and resources.
9.	Commitment to the growth of people.
10.	Drive to build community within and outside the organization.

Source: From L. C. Spears, "Introduction: Servant-Leadership and the Greenleaf Legacy," in L. C. Spears, ed., Reflections on Leadership: How Robert K. Greenleaf's Theory of Servant-Leadership Influenced Today's Top Management (New York: John Wiley & Sons, 1995), pp. 1–14. *Reprinted with permission of John Wiley & Sons, Inc.*

EXAMPLE

Servant Leadership: Leaders Who Work for the Led

Who are some famous servant leaders?

A Covenant with Customers. John Donahoe, CEO of eBay, thinks of customers first, and employees second. He tries his best to deliver what customers want. For example, reports one article, "on trips around the world he takes along a Flip video camera and films interviews with eBay sellers to share their opinions with his staff. He has even tied managers' compensation to customer loyalty, measured through regular surveys."[65]

A Covenant with Employees. Starbucks CEO Howard Schultz is also cited as being one of the foremost practitioners of servant-style leadership. Schultz has made sure his employees have health insurance and work in a positive environment, and as a result Starbucks has a strong brand following.[66] Max De Pree, former chairman of furniture maker Herman Miller Inc., promoted a "covenant" with his employees. Leaders, he wrote, should give employees "space so that we can both give and receive such beautiful things as ideas, openness, dignity, joy, healing, and inclusion."[67]

YOUR CALL

Understandably, servant leadership is popular with employees. Can you think of situations in which this kind of leadership role would *not* be appropriate?

Employees whose manager displays the characteristics shown in Table 14.4 above are likely to be happier, more productive, more creative, and more willing to go above and beyond their customary duties.[68] To see how your boss measures up as a servant leader, try taking Self-Assessment 14.3.

SELF-ASSESSMENT 14.3 connect

Assessing Your Boss's Servant Leadership

The following survey is designed to assess the extent to which a current or former boss displayed servant leadership. Go to **connect.mheducation.com** and take Self-Assessment 14.3. When you're done, answer the following questions:

1. Where does the boss stand? Are you surprised by the results?
2. Did you like this boss? Were you satisfied with your job? To what extent do you think your boss's level of servant leadership affected your attitudes toward the boss and your job?
3. How can you become more of a servant leader? Explain.

Passive leadership. Do you really hate to get involved in conflict? Do you think you might be tempted to "manage by exception"—not get involved in solving difficult employee problems until you're forced to, as this executive staring out the window seems to be doing?

Passive Leadership: The Lack of Leadership Skills

Passive leadership is a form of leadership behavior characterized by a lack of leadership skills. For example, in the type of passive leadership called the *management-by-exception* style, managers do not intervene until problems are brought to their attention or until the problems become serious enough to demand action.[69]

Another passive type is **laissez-faire leadership, a form of "leadership" characterized by a general failure to take responsibility for leading.** Not taking responsibility can hardly be considered leadership (although it often seems to be manifested by CEOs whose companies get in trouble, as when they say "I had no idea about the criminal behavior of my subordinates"). Interestingly, laissez-faire ("*lay*-zay fair") leadership is seen more in men than women.[70]

Examples of laissez-faire leadership are seen in various kinds of failure—failing to deal with conflict, to coach employees on difficult assignments, to help set performance goals, to give performance feedback, to deal with bullying, and so on. This passive leadership has a huge negative impact on employee perceptions of leaders—outweighing their *positive* perceptions of contributions by initiating structure, transactional, and consideration forms of leadership.[71]

Some Practical Implications of the Behavioral Approaches

Two key conclusions we may take away from the behavioral approaches are the following:

1. **A leader's behavior is more important than his or her traits.** It is important to train managers on the various forms of task and relationship leadership.
2. **There is no one best style of leadership.** How effective a particular leadership behavior is depends on the situation at hand.

14.4 Situational Approaches: Does Leadership Vary with the Situation?

MAJOR QUESTION

How might effective leadership vary according to the situation at hand?

THE BIG PICTURE

Effective leadership behavior depends on the situation at hand, say believers in two contingency approaches: Fiedler's contingency leadership model and House's path–goal leadership model.

Perhaps leadership is not characterized by universally important traits or behaviors. As we noted above, there is no one best style that will work in all situations. This is the point of view of proponents of the **situational approach (or *contingency approach*) to leadership, who believe that effective leadership behavior depends on the situation at hand.** That is, as situations change, different styles become appropriate.

Let's consider two situational approaches: (1) the *contingency leadership model* by Fiedler and (2) the *path–goal leadership model* by House.

1. The Contingency Leadership Model: Fiedler's Approach

The oldest model of the contingency approach to leadership was developed by **Fred Fiedler** and his associates in 1951.[72] **The contingency leadership model determines if a leader's style is (1) task-oriented or (2) relationship-oriented and if that style is effective for the situation at hand.** Fiedler's work was based on 80 studies conducted over 30 years.

Two Leadership Orientations: Tasks versus Relationships

Are you task-oriented or relationship-oriented? That is, are you more concerned with task accomplishment or with people?

To find out, you or your employees would fill out a questionnaire (known as the least preferred coworker, or LPC, scale), in which you think of the coworker you least enjoyed working with and rate him or her according to an eight-point scale of 16 pairs of opposite characteristics (such as friendly/unfriendly, tense/relaxed, efficient/inefficient). The higher the score, the more the relationship-oriented the respondent; the lower the score, the more task-oriented.

The Three Dimensions of Situational Control

Once the leadership orientation is known, then you determine *situational control*—how much control and influence a leader has in the immediate work environment.

There are three dimensions of situational control: *leader-member relations, task structure,* and *position power.*

- **Leader-member relations—"Do my subordinates accept me as a leader?"** This dimension, the most important component of situational control, reflects the extent to which a leader has or doesn't have the support, loyalty, and trust of the work group.

Packin' pecans. Do successful entrepreneurs or small-business managers need to be task-oriented, relationship-oriented, or both? What style of leadership model would best suit a small enterprise in which employees work without the owner always being present?

- **Task structure—"Do my subordinates perform unambiguous, easily understood tasks?"** This dimension refers to the extent to which tasks are routine, unambiguous, and easily understood. The more structured the jobs, the more influence a leader has.
- **Position power—"Do I have power to reward and punish?"** This dimension refers to how much power a leader has to make work assignments and reward and punish. More power equals more control and influence.

For each dimension, the amount of control can be *high*—the leader's decisions will produce predictable results because he or she has the ability to influence work outcomes. Or it can be *low*—he or she doesn't have that kind of predictability or influence. By combining the three different dimensions with different high/low ratings, we have eight different leadership situations. These are represented in the diagram below. *(See Figure 14.1.)*

FIGURE 14.1 **Representation of Fiedler's contingency model**

Situational Control	High-Control Situations			Moderate-Control Situations				Low-Control Situations
Leader-member relations	Good	Good	Good	Good	Poor	Poor	Poor	Poor
Task structure	High	High	Low	Low	High	High	Low	Low
Position power	Strong	Weak	Strong	Weak	Strong	Weak	Strong	Weak
Situation	1	11	111	1V	V	V1	V11	V111
Optimal Leadership Style	**Task-Motivated Leadership**			**Relationship-Motivated Leadership**				**Task-Motivated Leadership**

Source: Adapted from F. E. Fiedler, "Situational Control and a Dynamic Theory of Leadership," in Managerial Control and Organizational Democracy, *ed. B. King, S. Streufert, and F. E. Fiedler (New York: John Wiley & Sons, 1978), p. 114.*

Which Style Is Most Effective? Neither leadership style is effective all the time, Fiedler's research concludes, although each is right in certain situations.

- **When task-oriented style is best.** The task-oriented style works best in either *high-control* or *low-control* situations.

  Example of *high-control* situation (leader decisions produce predictable results because he or she can influence work outcomes): Suppose you were supervising parking-control officers ticketing cars parked illegally in expired meter zones, bus zones, and the like. You have (1) high leader-member relations because your subordinates are highly supportive of you and (2) high task structure because their jobs are clearly defined. (3) You have high position control because you have complete authority to evaluate their performance and dole out punishment and rewards. Thus, a task-oriented style would be best.

  Example of *low-control* situation (leader decisions can't produce predictable results because he or she can't really influence outcomes): Suppose you were a high school principal trying to clean up graffiti on your private-school campus, helped only by students you can find after school. You might have (1) low leader-member relations because many people might not see the need for the goal. (2) The task structure might also be low because people might see many different ways to achieve the goal. And (3) your position power would be low because the committee is voluntary and people are free to leave. In this low-control situation, a task-oriented style would also be best.

- **When relationship-oriented style is best.** The relationship-oriented style works best in situations of *moderate control.*

  Example: Suppose you were working in a government job supervising a group of firefighters fighting wildfires. You might have (1) low leader-member relations if you were promoted over others in the group but (2) high task structure, because the job is fairly well defined. (3) You might have low position power, because the rigidity of the civil-service job prohibits you from doing much in the way of rewarding and punishing. Thus, in this moderate-control situation, relationship-oriented leadership would be most effective.

What do you do if your leadership orientation does not match the situation? Then, says Fiedler, it's better to try to move leaders into suitable situations rather than try to alter their personalities to fit the situations.[73]

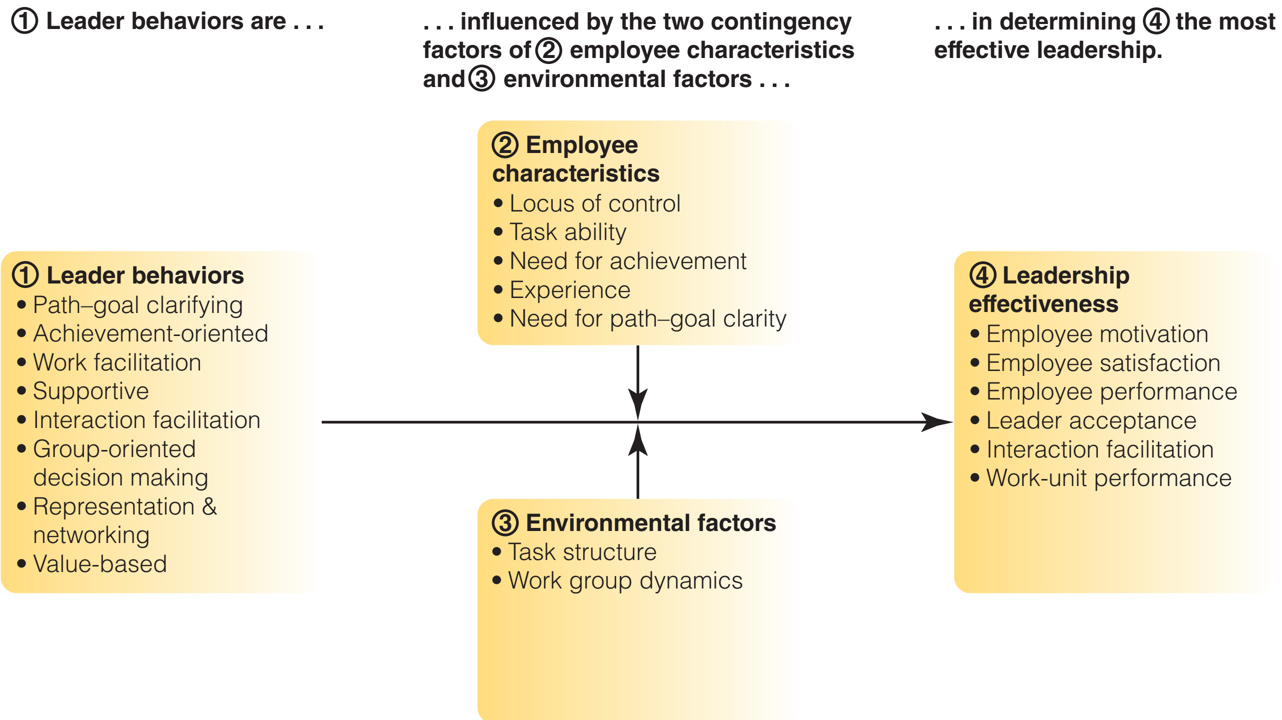
2. The Path–Goal Leadership Model: House's Approach

A second situational approach, advanced by **Robert House** in the 1970s and revised by him in 1996, is the **path–goal leadership model, which holds that the effective leader makes available to followers desirable rewards in the workplace and increases their motivation by clarifying the *paths*, or behavior, that will help them achieve those *goals* and providing them with support.** A successful leader thus helps followers by tying meaningful rewards to goal accomplishment, reducing barriers, and providing support, so as to increase "the number and kinds of personal payoffs to subordinates for work-goal attainment."[74]

Numerous studies testing various predictions from House's original path–goal theory provided mixed results.[75] As a consequence, he proposed a new model, a graphical version of which is shown below. *(See Figure 14.2.)*

FIGURE 14.2

General representation of House's revised path–goal theory



What Determines Leadership Effectiveness: Employee Characteristics & Environmental Factors Affect Leader Behavior As the drawing indicates, two contingency factors, or variables—*employee characteristics* and *environmental factors*—cause some *leadership behaviors* to be more effective than others.

- **Employee characteristics.** Five employee characteristics are locus of control (described in Chapter 11), task ability, need for achievement, experience, and need for path–goal clarity.
- **Environmental factors.** Two environmental factors are task structure (independent versus interdependent tasks) and work group dynamics.
- **Leader behaviors.** Originally House proposed that there were four leader behaviors, or leadership styles—*directive* ("Here's what's expected of you and here's how to do it"), *supportive* ("I want things to be pleasant, since everyone's about equal here"), *participative* ("I want your suggestions in order to help me make decisions"), and *achievement-oriented* ("I'm confident you can accomplish the following great things"). The revised theory expands the number of leader behaviors from four to eight. *(See Table 14.5, below.)*

TABLE 14.5 **Eight Leadership Styles of the Revised Path–Goal Theory**

STYLE OF LEADER BEHAVIORS	DESCRIPTION OF BEHAVIOR TOWARD EMPLOYEES
1. Path–goal clarifying ("Here's what's expected of you and here's how to do it.")	Clarify performance goals. Provide guidance on how employees can complete tasks. Clarify performance standards and expectations. Use positive and negative rewards contingent on performance.
2. Achievement oriented ("I'm confident you can accomplish the following great things.")	Set challenging goals. Emphasize excellence. Demonstrate confidence in employee abilities.
3. Work facilitation ("Here's the goal, and here's what I can do to help you achieve it.")	Plan, schedule, organize, and coordinate work. Provide mentoring, coaching, counseling, and feedback to assist employees in developing their skills. Eliminate roadblocks. Provide resources. Empower employees to take actions and make decisions.
4. Supportive ("I want things to be pleasant, since everyone's about equal here.")	Treat as equals. Show concern for well-being and needs. Be friendly and approachable.
5. Interaction facilitation ("Let's see how we can all work together to accomplish our goals.")	Emphasize collaboration and teamwork. Encourage close employee relationships and sharing of minority opinions. Facilitate communication, resolve disputes.
6. Group-oriented decision making ("I want your suggestions in order to help me make decisions.")	Pose problems rather than solutions to work group. Encourage members to participate in decision making. Provide necessary information to the group for analysis. Involve knowledgeable employees in decision making.
7. Representation & networking ("I've got a great bunch of people working for me whom you'll probably want to meet.")	Present work group in positive light to others. Maintain positive relationships with influential others. Participate in organization-wide social functions and ceremonies. Do unconditional favors for others.
8. Value-based ("We're destined to accomplish great things.")	Establish a vision, display passion for it, and support its accomplishment. Communicate high performance expectations and confidence in others' abilities to meet their goals. Give frequent positive feedback. Demonstrate self-confidence.

Source: Adapted from R. J. House, "Path–Goal Theory of Leadership: Lessons, Legacy, and a Reformulated Theory," Leadership Quarterly, *Autumn 1996, pp. 323–352.*

Co-leaders. David Byttow (left) and Chrys Bader are co-founders of San Francisco–based Secret, an app that allows people to share messages anonymously with their friends. Which of the eight path-goal leadership styles would you expect to find dominating this organization?

Thus, for example, employees with an internal locus of control are more likely to prefer achievement-oriented leadership or group-oriented decision making (formerly participative) leadership because they believe they have control over the work environment. The same is true for employees with high task ability and experience.

Employees with an external locus of control, however, tend to view the environment as uncontrollable, so they prefer the structure provided by supportive or path–goal clarifying (formerly directive) leadership. The same is probably true of inexperienced employees.

Besides expanding the styles of leader behavior from four to eight, House's revision of his theory also puts more emphasis on the need for leaders to foster intrinsic motivation through empowerment. Finally, his revised theory stresses the concept of shared leadership, the idea that employees do not have to be supervisors or managers to engage in leader behavior but rather may share leadership among all employees of the organization.

Does the Revised Path–Goal Theory Work? There have not been enough direct tests of House's revised path–goal theory using appropriate research methods and statistical procedures to draw overall conclusions. Research on transformational leadership, however, which is discussed in Section 14.5, is supportive of the revised model.[76]

Although further research is needed on the new model, it offers three important implications for managers:[77]

- **Use more than one leadership style.** Effective leaders possess and use more than one style of leadership. Thus, you are encouraged to study the eight styles offered in path–goal theory so that you can try new leader behaviors when a situation calls for them.
- **Help employees achieve their goals.** Leaders should guide and coach employees in achieving their goals by clarifying the path and removing obstacles to accomplishing them.
- **Modify leadership style to fit employee and task characteristics.** A small set of employee characteristics (ability, experience, and need for independence) and environmental factors (task characteristics of autonomy, variety, and significance) are relevant contingency factors, and managers should modify their leadership style to fit them.

14.5 The Uses of Transformational Leadership

MAJOR QUESTION

What does it take to truly inspire people to perform beyond their normal levels?

THE BIG PICTURE

Four key behaviors of transformational leaders in affecting employees are they inspire motivation, inspire trust, encourage excellence, and stimulate them intellectually.

We have considered the major traditional approaches to understanding leadership—the trait, behavioral, and situational approaches. But newer approaches seem to offer something more by trying to determine what factors inspire and motivate people to perform beyond their normal levels.

One recent approach proposed by **Bernard Bass and Bruce Avolio,** known as **full-range leadership, suggests that leadership behavior varies along a full range of leadership styles, from passive (*laissez-faire*) "leadership" at one extreme, through transactional leadership, to transformational leadership at the other extreme.**[78] As we stated, passive leadership is not leadership, but transactional and transformational leadership behaviors are both positive aspects of being a good leader.[79] We considered transactional leadership in Section 14.3. Here let's consider transformational leadership.

Transformational Leaders

Transformational leadership transforms employees to pursue organizational goals over self-interests. Transformational leaders, in one description, "engender trust, seek to develop leadership in others, exhibit self-sacrifice, and serve as moral agents, focusing themselves and followers on objectives that transcend the more immediate needs of the work group."[80] Whereas transactional leaders try to get people to do *ordinary* things, transformational leaders encourage their people to do *exceptional* things—significantly higher levels of intrinsic motivation, trust, commitment, and loyalty—that can produce significant organizational change and results.

Transformational leaders are influenced by two factors:

- **Individual characteristics.** The personalities of such leaders tend to be more extroverted, agreeable, proactive, and open to change than nontransformational leaders. (Female leaders tend to use transformational leadership more than male leaders do.[81])
- **Organizational culture.** Adaptive, flexible organizational cultures are more likely than are rigid, bureaucratic cultures to foster transformational leadership.

The Best Leaders Are Both Transactional & Transformational

It's important to note that transactional leadership is an essential *prerequisite* to effective leadership, and the best leaders learn to display both transactional and transformational styles of leadership to some degree. Indeed, research suggests that transformational leadership leads to superior performance when it "augments" or adds to transactional leadership.[82]

EXAMPLE

The Superior Performance of Both a Transactional & Transformational Leader: PepsiCo's CEO Indra Nooyi

For PepsiCo CEO Nooyi, one of her "most stunning talents is the art of suasion [persuasion]," says one writer. "She can rouse an audience and rally them around something as mind-numbing as a new companywide software installation. Her . . . motto, 'Performance With Purpose,' is both a means of 'herding the organization' and of presenting PepsiCo globally."[83]

The Nooyi Vision. Most important is her vision for moving the company beyond what it calls "fun for you foods" (soda pop and salty snacks) and into "better for you" foods, and into tackling issues like obesity and sustainability.[84]

Long Term: Healthier Food. Nooyi, says Howard Schultz, CEO of Starbucks, which has a joint-venture partnership with PepsiCo, was "way ahead of her competitors in moving the company toward healthier products. She pushed for PepsiCo to buy Quaker Oats and Tropicana, and . . . PepsiCo removed trans fats from its products well before most other companies did."[85]

Short Term: Stay Profitable. However, in remaking PepsiCo over the long term so that it sells less fat and sugar, Nooyi has also run up against the other goal for a public company—short-term results, or "maximizing shareholder value," where the company briefly fell behind. Nooyi must be careful not to stray too far back to being driven by short-term results, especially at a time when soft drink sales have been in a long-term slide.[86] So far, however, the company has stayed profitable.[87]

YOUR CALL

Do you think you might have what it takes to be both a transactional and transformational leader? What's the evidence?

Four Key Behaviors of Transformational Leaders

Whereas transactional leaders are dispassionate, transformational leaders excite passion, inspiring and empowering people to look beyond their own interests to the interests of the organization. They appeal to their followers' self-concepts—their values and personal identity—to create changes in their goals, values, needs, beliefs, and aspirations.

Transformational leaders have four key kinds of behavior that affect followers.[88]

1. Inspirational Motivation: "Let Me Share a Vision that Transcends Us All"

Transformational leaders have **charisma** **("kar-*riz*-muh"), a form of interpersonal attraction that inspires acceptance and support.** At one time, **charismatic leadership—which was assumed to be an individual inspirational and motivational characteristic of particular leaders,** much like other trait-theory characteristics—was viewed as a category of its own, but now it is considered part of transformational leadership.[89] Someone with charisma, then, is presumed to be more able to persuade and influence people than someone without charisma.[90]

A transformational leader inspires motivation by offering an agenda, a grand design, an ultimate goal—in short, a *vision,* "a realistic, credible, attractive future" for the organization, as leadership expert Burt Nanus calls it. The right vision unleashes human potential, says Nanus, because it serves as a beacon of hope and common purpose. It does so by attracting commitment, energizing workers, creating meaning in their lives, establishing a standard of excellence, promoting high ideals, and bridging the divide between the organization's problems and its goals and aspirations.[91]

Examples: Civil rights leader Martin Luther King Jr. had a vision—a "dream," as he put it—of racial equality. Candy Lightner, founder of Mothers Against Drunk Driving, had a vision of getting rid of alcohol-related car crashes. Apple Computer's Steve Jobs had a vision of developing an "insanely great" desktop computer. Indra Nooyi wants to develop healthier foods, while still making a profit. "Companies today are bigger than many economies," she says. "If companies don't do [responsible] things, who is going to?"[92]

Sir Branson. One of today's most flamboyant businessmen, Britain's Richard Branson is shown here announcing new service for his Virgin Atlantic airline. Branson left school at 16 to start a 1960s counterculture magazine. By 2006, he was heading a $5-billion-plus empire—the Virgin Group—that includes airlines, entertainment companies, car dealerships, railroads, bridal gowns, soft drinks, financial services, and a space tourism company. Knighted in 2000—which entitles him to be called "Sir"—Branson, who is dyslexic, says he is not for scrutinizing spreadsheets and plotting strategies based on estimates of market share. "In the end," he says, "it is your own gut and your own experience of running businesses." Do you think charismatic business leaders like Sir Branson are able to be more successful than more conventional and conservative managers?

2. Idealized Influence: "We Are Here to Do the Right Thing" Transformational leaders are able to inspire trust in their followers because they express their integrity by being consistent, single-minded, and persistent in pursuit of their goal. Not only do they display high ethical standards and act as models of desirable values, but they are also able to make sacrifices for the good of the group.[93]

Example: Nooyi's goal of reinventing PepsiCo's product line to concentrate on more nutritional drinks and snacks (and double revenue to $30 billion by 2020) is ambitious, but it actually is in accord with the times. Americans are paying more attention to healthy eating, especially because of the U.S. obesity problem, and more consumers—and companies—are focusing on corporate responsibility and issues of greenness and sustainability.[94]

3. Individualized Consideration: "You Have the Opportunity Here to Grow & Excel" Transformational leaders don't just express concern for subordinates' well-being. They actively encourage them to grow and to excel by giving them challenging work, more responsibility, empowerment, and one-on-one mentoring.

Example: When Indra Nooyi was chosen over her friend Mike White to lead PepsiCo, she went to great lengths to try to keep him on. "I treat Mike as my partner," she said. "He could easily have been CEO." At meetings, she always made sure he was seated at her right.[95] (Even so, in 2010 he left to become CEO of DirectTV.[96])

4. Intellectual Stimulation: "Let Me Describe the Great Challenges We Can Conquer Together" These leaders are gifted at communicating the organization's strengths, weaknesses, opportunities, and threats so that subordinates develop a new sense of purpose. Employees become less apt to view problems as insurmountable or "that's not my department." Instead they learn to view them as personal challenges that they are responsible for overcoming, to question the status quo, and to seek creative solutions.

Example: Nooyi seeks to have "a positive impact on the world," as she puts it. However, in 2012, with shareholders complaining about PepsiCo's slipping share price, she had to pull back somewhat from emphasizing nutritious products to boosting the old Pepsi brand. She compared the change to a racecar taking a pit stop as the company sought to regain momentum in its soft drink business. Still, as one commentator pointed out, "She needs to soothe investors, but she shouldn't surrender to them." He endorsed Nooyi's moves to achieve long-term gains—"that is, if Nooyi can fend off those looking for the financial equivalent of a sugar rush."[97]

Implications of Transformational Leadership for Managers

The research shows that transformational leadership yields several positive results. For example, it is positively associated with (1) measures of organizational effectiveness;[98] (2) measures of leadership effectiveness and employee job satisfaction;[99] (3) more employee identification with their leaders and with their immediate work groups;[100] (4) commitment to organizational change; [101] and (5) higher levels of intrinsic motivation, group cohesion, work engagement, setting of goals consistent with those of the leader, and proactive behavior.[102]

Besides the fact that, as we mentioned, the best leaders are *both* transactional and transformational, there are three important implications of transformational leadership for managers, as follows.

1. It Can Improve Results for Both Individuals & Groups You can use the four types of transformational behavior just described to improve results for individuals—such as job satisfaction, organizational commitment, and performance. You can also use them to improve outcomes for groups—an important matter in today's organization, where people tend not to work in isolation but in collaboration with others.

2. It Can Be Used to Train Employees at Any Level Not just top managers but employees at any level can be trained to be more transactional and transformational.[103] This kind of leadership training among employees should be based on an overall corporate philosophy that constitutes the foundation of leadership development.

3. It Requires Ethical Leaders For a long time, top managers were assumed to be ethical. But in recent years, that notion has been disabused by news stories about scurrilous leaders ranging from the CEOs of Enron to pyramid schemer Bernard Madoff to failed commercial bankers paying themselves huge bonuses even as they accepted taxpayer bailouts and resisted regulation.[104] With such high-profile revelations, the need for ethical leadership has become more apparent. Without honesty and trust, even transformational leaders lose credibility—not only with employees but also with investors, customers, and the public.[105]

To better ensure positive results from transformational leadership, top managers should follow the practices shown below. *(See Table 14.6.)*

TABLE 14.6

The Ethical Things Top Managers Should Do to Be Effective Transformational Leaders

- **Employ a code of ethics.** The company should create and enforce a clearly stated code of ethics.
- **Choose the right people.** Recruit, select, and promote people who display ethical behavior.
- **Make performance expectations reflect employee treatment.** Develop performance expectations around the treatment of employees; these expectations can be assessed in the performance-appraisal process.
- **Emphasize value of diversity.** Train employees to value diversity.
- **Reward high moral conduct.** Identify, reward, and publicly praise employees who exemplify high moral conduct.

Source: These recommendations were derived from J. M. Howell and B. J. Avolio, "The Ethics of Charismatic Leadership: Submission or Liberation?" The Executive, *May 1992, pp. 43–54.*

14.6 Three Additional Perspectives

MAJOR QUESTION

If there are many ways to be a leader, which one would describe me best?

THE BIG PICTURE

Two other kinds of leadership are the *leader–member exchange model,* which emphasizes that leaders have different sorts of relationships with different subordinates, and *e-leadership,* which involves leader interactions with others via information technology. A third perspective is the role of followers in the leadership process.

Two additional kinds of leadership deserve discussion: (1) *leader–member exchange (LMX) model of leadership;* and (2) *e-leadership.*

Leader–Member Exchange (LMX) Leadership: Having Different Relationships with Different Subordinates

Proposed by **George Graen** and **Fred Dansereau,** the **leader–member exchange (LMX) model of leadership emphasizes that leaders have different sorts of relationships with different subordinates.**[106] Unlike other models we've described, which focus on the behaviors or traits of leaders or followers, the LMX model looks at the quality of relationships between managers and subordinates. Also, unlike other models, which presuppose stable relationships between leaders and followers, the LMX model assumes each manager-subordinate relationship is unique.

In-Group Exchange versus Out-Group Exchange The unique relationship, which supposedly results from the leader's attempt to delegate and assign work roles, can produce two types of leader–member exchange interactions.[107]

- **In-group exchange: trust and respect.** In the *in-group exchange,* the relationship between leader and follower becomes a partnership characterized by mutual trust, respect and liking, and a sense of common fates. Subordinates may receive special assignments and may also receive special privileges.
- **Out-group exchange: lack of trust and respect.** In the *out-group exchange,* leaders are characterized as overseers who fail to create a sense of mutual trust, respect, or common fate. Subordinates receive less of the manager's time and attention than those in in-group exchange relationships.

What type of exchange do you have with your manager? The quality of the relationship between you and your boss matters. Not only does it predict your job satisfaction and happiness, but it also is related to turnover. You can assess the quality of the relationship with a current or former boss by completing Self-Assessment 14.4.

SELF-ASSESSMENT 14.4 connect

Assessing Your Leader–Member Exchange

The following survey was designed to assess the quality of your leader–member exchange. Go to **connect.mheducation.com** and take Self-Assessment 14.4. When you're done, answer the following questions:

1. Where do you stand on the different dimensions underlying leader–member exchange? Are you surprised by the results?
2. Do you think the quality of your leader–member exchange is impacting your job satisfaction or performance? Explain.
3. Based on your survey scores, how might you improve the quality of your relationship with your boss? Be specific.

Is the LMX Model Useful?

It is not clear why a leader selects particular subordinates to be part of the in-group, but presumably the choice is made for reasons of compatibility and competence. Certainly, however, a positive (that is, in-group) leader–member exchange is positively associated with goal commitment, trust between managers and employees, work climate, satisfaction with leadership, and—important to any employer—job performance and job satisfaction.[108] There is also a moderately strong positive relationship between LMX and organizational citizenship behaviors.[109]

E-Leadership: Managing for Global Networks

The Internet and other forms of advanced information technology have led to new possible ways for interacting within and between organizations (e-business) and with customers and suppliers (e-commerce). Leadership within the context of this electronic technology, called **e-leadership, can involve one-to-one, one-to-many, within-group and between-group and collective interactions via information technology.**[110] E-leadership means having to deal with quite a number of responsibilities, such as developing business opportunities through cooperative relationships, restructuring a company into global networks, decentralizing the company's organization, and energizing the staff.[111]

E-leaders, says one writer, "have a global mind-set that recognizes that the Internet is opening new markets and recharging existing ones. They don't bother fighting mere battles with competitors because they're too busy creating businesses that will surround and destroy them."[112] Harvard Business School professor D. Quinn Mills, author of *E-Leadership,* suggests that individual companies will be replaced by much broader global networks that a single CEO will not be able to manage. Thus, while 20th-century management emphasized competition, he says, future organizations will run on knowledge sharing and open exchange.[113]

Followers: What Do They Want, How Can They Help?

Is the quality of leadership dependent on the qualities of the followers being led? So it seems. Leaders and followers need each other, and the quality of the relationship determines how we behave as followers.[114]

What Do Followers Want in Their Leaders?

Research shows that followers seek and admire leaders who create feelings of . . .

- **Significance.** Such leaders make followers feel that what they do at work is important and meaningful.
- **Community.** These leaders create a sense of unity that encourages followers to treat others with respect and to work together in pursuit of organizational goals.
- **Excitement.** The leaders make people feel energetic and engaged at work.[115]

What Do Leaders Want in Their Followers?

Followers vary, of course, in their level of compliance with a leader, with *helpers* (most compliant), showing deference to their leaders, *independents* (less compliant) distancing themselves, and *rebels* (least compliant) showing divergence.[116]

Leaders clearly benefit from having helpers (and, to some extent, independents). They want followers who are productive, reliable, honest, cooperative, proactive, and flexible. They do not want followers who are reluctant to take the lead on projects, fail to generate ideas, are unwilling to collaborate, withhold information, provide inaccurate feedback, or hide the truth.[117]

We give some suggestions on how to be a better follower—and enhance your own career prospects—in the Practical Action box opposite.

PRACTICAL ACTION

How to Be a Great Follower: Benefiting Your Boss—& Yourself

"We degrade the very idea of followers—lemmings!—yet the world needs people who can follow intelligently," says Dress for Success founder Nancy Lublin. "The key word is 'intelligently.' Good followers ask good questions. They probe their leaders. They crunch the numbers to ensure that their visionary boss's gorgeous plans actually works."[118]

How do you become an intelligent follower? Four suggested steps:[119]

1. Learn about Your Boss

It's critical you understand your boss—interpersonal style, leadership style, pressures, goals, expectations, and strengths and weaknesses. To discover these, you might try asking him or her some of the following questions.[120]

1. How can I help you?
2. How do you want me to communicate with you—e-mail, phone, in person?
3. When do you like to be approached with questions, and are some situations (such as social occasions) off-limits?
4. What is your approach toward giving feedback?
5. Are there attitudes or behaviors you won't tolerate?
6. What is your most effective way of working?

2. Learn about Yourself

Do some self-analysis. Make an attempt to understand your own needs, expectations, goals, style, and strengths and weaknesses.

3. Analyze Your Differences

Does your boss hate small talk, work late hours, run disorganized meetings, and expect you to read his or her mind—whereas none of these characteristics apply to you? Do a "gap analysis" to see where the two of you differ.

4. Try to Adjust to the Boss's Style, While Building on Your Mutual Strengths

Naturally you will have to adapt your work style to the boss's style rather than the other way around (after all, he or she *is* the boss). But based on your analysis in Step 3, you're in a position to see how your strengths can help cover your boss's weaknesses. For instance, if your manager is pushed for time, as most managers are, and so tends to be a bit scattered, then if you're an organized type you can help by preparing well-thought-out agendas for meetings. You can also be respectful of the boss's time when you drop in to have a question answered.

YOUR CALL

Although it's always in your and the leader's best interest if you become an "intelligent follower," we recognize that sometimes the two of you may differ so completely in habits, dislikes, and so on that you may simply have to look for opportunities outside your present work situation. Do you think you've been a good follower in past jobs?

Key Terms Used in This Chapter

behavioral leadership approaches 451
charisma 463
charismatic leadership 463
coercive power 445
consideration 453
contingency leadership model 457
e-leadership 467
empowering leadership 453
expert power 445
full-range leadership 462
initiating-structure leadership 452
laissez-faire leadership 456
leader–member exchange (LMX) model of leadership 466
leadership 442
legitimate power 445
Machiavellianism 448
managerial leadership 442
narcissism 448
participative management 454
passive leadership 456
path–goal leadership model 459
personalized power 445
psychological empowerment 453
psychopathy 449
referent power 445
relationship-oriented leadership 452
reward power 445
servant leadership 454
situational approach 457
socialized power 445
task-oriented leadership behaviors 451
trait approaches to leadership 448
transactional leadership 452
transformational leadership 462

Key Points

14.1 The Nature of Leadership: Wielding Influence

- Leadership is the ability to influence employees to voluntarily pursue organizational goals.
- Being a manager and being a leader are not the same. Management is about coping with complexity, whereas leadership is about coping with change. Companies manage complexity by planning and budgeting, organizing and staffing, and controlling and problem solving. Leadership copes with change by setting a direction, aligning people to accomplish an agenda, and motivating and inspiring people.
- To understand leadership, we must understand authority and power. Authority is the right to perform or command; it comes with the manager's job. Power is the extent to which a person is able to influence others so they respond to orders. People may pursue personalized power, power directed at helping oneself, or, better, they may pursue socialized power, power directed at helping others.
- Within an organization there are typically five sources of power leaders may draw on; all managers have the first three. (1) Legitimate power is power that results from managers' formal positions within the organization. (2) Reward power is power that results from managers' authority to reward their subordinates. (3) Coercive power results from managers' authority to punish their subordinates. (4) Expert power is power resulting from one's specialized information or expertise. (5) Referent power is power deriving from one's personal attraction.
- There are nine influence tactics for trying to get others to do something you want, ranging from most used to least used tactics as follows: rational persuasion, inspirational appeals, consultation, ingratiating tactics, personal appeals, exchange tactics, coalition tactics, pressure tactics, and legitimating tactics.
- Four principal approaches or perspectives on leadership, as discussed in the rest of the chapter, are (1) trait, (2) behavioral, (3) situational, and (4) transformational.

14.2 Trait Approaches: Do Leaders Have Distinctive Personality Characteristics?

- Trait approaches to leadership attempt to identify distinctive characteristics that account for the effectiveness of leaders. We describe (1) positive task-oriented traits and positive/negative interpersonal attributes (narcissism, Machiavellianism, and psychopathy), and (2) some results of gender studies.
- Four positive task-oriented traits are (1) intelligence, (2) consciousness, openness to experience, and (4) emotional stability. These traits in turn can be expanded into a list of both positive and negative interpersonal attributes often found in leaders. Among the positive attributes are extraversion, agreeableness, and communication skills. Among the negative attributes are narcissism, Machiavellianism, and psychopathy.

- Women may rate higher than men do on producing high-quality work, goal setting, mentoring employees, and other measures. Women excel in such traits as teamwork and partnering, being more collaborative, seeking less personal glory, being motivated less by self-interest than company interest, being more stable, and being less turf-conscious.

14.3 Behavioral Approaches: Do Leaders Show Distinctive Patterns of Behavior?

- Behavioral leadership approaches try to determine the unique behaviors displayed by effective leaders. Four categories are task-oriented behavior, relationship-oriented behavior, passive behavior, and transformational behavior (discussed in Section 14.5).
- Task-oriented behaviors are those that ensure that people, equipment, and other resources are used in an efficient way to accomplish the mission of a group or organization. Two types of task-oriented behaviors are (1) initiating-structure leadership, leader behavior that organizes and defines what employers should be doing to maximize output, and (2) transactional leadership, which focuses on clarifying employees' roles and task requirements and providing rewards and punishments contingent on performance.
- Relationship-oriented leadership is primarily concerned with the leader's interaction with his or her people. There are three kinds of relationship-oriented behaviors: (1) consideration, (2) empowering leadership, and (3) servant leadership.
- Consideration is leader behavior that is concerned with group members' needs and desires and that is directed at creating mutual respect or trust.
- Empowering leadership represents the extent to which a leader creates perceptions of psychological empowerment in others. Psychological empowerment is employees' belief that they have control over their work. Increasing employee psychological empowerment requires four kinds of behaviors—leading for (a) meaningfulness, (b) self-determination, (c) competence, and (d) progress. Leading for meaningfulness is inspiring and modeling desirable behaviors. Leading for self-determination is delegating of meaningful tasks. Leading for competence is supporting and coaching employees. Leading for progress is monitoring and rewarding employees. One technique used to empower employees is participative management (PM), the process of involving employees in setting goals, making decisions, solving problems, and making changes in the organization.
- Servant leadership focuses on providing increased service to others—meeting the goals of both followers and the organization—rather than to oneself.
- Passive leadership is a form of leadership behavior characterized by a lack of leadership skills. One type of passive leadership is laissez-faire leadership, a form of "leadership" characterized by a general failure to take responsibility for leading.
- Two conclusions that may be drawn from behavioral approaches are that (1) a leader's behavior is more important than his or her traits and (2) there is no one best style of leadership.

14.4 Situational Approaches: Should Leadership Vary with the Situation?

- Proponents of the situational approach (or contingency approach) to leadership believe that effective leadership behavior depends on the situation at hand—that as situations change, different styles become effective. Two contingency approaches are described: the Fiedler contingency leadership model and the path–goal leadership model.
- The Fiedler contingency leadership model determines if a leader's style is task-oriented or relationship-oriented and if that style is effective for the situation at hand. Once it is determined whether a leader is more oriented toward tasks or toward people, then it's necessary to determine how much control and influence a leader has in the immediate work environment.
- The three dimensions of situational control are leader–member relations, which reflect the extent to which a leader has the support of the work group; the task structure, which reflects the extent to which tasks are routine and easily understood; and position power, which reflects how much power a leader has to reward and punish and make work assignments.
- For each dimension, the leader's control may be high or low. A task-oriented style has been found to work best in either high-control or low-control situations; the relationship-oriented style is best in situations of moderate control.
- The House path–goal leadership model, in its revised form, holds that the effective leader clarifies paths through which subordinates can achieve goals and provides them with support. Two variables, employee characteristics and environmental factors, cause one or more leadership behaviors—which House expanded to eight from his original four—to be more effective than others.

14.5 The Uses of Transformational Leadership

- Full-range leadership describes leadership along a range of styles (from passive to transactional to transformational), with the most effective being transactional/transformational leaders.
- Transformational leadership transforms employees to pursue goals over self-interests. Transformational leaders are influenced by two factors: (1) Their personalities tend to be more extroverted, agreeable, and proactive. (2) Organizational cultures are more apt to be adaptive and flexible.
- The best leaders are both transactional and transformational. Four key behaviors of transformational leaders in affecting employees are they inspire motivation, inspire trust, encourage excellence, and stimulate them intellectually.
- Transformational leadership has three implications. (1) It can improve results for both individuals and groups. (2) It can be used to train employees at any level. (3) It can be used by both ethical or unethical leaders.

14.6 Three Additional Perspectives

- Two additional kinds of leadership are (1) leader–membership exchange model, and (2) e-leadership.
- The leader–member exchange (LMX) model of leadership emphasizes that leaders have different sorts of relationships with different subordinates.
- E-leadership involves leader interactions with others via the Internet and other forms of advanced information technology, which have made possible new ways for interacting within and between organizations (e-business) and with customers and suppliers (e-commerce). E-leadership can involve one-to-one, one-to-many, within-group and between-group, and collective interactions via information technology.
- Whatever their type, leaders need followers who vary in compliance from helpers to independents to rebels. Leaders want followers who are productive, reliable, honest, cooperative, proactive, and flexible. They do not want followers who are reluctant to take the lead on projects, fail to generate ideas, are unwilling to collaborate, withhold information, provide inaccurate feedback, or hide the truth.

Understanding the Chapter: What Do I Know?

1. What is the difference between being a manager and being a leader?
2. What are five sources of power?
3. In brief, what are five approaches to leadership described in this chapter?
4. What are some positive task-oriented traits and positive/negative interpersonal attributes?
5. Explain the two types of task-oriented behavior.
6. Describe the three types of relationship-oriented behaviors.
7. Briefly discuss the two types of situational leadership approaches.
8. What are key constituents of transformational leadership?
9. Explain how the leader–member exchange (LMX) model works.
10. What is e-leadership?

Management in Action

Leadership Lessons from Sir Alex Ferguson

Sir Alex Ferguson was the manager for Manchester United for 26 years. Manchester United is an English football (soccer) club that is one of the most successful sports franchises in history. As manager of that club, Ferguson won 13 English titles as well as 25 additional domestic and international titles. This case is based on an interview he did for the Harvard Business Review. *Consider the seven leadership lessons and how they might apply to businesses in general.*

Start with the Foundation

From the moment I got to Manchester United, I thought of only one thing: building a football club. I wanted to build right from the bottom. That was in order to create fluency and a continuity of supply to the first team. With this approach, the players all grow up together, producing a bond that, in turn, creates a spirit.

When I arrived, only one player on the first team was under 24. Can you imagine that, for a club like Manchester United? I knew that a focus on youth would fit the club's history, and my earlier coaching experience told me that winning with young players could be done and that I was good at working with them. So I had the confidence and conviction that if United was going to mean anything again, rebuilding the youth structure was crucial. You could say it was brave, but fortune favors the brave. . . .

I always take great pride in seeing younger players develop. The job of a manager, like that of a teacher, is to inspire people to be better. Give them better technical skills, make them winners, make them better people, and they can go anywhere in life. When you give young people a chance, you not only create a longer life span for the team, you also create loyalty. They will always remember that you were the manager who gave them their first opportunity. Once they know you are batting for them, they will accept your way. You're really fostering a sense of family. If you give young people your attention and an opportunity to succeed, it is amazing how much they will surprise you. . . .

Set High Standards & Hold Everyone to Them

Everything we did was about maintaining the standards we had set as a football club—this applied to all my team building and all my team preparation, motivational talks, and tactical talks. For example, we never allowed a bad training session. What you see in training manifests itself on the game field. So every training session was about quality. We didn't allow a lack of focus. It was about intensity, concentration, speed—a high level of performance. That, we hoped, made our players improve with each session.

I had to lift players' expectations. They should never give in. I said that to them all the time: "If you give in once, you'll give in twice." And the work ethic and energy I had seemed to spread throughout the club. I used to be the first to arrive in the morning. In my later years, a lot of my staff members would already be there when I got in at 7 a.m. I think they understood why I came in early—they knew there was a job to be done. There was a feeling that "if he can do it, then I can do it."

I constantly told my squad that working hard all your life is a talent. But I expected even more from the star players. I expected them to work even harder. I said, "You've got to show that you are the top players." And they did. That's why they are star players—they are prepared to work harder. Superstars with egos are not the problem some people may think. They need to be winners, because that massages their egos, so they will do what it takes to win. . . . .

Never, Ever Cede Control

If the day came that the manager of Manchester United was controlled by the players—in other words, if the players decided how the training should be, what days they should have off, what the discipline should be, and what the tactics should be—then Manchester United would not be the Manchester United we know. Before I came to United, I told myself I wasn't going to allow anyone to be stronger than I was. Your personality has to be bigger than theirs. That is vital.

There are occasions when you have to ask yourself whether certain players are affecting the dressing-room atmosphere, the performance of the team, and your control of the players and staff. If they are, you have to cut the cord. There is absolutely no other way. It doesn't matter if the person is the best player in the world. The long-term view of the club is more important than any individual, and the manager has to be the most important one in the club. . . .

I tended to act quickly when I saw a player become a negative influence. . . .

Match the Message to the Moment

No one likes to be criticized. Few people get better with criticism; most respond to encouragement instead. So I tried to give encouragement when I could. For a player—for any human being—there is nothing better than hearing "Well done." Those are the two best words ever invented. You don't need to use superlatives.

At the same time, in the dressing room, you need to point out mistakes when players don't meet expectations. That is when reprimands are important. I would do it right after the game. I wouldn't wait until Monday. I'd do it, and it was finished. I was on to the next match. There is no point in criticizing a player forever.

Generally, my pregame talks were about our expectations, the players' belief in themselves, and their trust in one another. I liked to refer to a working-class principle. Not all players come from a working-class background, but maybe their fathers do, or their grandfathers, and I found it useful to remind players how far they have come. I would tell them that having a work ethic is very important. It seemed to enhance their pride. I would remind them that it is trust in one another, not letting their mates down, that helps build the character of a team.

In halftime talks, you have maybe eight minutes to deliver your message, so it is vital to use the time well. Everything is easier when you are winning: You can talk about concentrating, not getting complacent, and the small things you can address. But when you are losing, you have to make an impact. I liked to focus on our own team and our own strengths, but you have to correct why you are losing. . . .

Prepare to Win

Winning is in my nature. I've set my standards over such a long period of time that there is no other option for me—I *have* to win. I expected to win every time we went out there. Even if five of the most important players were injured, I expected to win. Other teams get into a huddle before the start of a match, but I did not do that with my team. Once we stepped onto the pitch before a game, I was confident that the players were prepared and ready to play, because everything had been done before they walked out onto the pitch.

I am a gambler—a risk taker—and you can see that in how we played in the late stages of matches. If we were down at halftime, the message was simple: Don't panic. Just concentrate on getting the task done. If we were still down—say, 1–2—with 15 minutes to go, I was ready to take more risks. I was perfectly happy to lose 1–3 if it meant we'd given ourselves a good chance to draw or to win. So in those last 15 minutes, we'd go for it. We'd put in an extra attacking player and worry less about defense. We knew that if we ended up winning 3–2, it would be a fantastic feeling. And if we lost 1–3, we'd been losing anyway. . . .

Rely on the Power of Observation

Observation is the final part of my management structure. When I started as a coach, I relied on several basics: that I could play the game well, that I understood the technical skills needed to succeed at the highest level, that I could coach players, and that I had the ability to make decisions. One afternoon at Aberdeen I had a conversation with my assistant manager while we were having a cup of tea. He said, "I don't know why you brought me here." I said, "What are you talking about?" and he replied, "I don't do anything. I work with the youth team, but I'm here to assist you with the training and with picking the team. That's the assistant manager's job." And another coach said, "I think he's right, boss," and pointed out that I could benefit from not always having to lead the training. At first I said, "No, no, no," but I thought it over for a few days and then said, "I'll give it a try. No promises." Deep down I knew he was right. So I delegated the training to him, and it was the best thing I ever did. . . .

Never Stop Adapting

One of the things I've done well over the years is manage change. I believe that you control change by accepting it. That also means having confidence in the people you hire. The minute staff members are employed, you have to trust that they are doing their jobs. If you micromanage and tell people what to do, there is no point in hiring them. The most important thing is to not stagnate. I said to David Gill a few years ago, "The only way we can keep players at Manchester United is if we have the best training ground in Europe." That is when we kick-started the medical center. We can't sit still.

Most people with my kind of track record don't look to change. But I always felt I couldn't afford *not* to change. We had to be successful— there was no other option for me—and I would explore any means of improving. I continued to work hard. I treated every success as my first. My job was to give us the best possible chance of winning. That is what drove me.

FOR DISCUSSION

1. Which of Sir Alex Ferguson's leadership lessons apply to any type of organization? Explain your rationale.
2. Use Table 14.2 to evaluate the extent to which Ferguson displays the characteristics associated with being a good leader and good manager.
3. Which different positive and negative leadership traits and styles are displayed by Ferguson? Cite examples.
4. Use Table 14.4 to determine the extent to which Ferguson exhibits servant leadership. Provide supportive examples.
5. Which of the four types of transformational leadership behavior are displayed by Ferguson? Provide examples.
6. What did you learn about leadership from this case?

Legal/Ethical Challenge

Is It Ethical for Organizations to Incentivize Their Employees to Poach People from Competing Companies?

Have you used Uber or Lyft instead of a taxi? These two companies are major competitors in the ride-share and car-for-hire market, and they are creating major competition for the taxi industry. Both companies rely on the use of apps to connect riders with drivers.

According to *The Wall Street Journal*, both companies are "undercutting each other's prices, poaching drivers and co-opting innovations." Lyft claims that Uber has "abused its service in the past several months with the goal of poaching drivers and slowing down its network. Passengers who identify themselves as working for Uber frequently order a Lyft and then ride for only a few blocks, sometimes repeating this process dozens of times a day." Is this practice ethical?

According to an internal Uber e-mail that was sent to its drivers and reviewed by *The Wall Street Journal*, "the company offers $250 for referring a new driver to its service; $500 for referring a Lyft driver; and $1,000 for signing up a Lyft 'mentor.'" A mentor is an experienced Lyft employee who trains new drivers. Losing mentors would be a blow to Lyft.

Uber denies that it is "intentionally ordering Lyft rides to add congestion to its competitor's service, but confirmed the company does offer recruitment incentives."

SOLVING THE CHALLENGE

Would you change your competitive practices if you were a senior leader at Uber or Lyft?

1. Yes. Having employees taking short rides to jam up your competitor's network is not ethical. Companies should compete on price and the quality of service, and Uber seems to be using techniques that affect Lyft's quality of service.
2. No. This is hard-core competition and neither company is breaking any laws. I applaud Uber for offering incentives to poach key employees from Lyft.
3. Invent another option.

Source: The case is based on D. MacMillan, "The Fiercest Rivalry in Tech: Uber vs. Lyft," The Wall Street Journal, *August 12, 2014, pp. B1, B4.*

15

Interpersonal & Organizational Communication

Mastering the Exchange of Information

Major Questions You Should Be Able to Answer

15.1 The Communication Process: What It Is, How It Works
Major Question: What do I need to know about the communication process to be an effective communicator?

15.2 How Managers Fit into the Communication Process
Major Question: How can I use the different channels and patterns of communication to my advantage?

15.3 Barriers to Communication
Major Question: What are the important barriers I need to be aware of, so I can improve my communication skills?

15.4 Communication in the Information Age
Major Question: How do contemporary managers use information technology to communicate more effectively?

15.5 Improving Communication Effectiveness
Major Question: How can I be a better listener, reader, writer, and speaker?

the manager's toolbox

Acing the Interview: Communicating Counts in Landing a Job

In an interview situation, you need to prove you're the one best candidate for the available position. Thus, you need to think out your strategy, deal with your nervousness, and perform well—as follows:[1]

Think Out Your Strategy: "I Know What This Company Is About"

You need to do your homework, anticipate the questions, and rehearse your selling points.

Use the web and other resources to learn about the company—past, present, and future events and initiatives, which you can use when discussing the firm. Anticipate the questions you'll be asked—such as "What do you consider your greatest weakness?"—that you can respond to briefly and turn to your advantage. ("I tend to be too impatient and want to get things done quickly.")

Identify your top three selling points—such as, if you have little experience, your personal qualities ("I'm results oriented, a good listener, and will work all hours") or, if you have lots of experience, your significant achievements. Have evidence (stories or data) to substantiate your claims.

Deal with Your Nervousness: "I'll Just Take My Time"

Preparation will help you stay calm during the interview. So will the use of visualization and positive self-talk to keep your confidence up ("I can handle this!"). Don't admit you're nervous. Breathe slowly. Don't rush to answer. Take a one-second pause before responding to a question.

Give a Strong Performance: "I Can Help This Company"

Your focus is *to show the company what's in it for them* by hiring you. To give your best impression, dress as people in the company do. Smile—it's one of the easiest ways to win people over. Make eye contact. Above all, express your enthusiasm and show your willingness "to do anything," not just the interesting stuff. Close with a thank you, a firm handshake, and ask the interviewer when he or she would like you to follow up. Drop the interviewer a note of thanks.

For Discussion How good are you at preparing for and rehearsing for an event (the job interview) that is as important as the application you did to get into college? How good are you at listening? How do you think you appear to other people in an important interaction?

forecast What's Ahead in This Chapter

This chapter describes the process of transferring information and understanding from one person to another. It also describes three communication barriers—physical, semantic, and personal. It shows how you can use different channels and patterns of communication, both formal and informal, to your advantage. It discusses how star managers use information technology to communicate more effectively. Finally, we talk about how to be a better listener, reader, writer, and speaker.

15.1 The Communication Process: What It Is, How It Works

MAJOR QUESTION

What do I need to know about the communication process to be an effective communicator?

THE BIG PICTURE

Communication is the transfer of information and understanding from one person to another. The process involves sender, message, and receiver; encoding and decoding; the medium; feedback; and dealing with "noise," or interference. Managers need to tailor their communication to the appropriate medium (rich or lean) for the appropriate situation.

Do you have difficulty accepting compliments, especially from close friends and loved ones? When you're ridiculed, as online, do you respond with over-the-top rage? Do you know how to apologize to someone—and do it in person, not by e-mail or text message, the coward's way? Are you so used to using profanity that you assume others are comfortable with it as well?[2]

All these matters show how difficult it is to communicate well.

Problems with communicating are a fact of human existence. That said, it is essential to develop your communication skills, which 636 human resource professionals rated as the most important factor in advancing their careers.[3]

No wonder faulty communication has become such a problem in the workplace. According to one survey, executives say 14% of each 40-hour workweek is wasted because of poor communication between staff and managers.[4] That's the equivalent of seven workweeks of lost productivity a year. Thus, there's a hardheaded argument for better communication: It can save money.

How good a communicator do you think you are? Whether good or bad, there always is room for improvement. You can assess your communication competence by completing Self-Assessment 15.1.

SELF-ASSESSMENT 15.1 connect

Assessing Your Communication Competence

The following survey was designed to assess your level of communication competence. Go to **connect.mheducation.com** and take Self-Assessment 15.1. When you're done, answer the following questions:

1. Where do you stand in terms of communication skills? Would you like to improve your skills? Based on reviewing the skills associated with your three lowest scored items, what can you do to improve your communication skills? Be specific.
2. How might you get feedback on whether your communication skills improve after implementing your ideas in question 1 above?

Communication Defined: The Transfer of Information & Understanding

Communication—the transfer of information and understanding from one person to another—is an activity that you as a manager will have to do a lot of. Indeed, one study found that 81% of a manager's time in a typical workday is spent communicating.[5]

The fact that managers do a lot of communicating doesn't mean they're necessarily good at it—that is, that they are efficient or effective. You are an *efficient communicator* when you can transmit your message accurately in the least time. You are an *effective communicator* when your intended message is accurately understood by the other person. Thus, you may well be efficient in sending a group of people a reprimand by e-mail. But it may not be effective if it makes them angry so that they can't absorb its meaning.

From this, you can see why it's important to have an understanding of the communication process.

Everything's clicking. Today some people can work almost anywhere, even more so as laptops, tablets, and cell phones have become such versatile instruments, permitting Internet and e-mail access, text messaging, and access to huge databases. Do you think our ability to work outside traditional offices because of today's technology will negatively affect the communication process and employee camaraderie?

How the Communication Process Works

Communication has been said to be a process consisting of "a sender transmitting a message through media to a receiver who responds."[6] Let's look at these and other parts of the process.

Sender, Message, & Receiver

The sender is the person wanting to share information—called a message—and the receiver is the person for whom the message is intended, as follows.

Sender → Message → Receiver

Encoding & Decoding

Of course, the process isn't as simple as just sender/message/receiver. If you were an old-fashioned telegraph operator using Morse code to send a message over a telegraph line, you would first have to encode the message, and the receiver would have to decode it. But the same is true if you are sending the message by voice to another person in the same room, when you have to decide what language to speak in and what terms to use.

Encoding is translating a message into understandable symbols or language. Decoding is interpreting and trying to make sense of the message. Thus, the communication process is now

Sender [**Encoding**] → Message → [**Decoding**] Receiver

The Medium

The means by which you as a communicator send a message is important, whether it is by typing an e-mail traveling over the Internet, by voice over a telephone line, or by hand-scrawled note. This is the **medium, the pathway by which a message travels:**

Sender [Encoding] → Message [**Medium**] Message → [Decoding] Receiver

Feedback

"Flight 123, do you copy?" In the movies, that's what you hear the flight controller say when radioing the pilot of a troubled aircraft to see if he or she received ("copied") the previous message. And the pilot may radio back, "Roger, Houston, I copy." This is an example of **feedback, whereby the receiver expresses his or her reaction to the sender's message.**

Sender [Encoding] → Message [Medium] Message → [Decoding] Receiver

[**Feedback**] Message

Feedback is essential in communication so that the person sending the message can know whether the receiver understood it in the same way the sender intended—and whether he or she agrees with it. It is an essential component of communication accuracy and can be facilitated by paraphrasing. **Paraphrasing occurs when people**

restate in their words the crux of what they heard or read. It clarifies that a message was accurately understood. If you want to ensure that someone understands something you said, ask him or her to paraphrase your message.

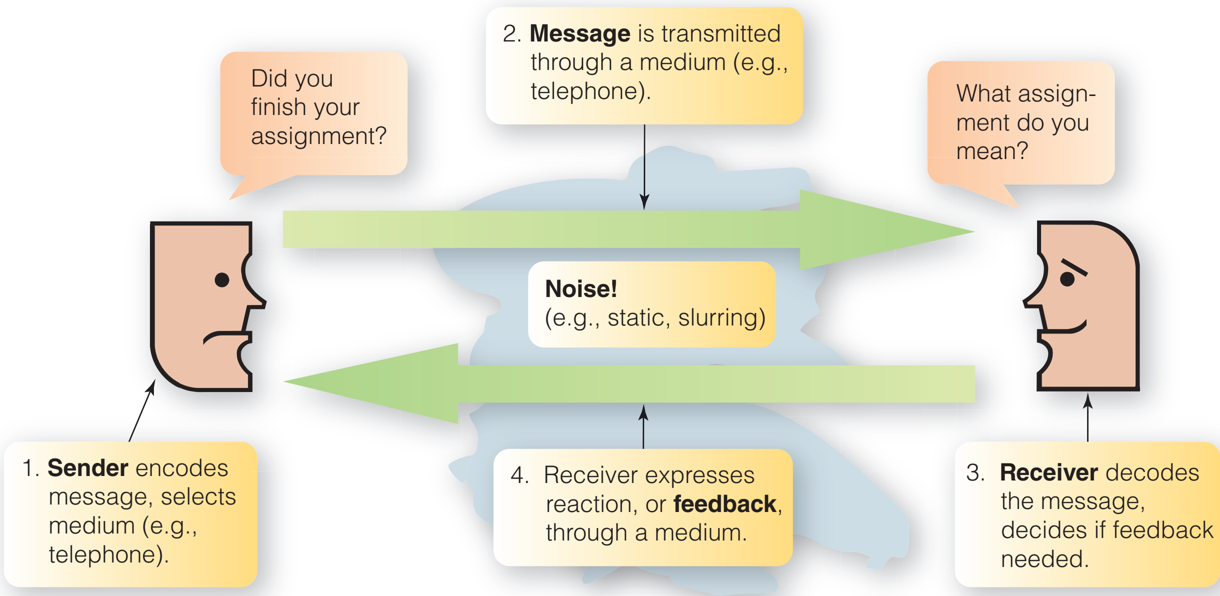
Noise Unfortunately, the entire communication process can be disrupted at several different points by what is called **noise—any disturbance that interferes with the transmission of a message.** The noise can occur in the medium, of course, as when you have static in a radio transmission or fadeout on a cell phone or when there's loud music when you're trying to talk in a noisy restaurant. Or it can occur in the encoding or decoding, as when a pharmacist can't read a prescription because of a doctor's poor handwriting.[7]

Noise also occurs in *nonverbal communication* (discussed later in this chapter), as when our physical movements send a message that is different from the one we are speaking, or in *cross-cultural communication* (discussed in Chapter 4), as when we make assumptions about other people's messages based on our own culture instead of theirs. We discuss noise further in the next section.

The communication process is shown below. *(See Figure 15.1.)*

FIGURE 15.1 **The communication process**

"Noise" is not just noise or loud background sounds but any disturbance that interferes with transmission—static, fadeout, distracting facial expressions, uncomfortable meeting site, competing voices, and so on.



Selecting the Right Medium for Effective Communication

All kinds of communications tools are available to managers, ranging from one-to-one face-to-face conversation all the way to use of the mass media. However, managers need to know how to use the right tool for the right condition—when to use e-mail or when to meet face-to-face, for example. Should you praise an employee by voicing a compliment, sending an e-mail, posting an announcement near the office coffee machine—or all three? How about when carrying out a reprimand?

Is a Medium Rich or Lean in Information? As a manager, you will have many media to choose from: conversations, meetings, speeches, the telephone, e-mail, memos, letters, bulletin boards, PowerPoint presentations, videoconferencing, printed publications, videos, and so on. Beyond these are the sophisticated communications possibilities of the mass media: public relations; advertising; news reports via print, radio, TV, the Internet.

Media richness indicates how well a particular medium conveys information and promotes learning. That is, the "richer" a medium is, the better it is at conveying information. The term *media richness* was proposed by respected organizational theorists Richard Daft and Robert Lengel as part of their contingency model for media selection.[8]

Ranging from high media richness to low media richness, types of media may be positioned along a continuum as follows:

High media richness
(Best for nonroutine, ambiguous situations)

Low media richness
(Best for routine, clear situations)

Face-to-face presence	Video-conferencing	Telephone	Personal written media (e-mail, text messages, memos, letters)	Impersonal written media (newsletters, fliers, general reports)

Face-to-face communication, also the most personal form of communication, is the richest. It allows the receiver of the message to observe multiple cues, such as body language and tone of voice. It allows the sender to get immediate feedback, to see how well the receiver comprehended the message. At the other end of the media richness scale, impersonal written media is just the reverse—only one cue and no feedback—making it low in richness.

Matching the Appropriate Medium to the Appropriate Situation

In general, follow these guidelines:[9]

Rich Medium: Best for Nonroutine Situations & to Avoid Oversimplification A *rich* medium is more effective with nonroutine situations. Examples: In what way would you like to learn the facts from your boss of a nonroutine situation such as a major company reorganization, which might affect your job? Via a memo tacked on the bulletin board (a lean medium)? Or via face-to-face meeting or phone call (rich medium)?

The danger of using a rich medium for routine matters (such as monthly sales reports) is that it results in information *overloading*—more information than necessary.

Lean Medium: Best for Routine Situations & to Avoid Overloading A *lean* medium is more effective with routine situations. Examples: In what manner would you as a sales manager like to get routine monthly sales reports from your 50 sales reps? Via time-consuming phone calls (somewhat rich medium)? Or via e-mails or text messages (somewhat lean medium)? The danger of using a lean medium for nonroutine matters (such as an announcement of a company reorganization) is that it results in information *oversimplification*—it doesn't provide enough of the information the receiver needs and wants.

E-mail and Facebook and Twitter messages (social media, discussed in Section 15.4) vary in media richness, being leaner if they impersonally blanket a large audience and richer if they mix personal textual and video information that prompts quick conversational feedback.[10]

15.2 How Managers Fit into the Communication Process

MAJOR QUESTION

How can I use the different channels and patterns of communication to my advantage?

THE BIG PICTURE

Formal communication channels follow the chain of command, which is of three types—vertical, horizontal, and external. Informal communication channels develop outside the organization's formal structure. One type is gossip and rumor. Another is management by wandering around, in which a manager talks to people across all lines of authority.

If you've ever had a low-level job in nearly any kind of organization, you know that there is generally a hierarchy of management between you and the organization's president, director, or CEO. If you had a suggestion that you wanted him or her to hear, you doubtless had to go up through management channels. That's formal communication. However, you may have run into that top manager in the elevator. Or in the restroom. Or in a line at the bank. You could have voiced your suggestion casually then. That's informal communication.

Formal Communication Channels: Up, Down, Sideways, & Outward

Formal communication channels follow the chain of command and are recognized as official. The organization chart we described in Chapter 8 (page 239) indicates how official communications—memos, letters, reports, announcements—are supposed to be routed.

Formal communication is of three types: (1) *vertical*—meaning upward and downward, (2) *horizontal*—meaning laterally (sideways), and (3) *external*—meaning outside the organization.

1. Vertical Communication: Up & Down the Chain of Command Vertical communication is the flow of messages up and down the hierarchy within the organization: bosses communicating with subordinates, subordinates communicating with bosses. As you might expect, the more management levels through which a message passes, the more it is prone to some distortion.

Upward bound. How do you communicate with a manager two or three levels above you in the organization's hierarchy? You can send a memo through channels. Or you can watch for when that manager goes to the watercooler or the coffeepot.

- **Downward communication—from top to bottom.** **Downward communication flows from a higher level to a lower level (or levels).** In small organizations, top-down communication may be delivered face-to-face. In larger organizations, it's delivered via meetings, e-mail, official memos, and company publications.
- **Upward communication—from bottom to top.** **Upward communication flows from a lower level to a higher level(s).** Often this type of communication is from a subordinate to his or her immediate manager, who in turn will relay it up to the next level, if necessary. Effective upward communication depends on an atmosphere of trust. No subordinate is going to want to be the bearer of bad news to a manager who is always negative and bad-tempered.

Types of downward and upward communication are shown below. *(See Table 15.1.)*

TABLE 15.1 **Types of Downward & Upward Communication**

Downward communication

Most downward communication involves one of the following kinds of information:

- Instructions related to particular job tasks. Example (supervisor to subordinate): "The store will close Monday for inventory. All employees are expected to participate."
- Explanations about the relationship between two or more tasks. Example: "While taking inventory, employees need to see what things are missing. Most of that might be attributable to shoplifting."
- Explanations of the organization's procedures and practices. Example: "Start counting things on the high shelves and work your way down."
- A manager's feedback about a subordinate's performance. Example: "It's best not to try to count too fast."
- Attempts to encourage a sense of mission and dedication to the organization's goals. Example: "By keeping tabs on our inventory, we can keep our prices down and maintain our reputation of giving good value."

Upward communication

Most upward communication involves the following kinds of information:

- Reports of progress on current projects. Example: "We shut down the store yesterday to take inventory."
- Reports of unsolved problems requiring help from people higher up. Example: "We can't make our merchandise count jibe with the stock reports."
- New developments affecting the work unit. Example: "Getting help from the other stores really speeded things up this year."
- Suggestions for improvements. Example: "The stores should loan each other staff every time they take inventory."
- Reports on employee attitudes and efficiency. Example: "The staff likes it when they go to another store and sometimes they pick up some new ways of doing things."

Sources: D. Katz and R. Kahn, The Social Psychology of Organizations *(New York: Wiley, 1966); and E. Planty and W. Machaver, "Upward Communications: A Project in Executive Development,"* Personnel, *Vol. 28 (1952), pp. 304–318.*

2. Horizontal Communication: Within & between Work Units

Horizontal communication flows within and between work units; its main purpose is coordination. As a manager, you will spend perhaps as much as a third of your time in this form of communication—consulting with colleagues and coworkers at the same level as you within the organization. In this kind of sideways communication, you will be sharing information, coordinating tasks, solving problems, resolving conflicts, and getting the support of your peers. Horizontal communication is encouraged through the use of committees, task forces, and matrix structures.

Horizontal communication can be impeded in three ways: (1) by specialization that makes people focus just on their jobs alone; (2) by rivalry between workers or work units, which prevents sharing of information; and (3) by lack of encouragement from management.

3. External Communication: Outside the Organization

External communication flows between people inside and outside the organization. These are other stakeholders: customers, suppliers, shareholders or other owners, and so on. Companies have given this kind of communication heightened importance, especially with customers or clients, who are the lifeblood of any company.

Informal Communication Channels

Informal communication channels develop outside the formal structure and do not follow the chain of command—they skip management levels and cut across lines of authority.

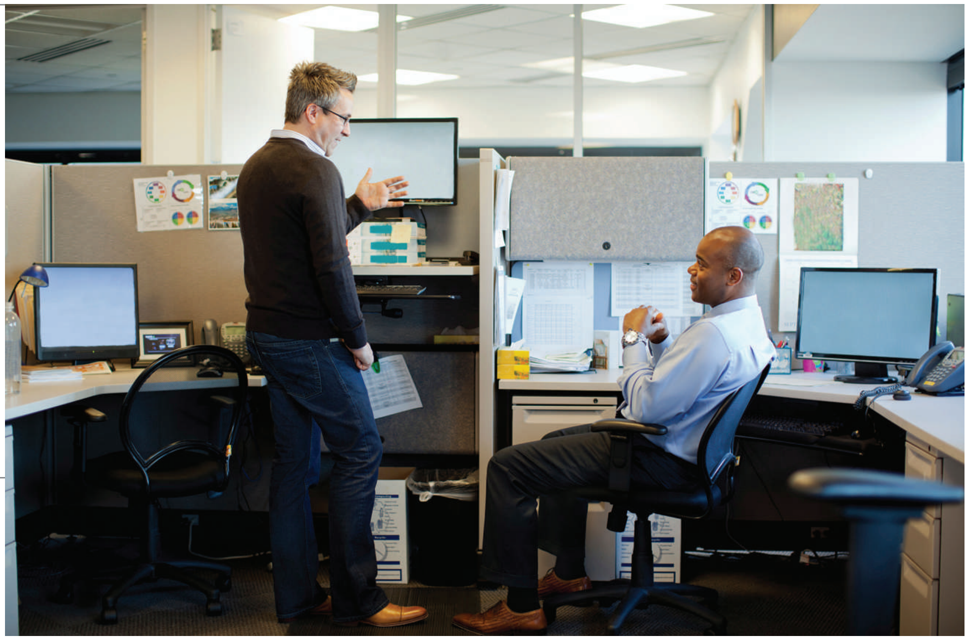
Two types of informal channels are (1) the *grapevine* and (2) *management by wandering around.*

The Grapevine

The grapevine is the unofficial communication system of the informal organization, a network of gossip and rumor of what is called "employee language." Research shows that the grapevine (1) is faster than formal channels, (2) is about 75% accurate, and (3) is used by employees when they are insecure, threatened, or faced with organizational change.[11] Of course, employee language—otherwise known as "gossip"—can be notoriously misleading and a great reducer of morale in a dysfunctional company.[12]

Management by Wandering Around

Management by wandering around (MBWA)—also known as *management by walking around*—is the term used to describe a manager's literally wandering around his or her organization and talking with people across all lines of authority.[13] Management by wandering around helps to reduce the problems of distortion that inevitably occur with formal communication flowing up a hierarchy. MBWA allows managers to listen to employees and learn about their problems as well as to express to employees what values and goals are important.



MBWA. Management by wandering around is sort of the reverse of employees exchanging informal views with top managers at the watercooler. That is, by wandering around the organization, top managers can stop and talk to nearly anyone—and thus perhaps learn things that might be screened out by the formal up-the-organization reporting process. If top managers can do MBWA, do you think mid-level managers can as well?

PRACTICAL ACTION

How to Streamline Meetings

When Steve Jobs was CEO of Apple, he used to hold marathon Monday meetings. The reason, he said, was "I want [Apple employees] making good or better decisions than I would. So the way to do that is have them know everything, not just in their part of the business but in every part of the business. So . . . we review the whole business."[14]

By contrast when Larry Page took over as CEO of Google, he announced that meetings should be run more efficiently—like those in a hungry start-up instead of a 31,000-person company. Thus, meetings can be only 50 minutes long, to allow for a 10-minute bathroom break. No more than 10 people should attend, and every person should give input. Every meeting must have one clear decision maker, otherwise the meeting shouldn't happen. If a decision can't be made without a meeting, then the meeting should be scheduled immediately.[15]

Which form do you prefer, Apple's or Google's?

What to Do as a Meeting Participant

It is frustrating to be a victim of a poorly run meeting. In fact, workers reportedly judge nearly 50% of their meetings to be a waste of time.[16] In one survey, 50% of workers at big companies (and 26% at smaller ones) said they had attended a meeting where at least one participant fell asleep.[17] Problem meetings can result from a lack of focus, nobody watching the clock, and no leader to keep the meeting on track.[18] Or managers may discourage conflict, which ignores crucial issues and makes meetings boring.[19]

What can you do as a participant to make meetings run better?

- **Pull discussions back on point:** As a participant, you can always pull an off-track conversation back by saying, for example, "We were discussing next year's budget, but now we seem to be discussing the shortfalls of last year." Or you can try making a summary of a series of comments to prevent others from covering the same ground again.
- **Help the leader create the agenda:** If you're constantly exposed to ineffective meetings, you can also offer your assistance to the meeting leader in creating an agenda, with time frames attached for each item.

What to Do as a Meeting Leader

If you're leading meetings, here are some good ways to streamline them:[20]

- **Eliminate unnecessary meetings and meeting attendance:** Don't call a meeting if the same result can be accomplished in some other way: text message, e-mail, phone call, memo, or one-on-one visit. Invite only people who need to attend, and tell them they need stay for only those parts that concern them. Hold the meeting in a place where distractions will be minimal. Incidentally, removing chairs so that people have to stand will make them more engaged and less territorial about their ideas, according to some research.[21]
- **Distribute meeting agenda in advance:** Do your homework and prepare a list of meeting objectives, topics to be covered (the most important ones first), and the number of minutes allowed for discussion. Distribute the agenda a day or more in advance, and tell participants what information they should bring. Even for informal meetings, phone conversations, and one-on-one appointments, you should make a list of items to cover.
- **Stay in control of the meeting:** Start on time and stay within the time frame of the agenda items. (Coffee breaks, lunchtime, or quitting time provide built-in limits.) Announce politely at the start of the meeting that you value everyone's time and so you will intervene if discussion becomes off-point. Reserve judgments and conclusions until after discussion so that everyone will feel free to give their input.

  Don't allow a few members to monopolize the discussion. Encourage silent members to participate. Try to reach a decision or make an assignment for every item. Use two pieces of paper, one for general notes, the other for tasks and assignments. Summarize the highlights at the end of the meeting. Map out a timetable for actions to be taken.
- **Do follow-up:** After the meeting, type up tasks and assignments for distribution. Set a date for a follow-up meeting to assess progress.

YOUR CALL

What can you add to these suggestions to make meetings run better? For more about running meetings, go to EffectiveMeetings.com (*www.effectivemeetings.com*).

15.3 Barriers to Communication

MAJOR QUESTION

What are the important barriers I need to be aware of, so I can improve my communication skills?

THE BIG PICTURE

We describe three barriers to communication. Physical barriers include sound, time, and space. Semantic barriers include unclear use of words and jargon. Personal barriers include variations in communication skills, trustworthiness and credibility, stereotypes and prejudices, and faulty listening skills. We also describe how misunderstandings can arise from nonverbal communication and gender-related communication differences.

How hard is it to place an order in a fast-food drive-through lane? Maybe not always so easy.

A Georgia fast-food worker urges customers to "please have a general idea of what you want *before* you reach the speaker" (because the company has employees on a timer). She also asks that you "speak clearly (but don't yell!) into the speaker. Also, although it may seem cute to you, I can barely understand your 4-year-old when she asks me for her kiddie meal." Further, "if you can't hear yourself over your car radio, I can't either."[22]

Customers have their own complaints. "How are we supposed to have any idea of what to order when we don't see the menu until we pull up to the window?" asks one.[23] Says another, "Those of us at the other end of the speaker often cannot understand a word being said, either because the speaker isn't working properly, because the order-taker has a thick accent, or the person is speaking too fast."[24]

All these are examples of communication *barriers*—a barrier being anything interfering with accurate communication between two people. Some barriers occur within the communication process itself, as shown below. (*See Table 15.2.*)

It's more practical, however, to think of barriers as being of three types: (1) *physical barriers,* (2) *semantic barriers,* and (3) *personal barriers.*

TABLE 15.2 **Some Barriers that Happen within the Communication Process**

All it takes is one blocked step in the communication process for communication to fail. Consider the following.

- **Sender barrier—no message gets sent.** Example: If a manager has an idea but is afraid to voice it because he or she fears criticism, then obviously no message gets sent.
- **Encoding barrier—the message is not expressed correctly.** Example: If your vocabulary is lacking or English is not your first language, you may have difficulty expressing to a supervisor, coworker, or subordinate what it is you mean to say.
- **Medium barrier—the communication channel is blocked.** Example: When someone's phone always has a busy signal or a computer network is down, these are instances of the communication medium being blocked.
- **Decoding barrier—the recipient doesn't understand the message.** Example: Perhaps you're afraid to show your ignorance when someone is throwing computer terms at you and says that your computer connection has "a bandwidth problem."
- **Receiver barrier—no message gets received.** Example: Because you were talking to a coworker, you weren't listening when your supervisor announced today's work assignments.
- **Feedback barrier—the recipient doesn't respond enough.** Example: You give some people street directions, but since they only nod their heads and don't repeat the directions back to you, you don't really know whether you were understood.

1. Physical Barriers: Sound, Time, Space, & So On

Try shouting at someone on the far side of a construction site—at a distance of several yards over the roar of earth-moving machinery—and you know what physical barriers are. Other such barriers are time-zone differences, telephone-line static, and crashed computers. Office walls can be physical barriers, too, which is one reason for the trend toward open-floor plans with cubicles instead of offices in many workplace settings.[25]

2. Semantic Barriers: When Words Matter

When a supervisor tells you, "We need to get this done right away," what does it mean? Does "We" mean just you? You and your coworkers? Or you, your coworkers, and the boss? Does "right away" mean today, tomorrow, or next week? These are examples of semantic barriers. **Semantics is the study of the meaning of words.**

As global communications have become so important, so have semantic difficulties, which we may often encounter when dealing with other cultures (as we discussed in Chapter 4). When talking on the phone with Indians working in call centers in India, for example, we may find their pronunciation unusual. Perhaps that is because, according to one Indian speech-voice consultant, whereas "Americans think in English, we think in our mother tongue and translate it while speaking."[26]

In addition, as our society becomes more technically oriented, semantic meaning becomes a problem because jargon develops. **Jargon is terminology specific to a particular profession or group.** (Example: "The HR VP wants the RFP to go out ASAP." Translation: "The vice president of human resources wants the request for proposal to go out as soon as possible.") Another problem is the use of *buzzwords*, such as "leverage," "interface," or "circle back"—annoying words primarily designed to impress

Without walls. Supposedly businesses that have open floor plans with cubicles instead of private offices function better because people can more easily talk across the shoulder-high partitions or can move their chairs together for a meeting. But do you think the absence of floor-to-ceiling physical barriers might, in fact, lead to other kinds of barriers—such as others' talking making it hard to hear while you're on the phone?

rather than inform. (Example: "Could you interface with that team on its ad campaign that's gone viral, and then circle back with me? If we can leverage similar assets, we'll have a game changer.")[27] As a manager in a specialized field, you need to remember that what are ordinary terms for you may be mysteries to outsiders.

3. Personal Barriers: Individual Attributes that Hinder Communication

"Is it them or is it me?"

How often have you wondered, when someone has shown a surprising response to something you said, how the miscommunication happened? Let's examine nine personal barriers that contribute to miscommunication.

Variable Skills in Communicating Effectively As we all know, some people are simply better communicators than others. They have the vocabulary, the writing ability, the speaking skills, the facial expressions, the eye contact, the dramatic ability, the "gift of gab," the social skills to express themselves in a superior way. Conversely, other people don't have these qualities. But better communication skills can be learned.[28] Nondefensive communication is a key skill to develop.

Using evaluative or judgmental comments such as "Your work is terrible" or "You're always late for meetings" spur defensiveness, which can lead to **defensive communication**—**either aggressive, attacking, angry communication or passive, withdrawing communication**. The better alternative is **nondefensive communication**—**communication that is assertive, direct, and powerful.**

Former judge and TV news anchor Catherine Crier's rules for nondefensive communication are (1) define the situation, (2) clarify the person's position, (3) acknowledge the person's feelings, and (4) bring the focus back to the facts.[29] Such positive steps—aided by the avoidance of absolutist, accusatory phrases such as "You always . . . " and "You never . . . "—help bolster the ongoing feedback process so essential to true understanding in communication.

Companies tend to develop work environments that can support either defensive or nondefensive communication. Given that we want you to learn how to promote nondefensive communication, we encourage you to complete Self-Assessment 15.2. It assesses whether a current or past work environment is supportive of nondefensive communication.

SELF-ASSESSMENT 15.2 connect

Does Your Organization Have a Supportive or Defensive Communication Climate?

The following survey was designed to assess the supportive and defensive communication climate of your organization. Go to **connect.mheducation.com** and take Self-Assessment 15.2. When you're done, answer the following questions:

1. Where does the work environment stand in terms of having a supportive or defensive communication climate?
2. Based on your survey scores, what advice would you give to management in order to promote a more supportive communication climate? Be specific.
3. Considering your project teams at school, what can you do to create a more supportive communication climate in these teams?

Variations in How Information Is Processed & Interpreted Zheng Yu, a young woman from China teaching her native language to students in Lawton, Oklahoma, was explaining a vocabulary quiz when a student interrupted: "Sorry, I was zoning out. What are we supposed to be doing?" Zheng repeated the instructions, but she was taken aback. "In China," she said afterward, "if you teach the students and they don't get it, that's their problem. Here if you don't get it, you teach it again."[30]

Are you from a working-class or privileged background? Are you from a particular ethnic group? Are you better at math or at language? Are you from a chaotic household filled with alcoholism and fighting, which distracts you at work? Because people use different frames of reference and experiences to interpret the world around them, they are selective about what things have meaning to them and what don't. All told, these differences affect what we say and what we think we hear.

Variations in Trustworthiness & Credibility Without trust between you and the other person, communication is apt to be flawed. Instead of communicating, both of you will be concentrating on defensive tactics, not the meaning of the message being exchanged. How will subordinates react to you as a manager if your predecessors in your job lied to them? They may give you the benefit of a doubt, but they may be waiting for the first opportunity to be confirmed in the belief that you will break their trust.[31]

Oversized Egos Our egos—our pride, our self-esteem, even arrogance—are a fifth barrier. Egos can cause political battles, turf wars, and the passionate pursuit of power, credit, and resources. Egos influence how we treat each other as well as how receptive we are to being influenced by others. Ever had someone take credit for an idea that was yours? Then you know how powerful ego feelings can be.

Big egos are certainly a factor when managers tune out workers' ideas, a frequent employee complaint—and often they're right, according to some research.[32] "People in powerful positions, such as managers, tend to dismiss others' advice when making decisions," says one summary.[33] Indeed, people with high levels of power—motivated by feelings of competitiveness—tend to discount advice from experts and novices equally. (Individuals with neutral and low levels of power weigh advice from experts and experienced advisors more heavily than advice from novices.) Researchers found that women were more likely than men to take others' advice.

Faulty Listening Skills When you go to a party, do people ever ask questions of you and about who you are and what you're doing? Or are they too ready to talk about themselves? And do they seem to be waiting for you to finish talking so that they can then resume saying what they want to say? (But here's a test: Do you actually listen when *they* are talking?)

Tendency to Judge Others' Messages Suppose another student in this class sees you reading this text and says, "I like the book we're reading." You might say, "I agree." Or you might say, "I disagree—it's boring." The point is that we all have a natural tendency, according to psychologist Carl Rogers, to judge others' statements from our own point of view (especially if we have strong feelings about the issue).[34]

Inability to Listen with Understanding To really listen with understanding, you have to imagine yourself in the other person's shoes. Or, as Rogers and his coauthor put it, you have to "see the expressed idea and attitude from the other person's point of view, to sense how it feels to him, to achieve his frame of reference in regard to the thing he is talking about."[35] When you listen with understanding, it makes you feel less defensive (even if the message is criticism) and improves your accuracy in perceiving the message.

Stereotypes & Prejudices We discussed stereotyping in Chapter 11. **A stereotype consists of oversimplified beliefs about a certain group of people.** There are, for instance, common stereotypes about old people, young people, males, and females. Wouldn't you hate to be categorized according to just a couple of exaggerated attributes—by your age and gender, for example? ("Young men are reckless." "Old women are scolds." Yes, *some* young men and *some* old women are this way, but it's unrealistic and unfair to tar every individual in these groups with the same brush.)

We consider matters of gender communication later in this chapter.

Nonverbal Communication Do your gestures and facial expressions contradict your words? This is the sort of nonverbal communication of which you may not even be aware. We discuss this subject in more detail next.

Nonverbal Communication: How Unwritten & Unspoken Messages May Mislead

"The best waiters know what type of service you prefer before you tell them," says one report. It's called "having eyes" for a table or "feeling" or "reading" the table—noting diners' nonverbal communication: body language, eye contact, expressions, moods.[36]

Nonverbal communication consists of messages sent outside of the written or spoken word. Says one writer, it includes such factors as "use of time and space, distance between persons when conversing, use of color, dress, walking behavior, standing, positioning, seating arrangement, office locations, and furnishings."[37] Perhaps 65% of every conversation is partially interpreted through nonverbal communication, according to some experts.[38] Others estimate nonverbal communication is responsible for as much as 93%–95% of a message.[39]

Given the prevalence of nonverbal communication and its impact on organizational behavior (such as hiring decisions, perceptions of others, and getting one's ideas accepted by others), it is important that you become familiar with the various sources of nonverbal communication.[40] Indeed, this is particularly so when you are dealing with people of other cultures around the world, as we saw back in Chapter 4 (Section 4.5) in our discussion of cultural differences.[41]

Six ways in which nonverbal communication is expressed are through (1) *eye contact,* (2) *facial expressions,* (3) *body movements and gestures,* (4) *touch,* (5) *setting,* and (6) *time.* (Some lists add interpersonal space, which we discussed in Chapter 4.)

1. Eye Contact Eye contact serves four functions in communication: (1) It signals the beginning and end of a conversation; there is a tendency to look *away* from others when beginning to speak and to look *at* them when done. (2) It expresses emotion; for instance, most people tend to avoid eye contact when conveying bad news or negative feedback. (3) Gazing monitors feedback because it reflects interest and attention. (4) Depending on the culture, gazing also expresses the type of relationship between the people communicating. For instance, Westerners are taught at an early age to look at their parents when spoken to. However, Asians are taught to avoid eye contact with a parent or superior in order to show obedience and subservience.[42]

Bored or tired? People's behavior doesn't always reflect what's going on around them. It may reflect what's going on *inside* of them. Perhaps this man on the right was up late the night before with a sick child or working to meet a project deadline. Even so, when speaking, you need to watch your audience for their reactions.

2. Facial Expressions Probably you're accustomed to thinking that smiling represents warmth, happiness, or friendship whereas frowning represents dissatisfaction or anger. But these interpretations of facial expressions don't apply across all cultures.[43] A smile, for example, doesn't convey the same emotions in different countries.

3. Body Movements & Gestures An example of a body movement is leaning forward; an example of a gesture is pointing. Open body positions, such as leaning backward, express openness, warmth, closeness, and availability for communication. Closed body positions, such as folding one's arms or crossing one's legs, represent defensiveness. Body movements can be extremely subtle; for instance, when we say, "I'm looking forward to . . . ," guess which direction we tend to lean (if only very slightly)?[44]

Some body movements and gestures are associated more with one sex than the other, according to communication researcher Judith Hall. For instance, women nod their heads and move their hands more than men do. Men exhibit large body shifts and foot and leg movements more than women do.[45]

We need to point out, however, that interpretations of body language are subjective, hence easily misinterpreted, and highly dependent on the context and cross-cultural differences.[46] You'll need to be careful when trying to interpret body movements, especially when you're operating in a different culture.

4. Touch Norms for touching vary significantly around the world. For example, as we noted in Chapter 4, in the Middle East it is normal for two males who are friends to walk together holding hands—not commonplace behavior in the United States. In Latin America, there may be effusive hugging and kissing during a business deal.[47]

Men and women interpret touching differently, with women tending to do more touching during conversations than men do.[48] If women touch men, it is viewed as sexual; the same interpretation is made when men touch other men.[49] Yet even handshakes and embracing seem to be changing, with the male handshake now evolving into a range of more intimate gestures—"the one-armed hug, the manly shoulder bump, the A-frame clasp with handshake in the middle, the mutual back-slap," as one article puts it.[50] Good teams tend to use touch more than bad teams do, according to some research.[51]

5. Setting How do you feel when you visit someone who sits behind a big desk and is backlit by a window so her face is obscured? What does it say when someone comes out from behind his desk and invites you to sit with him on his office couch? The location of an office (such as corner office with window versus interior office with no window), its size, and the choice of furniture often express the accessibility of the person in it.

6. Time When your boss keeps you waiting 45 minutes for an appointment with him, how do you feel? When she simply grunts or makes one-syllable responses to your comments, what does this say about her interest in your concerns? As a manager yourself, you should always give the people who work for you adequate time. You should also talk with them frequently during your meetings with them so they will understand your interest.

The table below gives some suggestions for better nonverbal communication skills. *(See Table 15.3.)*

TABLE 15.3

Toward Better Nonverbal Communication Skills

You can practice these skills by watching TV with the sound off and interpreting people's emotions and interactions.

DO . . .	DON'T . . .
Maintain eye contact	Look away from the speaker
Lean toward the speaker	Turn away from the speaker
Speak at a moderate rate	Speak too quickly or slowly
Speak in a quiet, reassuring tone	Speak in an unpleasant tone
Smile and show animation	Yawn excessively
Occasionally nod head in agreement	Close your eyes
Be aware of your facial expressions	Lick lips, bite nails, play with your hair

Source: Adapted from P. Preston, "Nonverbal Communication: Do You Really Say What You Mean?" Journal of Healthcare Management, *March–April 2005, pp. 83–86.*

Communication Differences between Men & Women

Do men dominate the top rungs of business in part because they exaggerate more? Men are said to be "overconfident" when recalling their past accomplishments—and are able to convince their peers to make them leaders—whereas women recall their accomplishments more accurately, putting them at a competitive disadvantage. At least that's what one study suggests.[52]

Men are also eight times as likely as women to bargain over starting pay. Indeed, says one account, "Women often are less adroit at winning better salaries, assignments, and jobs—either because they don't ask or because they cave in when they do."[53] In other words, women need to hone their negotiation skills, or else they will fall behind.

Some possible general differences in communication between genders are summarized below. *(See Table 15.4.)* Note, however, that these don't apply in all cases, which would constitute stereotyping.

TABLE 15.4 **Communication Differences**

How do men and women differ?

LINGUISTIC CHARACTERISTIC	MEN	WOMEN
Taking credit	Greater use of "I" statements (e.g., "I did this" and "I did that"); more likely to boast about their achievements	Greater use of "We" statements (e.g., "We did this" and "We did that"); less likely to boast about their achievements
Displaying confidence	Less likely to indicate that they are uncertain about an issue	More likely to indicate a lack of certainty about an issue
Asking questions	Less likely to ask questions (e.g., asking for directions)	More likely to ask questions
Conversation rituals	Avoid making apologies because it puts them in a one-down position	More frequently say "I'm sorry"
Giving feedback	More direct and blunt	More tactful; tend to temper criticism with praise
Giving compliments	Stingy with praise	Pay more compliments than men do
Indirectness	Indirect when it comes to admitting fault or when they don't know something	Indirect when telling others what to do

Source: Derived from D. Tannen, "The Power of Talk: Who Gets Heard and Why," Harvard Business Review, *September–October 1995; and D. Tannen,* You Just Don't Understand: Women and Men in Conversation *(New York: Ballantine Books, 1990).*

How useful do you think these specific styles are in a managerial context? (Recall the discussion of men and women with reference to leadership in Chapter 14.)

Author Judith Tingley suggests that women and men should learn to "genderflex"—temporarily use communication behaviors typical of the other gender to increase the potential for influence.[54] For example, a female manager might use sports analogies to motivate a group of males.

Deborah Tannen, by contrast, recommends that everyone become aware of how differing linguistic styles affect our perceptions and judgments. A **linguistic style is a person's characteristic speaking patterns**—pacing, pausing, directness, word choice, and use of questions, jokes, stories, apologies, and similar devices. For example, in a meeting, regardless of gender, "those who are comfortable speaking up in groups, who need little or no silence before raising their hands, or who speak out easily without waiting to be recognized are more apt to be heard," she says. "Those who refrain from talking until it's clear that the previous speaker is finished, who wait to be recognized, and who are inclined to link their comments to those of others will do fine at a meeting where everyone else is following the same rules but will have a hard time getting heard in a meeting with people whose styles are more like the first pattern."[55]

EXAMPLE

Do Female Executives Have an Edge in Business? Women & Communication

Women in business have the edge in two ways, says Chris Clarke, head of an executive search firm with offices in more than 40 countries. "There is increasing evidence," he says, "that women are superior at multitasking, which is needed to handle business complexities, and that they are better at relationships, which is important in developing effective teams."[56] For instance, the social-media style of young women (and increasingly women over 40, too) is use of highly expressive language, showing a greater emphasis on relationships and connecting with others.[57]

Overcommunicating. There is another way that women also have an edge, suggests a *BusinessWeek* article: Instead of tightly controlling information, they are more willing to share it.[58] For instance, one study found that management teams with a high proportion of women monitored feedback more closely and also promoted more interpersonal communication and employee involvement in decision making.[59]

A representative of this viewpoint is Anu Shukla, who sold her Internet marketing company for $390 million and made 65 of her 85 employees millionaires. "It's better to overcommunicate," she says. As an example, she made it her policy to share information with all her employees rather than to impart it to selected employees on a need-to-know basis.

His & Her Styles? Anne Cummings, professor of business administration at the University of Minnesota at Duluth, suggests there are "masculine" and "feminine" styles in business, in which men tend to be more task oriented and assertive and to take greater intellectual risks whereas women tend to be more relationship oriented and "democratic" and to be more efficient at solving problems.[60] (Of course, all this behavior operates on a continuum, and most people have a multitude of styles.)

YOUR CALL

Do you think a woman can be successful by taking on the "masculine" style? Can a man be successful taking on the "feminine" style?

Learning "Soft Skills" Today there are executive-training programs designed to teach men the value of emotion in relationships—the use of "soft skills" to communicate, build teams, and develop flexibility. "The nature of modern business requires what's more typical to the female mold of building consensus as opposed to the top-down male military model," says Millington F. McCoy, managing director of a New York executive search firm.

Exchange of views? Men and women have different communication styles. How effective do you think you are at communicating with the opposite sex?

Interestingly, although men hold most of the top corporate jobs, when they want the advice of an executive coach—a trained listener to help them with their goals and personal problems—they usually turn to a woman. And, in fact, females always want another female as a coach. As a result, 7 out of 10 graduates of Coach U, the largest training school for executive coaches, are women. Because good coaches, says Coach U's CEO Sandy Vilas (who is male), are intuitive communicators and have done a lot of personal development work, "that profile tends to fit women better." Says Susan Bloch, who heads an executive coaching practice, "When a man is asked to coach another, they have a tendency to compete. Man to man, they have to show each other how great they are."[61]

15.4 Communication in the Information Age

MAJOR QUESTION

How do contemporary managers use information technology to communicate more effectively?

THE BIG PICTURE

We discuss digital communication technology and workplace behavior, including the characteristics of the "Always On" (Millennial or Internet) generation. We also describe three technologies that are altering the communication process: videoconferencing, telecommuting, and teleworking. Finally, we discuss some difficulties of the digital age: security problems, privacy concerns, e-mail overload, and cell-phone abuse.

The use of computers and information technology, which has so dramatically affected many aspects of the workplace, has taken us beyond communicating into multicommunicating. **Multicommunicating represents "the use of technology to participate in several interactions at the same time,"** in one explanation.[62] Examples would be answering e-mail messages during a lecture, and texting during a dinner conversation or while participating in a group conference call. Although multicommunicating sometimes enables us to get more things done in a shorter amount of time, there are times and places when it also can create *miscommunication* and lead to stress and hurt feelings.[63] For example, texting and checking your-email while working with colleagues can be seen as not only annoying but insulting.[64]

Digital Communication Technology & Workplace Behavior[65]

Multicommunicating is an example of how the worldwide digital communication revolution affects how we act and interact in workplace settings—both positively and negatively. The universal digital language of 1s and 0s gives us immediate access to unprecedented amounts of information and globe-spanning opportunities.

However, the very act of using technologies such as e-mail, texting, Facebook, and Twitter may influence the content of our communications. For example, researchers found that peers rate each other differently depending on the medium they use, with people being "far more likely to trash their colleagues via e-mail than when filling out a paper form," according to a *Fortune* writer.[66] Moreover, faster, far-flung digital communication doesn't necessarily mean better communication. In one organization, for example, employees with the most extensive personal digital networks were found to be 7% more productive than their colleagues, but those with the most cohesive face-to-face networks were even more productive—30% more, in fact. Research on high-performing teams similarly found that effective teams had more face-to-face than digital encounters.[67]

The "Always On" Generation

With the rise of the Internet has also come the rise of the "Always On" generation—or the Net Generation, Gen Y, the Millennials—88 million people born 1977–1997, the largest such cohort in U.S. history. The Always On generation is accustomed to spending 8 hours a day or more looking at various screens—on cell phones, on computers, on TVs—constantly busy with text messaging, e-mail, and the Internet.[68] This generation is much more likely (83%) to sleep with their cell phone next to their bed compared with Gen X (born 1965–1980) at 68% and Baby Boomers (born 1945–1964) at 50%.[69] Millennials are the most avid users of Facebook, with a median number of friends of 250, compared to 200 for Gen X.[70]

Hard on the heels of the Millennials is today's young "iGeneration," for whom technology is "simply a part of their DNA," as one child psychologist observed.[71] Indeed, if you are an 18- to 24-year-old, you generally watch the smallest amount of live TV (3½ hours a day) compared with any other age group, but you spend the most time text messaging (19 minutes a day) and watch the most online video (5½ minutes a day).[72] The average teenager now sends a median of 60 texts a day (up from 50 in 2009).[73]

In a few years, Millennials (Net Gen, Gen Y) will account for nearly half the employees in the world, and in some companies they already constitute a majority.[74] Their outlook, therefore, is having a profound impact on the workplace, "bringing new approaches to collaboration, knowledge sharing, and innovation in businesses and governments," says University of Toronto professor Don Tapscott, author of *Grown Up Digital*.[75] Tapscott and his fellow researchers have identified eight norms for this generation. *(See Table 15.5.)*

TABLE 15.5 **Eight Norms of the Millennial or Internet Generation**

1. **Freedom—the desire to experience new and different things.** This norm, which takes precedence over long-term commitments, is expressed in a desire for flexible work hours and locations, to have a say in how things are done, and for freedom of choice.
2. **Customization—the desire to have personalized products and choices.** Customization covers everything from ring tone choices to Facebook layouts to lifestyle choices.
3. **Scrutiny—not taking "facts" and authority figures at face value.** Knowing that there is both treasure and trash on the Internet, this generation has learned to be skeptical, to check things out, to ask probing questions. Candor and straight talk are favored.
4. **Integrity—trust in people, products, and employers is important.** This generation cares about honesty, transparency, and keeping commitments—although they are elastic when it comes to pirating music and practicing plagiarism.
5. **Collaboration—relationships are of key importance.** Members of this generation value volunteering, know how to work and play with others, and are eager to offer opinions and suggestions.
6. **Entertainment—keep things moving and interesting.** A job should be both challenging and fun, not a life sentence. For this multitasking generation, the Internet is not only a productivity tool and information source but also a personal communication device and "fun tool of choice."
7. **Speed—instant feedback is expected.** Used to instant-feedback video games and nanosecond answers from Google, Millennials prefer rapid-fire texting, instant messaging, and Tweeting to the slower e-mail. This leads them to urge faster decision making and feedback on job performance.
8. **Innovation—impatience for new and different user experiences.** In the workplace, the traditional hierarchy is rejected in favor of work processes that encourage collaboration and creativity.

Source: Adapted from discussion in D. Tapscott, Grown Up Digital: How the Net Generation Is Changing Your World *(New York: McGraw-Hill, 2009), pp. 73–96, and from A. Kreitner and A. Kinicki,* Organizational Behavior, *10th ed. (New York: McGraw-Hill/Irwin, 2013), p. 421.*

What kind of attitudes, preferences, and expectations do Millennials have that employers have to take into account in managing them? Millennials exhibit a thirst for instant gratification and quick fixes and problems with focus and diminished attention spans, says one study.[76] They also "place a strong emphasis on finding work that's personally fulfilling," says one article. "They want work to afford them the opportunity to make new friends, learn new skills, and connect to a larger purpose."[77] At least as important as compensation are six types of rewards, expressed in order as high-quality colleagues, flexible work arrangements, prospects for advancement, recognition from one's company or boss, a steady rate of advancement and promotion, and access to new experiences and challenges.[78] To deal with this cohort of employees, IBM advises managers giving feedback to be clear, keep it loose, promote a dialogue, and keep notes to make feedback sessions more constructive.[79]

Videoconferencing. In this arrangement, people in different locations can interact while viewing each other on a large screen. Videoconferencing offers considerable savings in time and money over the cost of travel. Do you think you would feel inhibited working with people in this way?

Digital Communication & the New Workplace: Videoconferencing, Telecommuting, & Teleworking

Digital communication has significantly altered the traditional linkages between work, place, and time. Let's consider videoconferencing, telecommuting, and telework.

Videoconferencing Fueled by recession-induced cutbacks in travel budgets, many corporations turned to *videoconferencing,* also known as *teleconferencing,* using video and audio links along with computers to allow people in different locations to see, hear, and talk with one another.[80]

Videoconferencing does not beat face-to-face meetings for opening a relationship with a prospective client or closing a decision. Indeed, one study found that when a company reduces its travel budget for personal meetings, it loses both revenue and profits. In fact, if a company completely eliminated business travel, corporate profits could drop 17% in the first year, the study found, and it would take more than three years for profits to reach the same level as before.[81] Still, meetings via videoconferencing certainly are better than no meetings at all.

Many organizations set up special videoconferencing rooms or booths with specially equipped television cameras. Some of the more sophisticated equipment is known as **telepresence technology, high-definition videoconference systems that simulate face-to-face meetings between users.** Whereas traditional videoconferencing systems can be set up in a conventional conference room, telepresence systems require a specially designed room with multiple cameras and high-definition video screens, simulating "the sensation of two groups of people at identical tables facing each other through windows," according to one report.[82]

Clearly, telepresence technology can be quite expensive. Other equipment enables people to attach small cameras and microphones to their desks or computer monitors. This enables employees to conduct long-distance meetings and training classes without leaving their office or cubicle.[83]

Telecommuting As we stated in Chapter 12, *telecommuting* involves doing work that is generally performed in the office away from the office, using a variety of information technologies. Employees typically receive and send work from home via phone and fax or by using a modem to link a home computer to an office computer. Among the benefits are (1) reduction of capital costs, because employees work at home; (2) increased flexibility and autonomy for workers; (3) competitive edge in recruiting hard-to-get employees; (4) increased job satisfaction and lower turnover; (5) increased productivity; and (6) ability to tap nontraditional labor pools (such as prison inmates and homebound disabled people).[84]

About 24% of rural businesses and 35% of nonrural businesses in the United States currently allow employees to telecommute or telework.[85] Telecommuting is more common for jobs that involve computer work, writing, and phone or brain work that requires concentration and limited interruptions. Although telecommuting represents an attempt to accommodate employee needs and desires, it requires adjustments and is not for everybody.[86] People who enjoy the social camaraderie of the office setting, for instance, probably won't like it. Others lack the self-motivation needed to work at home.[87] However, people like Sylvia Marino of Mill Valley, California, who for many years has been telecommuting 350 miles away with Santa Monica–based Edmunds.com, which provides information to car buyers, find it a great way to sustain a career and still be with their children.[88]

Teleworking Recently, the term *telework* (or *virtual office*) has been adopted to replace the term "telecommuting" because it encompasses not just working from home but working from anywhere: "a client's office, a coffee shop, an airport lounge, a commuter train," in one description. "With cellphones, broadband at home, Wi-Fi, virtual private networks, and instant messaging becoming ubiquitous, telework has become easier than ever."[89] Some of those who lack a conventional office may sign up for shared, or "coworking," spaces, where they socialize around a coffeepot.[90] Whatever the arrangement, employees in different locations and time zones can work simultaneously (called synchronous communication) and team members can work on the same project at different times (asynchronous communication).

The Downside of the Digital Age

It's fair to say that the digital age has introduced almost as many difficulties as efficiencies into people's lives. Describing them all would fill a book in itself, but here let us concentrate on just a few that managers have to struggle with. Some difficulties are those we mentioned earlier, such as the lack of focus brought on by the constant distraction of available electronic gadgets. Other problems are with security, privacy, e-mail overkill, and cell-phone abuse.

Security: Guarding against Cyberthreats

Security is defined as a system of safeguards for protecting information technology against disasters, system failures, and unauthorized access that result in damage or loss. Security is a continuing challenge, with computer and cell-phone users constantly having to deal with threats ranging from malicious software (malware) that tries to trick people into yielding passwords, Social Security numbers, and financial information to deviant programs (viruses) that can destroy or corrupt data.[91] According to the Norton *Cyber Crime Report for 2013,* the cost per cybercrime victim shot up to $298, a 50% increase over 2012, with the total cost of those crimes amounting to $113 billion.[92]

The key to protecting digital communication systems against fraud, hackers, identity theft, and other threats is prevention. The table below presents some ways to protect yourself. *(See Table 15.6.)*

TABLE 15.6

Protecting against Security & Privacy Breaches on the Internet

- **Don't use passwords that can be easily guessed.** Use weird combinations of letters, numbers, punctuation, and mix uppercase and lowercase, along with special characters such as !, #, and %.
- **Don't use the same password for multiple sites.** Avoid using the same password at different sites, since if hackers or scammers obtain one account, they potentially have your entire online life.
- **Don't reveal sensitive information on social networking sites.** Even people who set their profiles to Facebook's strictest privacy settings may find sensitive information leaked all over the web.
- **Be careful about free and illegal downloads.** File-sharing programs often contain spyware, as do sites containing free and illegal songs, movies, and TV shows.
- **Be mindful of liability issues.** Employers routinely monitor employee e-mail for offensive messages or risky material that may expose them to lawsuits.
- **Keep antivirus software updated.** The antivirus software on your computer won't protect you forever. Visit the antivirus software maker's website and enable the automatic update features.

Source: Derived from B. K. Williams and S. C. Sawyer, Using Information Technology: A Practical Introduction, *11th ed. (New York: McGraw-Hill Education, 2015), pp. 94, 100, 101, 357, 478.*

Privacy: Keeping Things to Yourself

Privacy is the right of people not to reveal information about themselves. Threats to privacy can range from name migration, as when a company sells its customer list to another company, to online snooping, to government prying and spying. A potentially devastating violation of privacy is **identity theft, in which thieves hijack your name and identity and use your good credit rating to get cash or buy things.**

In some cases, Internet users are their own worst enemies, posting compromising information about themselves on social networking sites that may be available to, say, potential employers. Supposedly such websites have various options whereby users can choose who is and is not allowed access to their personal information, but Facebook, for one, came in for a good deal of criticism because it altered its privacy controls in such a way as to expose many of its members' personal information online.[93]

Interestingly, however, 18- to 29-year-olds have been found to be more likely than older users of social networks to keep a keen eye on their online profiles and who can access them—just the opposite of what many people expected.[94]

E-Mail: Productivity Enhancer or Time Waster? There were 182 billion messages a day sent worldwide in 2013, up from 144 billion in 2012, and new accounts are expected to grow 6% a year.[95] Think it will ever go away?

People tend to have a love-hate relationship with e-mail. We love that we can send and receive e-mail 24/7 from practically anywhere. But we hate the fact that the average worker receives 200 e-mails a day, according to some research.[96] (But most people say they can't deal with more than 50 messages in a day.[97]) Some other disadvantages of e-mail are that (1) there has been a decrease in all other forms of communication among coworkers—including greetings and informal conversations; (2) emotions often are poorly communicated or miscommunicated via e-mail messages; and (3) the greater the use of e-mail, the less connected coworkers reportedly feel.[98]

The table below provides some practical tips for handling e-mail. *(See Table 15.7.)*

TABLE 15.7

Tips for Better E-Mail Handling

- **Treat all e-mail as confidential.** Pretend every message is a postcard that can be read by anyone. (Supervisors may legally read employee e-mail.)
- **Be careful with jokes and informality.** Nonverbal language and other subtleties are lost, so jokes may be taken as insults or criticism.
- **Avoid sloppiness, but avoid criticizing others' sloppiness.** Avoid spelling and grammatical errors, but don't criticize errors in others' messages.
- **When replying, quote only the relevant portion.** Edit long e-mail messages you've received down to the relevant paragraph and put your response immediately following.
- **Not every topic belongs on e-mail.** Complicated topics may be better discussed on the phone or in person to avoid misunderstandings.

Sources: D. Halpern, "Dr. Manners on E-Mail Dos and Don'ts," Monitor of Psychology, *April 2004, p. 5; P. R. Brown, "Same Office, Different Planets,"* The New York Times, *January, 26, 2008, p. 135; D. Newlund, "E-Mail's High Cost,"* The Arizona Republic, *July 20, 2011, p. CL1; and B. K. Williams and S. C. Sawyer,* Using Information Technology, *11th ed. (New York: McGraw-Hill Education, 2015), p. 81.*

Smartphones: Use & Abuse

Cell phones are now mostly smartphones that can text, access e-mail and web pages, view TV programs, and so on. They are so widespread that the majority of respondents in one survey said they would sooner give up their landline phones, TVs, the Internet, and e-mail than surrender their mobile phones.[99] And as smartphones develop more features and make available more applications ("apps"), their importance will only increase.

Smartphone problems range from merely annoying (loud ring tones and conversations in public places) to unethical and illegal (sending pornographic photos and photographing restricted areas of materials) to deadly (distracting drivers from the road). A survey carried out in the United Kingdom among 1,000 people found that 77% think social skills now are worse than they were 20 years ago, and 72% think mobile phones have encouraged rudeness.[100] Phone use by car drivers makes even young people drive erratically, moving and reacting more slowly and increasing their risk of accidents.[101]

Some tips for handling smartphones are shown in the table at right. *(See Table 15.8.)*

TABLE 15.8

Five Rules for Using Smartphones

1. Keep your voice down; no need to SHOUT.
2. Don't force the public to have to listen to your phone conversations.
3. During meetings and public performances, shut off the ringer; set the phone on "vibrate."
4. Don't text during meetings or other conversations.
5. Don't dial or text while driving.

Social Media: Pros & Cons

Social media are Internet-based and mobile technologies used to generate interactive dialogue with members of a network. Two-thirds of online adults in the United States use social media platforms such as Facebook, Twitter, Instagram, or LinkedIn—mainly, they say, to stay in touch with current friends (67%) and family members (62%) and to connect with old friends with whom they've lost touch (50%).[102] Social media also is being used in business—sometimes well, sometimes not so much.[103]

Enhanced Business Productivity with Social Media Procter and Gamble, the world's largest and most profitable consumer products company, has certainly discovered the benefits of social media, devoting nearly a third of its marketing budget to the technology. Indeed, "digital media in many cases is proving to be a faster and cheaper way for P&G's brands to reach consumers," reports *The Wall Street Journal,* "and feedback is also faster."[104]

Social media also stimulates employee productivity by offering them opportunities for more creativity and collaboration and more job satisfaction and better work–life balance, resulting in increased performance and retention.[105] On the other hand, if not managed effectively, social media can create many legal, financial, and personnel risks.[106] For instance, each employee that plays fantasy football loses about one hour a week of work time.[107] Social media can lead to hiring discrimination (by unwittingly revealing religious affiliation or sexual orientation), excessive self-promotion, and decision making based on political stances.[108]

How often do you use social media while at work? Do you think it is helping or hindering your performance? You can find out by completing Self-Assessment 15.3.

SELF-ASSESSMENT 15.3 connect

To What Extent Are You Effectively Using Online Social Networking at Work?

The following survey was designed to assess how well you are using social networking in your job. Go to **connect.mheducation.com** and take Self-Assessment 15.3. When you're done, answer the following questions:

1. To what extent is social media helping or hurting your performance at work?
2. Based on your survey scores, what can you do to more effectively use social media at work? Be specific.
3. What policies might companies install to ensure that social media is used in a productive manner? Explain.

The essence of social media is *connectivity.* If deployed effectively, social media enables businesses to do the following:

- **Connect with key stakeholders.** The use of social media allows you to connect in real time and over distances with many customers, suppliers, employees, potential talent, and other key stakeholders.
- **Connect with varied sources of expertise inside the organization.** We've seen such connectivity demonstrated in virtual teams, redefining conventional organizational boundaries and drawing on different sources of talent, knowledge, and experience throughout the organization.
- **Connect with varied sources of expertise outside the organization.** Social media can cross organizational boundaries and connect with outsiders to help in problem solving. An example is **crowdsourcing—obtaining services, ideas, or content by soliciting contributions from a large group of people, especially the online community** of Facebook and Twitter users. A variant is *crowdfunding,* raising money via online sources.

EXAMPLE

Crowdsourcing: Using Facebook & Twitter to Develop New Ideas

Crowdsourcing is being applied in many fields, and not just Wikipedia.[109] Owngig.com uses it to connect musicians and their fans to help organize private concerts. Open-innovation company InnoCentive.com uses it to solve scientific and technological problems; companies can put a problem up on the site and offer a cash prize for the solution, which is solved by an outsider about 30% of the time.[110]

Using Facebook to Design a Beer. Boston-based brewer Sam Adams joined with social media enthusiast Guy Kawasaki for a Facebook crowdsourcing campaign that asked fans what a good beer should taste like. By voting on yeast, hops, malt, color, and the like, fans essentially helped create a new recipe that Sam Adams brought out as B'Austin in March 2012.[111]

Using Twitter to Improve Weapons Systems. The Pentagon has set aside $32 million to develop "fun-to-play" computer games based on Twitter crowdsourcing that can refine the way weapons systems are tested to ensure they are free from software errors and security bugs.[112]

YOUR CALL

What are the pros and cons of using crowdsourcing to develop a product?

The Downside of Social Media We already alluded to problems of privacy and security associated with information technology in general, and these certainly apply to social media. Some other drawbacks:

- **Distraction.** "How have e-mail, social media, and other tools designed to organize information morphed into their own kind of relentless taskmasters?" asks one business journalist.[113] Productivity guru David Allen, however, argues that technology isn't the problem; it's just that people *let* themselves be distracted because they're not clear about their own goals.
- **Leaving wrong impression.** Ill-advised tweets can lead to unpleasant consequences, as happened to musician Courtney Love, who was sued for defamation as a result of making derogatory statements about a designer in her Twitter feed. Twitter users need to think twice before spontaneously making an announcement or spontaneously responding.[114]
- **Replacing real conversation.** "Human relationships are rich; they're messy and demanding," says psychologist Sherry Turkle. "We have learned the habit of cleaning them up with technology." But the little "sips" of online connection do not substitute for face-to-face conversation. "We think constant connection will make us feel less lonely," she says. "The opposite is true."[115]

Some recommendations for using Facebook are shown below. *(See Table 15.9.)*

TABLE 15.9

Using Facebook in Your Professional Life

- Brand the product or organizational profile, but go light on sales messages. Follow the service standards of your organization.
- Use language relevant to your particular audience members and communicate with, not at, them. Show appreciation for them.
- Remember all wall posts are public. Don't write anything not intended for public consumption.
- All updates should be relevant.
- Take customer-sensitive issues off Facebook, into a private sphere, online or offline.
- Ask questions on the wall posts, but follow up and respond to any feedback received.

Sources: Excerpted and adapted from M. Ramsay, "Social Media Etiquette: A Guide and Checklist to the Benefits and Perils of Social Marketing," Database Marketing & Customer Strategy Management, *Vol. 16, No. 4 (2010), pp. 257–261; and A. Kinicki and M. Fugate,* Organizational Behavior: Key Concepts, Skills & Best Practices, *5th ed. (New York: McGraw-Hill/Irwin, 2012), p. 334.*

15.5 Improving Communication Effectiveness

MAJOR QUESTION

How can I be a better listener, reader, writer, and speaker?

THE BIG PICTURE

We describe how you can be a more effective listener, as in learning to concentrate on the content of a message. We also describe how to be an effective reader. We offer four tips for becoming a more effective writer. Finally, we discuss how to be an effective speaker, through three steps.

The principal activities the typical manager performs have to do with communication—listening, 40%; talking, 35%; reading, 16%; and writing, 9%.[116] Listening and speaking often take place in meetings (see the Practical Action box "How to Streamline Meetings" earlier in this chapter), although they are not the only occasions. Human resource managers consider interpersonal communication skills the most important factor in advancing their careers, according to one survey.[117] Let's see how you can be more effective at the essential communication skills.

Being an Effective Listener

Is listening something you're good at? Then you're the exception. Generally, people comprehend only about 35% of a typical verbal message, experts say.[118] Two-thirds of all employees feel management isn't listening to them.[119] Interestingly, the average speaker communicates 125 words per minute, while we can process 500 words per minute.

Poor listeners use this information-processing gap to daydream. They think about other things, thus missing the important parts of what's being communicated. Good listeners know how to use these gaps effectively, mentally summarizing the speaker's remarks, weighing the evidence, and listening between the lines. Listening skills, incidentally, are particularly important when you're communicating in the global culture.

Actively listening, truly listening, involves more than hearing, which is merely the physical component. **Active listening is the process of actively decoding and interpreting verbal messages.** Active listening requires full attention and processing of information, which hearing does not.

What's Your Listening Style—or Styles? To begin to improve your active listening skills, you should first try to determine your two or three dominant listening styles, of the following five styles:[120]

1. **Appreciative style—listening to be amused.** An *appreciative listener* tends to listen for pleasure, doing easy listening and tending to tune out when there's no amusement or humor in what he or she is listening to.
2. **Empathic style—tuning into the speaker's emotions.** An *empathic listener* focuses on the speaker's feelings, concentrating on what he or she sees as well as says and reading people's body language and reactions.
3. **Comprehensive style—focusing on the speaker's logic.** A *comprehensive listener* tries to determine the rationale of the speaker's argument, preferring logical presentations

Understand me. What's the recipe for effective listening—for really finding out what someone has to say? Probably it is *listen, watch, write, think, question.* What do you do to fight flagging concentration if you're tired or bored? You suppress negative thoughts, ignore distractions about the speaker's style of delivery or body language, and encourage the speaker with eye contact, an interested expression, and an attentive posture. This will make you more involved and interested in the subject matter.

without interruptions, focusing on relationships among ideas, relating messages to his or her own experiences, waiting until all the information is available before expressing opinions.

4. **Discerning style—focusing on the main message.** A *discerning listener* tries to determine the speaker's main message and important points, often taking copious notes and concentrating hard on what the speaker says. Discerning listeners are good listeners and like information that flows evenly.
5. **Evaluative style—challenging the speaker.** An *evaluative listener* listens analytically, all the while formulating challenges to the speaker's points, asking lots of questions (perhaps to the point of being interruptive), and sometimes tuning out the speaker and missing data. If evaluative listeners receive too much illogical information, they often leave.

Do you think that you are an effective listener? Do you have a sense for what may be your bad listening habits? You can find out by completing Self-Assessment 15.4.

SELF-ASSESSMENT 15.4 connect

Assessing Your Listening Style

The following survey was designed to assess the overall strength of your listening skills. Go to **connect.mheducation.com** and take Self-Assessment 15.4. When you're done, answer the following questions:

1. Is your listening style detached, passive, or involved? Based on your survey scores, what can you do to become more of an involved listener? Be specific.
2. Think of two ways you can practice better listening in your teams at work or school. Be specific.

Concentrate on the Content of the Message

Effective listening is a learned skill, but it takes energy and desire to develop it. Basically, however, it comes down to *pay attention to the content of the message.* Following are some suggestions for increasing your listening skills, which you can practice in your college lectures and seminars. *(See Table 15.10.)*

TABLE 15.10

Tips for Effective Listening

1. **Show respect.** Give everyone the opportunity to explain their ideas without interrupting. Actively try to help the sender convey his or her message.
2. **Listen from the first sentence.** Turn off your internal thoughts and whatever you were thinking about prior to the interaction.
3. **Be mindful.** Stay in the moment and focus on the sender. Don't try to figure out what the speaker is *going* to say.
4. **Keep quiet.** You have two ears and one mouth; use them accordingly. Try to use the 80/20 rule: your conversational partner should speak 80% of the time, and you should speak 20%.
5. **Ask questions.** Asking questions clarifies what is being said and demonstrates that you are listening.
6. **Paraphrase and summarize.** Paraphrasing amounts to repeating back to someone what you just heard them say. Summarizing is used to integrate or consolidate an entire conversation. Both of these techniques enhance communications accuracy because they help to ensure the messages are being understood correctly.
7. **Remember what was said.** Either take notes or make an effort to log critical information into your mental computer.
8. **Involve your body.** Use nonverbal cues to demonstrate interest and involvement.

Sources: Based on J. Keyser, "Active Listening Leads to Business Success," T+D, *July 2013, pp. 26–28; and B. Brooks, "The Power of Active Listening,"* The American Salesman, *December 2010, pp. 28–30.*

Being an Effective Reader

Reading shares many of the same skills as listening. You need to concentrate on the content of the message, judge the content and not the delivery, and concentrate on the main ideas. But because managers usually have to do so much reading, you also need to learn to apply some other strategies.

Speed-read this? Maybe you could—if it's easy or familiar material. But lots of things managers are required to read take patient study. How are you going to manage such reading day after day?

Realize that Speed Reading Doesn't Work

Perhaps you've thought that somewhere along the line you could take a course on speed reading. By and large, however, speed reading isn't effective. Psychologists have found that speed reading or skimming may work well with easy or familiar reading material, but it can lead to problems with dense or unfamiliar material. For instance, in one study, when questioned about their reading of difficult material, average readers got half the questions right, while speed readers got only one in three.[121]

Do Top-Down Reading—SQ3R

"The key to better reading is to be a productive rather than a passive reader," writes Alesandrini. "You'll get more out of what you read if you literally produce meaningful connections between what you already know and what you're reading."[122] This leads to what she calls a "top-down" strategy for reading, a variant on the SQ3R (Survey, Question, Read, Recite, Review) method we discussed in the box at the end of Chapter 1. The top-down system is shown below. *(See Table 15.11.)*

TABLE 15.11 **Five Steps to Better Reading**

1.	**Rate reasons to read.** Rate your reasons for reading ("Why should I read this? Will reading it contribute to my goals?").
2.	**Question and predict answers.** Formulate specific questions you want the reading to answer. This will give you reasons for reading—to get answers to your questions.
3.	**Survey the big picture.** Survey the material to be read so you can get a sense of the whole. Take a few minutes to get an overview so that you'll be better able to read with purpose.
4.	**Skim for main ideas.** Skimming the material is similar to surveying, except it's on a smaller scale. You look for the essence of each subsection or paragraph.
5.	**Summarize.** Summarize as you skim. Verbally restate or write notes of the main points, using your own words. Visualize or sketch the main points. Answer your initial questions as you skim the material.

Source: Derived from K. Alesandrini, Survive Information Overload *(Homewood, IL: Irwin, 1992), pp. 191–202.*

Being an Effective Writer

Writing is an essential management skill, all the more so because e-mail and texting has replaced the telephone in so much of business communication. In addition, downsizing has eliminated the administrative assistants who used to edit and correct business correspondence, so even upper-level executives often do their own correspondence now.[123] A lot of students, however, don't get enough practice in writing, which puts them at a career disadvantage. Most will have to be able to write standout job-seeking cover letters to accompany their resumes and later to write winning business proposals.[124] Taking a business writing class can be a real advantage. (Indeed, as a manager, you may have to identify employees who need writing training.)

TABLE 15.12

Five Rules for Business Writing, Both Online & Offline

DON'T . . .
1. begin an e-mail with "Hey."
2. use abbreviations.
DO . . .
3. spell words correctly.
4. use complete sentences.
5. use proper capitalization and punctuation.

Source: Derived from J. R. Fine, "Enhancing Gen Y Communication Skills," Society for Human Resource Management, *March 13, 2009.*

Following are some tips for writing more effectively. These apply particularly to memos and reports but are also applicable to e-mail messages.

Don't Show Your Ignorance E-mail correspondence and texting have made people more relaxed about spelling and grammar rules. Although this is fine among friends, as a manager you'll need to create a more favorable impression in your writing. Besides using the spelling checkers and grammar checkers built in to your word processing software, you should reread, indeed proofread, your writing before sending it on.

Some other tips are shown at left. *(See Table 15.12.)*

Understand Your Strategy before You Write Following are three strategies for laying out your ideas in writing.

1. **Most important to least important.** This is a good strategy when the action you want your reader to take is logical and not highly political.
2. **Least controversial to most controversial.** This builds support gradually and is best used when the decision is controversial or your reader is attached to a particular solution other than the one you're proposing.
3. **Negative to positive.** This strategy establishes a common ground with your reader and puts the positive argument last, which makes it stronger.[125]

Start with Your Purpose Often people organize their messages backward, putting their real purpose last, points out Alesandrini. You should *start* your writing by telling your purpose and what you expect of the reader.

Write Simply, Concisely, & Directly Keep your words simple and use short words, sentences, and phrases. Be direct instead of vague, and use the active voice rather than the passive. (Directness, active voice: "Please call a meeting for Wednesday." Vagueness, passive voice: "It is suggested that a meeting be called for Wednesday.")

Telegraph Your Writing with a Powerful Layout Make your writing as easy to read as possible, using the tools of highlighting and white space.

- **Highlighting.** Highlighting consists of using **boldface** and *italics* to emphasize key concepts and introduce new concepts, and bullets—small circles or squares like the ones in the list you're reading—to emphasize list items. (Don't overuse any of these devices, or they'll lose their effect. And particularly *don't* use ALL CAPITAL LETTERS for emphasis, except rarely.)
- **White space.** White space, which consists of wide margins and a break between paragraphs, produces a page that is clean and attractive.[126]

Being an Effective Speaker

Speaking or talking covers a range of activities, from one-on-one conversations, to participating in meetings, to giving formal presentations. In terms of personal oral communication, most of the best advice comes under the heading of listening, since effective listening will dictate the appropriate talking you need to do.

However, the ability to talk to a room full of people—to make an oral presentation—is one of the greatest skills you can have. A study conducted by AT&T and Stanford University found that the top predictor of success and professional upward mobility is how much you enjoy public speaking and how effective you are at it.[127]

The biggest problem most people have with public speaking is controlling their nerves, since 46% of adults say the activity they dread most—exceeding housecleaning, 43%, and visiting the dentist, 41%—is public speaking (called glossophobia).[128] Author and lecturer Gael Lindenfield suggests that you can prepare your nerves by practicing your speech until it's near perfect, visualizing yourself performing with brilliance, getting reassurance from a friend, and getting to the speaking site early and releasing physical tension by doing deep breathing. (And staying away from alcohol and caffeine pick-me-ups before your speech.[129]) Some people find they do better if they stay away from their notes and just speak from the heart.[130]

As for the content of the speech, some brief and valuable advice is offered by speechwriter Phil Theibert, who says a speech comprises just three simple rules: (1) Tell them what you're going to say. (2) Say it. (3) Tell them what you said.[131]

1. Tell Them What You're Going to Say The introduction should take 5%–15% of your speaking time, and it should prepare the audience for the rest of the speech. Avoid jokes and such tired phrases as "I'm honored to be with you here today. . . ." Because everything in your speech should be relevant, try to go right to the point. For example:

> *"Good afternoon. The subject of identity theft may seem far removed from the concerns of most employees. But I intend to describe how our supposedly private credit, health, employment, and other records are vulnerable to theft by so-called identity thieves and how you can protect yourself."*

2. Say It The main body of the speech takes up 75%–90% of your time. The most important thing to realize is that your audience won't remember more than a few points anyway. Thus, you need to decide which three or four points must be remembered.[132] Then cover them as succinctly as possible.

Be particularly attentive to transitions during the main body of the speech. Listening differs from reading in that the listener has only one chance to get your meaning. Thus, be sure you constantly provide your listeners with guidelines and transitional phrases so they can see where you're going. Example:

> *"There are five ways the security of your supposedly private files can be compromised. The first way is . . . "*

3. Tell Them What You Said The end might take 5%–10% of your time. Many professional speakers consider the conclusion to be as important as the introduction, so don't drop the ball here. You need a solid, strong, persuasive wrap-up.

Use some sort of signal phrase that cues your listeners that you are heading into your wind-up. Examples:

> *"Let's review the main points . . ."*
>
> *"In conclusion, what CAN you do to protect against unauthorized invasion of your private files? I point out five main steps. One . . ."*

Give some thought to the last thing you will say. It should be strongly upbeat, a call to action, a thought for the day, a little story, a quotation. Examples:

> *"I want to leave you with one last thought . . ."*
>
> *"Finally, let me close by sharing something that happened to me . . ."*
>
> *"As Albert Einstein said, 'Imagination is more important than knowledge.'"*

Then say "Thank you" and stop talking.

Predictor for success. Enjoying public speaking and being good at it are the top predictors of success and upward mobility. Do you think you could develop these skills?

Key Terms Used in This Chapter

active listening 501
communication 478
crowdsourcing 499
decoding 479
defensive communication 488
downward communication 483
encoding 479
external communication 484
feedback 479
formal communication channels 482
grapevine 484
horizontal communication 483
identity theft 498
informal communication channels 484
jargon 487
linguistic style 492
management by wandering around (MBWA) 484
media richness 481
medium 479
message 479
multicommunicating 494
noise 480
nondefensive communication 488
nonverbal communication 490
paraphrasing 479
privacy 497
receiver 479
security 497
semantics 487
sender 479
social media 499
stereotype 489
telepresence technology 496
upward communication 483

Key Points

15.1 The Communication Process: What It Is, How It Works

- Communication is the transfer of information and understanding from one person to another. The process involves sender, message, and receiver; encoding and decoding; the medium; feedback; and dealing with "noise."
- The sender is the person wanting to share information. The information is called a message. The receiver is the person for whom the message is intended. Encoding is translating a message into understandable symbols or language. Decoding is interpreting and trying to make sense of the message. The medium is the pathway by which a message travels. Feedback is the process in which a receiver expresses his or her reaction to the sender's message.
- The entire communication process can be disrupted at any point by noise, defined as any disturbance that interferes with the transmission of a message.
- For effective communication, a manager must select the right medium. Media richness indicates how well a particular medium conveys information and promotes learning. The richer a medium is, the better it is at conveying information. Face-to-face presence is the richest; an advertising flyer would be one of the lowest. A rich medium is best for nonroutine situations and to avoid oversimplification. A lean medium is best for routine situations and to avoid overloading.

15.2 How Managers Fit into the Communication Process

- Communication channels may be formal or informal.
- Formal communication channels follow the chain of command and are recognized as official. Formal communication is of three types: (1) Vertical communication is the flow of messages up and down the organizational hierarchy. (2) Horizontal communication flows within and between work units; its main purpose is coordination. (3) External communication flows between people inside and outside the organization.
- Informal communication channels develop outside the formal structure and do not follow the chain of command. Two aspects of informal channels are the grapevine and management by wandering around. (1) The grapevine is the unofficial communication system of the informal organization. The grapevine is faster than formal channels, is about 75% accurate, and is used by employees to acquire most on-the-job information. (2) In management by wandering around (MBWA), a manager literally wanders around his or her organization and talks with people across all lines of authority; this reduces distortion caused by formal communication.

15.3 Barriers to Communication

- Barriers to communication are of three types: (1) Physical barriers are exemplified by walls, background noise, and time-zone differences. (2) Semantics is the study of the meaning of words. Jargon, terminology specific to a particular profession or group, can be a semantic barrier. (3) Personal barriers are individual attributes that hinder communication.

- Nine such personal barriers are (a) variable skills in communicating effectively, (b) variations in frames of reference and experiences that affect how information is interpreted, (c) variations in trustworthiness and credibility, (d) oversized egos, (e) faulty listening skills, (f) tendency to judge others' messages, (g) inability to listen with understanding, (h) stereotypes (oversimplified beliefs about a certain group of people) and prejudices, and (i) nonverbal communication (messages sent outside of the written or spoken word, including body language).
- Six ways in which nonverbal communication is expressed are through (1) eye contact, (2) facial expressions, (3) body movements and gestures, (4) touch, (5) setting, and (6) time.

15.4 Communication in the Information Age

- A modern-day trend is multicommunicating, the use of technology to participate in several interactions at the same time. The universal language of 1s and 0s gives us immediate access to unprecedented amounts of information; however, faster, far-flung digital communication does not necessarily mean better communication.
- With the rise of the Internet has come the rise of the "Always On" generation (Net Generation, Gen Y, the Millennials), 88 million people born 1977–1997, who are accustomed to digital communication and who in a few years will account for nearly half the employees in the world. Their outlook is having a profound impact on the workplace, bringing new approaches to collaboration, knowledge sharing, and innovation. This generation puts a strong emphasis on finding work that's personally fulfilling, craves stimulation, and seeks high-quality colleagues and flexible work arrangements.
- Digital communication has altered traditional links between work, place, and time, as seen in videoconferencing (teleconferencing) and telepresence technology (high-definition videoconferencing systems that simulate face-to-face meetings between users); telecommuting, involving performing office work at home; and teleworking, involving performing office work nearly anywhere.
- The downside of the digital age involves problems with security, safeguards for protecting information technology against disasters, system failures, and unauthorized access; privacy, the right of people not to reveal information about themselves, particularly identify theft, in which thieves highjack a person's name and identity and use his or her good credit rating to get cash or buy things; e-mail productivity problems; and cellphone use and abuse.
- Social media—Internet-based and mobile technologies (Facebook, Twitter) used to generate interactive dialogue with members of a network—enable businesses to connect in real time and over distances with many customers, suppliers, and employees. Social media are also used in crowdsourcing—obtaining needed services, ideas, or content by soliciting contributions from a large group of people.

15.5 Improving Communication Effectiveness

- People tend to favor only a few of five listening styles—appreciative, empathic, comprehensive, discerning, and evaluative. Active listening, the process of actively decoding and interpreting verbal messages, requires full attention and processing of information. To become a good listener, you should concentrate on the content of the message, not delivery; ask questions and summarize the speaker's remarks; listen for ideas; resist distractions and show interest; and give the speaker a fair hearing.
- To become a good reader, you need to first realize that speed reading usually doesn't work. You should also be savvy about how you handle periodicals and books, transfer your reading load to some of your employees, and ask others to use e-mails and reports to tell you what they want you to do. A top-down reading system that's a variant on the SQ3R system (survey, question, read, recite, review) is also helpful.
- To become an effective writer, you can follow several suggestions. Use spelling and grammar checkers in word processing software. Use three strategies for laying out your ideas in writing: go from most important topic to least important; go from least controversial topic to most controversial; and go from negative to positive. When organizing your message, start with your purpose. Write simply, concisely, and directly. Telegraph your writing through use of highlighting and white space.
- To become an effective speaker, follow three simple rules. Tell people what you're going to say. Say it. Tell them what you said.

Understanding the Chapter: What Do I Know?

1. Explain the communications process.
2. What are the extremes of media richness?
3. Explain the differences between formal and informal communication channels.
4. What are the three types of barriers to communication and examples of each?
5. Explain multicommunicating.
6. What are some ways digital communication is altering traditional communication?
7. What is the downside of the digital age?
8. Explain how social media can be a benefit in business.
9. Explain the five listening styles and how to be a good listener.
10. What are some tips for becoming a good reader?

Management in Action

Hootsuite Uses Social Media to Manage Aspects of the Human Resources Function

Ambrosia Humphrey's passion and drive are hard to miss—especially for the CEO with whom she had to share a desk when she began working at social media management company Hootsuite.

Humphrey, now vice president of talent at the Vancouver-based company, says she and CEO Ryan Holmes both have "disruptive" personalities and like finding new ways to do things. . . .

Hootsuite offers online dashboards in 15 languages to help companies manage and analyze their social media accounts, including Twitter, Facebook, LinkedIn, Google Plus and others. . . .

Naturally, Hootsuite has folded media into its HR efforts for recruiting, onboarding, recognition, performance management and brand management. The company uses the private social network Yammer for internal communications and a social platform called 7Geese for performance management.

The effect of social media on Humphrey's own workplace is undeniable.

Shortly after Steve Johnson, Hootsuite's chief revenue officer, joined the company as its 26th employee in 2011, Humphrey decided to hold a recruiting fair with just five days to plan. Johnson was worried they'd have an empty room, but Humphrey kicked her social media machine into high gear and the place was packed. . . .

Humphrey is a realist about the fact that it's not possible to control exactly how and when each employee will use social media. She has built an HR team of 15, and her group is vastly outnumbered by employees with multiple social media accounts of their own. Each staff member receives some social media training and is then trusted to act responsibly.

"We're a social organization," Humphrey says. "In my reality, if people aren't happy, they tweet about it. That's a PR problem. I would rather have an ongoing dialogue with people. There's no need to be disgruntled and push it out somewhere else."

She strives to make every HR initiative transparent so that employees don't share their grievances with the rest of the world, 140 characters at a time.

Training begins with social media certification through Hootsuite University, which educates individuals on what social media can do to help them in their job, how it can affect their careers, and how it can provide product training.

Humphrey follows the mantra "tweet to love not war" and sees herself as an ambassador of her company. Employees are encouraged to use the hashtag #hootsuitelife to present their perspectives on what it's like to work at the company. Postings include photos of rooftop meetings, links to media rankings of Hootsuite as a top workplace, and employee kudos to each other. Together, the postings give people a feel for the quirkiness of life at the company.

Schmidt sees #hootsuitelife as a perfect example of how Humphrey is willing to take risks that other HR leaders won't. "It's about empowering your employees," he says. "All employees have the opportunity to be great brand ambassadors."

Culture is one of Humphrey's top priorities, and Hootsuite's social media efforts are part of a larger commitment to transparency. Humphrey cites "Ask Me Anything" all-staff meetings with the CEO, "hackathons" where staff assemble to tackle problems (they teamed up to create a recruitment video one day), and a "working out loud" philosophy where people like to show their work and get feedback.

In a company blog, Humphrey pointed out that transparency fueled by social media can give companies the same kind of feedback from employees that they find to be so valuable when it comes to customers.

"Thanks to social media, feedback no longer needs to be a horoscope delivered too late; it's about active listening for both employee and organizational empowerment," she wrote. . . .

Like many people, Humphrey has found that social media can sometimes blur the lines between one's personal and professional lives. . . . Having her engagement make the local evening news and trend locally on Twitter was a touch mortifying, she admits—even for someone known to love transparency and social media.

Source: Excerpted from T. Lytle, "Social Work: Hootsuite's VP of Talent Takes Social Media to the Next Level," HR Magazine, *August 2014, pp. 40–42.*

FOR DISCUSSION

1. To what extent is Hootsuite's use of social media consistent with recommendations about matching the richness of media to the situation at hand?
2. How does Hootsuite's use of social media tend to eliminate barriers to communication? Explain.
3. Which of the downsides to social media are occurring at Hootsuite? Explain.
4. What are the primary benefits of social media at Hootsuite?
5. What does this case teach you about the use of social media in today's organizations? Explain.

Legal/Ethical Challenge

Should Professors' Tweets Be Part of Their Academic Freedom to Comment on Controversial Topics?

Two professors experienced negative consequences because of the content of their tweets. Professor Steven Salaita, professor of indigenous studies, "wrote dozens of inflammatory tweets condemning Israeli Prime Minister Benjamin Netanyahu and Israel's military assaults in Gaza," according to *The Wall Street Journal.* He engaged in these writings after quitting a tenured job at Virginia Tech but before his job offer from the University of Illinois at Champaign-Urbana was formally approved. He had accepted an offer from the university. The university subsequently did not approve his job offer. This decision has rankled academic free-speech advocates. According to the *Journal,* a representative from the "Illinois branch of the American Association of University Professors said if the school voided a job offer due to tweets about the Palestinian-Israel conflict it 'would be a clear violation of Professor Salaita's academic freedom.'"

The second incident involved a journalism professor at the University of Kansas. According to the *Journal,* he was "temporarily suspended after he attacked the National Rifle Association in a tweet about the Washington Navy Yard shooting." He had tweeted "the blood is on the hands of the #NRA. Next time, let it be YOUR sons and daughters. Shame on you. May God damn you."

Source: Excerpted from D. Belkin, "Tweets on Israel Cost Professor a New Job," The Wall Street Journal, *August 14, 2014, p. A6.*

SOLVING THE CHALLENGE

What do you think should be done with professors who tweet on controversial issues?

1. While these two professors may have shown bad judgment, they should not be severely punished. Academic freedom allows professors to comment on controversial issues and it is a violation of this right to revoke a job offer or suspend someone for their tweets on such matters.
2. They both got what they deserved. Academic freedom doesn't allow people to make outlandish comments. Professors, like any professional employees, should know that they represent their employer at all times. Offensive comments make for bad publicity.
3. If the tweets were made on personal devices, then the professors should not be penalized. Instead, sanctions should be applied if the tweets were made on university equipment.
4. Invent other options.

16

Control Systems & Quality Management

Techniques for Enhancing Organizational Effectiveness

Major Questions You Should Be Able to Answer

16.1 Control: When Managers Monitor Performance
Major Question: Why is control such an important managerial function?

16.2 Levels & Areas of Control
Major Question: How do successful companies implement controls?

16.3 The Balanced Scorecard, Strategy Maps, & Measurement Management
Major Question: How can three techniques—balanced scorecard, strategy maps, and measurement management—help me establish standards and measure performance?

16.4 Some Financial Tools for Control
Major Question: Financial performance is important to most organizations. What are the financial tools I need to know about?

16.5 Total Quality Management
Major Question: How do top companies improve the quality of their products or services?

16.6 Managing Control Effectively
Major Question: What are the keys to successful control, and what are the barriers to control success?

16.7 Managing for Productivity
Major Question: How do managers influence productivity?

the manager's toolbox

Improving Productivity: Going beyond Control Techniques to Get the Best Results

How, as a manager, can you increase work productivity—get better results with what you have to work with?

In this chapter we discuss control techniques for achieving better results. What are other ways for improving productivity? Following are some suggestions:[1]

Establish Base Points, Set Goals, & Measure Results

To be able to tell whether your work unit is becoming more productive, you need to establish systems of measurement. You can start by establishing the base point, such as the number of customers served per day, quantity of products produced per hour, and the like. You can then set goals to establish new levels that you wish to attain, and institute systems of measurement with which to ascertain progress. Finally, you can measure the results and modify the goals or work processes as necessary.

Use New Technology

Clearly, this is a favorite way to enhance performance. With a word processor, you can produce more typed pages than you can with a typewriter. With a computerized database, you can store and manipulate information better than you can using a box of file cards. Still, computerization is not a cure-all; information technology also offers plenty of opportunities for simply wasting time.

Improve Match between Employees & Jobs

You can take steps to ensure the best fit between employees and their jobs, including improving employee selection, paying attention to training, redesigning jobs, and providing financial incentives that are tied to performance.

Encourage Employee Involvement & Innovation

Companies improve performance by funding research and development (R&D) departments. As a manager, you can encourage your employees, who are closest to the work process, to come up with suggestions for improving their own operations. And, of course, you can give workers a bigger say in doing their jobs, allow employee flextime, and reward people for learning new skills and taking on additional responsibility.

Encourage Employee Diversity

By hiring people who are diverse in gender, age, race, and ethnicity, you're more likely to have a workforce with different experiences, outlooks, values, and skills. By melding their differences, a team can achieve results that exceed the previous standards.

Redesign the Work Process

Some managers think performance can be enhanced through cost cutting, but this is not always the case. It may be that the work process can be redesigned to eliminate inessential steps.

For Discussion Some observers think the pressure on managers to perform will be even more intense than before, because the world is undergoing a transformation on the scale of the industrial revolution 200 years ago as we move further into an information-based economy.[2] In what ways do you think you'll have to become a champion of adaptation?

forecast What's Ahead in This Chapter

The final management function, control, is monitoring performance, comparing it with goals, and taking corrective action as needed. We define *managing for performance* and explain its importance. We then identify six reasons controlling is needed, explain the steps in the control process, and describe three types of control managers use. Next we cover levels and areas of control and financial tools for control. We discuss total quality management (TQM). We describe the four keys to successful control and five barriers to successful control. We conclude by considering how to achieve higher productivity.

16.1 Control: When Managers Monitor Performance

MAJOR QUESTION

Why is control such an important managerial function?

THE BIG PICTURE

Controlling is monitoring performance, comparing it with goals, and taking corrective action. This section describes six reasons why control is needed and four steps in the control process.

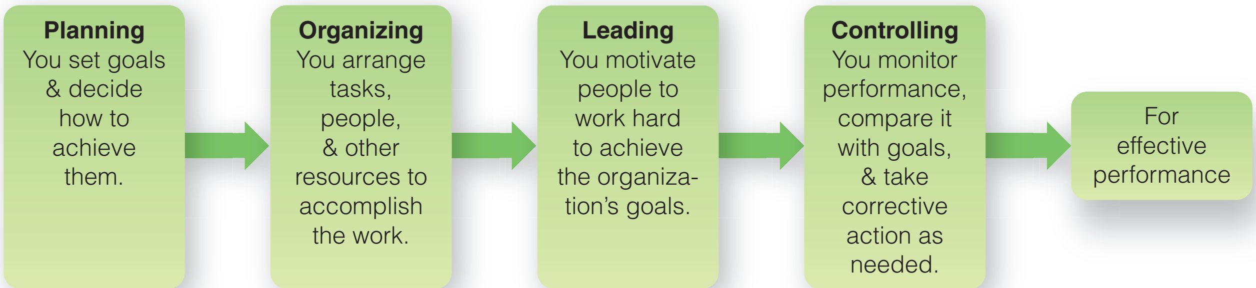
Control is making something happen the way it was planned to happen. **Controlling is defined as monitoring performance, comparing it with goals, and taking corrective action as needed.** Controlling is the fourth management function, along with planning, organizing, and leading, and its purpose is plain: to make sure that performance meets objectives.

- **Planning** is setting goals and deciding how to achieve them.
- **Organizing** is arranging tasks, people, and other resources to accomplish the work.
- **Leading** is motivating people to work hard to achieve the organization's goals.
- **Controlling** is concerned with seeing that the right things happen at the right time in the right way.

All these functions affect one another and in turn affect an organization's performance and productivity. *(See Figure 16.1.)*

FIGURE 16.1 **Controlling for effective performance**

What you as a manager do to get things done, with controlling shown in relation to the three other management functions. (These are not lockstep; all four functions happen concurrently.)



Why Is Control Needed?

Lack of control mechanisms can lead to problems for both managers and companies. For example, in 2012 the CEO of Yahoo!, Scott Thompson, is discovered to have falsified his resume by claiming to have a computer science degree—and 11 days later he is out, bringing turmoil to an already troubled company.[3] The senior banker of J.P. Morgan Chase, Ina Drew, contracts Lyme disease and is frequently out of the office when traders begin making more and more risky bets, culminating in a loss of at least $3 billion and public demands for greater bank regulation.[4] California-based Pacific Gas & Electric Co. accidentally overpressurizes pipelines on its gas system more than 120 times since its 2010 San Bruno explosion that killed eight people, raising risks of another disaster.[5] Could greater control have helped avoid or reduce the consequences of these situations? Of course.

There are six reasons why control is needed.

1. To Adapt to Change & Uncertainty Markets shift. Consumer tastes change. New competitors appear. Technologies are reborn. New materials are invented. Government regulations are altered. All organizations must deal with these kinds of environmental changes and uncertainties. Control systems can help managers anticipate, monitor, and react to these changes.[6]

Example: As is certainly apparent by now, the issue of global warming has created a lot of change and uncertainty for many industries. The restaurant industry in particular is feeling the pressure to become "greener," since restaurants are the retail world's largest energy user, with a restaurant using five times more energy per square foot than any other type of commercial building.[7] Nearly 80% of what commercial food service spends annually for energy use is lost in inefficient food cooking, holding, and storage. In addition, a typical restaurant generates 100,000 pounds of garbage per location per year. Thus, restaurants are being asked to reduce their "carbon footprints" by instituting tighter controls on energy use.[8]

2. To Discover Irregularities & Errors Small problems can mushroom into big ones. Cost overruns, manufacturing defects, employee turnover, bookkeeping errors, and customer dissatisfaction are all matters that may be tolerable in the short run. But in the long run, they can bring about even the downfall of an organization.

Example: You might not even miss a dollar a month looted from your credit card account. But an Internet hacker who does this with thousands of customers can undermine the confidence of consumers using their credit cards to charge online purchases at Amazon.com, Priceline.com, and other web retailers. Thus, a computer program that monitors Internet charge accounts for small, unexplained deductions can be a valuable control strategy.

3. To Reduce Costs, Increase Productivity, or Add Value Control systems can reduce labor costs, eliminate waste, increase output, and increase product delivery cycles. In addition, controls can help add value to a product so that customers will be more inclined to choose them over rival products.

Example: As we have discussed early in the book (and will again in this chapter), the use of quality controls among Japanese car manufacturers resulted in cars being produced that were perceived as being better built than American cars. Another example: 3M Co.'s system for creating plastic picture-hanging hooks used to be split between four states and take 100 days; after reworking the system to get rid of "hairballs," as the former CEO called them, now all production takes place at one hub and takes a third as much time.[9]

4. To Detect Opportunities Hot-selling products. Competitive prices on materials. Changing population trends. New overseas markets. Controls can help alert managers to opportunities that might have otherwise gone unnoticed.

Example: A markdown on certain grocery-store items may result in a rush of customer demand for those products, signaling store management that similar items might also sell faster if they were reduced in price.

5. To Deal with Complexity Does the right hand know what the left hand is doing? When a company becomes larger or when it merges with another company, it may find it has several product lines, materials-purchasing policies, customer bases, and worker needs. Controls help managers coordinate these various elements.

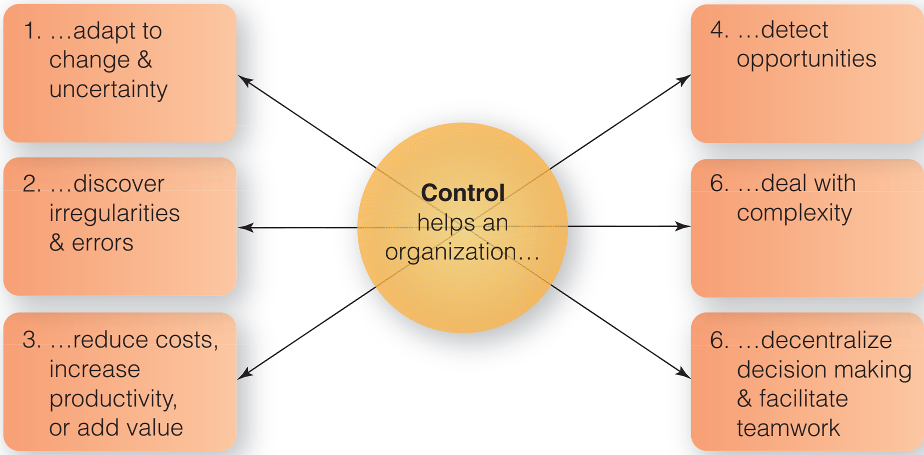
Example: Many companies, such as fast-food chains, use "robo-scheduling" software that analyzes sales data to predict how many workers are needed at any given time. This control device may be good for the companies, but, points out one writer, it causes "havoc in employees' lives: giving only a few days' notice of working hours, sending workers home early when sales are slow, and shifting hours significantly from week to week."[10] In 2014, Starbucks revised how it sets baristas' scheduling, but other chains still require low-wage workers to have "open availability," meaning they must be able to work anytime they are needed, or be "on call," meaning they find out only the morning they are needed.

6. To Decentralize Decision Making & Facilitate Teamwork Controls allow top management to decentralize decision making at lower levels within the organization and to encourage employees to work together in teams.

Example: At General Motors, former chairman Alfred Sloan set the level of return on investment he expected his divisions to achieve, enabling him to push decision-making authority down to lower levels while still maintaining authority over the sprawling GM organization.[11] Later GM used controls to facilitate the team approach in its joint venture with Toyota at its California plant.

The six reasons are summarized below. *(See Figure 16.2.)*

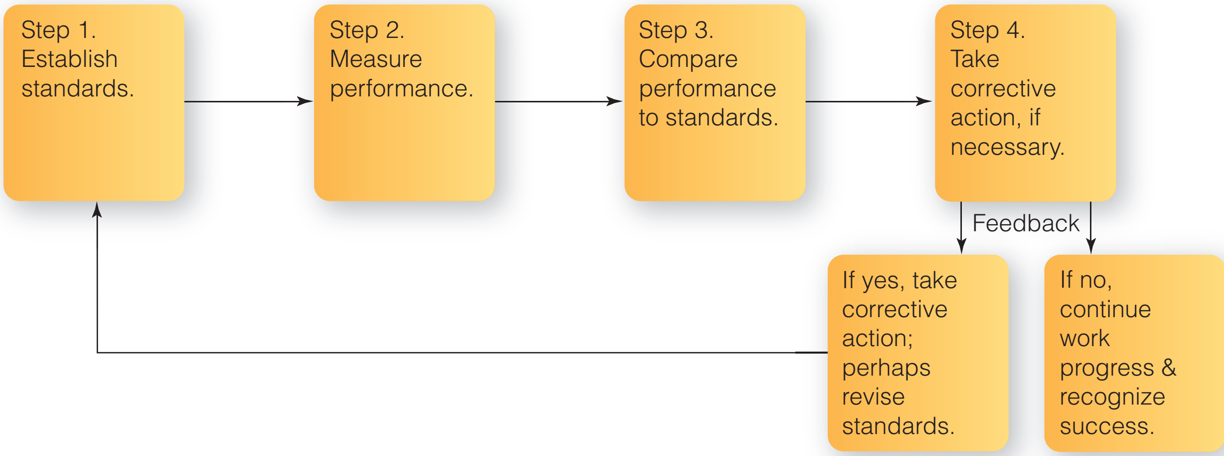
FIGURE 16.2
Six reasons why control is needed



Steps in the Control Process

FIGURE 16.3
Steps in the control process
Paying attention to the feedback is particularly important because of its dynamic nature.

Control systems may be altered to fit specific situations, but generally they follow the same steps. The four **control process steps** **are (1) establish standards; (2) measure performance; (3) compare performance to standards; and (4) take corrective action, if necessary.** *(See Figure 16.3.)*



Let's consider these four steps.

1. Establish Standards: "What Is the Outcome We Want?" A **control standard**, **or *performance standard* or simply *standard,* is the desired performance level for a given goal.** Standards may be narrow or broad, and they can be set for almost anything, although they are best measured when they can be made quantifiable.

Nonprofit institutions might have standards for level of charitable contributions, number of students retained, or degree of legal compliance. For-profit organizations might have standards of financial performance, employee hiring, manufacturing defects, percentage increase in market share, percentage reduction in costs, number of customer complaints, and return on investment. More subjective standards, such as level of employee morale, can also be set, although they may have to be expressed more quantifiably as reduced absenteeism and sick days and increased job applications.

One technique for establishing standards is to use *the balanced scorecard,* as we explain later in this chapter.

2. Measure Performance: "What Is the Actual Outcome We Got?" The second step in the control process is to measure performance, such as by number of products sold, units produced, or cost per item sold.

Example: Hyundai has a quality goal signified by GQ 3-3-5-5. The goal represents the company's desire, expressed in 2010, to finish in the top three in quality ratings provided by J.D. Power's dependability survey within three years, and to be among the top five quality automakers within five years.[12] (Unfortunately, in 2014, no Hyundai cars had yet made the J.D. Power dependability list for three-year-old vehicles.[13])

Performance measures are usually obtained from three sources: (1) written reports, including computerized printouts; (2) oral reports, as in a salesperson's weekly recitation of accomplishments to the sales manager; and (3) personal observation, as when a manager takes a stroll on the factory floor to see what employees are doing.

As we've hinted, measurement techniques can vary for different industries, such as for manufacturing industries versus service industries. We discuss this further later in the chapter.

3. Compare Performance to Standards: "How Do the Desired & Actual Outcomes Differ?" The third step in the control process is to compare measured performance against the standards established. Most managers are delighted with performance that exceeds standards, which becomes an occasion for handing out bonuses, promotions, and perhaps offices with a view. For performance that is below standards, they need to ask: Is the deviation from performance significant? The greater the difference between desired and actual performance, the greater the need for action.

How much deviation is acceptable? That depends on *the range of variation* built in to the standards in step 1. In voting for political candidates, for instance, there is supposed to be no range of variation; as the expression goes, "every vote counts" (although the 2000 U.S. presidential election was an eye-opener for many people in this regard). In political polling, however, a range of 3%–4% error is considered an acceptable range of variation. In machining parts for the spacecraft *Orion* (NASA's scheduled successor to the space shuttle), the range of variation may be a good deal less tolerant than when machining parts for a power lawnmower.

The range of variation is often incorporated in computer systems into a principle called management by exception. **Management by exception is a control principle that states that managers should be informed of a situation only if data show a significant deviation from standards.**

4. Take Corrective Action, If Necessary: "What Changes Should We Make to Obtain Desirable Outcomes?" This step concerns *feedback*—modifying, if necessary, the control process according to the results or effects. This might be a dynamic process that will produce different effects every time you put the system to use.

There are three possibilities here: (1) Make no changes. (2) Recognize and reinforce positive performance. (3) Take action to correct negative performance.

When performance meets or exceeds the standards set, managers should give rewards, ranging from giving a verbal "Job well done" to more substantial payoffs such as raises, bonuses, and promotions to reinforce good behavior.

When performance falls significantly short of the standard, managers should carefully examine the reasons why and take the appropriate action. Sometimes it may turn out the standards themselves were unrealistic, owing to changing conditions, in which case the standards need to be altered. Sometimes it may become apparent that employees haven't been given the resources for achieving the standards. And sometimes the employees may need more attention from management as a way of signaling that their efforts have been insufficient in fulfilling their part of the job bargain. ●

EXAMPLE

Steps in the Control Process: What's Expected of UPS Drivers?

UPS, which employs 99,000 U.S. drivers, has established Integrad, an 11,500-square-foot training center 10 miles outside Washington, D.C. There trainees practice UPS-prescribed "340 Methods" shown to save seconds and improve safety. Graduates of the training, who are generally former package sorters, are eligible to do a job that pays an average of $74,000 annually.[14] (Because about 30% of driver candidates flunk training based on books and lectures, UPS now uses videogames, a contraption that simulates walking on ice, and an obstacle course around an artificial village.)

Establishing Standards. UPS establishes certain standards for its drivers that set projections for the number of miles driven, deliveries, and pickups. For instance, drivers are taught to walk at a "brisk pace" of 2.5 paces per second, except under icy or other unsafe conditions. However, because conditions vary depending on whether routes are urban, suburban, or rural, standards vary for different routes.[15]

Measuring Performance. Every day, UPS managers look at a computer printout showing the miles, deliveries, and pickups a driver attained during his or her shift the previous day. In general, drivers are expected to make five deliveries in 19 minutes.

Comparing Performance to Standards. UPS managers compare the printout of a driver's performance (miles driven and number of pickups and deliveries) with the standards that were set for his or her particular route. For instance, the printout will show whether drivers took longer than the 15.5 seconds allowed to park a truck and retrieve one package from the cargo. A range of variation may be allowed to take into account such matters as winter or summer driving or traffic conditions that slow productivity.

Taking Corrective Action. When a UPS driver fails to perform according to the standards set for him or her, a supervisor then rides along and gives suggestions for improvement. If drivers are unable to improve, they are warned, then suspended, and then dismissed.

YOUR CALL

The UPS controls were devised by industrial engineers based on experience. Do you think the same kinds of controls could be established for, say, filling out tax forms for H&R Block?

Small business. How important is it for small businesses to implement all four steps of the control process? Do you think that employees in small companies—such as a garden pots store—typically have more or less independence from managerial control than those in large companies do?

16.2 Levels & Areas of Control

MAJOR QUESTION

How do successful companies implement controls?

THE BIG PICTURE

This section describes three levels of control—strategic, tactical, and operational—and six areas of control: physical, human, informational, financial, structural (bureaucratic and decentralized), and cultural.

How are you going to apply the steps of control to your own management area? Let's look at this in three ways: First, you need to consider the *level* of management at which you operate—top, middle, or first level. Second, you need to consider the *areas* that you draw on for resources—physical, human, information, and/or financial. Finally, you need to consider the *style* or control philosophy—bureaucratic, market, or clan, as we will explain.

Levels of Control: Strategic, Tactical, & Operational

There are three levels of control, which correspond to the three principal managerial levels: *strategic* planning by top managers, *tactical* planning by middle managers, and *operational* planning by first-line (supervisory) managers and team leaders.

1. Strategic Control by Top Managers **Strategic control is monitoring performance to ensure that strategic plans are being implemented and taking corrective action as needed.** Strategic control is mainly performed by top managers, those at the CEO and VP levels, who have an organizationwide perspective. For example, former Ford Motor Company CEO Alan Mulally (who retired in 2014) brought the company back from the financial brink by instituting a weekly meeting with senior managers. Each manager presented a report on his or her areas, coded in green, yellow, or red to indicate whether business was on target or needed improvement.[16]

2. Tactical Control by Middle Managers **Tactical control is monitoring performance to ensure that tactical plans—those at the divisional or departmental level—are being implemented and taking corrective action as needed.** Tactical control is done mainly by middle managers, those with such titles as "division head," "plant manager," and "branch sales manager." Reporting is done on a weekly or monthly basis.

3. Operational Control by First-Line Managers **Operational control is monitoring performance to ensure that operational plans—day-to-day goals—are being implemented and taking corrective action as needed.** Operational control is done mainly by first-line managers, those with titles such as "department head" or "supervisor." It also includes team leaders. Reporting is done on a daily basis.

Considerable interaction occurs among the three levels, with lower-level managers providing information upward and upper-level managers checking on some of the more critical aspects of plan implementation below them.

Six Areas of Control

The six areas of organizational control are *physical, human, informational, financial, structural,* and *cultural.*

1. Physical Area The physical area includes buildings, equipment, and tangible products.

Examples: There are equipment controls to monitor the use of computers, cars, and other machinery. There are quality controls to make sure that products are being built according to certain acceptable standards. There are inventory-management controls to keep track of how many products are in stock, how many will be needed, and what their delivery dates are from the **supply chain, the sequence of suppliers that contribute to creating and delivering a product, from raw materials to production to final buyers.**

EXAMPLE

Supply-Chain Journey: The Tale of a Couch

A Discovery Channel documentary about modern China, *The People's Republic of Capitalism,* traces the supply-chain path of a sofa. *(See Figure 16.4.)* This was an expensive Pratt sofa made and sold by Ethan Allen, the American furniture maker headquartered in Danbury, Connecticut.

Many Miles to Make. Cotton grown in North Carolina is sent to a fabric plant in China, where it is designed and weaved. That material is then shipped to an upholstery plant in Maiden, North Carolina, where factory workers using both handwork and computer technology construct the covering and part of the frame for the couch.

A factory in China contributes part of the furniture's wooden base, which is sent to the North Carolina plant, where workers assemble the complete couch. After the sofa is inspected for quality, it is packed up, put on a truck, and sent to Long Beach, California, where it is put on a ship to China.

How Much?! In China, furniture is distributed to one of Ethan Allen's 14 store locations—in this particular case, a store in Chongquing. The store delivers the Pratt couch to a wealthy Chinese couple, who paid the equivalent of $40,000 U.S. for it (in the U.S., it would sell for $1,900).[17]

YOUR CALL

How difficult do you think it is to maintain control when operating supply chains over such long distances? Could this be a reason why some American managers have pulled manufacturing back from overseas?[18]

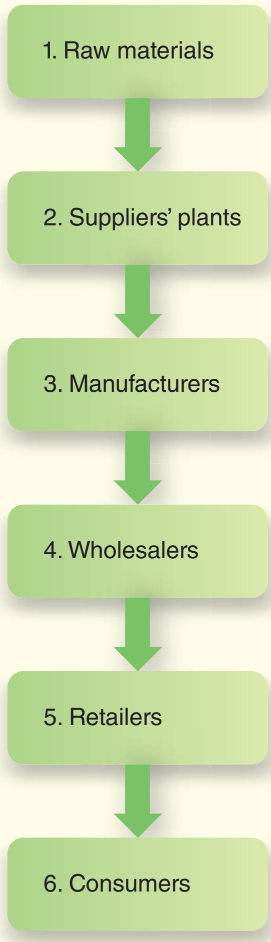


FIGURE 16.4
The links in a supply chain

2. Human Resources Area The controls used to monitor employees include personality tests and drug testing for hiring, performance tests during training, performance evaluations to measure work productivity, and employee surveys to assess job satisfaction and leadership.

3. Informational Area Production schedules. Sales forecasts. Environmental impact statements. Analyses of competition. Public relations briefings. All these are controls on an organization's various information resources.

4. Financial Area Are bills being paid on time? How much money is owed by customers? How much money is owed to suppliers? Is there enough cash on hand to meet payroll obligations? What are the debt-repayment schedules? What is the advertising budget? Clearly, the organization's financial controls are important because they can affect the preceding three areas.

5. Structural Area

How is the organization arranged from a hierarchical or structural standpoint?[19] Two examples are *bureaucratic control* and *decentralized control.*

- **Bureaucratic control.** **Bureaucratic control is an approach to organizational control that is characterized by use of rules, regulations, and formal authority to guide performance.** This form of control attempts to elicit employee compliance, using strict rules, a rigid hierarchy, well-defined job descriptions, and administrative mechanisms such as budgets, performance appraisals, and compensation schemes (external rewards to get results). The foremost example of use of bureaucratic control is perhaps the traditional military organization.

  Bureaucratic control works well in organizations in which the tasks are explicit and certain. While rigid, it can be an effective means of ensuring that performance standards are being met. However, it may not be effective if people are looking for ways to stay out of trouble by simply following the rules, or if they try to beat the system by manipulating performance reports, or if they try to actively resist bureaucratic constraints.
- **Decentralized control.** **Decentralized control is an approach to organizational control that is characterized by informal and organic structural arrangements,** the opposite of bureaucratic control. This form of control aims to get increased employee commitment, using the corporate culture, group norms, and workers taking responsibility for their performance. Decentralized control is found in companies with a relatively flat organization.

6. Cultural Area

The cultural area is an informal method of control. It influences the work process and levels of performance through the set of norms that develop as a result of the values and beliefs that constitute an organization's culture. If an organization's culture values innovation and collaboration, then employees are likely to be evaluated on the basis of how much they engage in collaborative activities and enhance or create new products. ●

Bureaucratic control. In businesses such as construction of large subdivisions, tasks are explicit and certain, and employees are expected to perform them the same way each time. However, a small contractor, such as one building custom houses, need not be bureaucratic.

16.3 The Balanced Scorecard, Strategy Maps, & Measurement Management

MAJOR QUESTION

How can three techniques—balanced scorecard, strategy maps, and measurement management—help me establish standards and measure performance?

THE BIG PICTURE

To establish standards, managers often use the balanced scorecard, which provides four indicators for progress. A visual representation of the balanced scorecard is the strategy map. Measurement management techniques help managers make evidence-based judgments about performance.

Wouldn't you, as a top manager, like to have displayed in easy-to-read graphics all the information on sales, orders, and the like assembled from data pulled in real-time from corporate software? The technology exists and it has a name: a *dashboard,* like the instrument panel in a car.

"The dashboard puts me and more and more of our executives in real-time touch with the business," said Ivan Seidenberg, former CEO at Verizon Communications. "The more eyes that see the results we're obtaining every day, the higher the quality of the decisions we can make."[20]

Throughout this book we have stressed the importance of *evidence-based management*—the use of real-world data rather than fads and hunches in making management decisions. When properly done, the dashboard is an example of the important tools that make this kind of management possible. Others are the *balanced scorecard, strategy maps,* and *measurement management,* techniques that even new managers will find useful.

The Balanced Scorecard: A Dashboard-like View of the Organization

Robert Kaplan is a professor of accounting at the Harvard Business School and a leading authority on strategic performance measurement. David Norton is co-founder of Balanced Scorecard Collaborative. Kaplan and Norton developed what they call the **balanced scorecard, which gives top managers a fast but comprehensive view of the organization via four indicators: (1) customer satisfaction, (2) internal processes, (3) innovation and improvement activities, and (4) financial measures.**

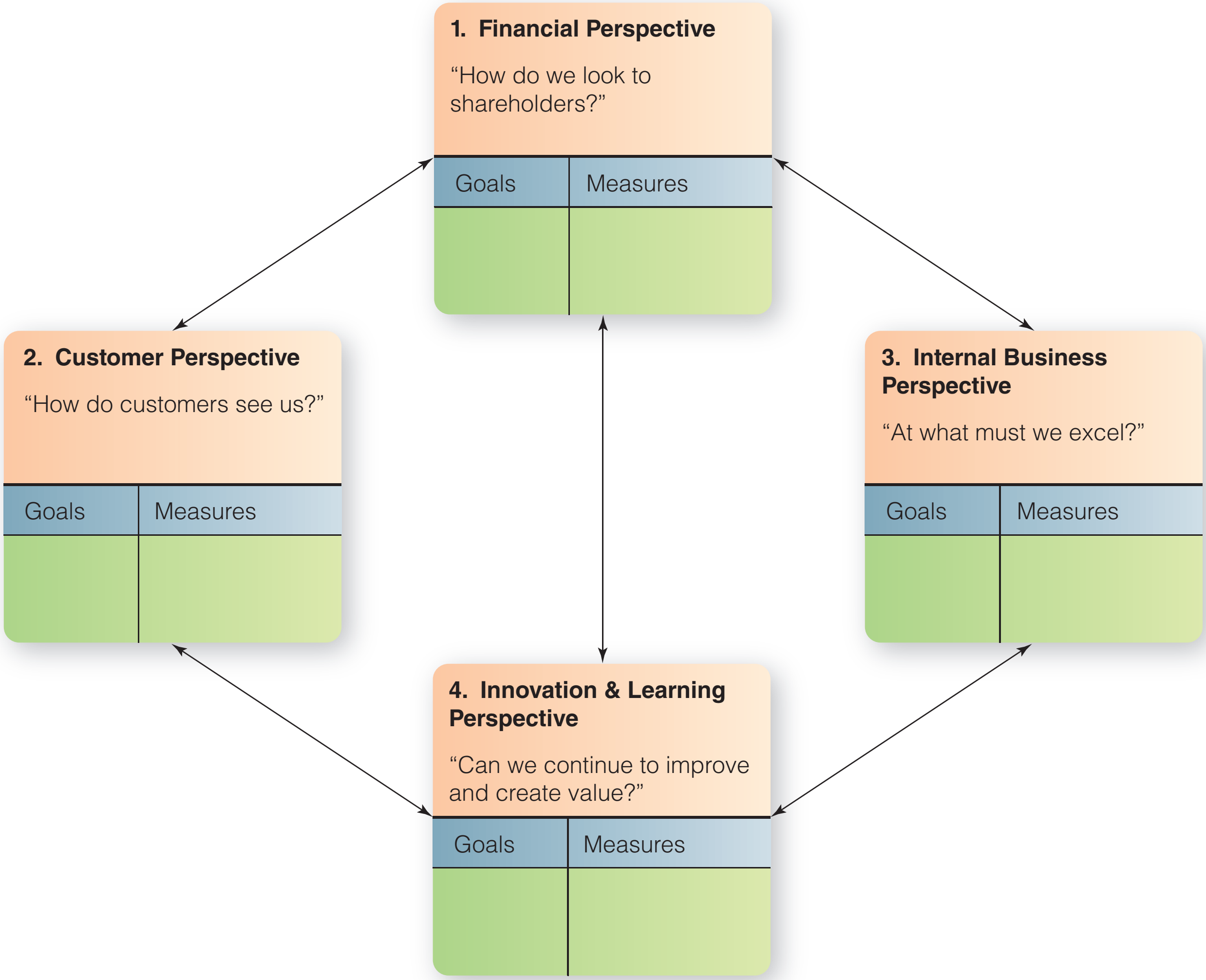
"Think of the balanced scorecard as the dials and indicators in an airplane cockpit," write Kaplan and Norton. For a pilot, "reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously."[21] It is not enough, say Kaplan and Norton, to simply measure financial performance, such as sales figures and return on investment. Operational matters, such as customer satisfaction, are equally important.[22]

The Balanced Scorecard: Four "Perspectives"

The balanced scorecard establishes (a) *goals* and (b) *performance measures* according to four "perspectives" or areas—*financial, customer, internal business,* and *innovation and learning.* *(See Figure 16.5, opposite page.)*

1. Financial Perspective: "How Do We Look to Shareholders?" Typical financial goals have to do with profitability, growth, and shareholder values. Financial measures such as quarterly sales have been criticized as being shortsighted and not reflecting contemporary value-creating activities. Moreover, critics say that traditional financial measures don't improve customer satisfaction, quality, or employee motivation.

FIGURE 16.5 **The balanced scorecard: four perspectives**



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However, making improvements in just the other three operational "perspectives" we will discuss won't *necessarily* translate into financial success. Kaplan and Norton mention the case of an electronics company that made considerable improvements in manufacturing capabilities that did not result in increased profitability.

The hard truth is that "if improved [operational] performance fails to be reflected in the bottom line, executives should reexamine the basic assumptions of their strategy and mission," say Kaplan and Norton. "Not all long-term strategies are profitable strategies. . . . A failure to convert improved operational performance, as measured in the scorecard, into improved financial performance should send executives back to their drawing boards to rethink the company's strategy or its implementation plans."[23]

2. Customer Perspective: "How Do Customers See Us?" Many organizations make taking care of the customer a high priority. The balanced scorecard translates the mission of customer service into specific measures of concerns that really matter to customers—time between placing an order and taking delivery, quality in terms of defect level, satisfaction with products and service, and cost.

Quiznos is a good example. The company uses a speed-dining approach to develop new products and test out different pricing strategies. The company invites groups of 25 people to a location in which they move from station to station and try out new menu options. This technique has reduced the time from test kitchen to market to six months, as opposed to the one year needed by a key competitor.[24]

3. Internal Business Perspective: "What Must We Excel At?" This part translates what the company must do internally to meet its customers' expectations. These are business processes such as quality, employee skills, and productivity.[25]

Top management's judgment about key internal processes must be linked to measures of employee actions at the lower levels, such as time to process customer orders, get materials from suppliers, produce products, and deliver them to customers. Computer information systems can help, for example, in identifying late deliveries, tracing the problem to a particular plant.

4. Innovation & Learning Perspective: "Can We Continue to Improve & Create Value?" Learning and growth of employees is the foundation for all other goals in the balanced scorecard. The idea here is that capable and motivated employees, who possess the resources and culture needed to get the job done, will provide higher quality products and services in a more efficient manner. Making this happen requires a commitment to invest in progressive human resource practices and technology. An organization's commitment to innovation and learning is often assessed via employee surveys like the one used in the self-assessment below.

To what extent was your current or past employer committed to the innovation and learning of its employees? You can find out by completing Self-Assessment 16.1.

SELF-ASSESSMENT 16.1 connect

Assessing the Innovation & Learning Perspective of the Balanced Scorecard

The following survey was designed to assess the innovation and learning perspective of the balanced scorecard. Go to **connect.mheducation.com** and take Self-Assessment 16.1. When you're done, answer the following questions:

1. Where does the company stand in terms of commitment to innovation and learning? Are you surprised by the results?
2. Use the three highest and lowest scores to identify the strengths and weaknesses of this company's commitment to innovation and learning.
3. Based on your answer to question 2, provide three suggestions for what management could do to improve its commitment to innovation and learning.

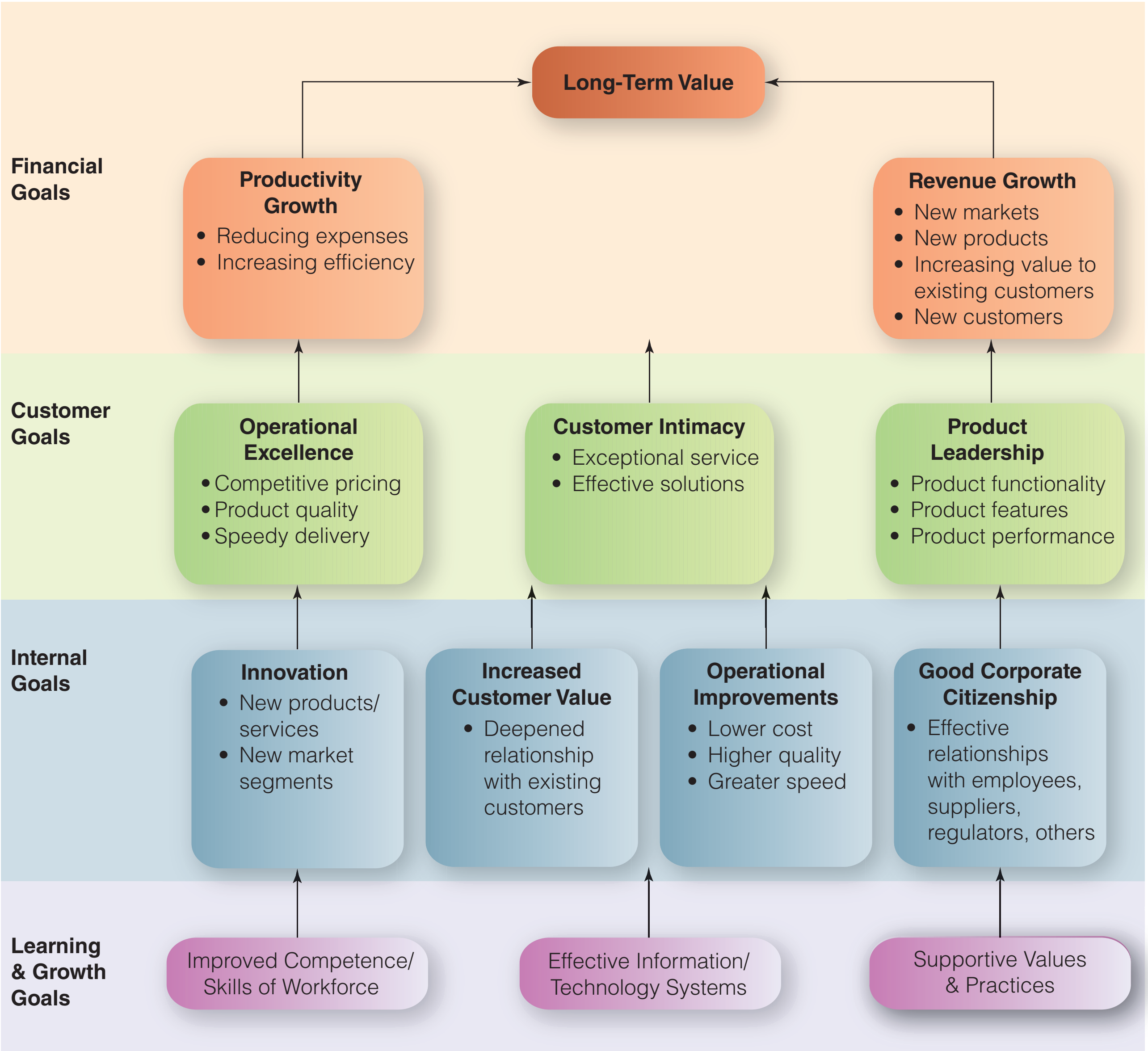
Strategy Map: Visual Representation of a Balanced Scorecard

Since they devised the balanced scorecard, Kapan and Norton have come up with an improvement called the strategy map.[26] **A strategy map is a visual representation of the four perspectives of the balanced scorecard that enables managers to communicate their goals so that everyone in the company can understand how their jobs are linked to the overall objectives of the organization.** As Kaplan and Norton state, "Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes," such as objectives for revenue growth, targeted customer markets, the role of excellence and innovation in products, and so on.

An example of a strategy map for a company such as Target is shown on the next page, with the goal of creating long-term value for the firm by increasing productivity growth and revenue growth. *(See Figure 16.6, next page.)* Measures and standards can be developed in each of the four operational areas—financial goals, customer goals, internal goals, and learning and growth goals—for the strategy.

FIGURE 16.6 **The strategy map**

This example might be used for a retail chain such as Target or Walmart.



Source: From T. S. Bateman and S. A. Snell, Management Leading & Collaborating in a Competitive World *7E, 2007, p. 124. Reprinted with permission of The McGraw-Hill Companies, Inc.*

Measurement Management: "Forget Magic"

"You simply can't manage anything you can't measure," said Richard Quinn, then–vice president of quality at the Sears Merchandising Group.[27]

Is this really true? Concepts such as the balanced scorecard seem like good ideas, but how well do they actually work?[28] John Lingle and William Schiemann, principals in a New Jersey consulting firm specializing in strategic assessment, decided to find out.[29]

In a survey of 203 executives in companies of varying size they identified the organizations as being of two types: *measurement-managed* and *non-measurement-managed.* The measurement-managed companies were those in which senior management reportedly agreed on measurable criteria for determining strategic success, and management updated and reviewed semiannual performance measures in three or more of six primary performance areas. The six areas were financial performance, operating efficiency, customer satisfaction, employee performance, innovation/change, and community/environment.

The results: “A higher percentage of measurement-managed companies were identified as industry leaders,” concluded Lingle and Schiemann, “as being financially in the top third of their industry, and as successfully managing their change effort.” (The last indicator suggests that measurement-managed companies tend to anticipate the future and are likely to remain in a leadership position in a rapidly changing environment.) “Forget magic,” they say. “Industry leaders we surveyed simply have a greater handle on the world around them.”

Why Measurement-Managed Firms Succeed: Four Mechanisms of Success

Why do measurement-managed companies outperform those that are less disciplined? The study’s data point to four mechanisms that contribute to these companies’ success:[30]

- **Top executives agree on strategy.** Most top executives in measurement-managed companies agreed on business strategy, whereas most of those in non-measurement-managed companies reported disagreement. Translating strategy into measurable objectives helps make them specific.
- **Communication is clear.** The clear message in turn is translated into good communication, which was characteristic of managed-measurement organizations and not of non-measurement-managed ones.
- **There is better focus and alignments.** Measurement-managed companies reported more frequently that unit (division or department) performance measures were linked to strategic company measures and that individual performance measures were linked to unit measures.
- **The organizational culture emphasizes teamwork and allows risk taking.** Managers in measurement-managed companies more frequently reported strong teamwork and cooperation among the management team and more willingness to take risks.

Four Barriers to Effective Measurement The four most frequent barriers to effective measurement, according to Lingle and Schiemann, are as follows:

- **Objectives are fuzzy.** Company objectives are often precise in the financial and operational areas but not in areas of customer satisfaction, employee performance, and rate of change. Managers need to work at making “soft” objectives measurable.
- **Managers put too much trust in informal feedback systems.** Managers tend to overrate feedback mechanisms such as customer complaints or sales-force criticisms about products. But these mechanisms aren’t necessarily accurate.
- **Employees resist new measurement systems.** Employees want to see how well measures work before they are willing to tie their financial futures to them. Measurement-managed companies tend to involve the workforce in developing measures.
- **Companies focus too much on measuring activities instead of results.** Too much concern with measurement that is not tied to fine-tuning the organization or spurring it on to achieve results is wasted effort.

Are There Areas that Can’t Be Measured? It’s clear that some areas are easier to measure than others—manufacturing, for example, as opposed to services. We can understand how it is easier to measure the output of, say, a worker in a steel mill than that of a bellhop in a hotel or a professor in a classroom. Nevertheless, human resource professionals are trying to have a greater focus on employee productivity “metrics.”[31] In establishing quantifiable goals for “hard to measure” jobs, managers should seek input from the employees involved, who are usually more familiar with the details of the jobs.[32] ●

16.4 Some Financial Tools for Control

MAJOR QUESTION

Financial performance is important to most organizations. What are the financial tools I need to know about?

THE BIG PICTURE

Financial controls are especially important. These include budgets, financial statements, ratio analysis, and audits.

Do you check your credit card statement line by line when it comes in? Or do you just look at the bottom-line amount owed and write a check?

Just as you should monitor your personal finances to ensure your survival and avoid catastrophe, so managers need to do likewise with an organization's finances. Whether your organization is for-profit or nonprofit, you need to be sure that revenues are covering costs.

There are a great many kinds of financial controls, but here let us look at the following: *budgets, financial statements, ratio analysis,* and *audits.* (Necessarily this is merely an overview of this topic. Financial controls are covered in detail in other business courses.)

Budgets: Formal Financial Projections

A budget is a formal financial projection. It states an organization's planned activities for a given period of time in quantitative terms, such as dollars, hours, or number of products. Budgets are prepared not only for the organization as a whole but also for the divisions and departments within it. The point of a budget is to provide a yardstick against which managers can measure performance and make comparisons (as with other departments or previous years).

Incremental Budgeting Managers can take essentially two budget-planning approaches. One of them, *zero-based budgeting (ZBB),* which forces each department to start from zero in projecting funding needs, is no longer favored. The other approach, the traditional form of budget, which is mainly used now, is incremental budgeting.

Incremental budgeting allocates increased or decreased funds to a department by using the last budget period as a reference point; only incremental changes in the budget request are reviewed. One difficulty is that incremental budgets tend to lock departments into stable spending arrangements; they are not flexible in meeting environmental demands. Another difficulty is that a department may engage in many

Line items. Trucks at a Walmart warehouse. Clearly, the capital budget in large companies would be complex. What types of data would be needed to justify expansion of a company's truck fleet?

activities—some more important than others—but it's not easy to sort out how well managers performed at the various activities. Thus, the department activities and the yearly budget increases take on lives of their own.

Fixed versus Variable Budgets There are numerous kinds of budgets, and some examples are listed below. *(See Table 16.1.)*

TABLE 16.1
Examples of Types of Budgets

TYPE OF BUDGET	DESCRIPTION
Cash or cashflow budget	Forecasts all sources of cash income and cash expenditures for daily, weekly, or monthly period
Capital expenditures budget	Anticipates investments in major assets such as land, buildings, and major equipment
Sales or revenue budget	Projects future sales, often by month, sales area, or product
Expense budget	Projects expenses (costs) for given activity for given period
Financial budget	Projects organization's source of cash and how it plans to spend it in the forthcoming period
Operating budget	Projects what an organization will create in goods or services, what financial resources are needed, and what income is expected
Nonmonetary budget	Deals with units other than dollars, such as hours of labor or office square footage

In general, however, budgets may be categorized as two types: *fixed* and *variable.*

- **Fixed budgets—where resources are allocated on a single estimate of costs.** Also known as a *static budget,* a **fixed budget allocates resources on the basis of a single estimate of costs.** That is, there is only one set of expenses; the budget does not allow for adjustment over time. For example, you might have a budget of $50,000 for buying equipment in a given year—no matter how much you may need equipment exceeding that amount.
- **Variable budgets—where resources are varied in proportion with various levels of activity.** Also known as a *flexible budget,* a **variable budget allows the allocation of resources to vary in proportion with various levels of activity.** That is, the budget can be adjusted over time to accommodate pertinent changes in the environment. For example, you might have a budget that allows you to hire temporary workers or lease temporary equipment if production exceeds certain levels.

Financial Statements: Summarizing the Organization's Financial Status

A **financial statement is a summary of some aspect of an organization's financial status.** The information contained in such a statement is essential in helping managers maintain financial control over the organization.

There are two basic types of financial statements: the *balance sheet* and the *income statement.*

The Balance Sheet: Picture of Organization's Financial Worth for a Specific Point in Time

A **balance sheet** **summarizes an organization's overall financial worth—that is, assets and liabilities—at a specific point in time.**

Assets are the resources that an organization controls; they consist of current assets and fixed assets. *Current assets* are cash and other assets that are readily convertible to cash within one year's time. Examples are inventory, sales for which payment has not been received (accounts receivable), and U.S. Treasury bills or money market mutual funds. *Fixed assets* are property, buildings, equipment, and the like that have a useful life that exceeds one year but that are usually harder to convert to cash. *Liabilities* are claims, or debts, by suppliers, lenders, and other nonowners of the organization against a company's assets.

The Income Statement: Picture of Organization's Financial Results for a Specified Period of Time

The balance sheet depicts the organization's overall financial worth at a specific point in time. By contrast, the **income statement** **summarizes an organization's financial results—revenues and expenses—over a specified period of time,** such as a quarter or a year.

Revenues are assets resulting from the sale of goods and services. *Expenses* are the costs required to produce those goods and services. The difference between revenues and expenses, called the *bottom line,* represents the profits or losses incurred over the specified period of time.

Ratio Analysis: Indicators of an Organization's Financial Health

The bottom line may be the most important indicator of an organization's financial health, but it isn't the only one. Managers often use **ratio analysis—the practice of evaluating financial ratios**—to determine an organization's financial health.

Among the types of financial ratios are those used to calculate liquidity, debt management, asset management, and return. *Liquidity ratios* indicate how easily an organization's assets can be converted into cash (made liquid). *Debt management* ratios indicate the degree to which an organization can meet its long-term financial obligations.

Asset management ratios indicate how effectively an organization is managing its assets, such as whether it has obsolete or excess inventory on hand. *Return ratios*—often called return on investment (ROI) or return on assets (ROA)—indicate how effective management is in generating a return, or profits, on its assets.

Audits: External versus Internal

When you think of auditors, do you think of grim-faced accountants looking through a company's books to catch embezzlers and other cheats? That's one function of auditing, but besides verifying the accuracy and fairness of financial statements, the audit also is intended to be a tool for management decision making. **Audits are formal verifications of an organization's financial and operational systems.**

Audits are of two types—*external* and *internal.*

External Audits—Financial Appraisals by Outside Financial Experts

An **external audit is a formal verification of an organization's financial accounts and statements by outside experts.** The auditors are certified public accountants (CPAs) who work for an accounting firm (such as PricewaterhouseCoopers) that is independent of the organization being audited. Their task is to verify that the organization, in preparing its financial statements and in determining its assets and liabilities, followed generally accepted accounting principles.

Accountants at the Academy Awards? No, these are the 2014 Oscar winners. Matthew McConaughey was voted Best Actor for his role in *Dallas Buyers Club,* and Cate Blanchett was voted Best Actress for her role in *Blue Jasmine.* But every year since 1929 the secret ballots for Oscar nominees voted on by members of the Academy of Motion Picture Arts and Sciences have been tabulated by accountants from the firm now known as PricewaterhouseCoopers. The accounting firm takes this event very seriously; secrecy is tight, and there is no loose gossip around the office water cooler. Two accountants tally the votes, stuff the winners' names in the envelopes—the ones that will be handed to award presenters during the Academy Awards—and then memorize the winners' names, just in case the envelopes don't make it to the show. Accounting is an important business because investors depend on independent auditors to verify that a company's finances are what they are purported to be.

Internal Audits—Financial Appraisals by Inside Financial Experts An **internal audit is a verification of an organization's financial accounts and statements by the organization's own professional staff.** Their jobs are the same as those of outside experts—to verify the accuracy of the organization's records and operating activities. Internal audits also help uncover inefficiencies and thus help managers evaluate the performance of their control systems.

We would like to end this section on financial tools in a more personal manner by assessing your financial literacy. Self-Assessment 16.2 evaluates your knowledge in matters associated with interest-bearing accounts, investments, inflation, pensions, creditworthiness, and insurance. It's a fun way to find out if your financial literacy is up to speed. ●

SELF-ASSESSMENT 16.2 connect

Assessing Your Financial Literacy

The following survey was designed to assess your financial literacy. Go to **connect.mheducation.com** and take Self-Assessment 16.2. When you're done, answer the following questions:

1. Where do you stand in terms of financial literacy?
2. Look at the statements you got incorrect, and identify the specific aspects of financial knowledge that you may be lacking.
3. What can you do to improve your financial literacy? Be specific.

16.5 Total Quality Management

MAJOR QUESTION

How do top companies improve the quality of their products or services?

THE BIG PICTURE

Total quality management (TQM) is dedicated to continuous quality improvement, training, and customer satisfaction. Two core principles are people orientation and improvement orientation. Some techniques for improving quality are employee involvement, benchmarking, outsourcing, reduced cycle time, and statistical process control.

The Ritz-Carlton Hotel Co., LLC, a luxury chain of 86 hotels in 29 countries that is an independently operated division of Marriott International, puts a premium on doing things right. First-year managers and employees receive 250–310 hours of training. The president meets each employee at a new hotel to ensure he or she understands the Ritz-Carlton standards for service. The chain has also developed a database that records the preferences of more than 1 million customers, so that each hotel can anticipate guests' needs.[33] (Attentive service may be helped by Ritz-Carlton's employee policies: A 2014 survey rated it No. 2 among top companies for work-life balance.[34])

Because of this diligence, the Ritz-Carlton has twice been the recipient (in 1992 and in 1999) of the Malcolm Baldrige National Quality Award. The award was created by Congress in 1987 to be the most prestigious recognition of quality—the total ability of a product or service to meet customer needs—in the United States. It is given annually to U.S. organizations in manufacturing, service, small business, health care, education, and nonprofit fields.[35] (That the award actually means something is shown by a study that found that hospitals that received the honor significantly outperformed other hospitals on nearly every count.[36])

The Baldrige award is an outgrowth of the realization among U.S. managers in the early 1980s that three-fourths of Americans were telling survey takers that the label "Made in America" no longer represented excellence—that they considered products made overseas, especially Japan, equal or superior in quality to U.S.-made products. As we saw in Chapter 2, much of the impetus for quality improvements in Japanese products came from American consultants W. Edwards Deming and Joseph M. Juran. As we mentioned, two strategies for ensuring quality are *quality control,* the strategy for minimizing errors by managing each stage of production, and *quality assurance,* focusing on the performance of workers and urging them to strive for "zero defects."

Quality award winner. The Pewaukee (Wisconsin) School District was one of the winners of the 2013 Malcolm Baldrige National Quality Award, the nation's highest honor for organizational innovation and performance excellence, which is given to organizations both large and small, profit and nonprofit. "It may seem like Baldrige is all results and processes," said the superintendent of the 2,800-student school district. "But at the heart there's a culture around continuous improvement [and] also around a passion for core values." How do you think organizations instill this approach?

Deming Management: The Contributions of W. Edwards Deming to Improved Quality

Previously, Frederick Taylor's scientific management philosophy, designed to maximize worker productivity, had been widely instituted. But by the 1950s, scientific management had led to organizations that were rigid and unresponsive to both employees and customers. **W. Edwards Deming's** challenge, known as **Deming management, proposed ideas for making organizations more responsive, more democratic, and less wasteful.** These included the following principles:

1. Quality Should Be Aimed at the Needs of the Consumer

"The consumer is the most important part of the production line," Deming wrote.[37] Thus, the efforts of individual workers in providing the product or service should be directed toward meeting the needs and expectations of the ultimate user.

2. Companies Should Aim at Improving the System, Not Blaming Workers Deming suggested that U.S. managers were more concerned with blaming problems on individual workers rather than on the organization's structure, culture, technology, work rules, and management—that is, "the system." By treating employees well, listening to their views and suggestions, Deming felt, managers could bring about improvements in products and services.

3. Improved Quality Leads to Increased Market Share, Increased Company Prospects, & Increased Employment When companies work to improve the quality of goods and services, they produce less waste, fewer delays, and are more efficient. Lower prices and superior quality lead to greater market share, which in turn leads to improved business prospects and consequently increased employment.

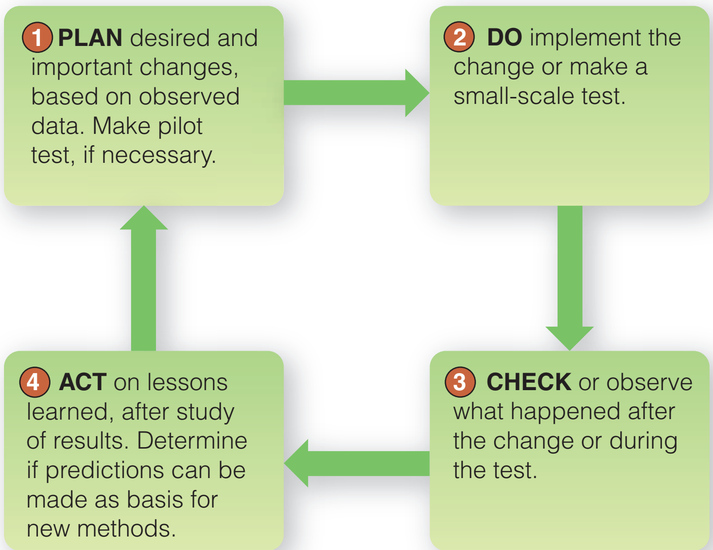
4. Quality Can Be Improved on the Basis of Hard Data, Using the PDCA Cycle Deming suggested that quality could be improved by acting on the basis of hard data. The process for doing this came to be known as the **PDCA cycle, a Plan-Do-Check-Act cycle using observed data for continuous improvement of operations.** *(See Figure 16.7.)* Like the steps in the control process in Figure 16.3 (page 514), step 3 ("Check") is a *feedback* step, in which performance is compared to goals. Feedback is instrumental to control.

FIGURE 16.7

The PDCA cycle: Plan-Do-Check-Act

The four steps continuously follow each other, resulting in continuous improvement.

Source: From W. Edwards Deming. Out of the Crisis, Plan Do Study Act Cycle, *page 88, © 2000 Massachusetts Institute of Technology, by permission of MIT Press.*



Core TQM Principles: Deliver Customer Value & Strive for Continuous Improvement

Total quality management (TQM) is defined as a comprehensive approach—led by top management and supported throughout the organization—dedicated to continuous quality improvement, training, and customer satisfaction.

In Chapter 2 we said there are four components to TQM:

1. Make continuous improvement a priority.
2. Get every employee involved.
3. Listen to and learn from customers and employees.
4. Use accurate standards to identify and eliminate problems.

These may be summarized as **two core principles of TQM—namely, (1) people orientation—everyone involved with the organization should focus on delivering value to customers—and (2) improvement orientation—everyone should work on continuously improving the work processes.**[38] Let's look at these further.

1. People Orientation—Focusing Everyone on Delivering Customer Value

Organizations adopting TQM value people as their most important resource—both those who create a product or service and those who receive it. Thus, not only are employees given more decision-making power, so are suppliers and customers.

This people orientation operates under the following assumptions.

- **Delivering customer value is most important.** The purpose of TQM is to focus people, resources, and work processes to deliver products or services that create value for customers.
- **People will focus on quality if given empowerment.** TQM assumes that employees (and often suppliers and customers) will concentrate on making quality improvements if given the decision-making power to do so. The reasoning here is that the people actually involved with the product or service are in the best position to detect opportunities for quality improvements.
- **TQM requires training, teamwork, and cross-functional efforts.** Employees and suppliers need to be well trained, and they must work in teams. Teamwork is considered important because many quality problems are spread across functional areas. For example, if cell-phone design specialists conferred with marketing specialists (as well as customers and suppliers), they would find the real challenge of using a cell phone for older people is pushing 11 tiny buttons to call a phone number.

Teams may be *self-managed teams,* as described in Chapter 13, with groups of workers given administrative oversight of activities such as planning, scheduling, monitoring, and staffing for their task domains. Sometimes, however, an organization needs a **special-purpose team to meet to solve a special or onetime problem.** The team then disbands after the problem is solved. These teams are often cross-functional, drawing on members from different departments. American medicine, for instance, is moving toward a team-based approach for certain applications, involving multiple doctors as well as nurse practitioners and physician assistants.[39]

2. Improvement Orientation—Focusing Everyone on Continuously Improving Work Processes

Americans seem to like big schemes, grand designs, and crash programs. Although these approaches certainly have their place, the lesson of the quality movement from overseas is that the way to success is through continuous small improvements. **Continuous improvement is defined as ongoing small, incremental improvements in all parts of an organization**—all products, services, functional areas, and work processes.[40]

This improvement orientation has the following assumptions.

- **It's less expensive to do it right the first time.** TQM assumes that it's better to do things right the first time than to do costly reworking. To be sure, there are many costs involved in creating quality products and services—training, equipment, and tools, for example. But they are less than the costs of dealing with poor quality—those stemming from lost customers, junked materials, time spent reworking, and frequent inspection, for example.[41]
- **It's better to do small improvements all the time.** This is the assumption that continuous improvement must be an everyday matter, that no improvement is too small, that there must be an ongoing effort to make things better a little bit at a time all the time.

Continuous improvement. Instead of making a walkway or street by laying bricks one at a time, how about using something like this? Dave Dyer of Swiss firm ABB Consulting points to this brick-laying machine as a great example of continuous improvement, one of the two core principles of TQM. The operators, he writes, "feed the bricks into the machine via gravity, there are no moving parts, and the path is laid as the machine moves. It's amazing!" What examples of continuous improvement can you think of?

- **Accurate standards must be followed to eliminate small variations.** TQM emphasizes the collection of accurate data throughout every stage of the work process. It also stresses the use of accurate standards (such as benchmarking) to evaluate progress and eliminate small variations, which are the source of many quality defects.
- **There must be strong commitment from top management.** Employees and suppliers won't focus on making small incremental improvements unless managers go beyond lip service to support high-quality work, as do the top managers at Ritz-Carlton, Amazon.com, and Ace Hardware.

EXAMPLE

Is Chrysler's New Quality Strategy Working?

When in 2009 Italian carmaker Fiat SpA took control of the Chrysler Group, the third of the Big Three U.S. auto companies, it gave quality control chief Doug Betts far-reaching authority. "Betts can shut the whole company down and nobody is going to overrule him, including me," CEO Sergio Marchionne is reported to have said.[42]

Looking for One-Millimeter Defects. Chrysler is working hard to achieve what Ford and General Motors (following trail blazers Toyota and Honda) have already been doing—namely, raise quality and leave behind a reputation for lousy craftsmanship.[43] This covers everything from safety to interior materials to how parts fit together. For instance, in 2011, the company spent $50,000 modifying a part involving a barely noticeable (one-millimeter) projection on a taillight of a Chrysler 300 prototype, enough to "catch a rag if someone was hand-washing" the car, Betts said.

Assembly plants were outfitted with special clean zones, where workers use devices (called Meisterbock gauges) that laser-scan the surface of a vehicle for defects as small as a few millimeters, which trigger adjustments at the plant or with suppliers.

Moving Up. In 2008, when Chrysler was controlled by private-equity firm Cerberus Capital Management L.P., the company's reputation was so bad that a review of the now-discontinued Sebring called it "almost certainly the worst car in the entire world." Three years later, *Consumer Reports* gave Chrysler's brands the highest reliability ratings in years, moving them from the bottom to the middle of the list.[44] The ratings have held up for the next couple of years as well, especially for the Chrysler 300.

Still, there have been setbacks, with Chrysler recalling late model Dodge Charger and Chrysler 300 sedans because of stability control and brake-system problems. There have also been electrical problems on 2011 Chryslers, Dodge, and Jeep vehicles, such as stalling, failure to start, and headlights switching off at night.[45]

YOUR CALL

It's easy for a company to lose its reputation. How long do you think it takes to get it back? Is Chrysler there yet, in your opinion?

Applying TQM to Services

Manufacturing industries provide tangible products (think jars of baby food), service industries provide intangible products (think child care services). Manufactured products can be stored (such as dental floss in a warehouse); services generally need to be consumed immediately (such as dental hygiene services). Services tend to involve a good deal of people effort (although there is some automation, as with bank automated teller machines). Finally, services are generally provided at locations and times convenient for customers; that is, customers are much more involved in the delivery of services than they are in the delivery of manufactured products.

Customer Satisfaction: A Matter of Perception? Perhaps you're beginning to see how judging the quality of services is a different animal from judging the quality of manufactured goods, because it comes down to meeting the customer's *satisfaction,* which may be a matter of *perception.* (After all, some hotel guests, restaurant diners, and supermarket patrons, for example, are more easily satisfied than others.)

Some people view college students as customers. Do you? For those schools that care about the quality of what they offer, it is important to assess student satisfaction with the college or university as a whole. If you are curious about your level of satisfaction with your college or university, then complete Self-Assessment 16.3.

SELF-ASSESSMENT 16.3 connect

Assessing Your Satisfaction with Your College or University Experience

The following survey was designed to assess the extent to which you are satisfied with your college experience. Go to **connect.mheducation.com** and take Self-Assessment 16.3. When you're done, answer the following questions:

1. What is your level of satisfaction? Are you surprised by the results?
2. Based on your scores, identify three things that your college or university might do to improve student satisfaction? Be specific.
3. Are students really customers? Explain your rationale.

The RATER Scale How, then, can we measure the quality of a delivered service? For one, we can use the **RATER scale, which enables customers to rate the quality of a service along five dimensions—*reliability, assurance, tangibles, empathy*, and *responsiveness* (abbreviated RATER)—each on a scale from 1 (for very poor) to 10 (for very good).**[46] The meanings of the RATER dimensions are as follows:

- Reliability—ability to perform the desired service dependably, accurately, and consistently.
- Assurance—employees' knowledge, courtesy, and ability to convey trust and confidence.
- Tangibles—physical facilities, equipment, appearance of personnel.
- Empathy—provision of caring, individualized attention to customers.
- Responsiveness—willingness to provide prompt service and help customers.

PRACTICAL ACTION

What Makes a Service Company Successful? Four Core Elements

With services now employing more than 75% of American workers, universities are bringing more research attention to what is being called "services science." This is a field that uses management, technology, mathematics, and engineering expertise to improve the performance of service businesses, such as retailing and health care.[47]

Harvard Business School scholar Frances X. Frei has determined that a successful service business must make the right decisions about four core elements and balance them effectively:[48]

The Offering: Which Features Are Given Top-Quality Treatment? Which service attributes, as informed by the needs of customers, does the company target for excellence and which does it target for inferior performance? Does a bank, for example, offer more convenient hours and friendlier tellers (excellence) but pay less attractive interest rates (inferior performance)?

The Funding Mechanism: Who Pays for the Service? How should the company fund its services? Should it have the customer pay for them? This can be done in a palatable way, as when Starbucks funds its stuffed-chair ambience by charging more for coffee. Or it can be done by making savings in service features, as when Progressive Casualty Insurance cuts down on frauds and lawsuits by deploying its own (rather than independent) representatives to the scene of an auto accident.

Or should the company cover the cost of excellence with operational savings, as by spending now to save later or having the customer do the work? Call centers usually charge for customer support, but Intuit offers free support and has product-development people, as well as customer-service people, field calls so that subsequent developments in Intuit software are informed by direct knowledge of customer problems. Other companies, such as most gas stations, save money by having customers pump their own gas.

The Employee Management System: How Are Workers Trained & Motivated? Service companies need to think about what makes their employees *able* to achieve excellence and what makes them reasonably *motivated* to achieve excellence. For instance, bank customers may expect employees to meet a lot of complex needs, but the employees aren't *able* to meet these needs because they haven't been trained. Or they aren't *motivated* to achieve excellence because the bank hasn't figured out how to screen in its hiring, as in hiring people for attitude first and training them later versus paying more to attract highly motivated people.

The Customer Management System: How Are Customers "Trained"? Like employees, customers in a service business must also be "trained" as well, as the airlines have done with check-in. At Zipcar, the popular car-sharing service, the company keeps its costs low by depending on customers to clean, refuel, and return cars in time for the next user. In training customers, service companies need to determine which customers they're focusing on, what behaviors they want, and which techniques will most effectively influence customer behavior.

YOUR CALL

Pick a services company you're familiar with, such as Domino's Pizza, Starbucks, Amazon, REI, or the college bookstore. In integrating the four core features just discussed, a service company needs to determine the following: Are the decisions it makes in one area supported by those it makes in the other areas? Does the service model create long-term value for customers, employees, and shareholders? Is the company trying to be all things to all people or specific things to specific people? How do you think the company you picked rates?

Some TQM Tools & Techniques

Several tools and techniques are available for improving quality. We described benchmarking in Chapter 10. Here we describe *outsourcing, reduced cycle time, ISO 9000 and ISO 14000, statistical process control,* and *Six Sigma.*

Outsourcing: Let Outsiders Handle It *Outsourcing* (discussed in detail in Chapter 4) is the subcontracting of services and operations to an outside vendor. Usually this is done because the subcontractor vendor can do the job better or cheaper. Or, stated another way, when the services and operations are done in-house, they are not done as efficiently or are keeping personnel from doing more important things.

For example, despite its former well-known advertising campaign, "An American Revolution," Chevrolet outsources the engine for its Chevrolet Equinox to China, where it found it could get high-quality engines built at less cost.[49] And when IBM and other companies outsource components inexpensively for new integrated software systems, says one researcher, offshore programmers make information technology affordable to small and medium-size businesses and others who haven't yet joined the productivity boom.[50] (One American software developer was even caught outsourcing his own job to China, allowing people to assume the work was his.[51])

Outsourcing is also being done by many state and local governments, which, under the banner known as privatization, have subcontracted traditional government services such as fire protection, correctional services, and medical services.

Reduced Cycle Time: Increasing the Speed of Work Processes Another TQM technique is the emphasis on increasing the speed with which an organization's operations and processes can be performed. This is known as **reduced cycle time, or reduction in steps in a work process,** such as fewer authorization steps required to grant a contract to a supplier. The point is to improve the organization's performance by eliminating wasteful motions, barriers between departments, unnecessary procedural steps, and the like.

ISO 9000 & ISO 14000: Meeting Standards of Independent Auditors If you're a sales representative for Du Pont, the American chemical company, how will your overseas clients know that your products have the quality they are expecting? If you're a purchasing agent for an Ohio-based tire company, how can you tell if the synthetic rubber you're buying overseas is adequate?

At one time, buyers and sellers simply had to rely on a supplier's past reputation or personal assurances. In 1979, the International Organization for Standardization (ISO), based in Geneva, Switzerland, created a set of quality standards known as the 9000 series—"a kind of Good Housekeeping seal of approval for global business," in one description.[52] There are two such standards:

- **ISO 9000.** **The ISO 9000 series consists of quality-control procedures companies must install—from purchasing to manufacturing to inventory to shipping—that can be audited by independent quality-control experts, or "registrars."** The goal is to reduce flaws in manufacturing and improve productivity. Companies must document the procedures and train their employees to use them. For instance, DocBase Direct is a web-delivered document and forms-management system that helps companies comply with key ISO management standards, such as traceable changes and easy reporting.

  The ISO 9000 designation is now recognized by more than 100 countries around the world, and a quarter of the corporations around the globe insist that suppliers have ISO 9000 certification. "You close some expensive doors if you're not certified," says Bill Ekeler, general manager of Overland Products, a Nebraska tool-and-die-stamping firm.[53] In addition, because the ISO process forced him to analyze his company from the top down, Ekeler found ways to streamline manufacturing processes that improved his bottom line.

- **ISO 14000.** **The ISO 14000 series extends the concept, identifying standards for environmental performance.** ISO 14000 dictates standards for documenting a company's management of pollution, efficient use of raw materials, and reduction of the firm's impact on the environment.

Statistical Process Control: Taking Periodic Random Samples As the pages of this book were being printed, instruments called densitometers and colorimeters were used to measure ink density and trueness of color, taking samples of printed pages at fixed intervals. This is an ongoing check for quality control.

All kinds of products require periodic inspection during their manufacture: hamburger meat, breakfast cereal, flashlight batteries, wine, and so on. The tool often used for this is **statistical process control, a statistical technique that uses periodic random samples from production runs to see if quality is being maintained within a standard range of acceptability.** If quality is not acceptable, production is stopped to allow corrective measures.

Statistical process control is the technique that McDonald's uses, for example, to make sure that the quality of its burgers is always the same, no matter where in the world they are served. Companies such as Intel and Motorola use statistical process control to ensure the reliability and quality of their products.

Six Sigma & Lean Six Sigma: Data-Driven Ways to Eliminate Defects

"The biggest problem with the management technique known as Six Sigma is this: It sounds too good to be true," says a *Fortune* writer. "How would your company like a 20% increase in profit margins within one year, followed by profitability over the long-term that is *ten times* what you're seeing now? How about a 4% (or greater) annual gain in market share?"[54]

What is this name, Six Sigma (which is probably Greek to you), and is it a path to management paradise? The name comes from *sigma,* the Greek letter that statisticians use to define a standard deviation. The higher the sigma, the fewer the deviations from the norm—that is, the fewer the defects. Developed by Motorola in 1985, Six Sigma has since been embraced by General Electric, Allied Signal, American Express, and other companies.[55] There are two variations, *Six Sigma* and *lean Six Sigma.*

- **Six Sigma. Six Sigma is a rigorous statistical analysis process that reduces defects in manufacturing and service-related processes.** By testing thousands of variables and eliminating guesswork, a company using the technique attempts to improve quality and reduce waste to the point where errors nearly vanish. In everything from product design to manufacturing to billing, the attainment of Six Sigma means there are no more than 3.4 defects per million products or procedures.

  "Six Sigma gets people away from thinking that 96% is good, to thinking that 40,000 failures per million is bad," says a vice president of consulting firm A. T. Kearney.[56] Six Sigma means being 99.9997% perfect. By contrast, Three Sigma or Four Sigma means settling for 99% perfect—the equivalent of no electricity for 7 hours each month, two short or long landings per day at each major airport, or 5,000 incorrect surgical operations per week.[57]

  Six Sigma may also be thought of as a philosophy—to reduce variation in your company's business and make customer-focused, data-driven decisions. The method preaches the use of Define, Measure, Analyze, Improve, and Control (DMAIC). Team leaders may be awarded a Six Sigma "black belt" for applying DMAIC.

- **Lean Six Sigma.** More recently, companies are using an approach known as **lean Six Sigma, which focuses on problem solving and performance improvement—speed with excellence—of a well-defined project.**[58]

  Xerox Corp., for example, has focused on getting new products to customers faster, which has meant taking steps out of the design process without loss of quality. A high-end, $200,000 machine that can print 100 pages a minute traditionally has taken three to five cycles of design; removing just one of those cycles can shave up to a year off time to market.[59] The grocery chain Albertsons Inc. launched Six Sigma training to reduce customer dissatisfaction and waste to the lowest level possible.[60] Lean Six Sigma has also been used to improve communications from senior managers.[61]

Six Sigma and lean Six Sigma may not be perfect, since they cannot compensate for human error or control events outside a company.[62] Still, they let managers approach problems with the assumption that there's a data-oriented, tangible way to approach problem solving.[63] ●

16.6 Managing Control Effectively

MAJOR QUESTION

What are the keys to successful control, and what are the barriers to control success?

THE BIG PICTURE

This section describes four keys to successful control and five barriers to successful control.

How do you as a manager make a control system successful, and how do you identify and deal with barriers to control? We consider these topics next.[64]

The Keys to Successful Control Systems

Successful control systems have a number of common characteristics: (1) They are strategic and results oriented. (2) They are timely, accurate, and objective. (3) They are realistic, positive, and understandable and they encourage self-control. (4) They are flexible.[65]

1. They Are Strategic & Results Oriented Control systems support strategic plans and are concentrated on significant activities that will make a real difference to the organization. Thus, when managers are developing strategic plans for achieving strategic goals, that is the point at which they should pay attention to developing control standards that will measure how well the plans are being achieved.

Example: Global warming is now shifting the climate on a continental scale, changing the life cycle of animals and plants, scientists say, and surveys show more Americans feel guilty for not living greener.[66] A growing number of companies are discovering that embracing environmental safe practices is paying off in savings of hundreds of millions of dollars, as we saw with Subaru of Indiana in Chapter 3.[67]

Charity control. Laura Arrillaga-Andreessen (shown here with husband Marc Andreessen, left, and Facebook CEO Mark Zuckerberg at a 2012 conference in Sun Valley, Idaho) is a Stanford University professor of philanthropy who aims to make giving not only more effective and wide ranging but also more accessible to people of all ages and income levels, including Millennials. Part of her vision is to enable donations through mobile microfinancing and smartphone money transfers. Do you think that philanthropy should be subject to the same planning-organizing-leading-control ideas as other institutions?

2. They Are Timely, Accurate, & Objective Good control systems—like good information of any kind—should . . .

- **Be timely—meaning when needed.** The information should not necessarily be delivered quickly, but it should be delivered at an appropriate or specific time, such as every week or every month. And it certainly should be often enough to allow employees and managers to take corrective action for any deviations.
- **Be accurate—meaning correct.** Accuracy is paramount, if decision mistakes are to be avoided. Inaccurate sales figures may lead managers to mistakenly cut or increase sales promotion budgets. Inaccurate production costs may lead to faulty pricing of a product.
- **Be objective—meaning impartial.** Objectivity means control systems are impartial and fair. Although information can be inaccurate for all kinds of reasons (faulty communication, unknown data, and so on), information that is not objective is inaccurate for a special reason: It is biased or prejudiced. Control systems need to be considered unbiased for everyone involved so that they will be respected for their fundamental purpose—enhancing performance.

3. They Are Realistic, Positive, & Understandable & Encourage Self-Control Control systems have to focus on working for the people who will have to live with them. Thus, they operate best when they are made acceptable to the organization's members who are guided by them. Thus, they should . . .

- **Be realistic.** They should incorporate realistic expectations. If employees feel performance results are too difficult, they are apt to ignore or sabotage the performance system.
- **Be positive.** They should emphasize development and improvement. They should avoid emphasizing punishment and reprimand.
- **Be understandable.** They should fit the people involved, be kept as simple as possible, and present data in understandable terms. They should avoid complicated computer printouts and statistics.
- **Encourage self-control.** They should encourage good communication and mutual participation. They should not be the basis for creating distrust between employees and managers.

4. They Are Flexible Control systems must leave room for individual judgment, so that they can be modified when necessary to meet new requirements.

Barriers to Control Success

Among the several barriers to a successful control system are the following:[68]

1. Too Much Control Some organizations, particularly bureaucratic ones, try to exert too much control. They may try to regulate employee behavior in everything from dress code to timing of coffee breaks. Allowing employees too little discretion for analysis and interpretation may lead to employee frustration—particularly among professionals, such as college professors and medical doctors. Their frustration may lead them to ignore or try to sabotage the control process.

2. Too Little Employee Participation As highlighted by W. Edwards Deming, discussed elsewhere in the book (Chapter 2), employee participation can enhance productivity. Involving employees in both the planning and execution of control systems can bring legitimacy to the process and heighten employee morale.

3. Overemphasis on Means Instead of Ends We said that control activities should be strategic and results oriented. They are not ends in themselves but the means to eliminating problems. Too much emphasis on accountability for weekly production quotas, for example, can lead production supervisors to push their workers and equipment too hard, resulting in absenteeism and machine breakdowns. Or it can lead to game playing—"beating the system"—as managers and employees manipulate data to seem to fulfill short-run goals instead of the organization's strategic plan.

4. Overemphasis on Paperwork A specific kind of misdirection of effort is management emphasis on getting reports done, to the exclusion of other performance activity. Reports are not the be-all and end-all. Undue emphasis on reports can lead to too much focus on quantification of results and even to falsification of data.

Example: A research laboratory decided to use the number of patents the lab obtained as a measure of its effectiveness. The result was an increase in patents filed but a decrease in the number of successful research projects.[69]

5. Overemphasis on One Instead of Multiple Approaches One control may not be enough. By having multiple control activities and information systems, an organization can have multiple performance indicators, thereby increasing accuracy and objectivity.

Example: An obvious strategic goal for gambling casinos is to prevent employee theft of the cash flowing through their hands. Thus, casinos control card dealers by three means. First, they require they have a dealer's license before they are hired. Second, they put them under constant scrutiny, using direct supervision by on-site pit bosses as well as observation by closed-circuit TV cameras and through overhead one-way mirrors. Third, they require detailed reports at the end of each shift so that transfer of cash and cash equivalents (such as gambling chips) can be audited.[70] ●

Temptation. Because legal gambling is a heavy cash business, casinos need to institute special controls against employee theft. One of them is the "eye in the sky" over card and craps tables.

16.7 MAJOR QUESTION

Managing for Productivity

How do managers influence productivity?

THE BIG PICTURE

The purpose of a manager is to make decisions about the four management functions—planning, organizing, leading, and controlling—to get people to achieve productivity and realize results. Productivity is defined by the formula of outputs divided by inputs for a specified period of time. Productivity is important because it determines whether the organization will make a profit or even survive.

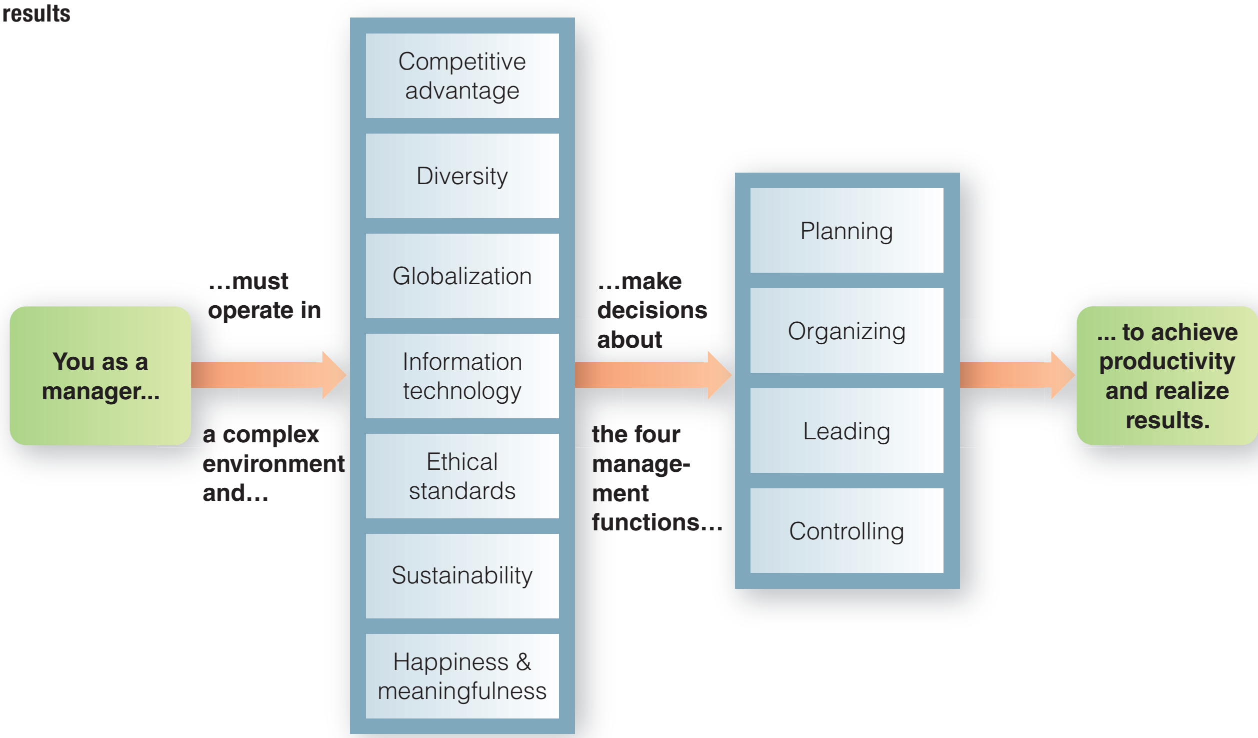
In Chapter 1, we pointed out that as a manager in the 21st century you will operate in a complex environment in which you will need to deal with seven challenges—managing for (1) competitive advantage, (2) diversity, (3) globalization, (4) information technology, (5) ethical standards, (6) sustainability, and (7) your own happiness and life goals.

Within this dynamic world, you will draw on the practical and theoretical knowledge described in this book to make decisions about the four management functions of planning, organizing, leading, and controlling.

The purpose is to get the people reporting to you *to achieve productivity and realize results.*

This process is diagrammed below, pulling together the main topics of this book. *(See Figure 16.8.)*

FIGURE 16.8
Managing for productivity & results



What Is Productivity?

Productivity can be applied at any level, whether for you as an individual, for the work unit you're managing, or for the organization you work for. Productivity is defined by the formula of *outputs divided by inputs* for a specified period of time. Outputs are all the goods and services produced. Inputs are not only labor but also capital, materials, and energy. That is,

$$\text{Productivity} = \frac{\text{Outputs}}{\text{Inputs}} \quad \text{or} \quad \frac{\text{Goods} + \text{Services}}{\text{Labor} + \text{Capital} + \text{Materials} + \text{Energy}}$$

What does this mean to you as a manager? It means that you can increase overall productivity by making substitutions or increasing the efficiency of any one element: labor, capital, materials, energy. For instance, you can increase the efficiency of labor by substituting capital in the form of equipment or machinery, as in employing a backhoe instead of laborers with shovels to dig a hole.[71] Or you can increase the efficiency of materials inputs by expanding their uses, as when lumber mills discovered they could sell not only boards but also sawdust and wood chips for use in gardens. Or you can increase the efficiency of energy by putting solar panels on a factory roof so the organization won't have to buy so much electrical power from utility companies.

Why Increasing Productivity Is Important

"Productivity growth is the elixir that makes an economy flourish," says one business article.[72] "Our society is wealthy," says another, "precisely because it can churn out products like automobiles, flush toilets, and Google search algorithms at relatively low cost."[73] That is, the more goods and services that are produced and made easily available to us and for export, the higher our standard of living. Increasing the gross domestic product—the total dollar value of all the goods and services produced in the United States—depends on raising productivity, as well as on a growing workforce.

The U.S. Productivity Track Record During the 1960s, productivity in the United States averaged a hefty 2.9% a year, then sank to a disappointing 1.5% right up until 1995. Because the decline in productivity no longer allowed the improvement in wages and living standards that had benefited so many Americans in the 1960s, millions of people took second jobs or worked longer hours to keep from falling behind. From 1995 to 2000, however, during the longest economic boom in American history, the productivity rate jumped to 2.5% annually, as the total output of goods and services rose faster than the total hours needed to produce them. From the business cycle peak in the first quarter of 2001 to the end of 2007, productivity grew at an annual rate of 2.7%.[74] Then came the recession year 2008, when it fell to 2%. Then, from the fourth quarter of 2008 to the fourth quarter of 2009, productivity rose 5.4%—"a turnaround unprecedented in modern history," says *Newsweek*—and it also rose an impressive 4.1% in 2010.[75] However, it has averaged only about 1.1% since 2011—less than half the historical rate since 1948 of 2.5%—as companies began to approach the limit of how much they could squeeze from the workforce.[76]

The Role of Information Technology Most economists seem to think the recent productivity growth is the result of organizations' huge investment in information technology—computers, the Internet, other telecommunications advances, and computer-guided production line improvements.[77] From 1995 to 2001, for example, labor productivity in services grew at a 2.6% rate (outpacing the 2.3% for goods-producing sectors), the result, economists think, of information technology.[78] (Since 2001, productivity has continued to advance in the service sectors in relation to the goods-producing sectors.[79]) In particular, many companies have implemented **enterprise resource planning (ERP) software systems, information systems for integrating virtually all aspects of a business,** helping managers stay on top of the latest developments. ●

Competing internationally for productivity. This oil tanker represents the continual competition among companies and among nations to achieve productivity—"a matter of survival" for the United States, some leaders believe. Is our nation doing everything it could to be more productive? What about taking measures to reduce dependence on foreign oil?

Epilogue: The Keys to Your Managerial Success

MAJOR QUESTION What are eight keys to personal managerial success?

THE BIG PICTURE

As we end the book, this section describes some life lessons to take away.

We have come to the end of the book, our last chance to offer some suggestions to take with you that we hope will benefit you in the coming years. Following are some life lessons pulled from various sources that can make you a "keeper" in an organization and help you be successful.

- **Find your passion and follow it.** "The mission matters," writes Gary Hamel, co-founder of the Management Innovation Lab. "People change for what they care about." Employees aren't motivated much by the notion of "increasing shareholder value" (or if they are, the result may be an environment in which greed overwhelms higher-minded goals). Says Hamel, "A company must forever be on the way to *becoming* something more than it is right now."[80] And the same should apply to you. Find something you love to do, and do it vigorously.
- **Encourage self-discovery, and be realistic.** To stay ahead of the pack, you need to develop self-awareness, have an active mind, and be willing to grow and change. Here's a life lesson: "Be brutally honest with yourself about what you know, and ask what skills you need to take the next step." This includes not just the tools of your trade—finance, technology, and so on—but most importantly people skills.
- **Every situation is different, so be flexible.** No principle, no theory will apply under all circumstances. Industries, cultures, supervisors, customers will vary. If you're the new kid in a new job, for instance, you should know that "culture is critical," suggests Angeli R. Rasbury in *Black Enterprise*. A life lesson: "Before you can begin to set goals, know the organization in which you're working. Learn how employees conduct business and view success, and how the company rewards achievement. An organization's culture defines its management and business guidelines."[81] Another life lesson: "Remove 'It's not my job' from your vocabulary."
- **Fine-tune your soft skills—your people skills.** The workplace is not an area where lone individuals make their silent contributions. Today we live and work in a team universe. If, as is the case with Whole Foods Market, getting and keeping a job depends on the reviews of your peers, with teammates voting on your fate, you can see that communication skills become ever more important. Recommendation: Get feedback on your interpersonal skills and develop a plan for improvement.
- **Learn how to develop leadership skills.** Every company should invest in the leadership development of its managers if it is to improve the quality of its future leaders. But you can also work to develop your own leadership skills. An example and a life lesson: "Leaders who wait for bad news to come to them are taking a major risk, so learn to seek it out—as by encouraging employees to bring you news of potential problems and thanking them for it, not punishing them for their candor."[82] You can also pick up news about problems, potential and actual, by practicing "management by wandering around." Another life lesson: "If you set the bar high, even if you don't reach it, you end up in a pretty good place—that is, achieving a pretty high mark."

- **Treat people as if they matter, because they do.** If you treat employees and customers with dignity, they respond accordingly. The highly successful online shoe retailer Zappos, for instance, "is fanatical about great service," says the writer of a *Harvard Business Publishing* online blog, "not just satisfying customers, but amazing them," as in promising delivery in four days and delivering in one. How? It's all in the hiring, which Zappos does with great intensity. After four weeks' training, new call-center employees are offered $1,000 on top of what they have earned to that point if they want to quit—the theory being that people who take the money "obviously don't have the commitment" that Zappos requires of its employees. (About 10% of the trainees take the offer.)[83] The life lesson: "Companies don't engage emotionally with their customers—people do. If you want to create a memorable company, you have to fill your company with memorable people."
- **Draw employees and peers into your management process.** The old top-down, command-and-control model of organization is moving toward a flattened, networked kind of structure. Managers now work more often with peers, where lines of authority aren't always clear or don't exist, so that one's persuasive powers become key. Power has devolved to front-line employees who are closest to the customer and to small, focused, self-managed teams that have latitude to pursue new ideas. The life lesson: "The best organizations will be those whose employees have the power to innovate, not just follow orders from on high."
- **Be flexible, keep your cool, and take yourself lightly.** Things aren't always going to work out your way, so flexibility is important. In addition, the more unflappable you appear in difficult circumstances, the more you'll be admired by your bosses and coworkers. Having a sense of humor helps, since there are enough people spreading gloom and doom in the workplace. Life lesson: "When you're less emotional, you're better able to assess a crisis and develop a workable solution."

We wish you the very best of luck. And we mean it!

Angelo Kinicki
Brian K. Williams

Key Terms Used in This Chapter

audits 527
balance sheet 527
balanced scorecard 520
budget 525
bureaucratic control 519
continuous improvement 531
control process steps 514
control standard 514
controlling 512
decentralized control 519
Deming management 529
enterprise resource planning (ERP) 541
external audit 527
financial statement 526
fixed budget 526
income statement 527
incremental budgeting 525
internal audit 528
ISO 9000 series 535
ISO 14000 series 535
lean Six Sigma 536
management by exception 515
operational control 517
PDCA cycle 530
RATER scale 533
ratio analysis 527
reduced cycle time 535
Six Sigma 536
special-purpose team 531
statistical process control 536
strategic control 517
strategy map 522
supply chain 518
tactical control 517
total quality management (TQM) 530
two core principles of TQM 531
variable budget 526

Key Points

16.1 Control: When Managers Monitor Performance

- Controlling is defined as monitoring performance, comparing it with goals, and taking corrective action as needed.
- There are six reasons why control is needed: (1) to adapt to change and uncertainty; (2) to discover irregularities and errors; (3) to reduce costs, increase productivity, or add value; (4) to detect opportunities; (5) to deal with complexity; and (6) to decentralize decision making and facilitate teamwork.
- There are four control process steps. (1) The first step is to set standards. A control standard is the desired performance level for a given goal. (2) The second step is to measure performance, based on written reports, oral reports, and personal observation. (3) The third step is to compare measured performance against the standards established. (4) The fourth step is to take corrective action, if necessary, if there is negative performance.

16.2 Levels & Areas of Control

- In applying the steps and types of control, managers need to consider (1) the level of management at which they operate, (2) the areas they can draw on for resources, and (3) the style of control philosophy.
- There are three levels of control, corresponding to the three principal managerial levels. (1) Strategic control, done by top managers, is monitoring performance to ensure that strategic plans are being implemented. (2) Tactical control, done by middle managers, is monitoring performance to ensure that tactical plans are being implemented. (3) Operational control, done by first-level or supervisory managers, is monitoring performance to ensure that day-to-day goals are being implemented.
- Most organizations have six areas that they can draw on for resources. (1) The physical area includes buildings, equipment, and tangible products; these use equipment control, inventory-management control, and quality controls. (2) The human resources area uses personality tests, drug tests, performance tests, employee surveys, and the like as controls to monitor people. (3) The informational area uses production schedules, sales forecasts, environmental impact statements, and the like to monitor the organization's various resources. (4) The financial area uses various kinds of financial controls, as we discuss in Section 16.4. (5) The structural area uses hierarchical or other arrangements such as bureaucratic control, which is characterized by use of rules, regulations, and formal authority to guide performance, or decentralized control, which is characterized by informal and organic structural arrangements. (6) The cultural area influences the work process and levels of performance through the set of norms that develop as a result of the values and beliefs that constitute an organization's culture.

16.3 The Balanced Scorecard, Strategy Maps, & Measurement Management

- To establish standards, managers often use the balanced scorecard, which provides a fast but comprehensive view of the organization via four indicators: (1) financial measures, (2) customer satisfaction, (3) internal processes, and (4) innovation and improvement activities.

- The strategy map, a visual representation of the four perspectives of the balanced scorecard—financial, customer, internal business, and innovation and learning—enables managers to communicate their goals so that everyone in the company can understand how their jobs are linked to the overall objectives of the organization.
- Measurement-managed companies use measurable criteria for determining strategic success, and management updates and reviews three or more of six primary performance areas: financial performance, operating efficiency, customer satisfaction, employee performance, innovation/change, and community/environment.
- Four mechanisms that contribute to the success of such companies are top executives agree on strategy, communication is clear, there is better focus and alignments, and the organizational culture emphasizes teamwork and allows risk taking.
- Four barriers to effective measurement are objectives are fuzzy, managers put too much trust in informal feedback systems, employees resist new management systems, and companies focus too much on measuring activities instead of results.
- Some areas are difficult to measure, such as those in service industries.

16.4 Some Financial Tools for Control

- Financial controls include (1) budgets, (2) financial statements, (3) ratio analysis, and (4) audits.
- A budget is a formal financial projection. The most important budget-planning approach is incremental budgeting, which allocates increased or decreased funds to a department by using the last budget period as a reference point; only incremental changes in the budget request are reviewed. Budgets are either fixed, which allocate resources on the basis of a single estimate of costs, or variable, which allow resource allocation to vary in proportion with various levels of activity.
- A financial statement is a summary of some aspect of an organization's financial status. One type, the balance sheet, summarizes an organization's overall financial worth—assets and liabilities—at a specific point in time. The other type, the income statement, summarizes an organization's financial results—revenues and expenses—over a specified period of time.
- Ratio analysis is the practice of evaluating financial ratios. Managers may use this tool to determine an organization's financial health, such as liquidity ratios, debt management ratios, or return ratios.
- Audits are formal verifications of an organization's financial and operational systems. Audits are of two types. An external audit is formal verification of an organization's financial accounts and statements by outside experts. An internal audit is a verification of an organization's financial accounts and statements by the organization's own professional staff.

16.5 Total Quality Management

- Much of the impetus for quality improvement came from W. Edwards Deming, whose philosophy, known as Deming management, proposed ideas for making organizations more responsive, more democratic, and less wasteful.
- Among the principles of Deming management are (1) quality should be aimed at the needs of the consumer; (2) companies should aim at improving the system, not blaming workers; (3) improved quality leads to increased market share, increased company prospects, and increased employment; and (4) quality can be improved on the basis of hard data, using the PDCA, or plan-do-check-act, cycle.
- Total quality management (TQM) is defined as a comprehensive approach—led by top management and supported throughout the organization—dedicated to continuous quality improvement, training, and customer satisfaction. The two core principles of TQM are people orientation and improvement orientation.
- In the people orientation, everyone involved with the organization is asked to focus on delivering value to customers, focusing on quality. TQM requires training, teamwork, and cross-functional efforts.
- In the improvement orientation, everyone involved with the organization is supposed to make ongoing small, incremental improvements in all parts of the organization. This orientation assumes that it's less expensive to do things right the first time, to do small improvements all the time, and to follow accurate standards to eliminate small variations.
- TQM can be applied to services using the RATER scale, which stands for reliability, assurance, tangibles, empathy, and responsiveness.
- Several techniques are available for improving quality. (1) Employee involvement can be implemented through self-managed teams, and special-purpose teams—teams that meet

to solve a special or one-time problem. (2) Outsourcing is the subcontracting of services and operations to an outside vendor. (3) Reduced cycle time consists of reducing the number of steps in a work process. (4) Statistical process control is a statistical technique that uses periodic random samples from production runs to see if quality is being maintained within a standard range of acceptability.

16.6 Managing Control Effectively

- Successful control systems have four common characteristics: (1) They are strategic and results oriented. (2) They are timely, accurate, and objective. (3) They are realistic, positive, and understandable and they encourage self-control. (4) They are flexible.
- Among the barriers to a successful control system are the following: (1) Organizations may exert too much control. (2) There may be too little employee participation. (3) The organization may overemphasize means instead of ends. (4) There may be an overemphasis on paperwork. (5) There may be an overemphasis on one approach instead of multiple approaches.

16.7 Managing for Productivity

- A manager has to deal with six challenges—managing for competitive advantage, diversity, globalization, information technology, ethical standards, sustainability, and his or her own happiness and meaningfulness.
- The manager must make decisions about the four management functions—planning, organizing, leading, and controlling—to get people to achieve productivity and realize results.
- Productivity is defined by the formula of outputs divided by inputs for a specified period of time. Productivity is important because it determines whether the organization will make a profit or even survive.
- Much of productivity growth is thought to result from the implementation of information technology, including enterprise resource planning (ERP) systems. Productivity depends on control.

Understanding the Chapter: What Do I Know?

1. What is control, and what are six reasons control is needed?
2. Explain the steps in the control process, and describe the three levels of control.
3. Distinguish among the six areas of organizational control: physical, human, informational, financial, structural, and cultural.
4. Explain the four indicators of the balanced scorecard, and state what a strategy map is.
5. What are four mechanisms of success for measurement-managed firms and four barriers to effective measurement?
6. Define incremental budgeting and give some examples of types of budgets.
7. Explain the following financial tools used for control: financial statement, balance sheet, income statement, ratio analysis, and audits (both external and internal).
8. Discuss total quality management, its two core principles, and the concept of continuous improvement.
9. Explain the following TQM tools and techniques: reduced cycle time, the ISO 9000 series, the ISO 14000 series, statistical process control, and Six Sigma and lean Six Sigma.
10. What is the formula for defining productivity?

Management in Action

UPS Relies on Sophisticated Control Systems to Manage Package Deliveries

Scott Abell is fretting about free-range turkeys. It's November 20 [2013], and United Parcel Service will soon pick up 11,000 of them from a ranch in northern California and ship them overnight to customers of Williams-Sonoma in time for Thanksgiving. Abell, a 31-year veteran of UPS, is known inside the organization as Mr. Peak. He plans next-day, two-day, and three-day shipments during the holidays, UPS's busiest time of the year. He starts drafting his plan in January and spends the rest of the year refining it. The turkeys are his first big test of the 2013 peak season, which starts in five days.

The birds are impressive: A 24-pounder sells for $185—plus shipping. UPS must handle them gently. The turkeys are not frozen but "meticulously chilled" at around 37F to keep them fresh. . . .

An athletic 53-year-old with wire-rimmed glasses, a neatly trimmed mustache, and carefully parted graying hair, Abell is unfailingly gracious, if a little high-strung. He has an elaborate delivery process in store for the "Willie Birds." On November 25, three days before Thanksgiving, UPS drivers will pick them up at the ranch and transport them to two of the company's large distribution centers. From there, they will be flown to UPS sorting facilities. The ones bound for the Southwest will be divvied up at UPS distribution in Ontario, California. The ones headed east of the Rockies will be processed at Worldport, an enormous operation near Abell's office in Louisville. Then the turkeys will be jetted to local UPS hubs and handed over to drivers who will carry them to their final destinations. Ideally, this will all happen in 24 hours.

The flight of the Willie Birds has become a holiday ritual for UPS. Concerned about getting it right, Abell has even distributed pictures of Willie Bird boxes to the 6,000 workers who sort packages daily at Worldport so they recognize them. The last thing Mr. Peak wants is for the birds to arrive spoiled. If they're late, UPS has to reimburse the disappointed Thanksgiving diners.

Coordinating the most time-sensitive shipments during the most hectic time of year has always been a challenge for UPS, but the Internet has made Abell's job more crucial than ever. It's become so easy for people to shop via computers and smartphones that they frequently delay their purchases until the last minute. Mr. Peak's job, in effect, is to fulfill the Internet's promise of instant gratification.

If Abell can't come up with a viable scheme, UPS is in trouble. The company expects to ship more than 132 million parcels globally during the week before Christmas alone. If it can't find space for them all, retailers will almost surely turn to FedEx. In addition, Abell must keep a lid on costs. In the past some investors have worried that UPS is too e-commerce focused. David Vernon, an analyst for AllianceBernstein, notes that it's usually more profitable to carry large shipments to businesses than to transport books to the cozy homes of Internet shoppers. But he says UPS is managing to turn a profit on the latter with careful planning. "I think some of those fears are starting to recede," he says.

Maintaining profitability is especially difficult during peak season when UPS's delivery expenses rise. This year, UPS is adding 55,000 part-time holiday workers, leasing 23 extra planes, and effectively building a second trucking fleet to handle the seasonal package flow. None of this is cheap. It's up to Mr. Peak to plan accordingly.

Perhaps the biggest holiday challenge for UPS is satisfying Amazon.com, which doesn't behave like a traditional retailer. In November, Amazon unveiled a plan to deliver packages on Sundays with the help of the U.S. Postal Service rather than UPS. In December, Jeff Bezos, Amazon's chief executive officer, told *60 Minutes* the company was experimenting with delivering packages by drone. Many people snickered. UPS did not. Ross McCullough, vice president of corporate strategy, says UPS is studying drone delivery, too. "I believe these things will be part of the system in the future," he says. "I don't know when." He says UPS is also weighing the potential use of driverless vehicles.

Then there are the factors Mr. Peak can't control. This year there are only 26 shopping days between Thanksgiving and Christmas, compared with 32 last year. That means UPS has to shove what it describes as a record number of parcels through a smaller window. Winter storms can also upset Abell's plans. "The biggest challenge is the weather. When you have a shorter season, you have less time for recovery," says UPS CEO D. Scott Davis. "You just hope you don't have ice storms." It isn't only that ice can ground UPS jets and halt its trucks. The company has found that when people are snowed in, they do more online shopping. So when UPS digs itself out, it has to deliver even more presents. Abell doesn't know what to expect this year from the weather, but he is ready to sort boxes by hand himself if an emergency arises. "I hustled boxes before," he says. "I can do it again.". . .

In October, UPS and FedEx announced their holiday shipping forecasts. FedEx said it would carry more than 85 million shipments in the first week of December. UPS predicted it would deliver 129 million packages that same week, easily topping its rival. And UPS will see a second holiday rush during the week before Christmas. . . .

Abell and his team meet with most of their 25 largest customers to see how they feel about the way things went. They're especially attentive to Nordstrom. UPS develops an annual 50-page peak season plan solely for the store. Early in the season, the high-end retailer relies heavily on UPS's trucks to deliver items within five days. But during the week before Christmas, Nordstrom runs out of time and has to start moving packages by jet. That means Abell has to schedule several daily flights in and out of the UPS hub in Cedar Rapids, Iowa, near Nordstrom's distribution center. . . .

Armed with data from its largest clients, UPS creates a preliminary plan in March. It's really 60 plans in one, taking into account how time-sensitive packages will flow through the system depending on the day of the week, how fast they must be delivered, and whether there are special customer requests. Over the next months the peak team revises it, producing two more versions, one in August and a final version in September. They will be circulated to the company's 15 district managers who have their own gripes and suggestions. "That's why peak planning goes on all year long," says Marty Fry, one of Abell's planners. . . .

But plans can be ephemeral. Abell grows slightly exasperated talking about a last-minute decision by one of his largest customers that will dump a huge number of packages into UPS's network on the weekend before Christmas. As a result, Abell spent five days developing a new plan allowing UPS to operate double shifts at Worldport during the final weekend before Christmas. By late November, Abell finally had all the pieces in place: the planes, the pilots, and the extra package handlers. . . .

During the holidays, the peak planning team works closely with the UPS contingency department, located one floor below in the same building. The peak guys and their contingency peers have a complicated relationship: The contingency team responds when the peak team's planning goes awry. Often because of the weather and the whims of customers, crises emerge. Among other things, the contingency department has 18 planes positioned around the country that can take off at 30 minutes' notice in emergencies to ensure that boxes are delivered on schedule. Until two years ago the two groups operated in different buildings. Abell says he liked it that way.

Source: Excerpted from "He'll Make Your Dreams Come True," Bloomberg Businessweek, *December 23, 2013–January 5, 2014. Used with permission of Bloomberg L. P. Copyright (c) 2014. All rights reserved.*

FOR DISCUSSION

1. Which of the six reasons that control is needed are apparent in this case? Explain.
2. To what extent does the process Scott Abell uses to manage shipments of packages during holiday periods follow the control process shown in Figure 16.3? Discuss.
3. If you were charged with creating a balanced scorecard for Scott Abell, what SMART goals (see Chapter 5), would you use as standards to assess performance in the four categories in your scorecard? Develop one SMART goal for each scorecard category.
4. To what extent does UPS use the PDCA process? Explain your rationale.
5. Which of the keys to successful control systems are being used by UPS? Explain.
6. What are the most important takeaways from this case? Discuss.

Legal/Ethical Challenge

Should Companies Be Allowed to Administer Untested Drugs on People with Ebola?

The Ebola outbreak in West Africa has killed over 1,000 people as of August 2014. The current outbreak started in Guinea in December 2013 and has spread to Liberia, Sierra Leone, and Nigeria and is expected to spread to other neighboring countries. The World Health Organization (WHO) "declared the outbreak a public health emergency of international concern and called for an international response," says one report.[84]

Normally, drugs are not given to people until they have passed rigorous testing and verification. In this case, the WHO decided to allow the use of experimental drugs that have not been tested on humans. Marie Paule Kieny, assistant director-general of WHO, said that "we find ourselves facing a dilemma. Far too many lives are being lost right now." She feels that it is okay in the current situation to use drugs that have shown some promise with animal research but have not been examined on humans. Others are questioning WHO's decision about using experimental drugs to treat the Ebola outbreak.[85]

What is your view about the application of untested drugs on humans?

SOLVING THE CHALLENGE

1. I think it is okay in very limited cases, and the Ebola outbreak is one of them. I also believe that patients need to be informed that they are being treated with untested drugs and that there are risks. People can make their own informed decisions.
2. I do not think it's a good idea because it creates a slippery slope of deciding when it is appropriate to use experimental drugs on people. Who makes the call?
3. I don't like the idea because it would motivate manufacturers to produce products before completing the proper amount of experimental testing.
4. Invent other options.

Appendix

The Project Planner's Toolkit

Flowcharts, Gantt Charts, & Break-Even Analysis

Major Question You Should Be Able to Answer

MAJOR QUESTION

How can you use planning tools to enhance your performance and achieve utmost success?

THE BIG PICTURE

Three tools used in project planning, which was covered in Chapter 5, are flowcharts, Gantt charts, and break-even analysis.

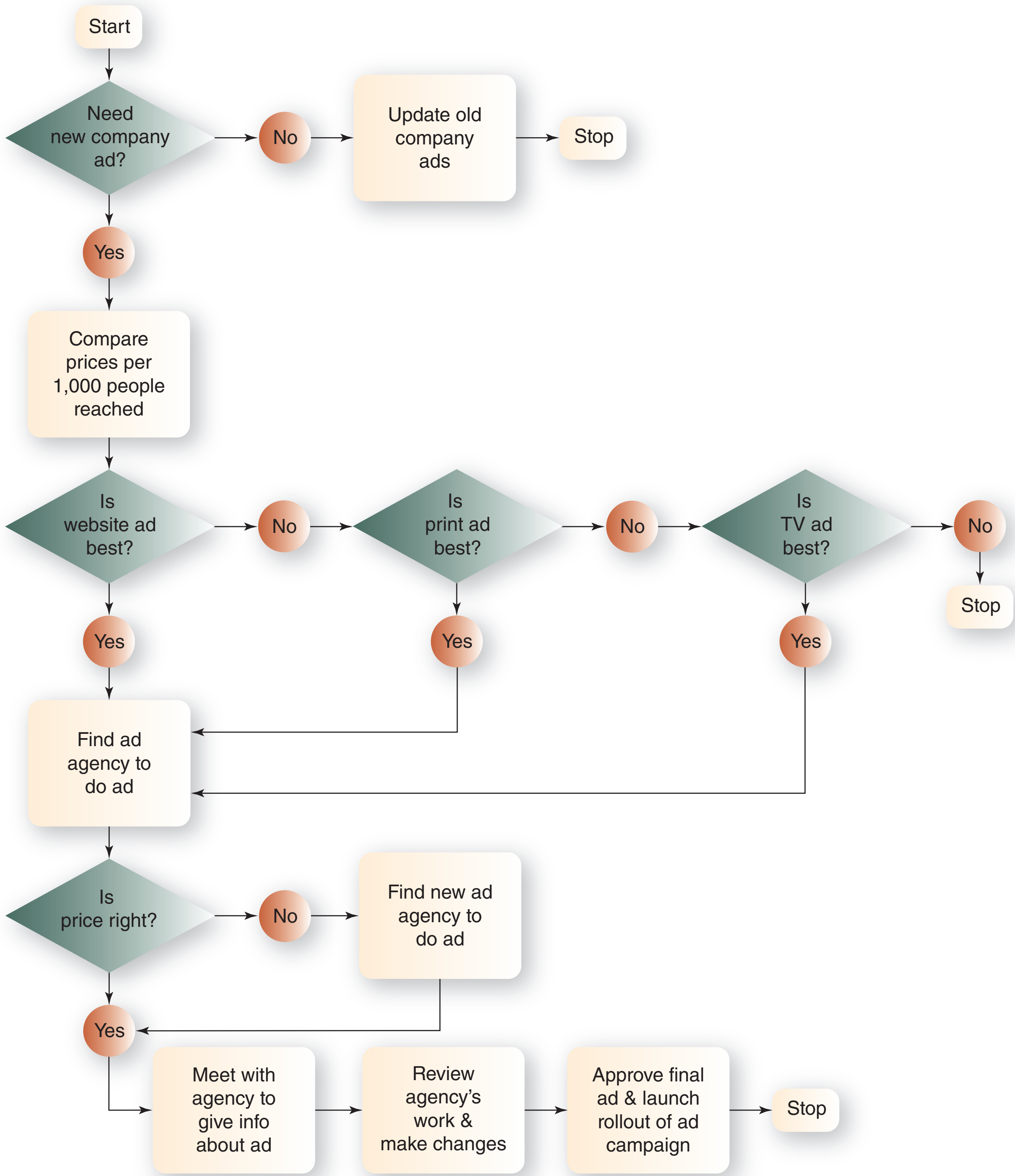
Project planning may begin (in the definition stage) as a back-of-the-envelope kind of process, but the client will expect a good deal more for the time and money being invested. Fortunately, there are various planning and monitoring tools that give the planning and execution of projects more precision. Three tools in the planner's tool-kit are (1) flowcharts, (2) Gantt charts, and break-even analysis.

Tool #1: Flowcharts—for Showing Event Sequences & Alternate Decision Scenarios

A *flowchart* is a useful graphical tool for representing the sequence of events required to complete a project and for laying out "what-if" scenarios. Flowcharts have been used for decades by computer programmers and systems analysts to make a graphical "road map," as it were, of the flow of tasks required. These professionals use their own special symbols (indicating "input/output," "magnetic disk," and the like), but there is no need for you to make the process complicated. Generally, only three symbols are needed: (1) an oval for the "beginning" and "end," (2) a box for a major activity, and (3) a diamond for a "yes or no" decision. *(See Figure A.1, next page.)*

Computer programs such as iGrafx's ABC FlowCharter are available for constructing flowcharts. You can also use the drawing program in word processing programs such as Microsoft Word.

FIGURE A.1 **Flowchart: website, print, or television?**
Example of a flowchart for improving a company's advertising



Benefits

Flowcharts have two benefits:

- **Planning straightforward activities.** A flowchart can be quite helpful for planning ordinary activities—figuring out the best way to buy textbooks or a car, for example. It is also a straightforward way of indicating the sequence of events in, say, thinking out a new enterprise that you would then turn into a business plan.

- **Depicting alternate scenarios.** A flowchart is also useful for laying out "what-if" scenarios—as in if you answer "yes" to a decision question you should follow Plan A, if you answer "no" you should follow Plan B.

Limitations

Flowcharts have two limitations:

- **No time indication.** They don't show the amounts of time required to accomplish the various activities in a project. In building a house, the foundation might take only a couple of days, but the rough carpentry might take weeks. These time differences can't be represented graphically on a flowchart (although you could make a notation).
- **Not good for complex projects.** They aren't useful for showing projects consisting of several activities that must all be worked on at the same time. An example would be getting ready for football season's opening game, by which time the players have to be trained, the field readied, the programs printed, the band rehearsed, the ticket sellers recruited, and so on. These separate activities might each be represented on their own flowcharts, of course. But to try to express them all together all at once would produce a flowchart that would be unwieldy, even unworkable.

Tool #2: Gantt Charts—Visual Time Schedules for Work Tasks

We have mentioned how important deadlines are to making a project happen. Unlike a flowchart, a Gantt chart can graphically indicate deadlines.

The Gantt chart was developed by **Henry L. Gantt,** a member of the school of scientific management (discussed in Chapter 2). **A *Gantt chart* is a kind of time schedule—a specialized bar chart that shows the relationship between the kind of work tasks planned and their scheduled completion dates.** *(See Figure A.2, below.)*

A number of software packages can help you create and modify Gantt charts on your computer. Examples are CA-SuperProject, Microsoft Project, Primavera SureTrak Project Manager, and TurboProject Professional.

FIGURE A.2 Gantt chart for designing a website

This shows the tasks accomplished and the time planned for remaining tasks to build a company website.

Accomplished: ||||||||||
Planned: \\\\\\\\\

<table>
<tr><th>Stage of development</th><th>Week 1</th><th>Week 2</th><th>Week 3</th><th>Week 4</th><th>Week 5</th></tr>
<tr><td>1. Examine competitors' websites</td><td>||||||||||||||||||
||||||||||</td><td>|||||||||||</td><td></td><td></td><td></td></tr>
<tr><td>2. Get information for your website</td><td>||||||||||||||||||
||||||||||</td><td>||||||||||||||||||
||||||||||</td><td></td><td></td><td></td></tr>
<tr><td>3. Learn Web-authoring software</td><td></td><td>||||||||||||||||||
||||||||||</td><td>||||||||||||||||||
||||||||||</td><td></td><td></td></tr>
<tr><td>4. Create (design) your website</td><td></td><td></td><td>\\\\\\\\\</td><td>\\\\\\\\\\\\\\\\
\\</td><td>\\\\\</td></tr>
<tr><td>5. "Publish" (put) website online</td><td></td><td></td><td></td><td></td><td>\\\\\\\\\\\\\</td></tr>
</table>

Benefits There are three benefits to using a Gantt chart:

- **Express time lines visually.** Unlike flowcharts, Gantt charts allow you to indicate visually the time to be spent on each activity.
- **Compare proposed and actual progress.** A Gantt chart may be used to compare planned time to complete a task with actual time taken to complete it, so that you can see how far ahead or behind schedule you are for the entire project. This enables you to make adjustments so as to hold to the final target dates.
- **Simplicity.** There is nothing difficult about creating a Gantt chart. You express the time across the top and the tasks down along the left side. As Figure A.2 shows, you can make use of this device while still in college to help schedule and monitor the work you need to do to meet course requirements and deadlines (for papers, projects, tests).

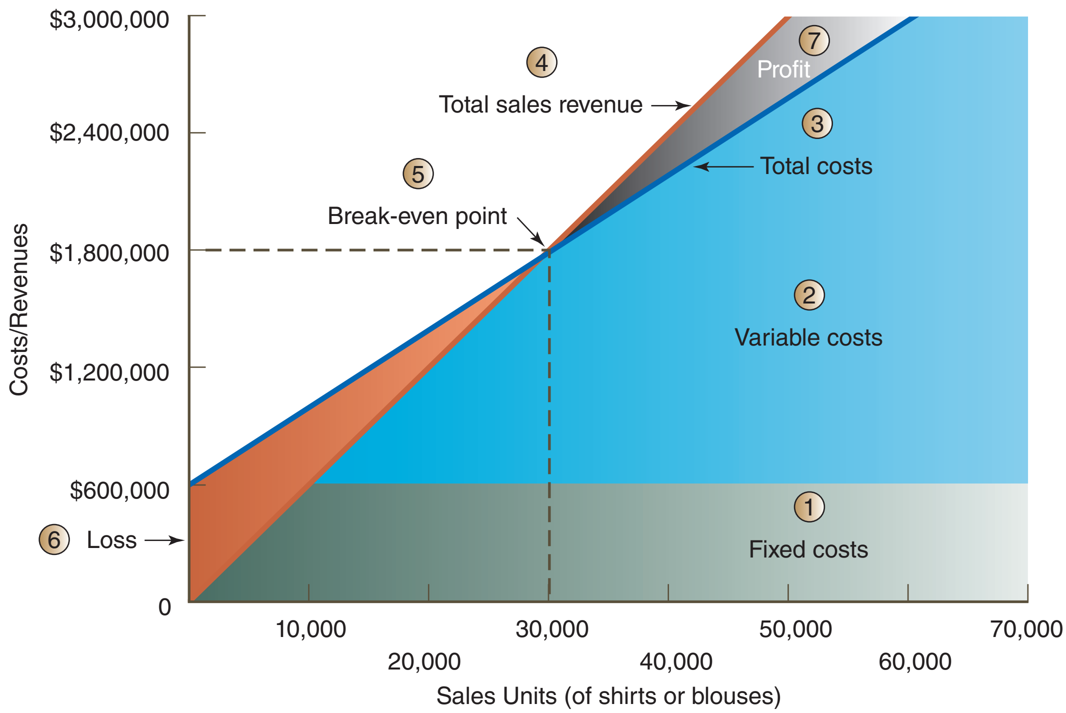
Limitations Gantt charts have two limitations:

- **Not useful for large, complex projects.** Although a Gantt chart can express the interrelations among the activities of relatively small projects, it becomes cumbersome and unwieldy when used for large, complex projects. More sophisticated management planning tools may be needed, such as PERT networks.
- **Time assumptions are subjective.** The time assumptions expressed may be purely subjective; there is no range between "optimistic" and "pessimistic" of the time needed to accomplish a given task.

Tool #3: Break-Even Analysis—How Many Items Must You Sell to Turn a Profit?

***Break-even analysis* is a way of identifying how much revenue is needed to cover the total costs of developing and selling a product.** Let's walk through the computation of a break-even analysis, referring to the illustration. *(See Figure A.3.)* We assume

FIGURE A.3 **Break-even analysis**



you are an apparel manufacturer making shirts or blouses. Start in the lower-right corner of the diagram on the previous page and follow the circled numbers as you read the descriptions below.

① *Fixed costs (green area):* Once you start up a business, whether you sell anything or not, you'll have expenses that won't vary much, such as rent, insurance, taxes, and perhaps salaries. These are called *fixed costs,* **expenses that don't change regardless of your sales or output.** Fixed costs are a function of time—they are expenses you have to pay out on a regular basis, such as weekly, monthly, or yearly. Here the chart shows the fixed costs (green area) are $600,000 per year no matter how many sales units (of shirts or blouses) you sell.

② *Variable costs (blue area):* Now suppose you start producing and selling a product, such as blouses or shirts. At this point you'll be paying for materials, supplies, labor, sales commissions, and delivery expenses. These are called *variable costs,* **expenses that vary directly depending on the numbers of the product that you produce and sell.** (After all, making more shirts will cost you more in cloth, for example.) Variable costs, then, are a function of volume—they go up and down depending on the number of products you make or sell. Here the variable costs (blue area) are relatively small if you sell only a few thousand shirts but they go up tremendously if you sell, say, 70,000 shirts.

③ *Total costs (first right upward-sloping line—green plus blue area added together):* The sum of the fixed costs and the variable costs equals the total costs (the green and blue areas together). This is indicated by the line that slopes upward to the right from $600,000 to $3,000,000.

④ *Total sales revenue (second right upward-sloping line):* This is the total dollars received from the sale of however many units you sell. The sales revenue varies depending on the number of units you sell. Thus, for example, if you sell 30,000 shirts, you'll receive $1,800,000 in revenue. If you sell 40,000 shirts, you'll receive somewhat more than $2,400,000 in revenue.

⑤ *Break-even point (intersection of dashed lines):* Finding this point is the purpose of this whole exercise. **The** *break-even point* **is the amount of sales revenue at which there is no profit but also no loss to your company.** On the graph, this occurs where the "Total sales revenues" line crosses the "Total costs" line, as we've indicated here where the dashed lines meet. This means that you must sell 30,000 shirts and receive $1,800,000 in revenue in order to recoup your total costs (fixed plus variable). Important note: Here is where pricing the shirts becomes important. If you raise the price per shirt, you may be able to make the same amount of money (hit your break-even point) by selling fewer of them—but that may be harder to do because customers may resist buying at the higher price.

⑥ *Loss (red area):* If you fail to sell enough shirts at the right price (the break-even point), you will suffer a loss. *Loss* **means your total costs exceed your total sales revenue.** As the chart shows, here you are literally "in the red"—you've lost money.

⑦ *Profit (black area):* Here you are literally "in the black"—you've made money. All the shirts you sell beyond the break-even point constitute a profit. *Profit* **is the amount by which total revenue exceeds total costs.** The more shirts you sell, of course, the greater the profit.

The kind of break-even analysis demonstrated here is known as the *graphic method.* The same thing can also be done algebraically.

Benefits

Break-even analysis has two benefits:

- **For doing future "what-if" alternate scenarios of costs, prices, and sales.** This tool allows you to vary the different possible costs, prices, and sales

EXAMPLE

Break-Even Analysis: Why Do Airfares Vary So Much?

Why do some airlines charge four times more than others for a flight of the same distance?

There are several reasons, but break-even analysis enters into it.

United Airlines' average cost for flying a passenger 1 mile in a recent year was 11.7 cents, whereas Southwest's was 7.7 cents. Those are the break-even costs. What they charged beyond that was their profit.

Why the difference? One reason, according to a study by the U.S. Department of Transportation, is that Southwest's expenses are lower. United flies more long routes than short ones, so its costs are stretched out over more miles, making its costs for flying shorter routes higher than Southwest's.

Another factor affecting airfares is the type of passengers flying a particular route—whether they are high-fare-paying business travelers or more price-conscious leisure travelers. Business travelers often don't mind paying a lot (they are reimbursed by their companies), and those routes (such as Chicago to Cincinnati) tend to have more first-class seats, which drives up the average price. Flights to vacation spots (such as Las Vegas) usually have more low-price seats because people aren't willing to pay a lot for pleasure travel. Also, nonstop flight fares often cost more than flights with connections.

quantities to do rough "what-if" scenarios to determine possible pricing and sales goals. Since the numbers are interrelated, if you change one, the others will change also.

- **For analyzing the profitability of past projects.** While break-even analysis is usually used as a tool for future projects, it can also be used retroactively to find out whether the goal of profitability was really achieved, since costs may well have changed during the course of the project. In addition, you can use it to determine the impact of cutting costs once profits flow.

Limitations

Break-even analysis is not a cure-all.

- **It oversimplifies.** In the real world, things don't happen as neatly as this model implies. For instance, fixed and variable costs are not always so readily distinguishable. Or fixed costs may change as the number of sales units goes up. And not all customers may pay the same price (some may get discounts).
- **The assumptions may be faulty.** On paper, the formula may work perfectly for identifying a product's profitability. But what if customers find the prices too high? Or what if sales figures are outrageously optimistic? In the marketplace, your price and sales forecasts may really be only good guesses.

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CHAPTER 4

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CHAPTER 5

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CHAPTER 9

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CHAPTER 10

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CHAPTER 11

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CHAPTER 12

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CHAPTER 13

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CHAPTER 15

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NAME INDEX

A

B

C

D

E

F

G

H

I

J

K

L

M

N

O

P

Q

R

S

A

B

C

D

E

F

G

I

N

O

T

U